

NEW ISSUE—FULL BOOK ENTRY

**Ratings: Fitch Ratings: AAA
Moody's Investor's Service: Aaa
(XLCA Insured)**

Subject to compliance by the City with certain covenants, in the opinion of Chapman and Cutler LLP, Bond Counsel, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Interest on the Bonds is not exempt from Illinois income taxes. See "TAX EXEMPTION" herein for a more complete discussion.

\$26,870,000
CITY OF BATAVIA, ILLINOIS
Kane and DuPage Counties
Electric System Revenue Bonds, Series 2006

Dated: Date of Delivery

Due: See Inside Cover

The Electric System Revenue Bonds, Series 2006 (the "Bonds") are being issued by the City of Batavia, Illinois (the "City") as fully registered bonds under a global book entry system operated by The Depository Trust Company, New York, New York ("DTC"). Individual purchases will be made in book entry form only. Beneficial owners of the Bonds will not receive physical delivery of bond certificates. The Bonds are issuable in denominations which are multiples of \$5,000, and will bear interest payable on January 1 and July 1 of each year, with January 1, 2007 as the first interest payment date. Details of payment of the Bonds and the global book entry system are described herein.

PURPOSE, LEGALITY AND SECURITY

The Bonds are being issued pursuant to Division 117 and Division 119 of Article 11 of the Illinois Municipal Code, the Local Government Debt Reform Act of the State of Illinois and the Bond Ordinance adopted by the City Council. The Bonds and the interest, if any, thereon are payable solely from the net revenues derived by the City from the operation of its electric system (the "System") in the manner set forth in the Bond Ordinance. The Bonds are limited obligations of the City and do not constitute an indebtedness or a pledge of the full faith and credit or the taxing power of the City within the meaning of any constitutional or statutory provision or limitation.

The Bonds are being issued for the purpose of providing monies, which, when combined with other funds of the System, will be sufficient to (i) pay the cost of the 138 kV Transmission Project, (ii) finance other capital improvements of the System, (iii) fully fund the Bond Reserve Account created under the Bond Ordinance, (iv) pay interest on the Bonds through October 1, 2007 and (v) pay the costs related to the issuance of the Bonds.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy (the "Bond Insurance Policy") to be issued concurrently with the delivery of the Bonds by XL Capital Assurance, Inc. (the "Insurer"). See Appendix D herein.



REDEMPTION

The Bonds are subject to redemption prior to maturity as provided herein. See "THE BONDS -- Redemption" herein.

The Bonds were purchased at a public sale on November 29, 2006 by Citigroup Capital Markets Inc. The Bonds are offered when, as and if issued and received by the Underwriter subject to receipt of the approving legal opinion of Chapman and Cutler LLP, Chicago, Illinois, Bond Counsel. Certain legal matters will be passed upon for the City by John Noble, City Attorney. It is expected that the Bonds in definitive form will be available for delivery, through the facilities of DTC, on or about December 19, 2006.

Kaplan Financial Consulting, Inc.
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1215 Washington Avenue, Suite 205, Wilmette, Illinois 60091
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MATURITY SCHEDULE
Electric System Revenue Bonds, Series 2006

<u>Maturity</u> <u>January 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP*</u> <u>070376</u>
2009	\$ 285,000	3.50%	3.50%	\$100.000	AV0
2010	295,000	3.50	3.53	99.913	AW8
2011	305,000	3.50	3.56	99.775	AX6
2012	315,000	3.50	3.58	99.633	AY4
2013	605,000	4.00	3.60	102.150	AZ1
2014	630,000	4.00	3.65	102.152	BA5
2015	655,000	4.00	3.70	102.067	BB3
2016	680,000	4.00	3.80	101.515	BC1
2017	710,000	4.00	3.90	100.822	BD9
2018	735,000	4.00	NRO		BE7
2019	765,000	4.00	4.04	99.620	BF4
2020	795,000	4.00	4.15	98.500	BG2
2021	830,000	4.10	4.20	98.946	BH0
2022	865,000	4.125	4.25	98.620	BJ6
2023	900,000	4.20	4.28	99.077	BK3
2024	935,000	4.25	4.30	99.399	BL1
2025	975,000	4.25	4.33	99.004	BM9
2026	1,020,000	4.25	4.35	98.713	BN7

\$2,165,000, 4.25% Term Bonds due January 1, 2028, Price 98.494%, Yield 4.36%, CUSIP 070376 BP2

\$2,360,000, 4.375% Term Bonds due January 1, 2030, Price 99.638%, Yield 4.40%, CUSIP 070376 BQ0

\$3,935,000, 4.375% Term Bonds due January 1, 2033, Price 99.001%, Yield 4.44%, CUSIP 070376 BR8

\$6,110,000, 4.50% Term Bonds due January 1, 2037, NRO CUSIP 070376 BS6

* CUSIP numbers have been assigned to the Bonds by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. The City is not responsible for the selection or the correctness of the CUSIP numbers set forth above.

No dealer, broker, salesperson or other person has been authorized by the City or the Underwriters to give any information or to make any representation with respect to the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement is neither an offer to sell nor the solicitation of an offer to buy, nor shall there be any sale of the Bonds offered hereby, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion set forth herein have been furnished by the City and include information from other sources that the City believes to be reliable. Such information is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriters. Such information and expressions of opinion are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change since the date hereof. Neither this Official Statement nor any statement that may have been made verbally or in writing is to be construed as a contract with the registered or beneficial owners of the Bonds.

The Official Statement should be considered in its entirety. References herein to laws, rules, regulations, ordinances, resolutions, agreements, reports and other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. Where full texts have not been included as appendices to the Official Statement, such texts will be furnished on request. The information herein is provided as of the date hereof and subject to change.

The City hereby deems this Preliminary Official Statement pursuant to Rule 15c2-12(b) of the Securities and Exchange Commission as final as to its date except for the omission of the information dependent upon the pricing of the issue, such as offering prices, interest rates, selling compensation, delivery date and other items of the Bonds dependent upon the foregoing matters.

CITY OF BATAVIA
Kane and DuPage Counties, Illinois
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Batavia, Illinois 60510-1930
(630) 879-1424

CITY OFFICIALS

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Mayor

Aldermen

Cathy Barnard
David Brown
Lisa Clark
Victor Dietz
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Robert F. Liva
Linnea Miller
Forrest L. Nelson
Thomas L. Schmitz

Garran DeWain Sparks
Nancy Vance
James T. Volk
Alan Wolff
Jodie L. Wollnik

City Officials

William R. McGrath
City Administrator

Hannah M. Volk
City Clerk

John Noble
City Attorney

Peggy Colby
Finance Director

Gerald R. Miller
Treasurer

BATAVIA ELECTRIC DEPARTMENT
200 North Raddant Road
Batavia, Illinois 60510

ELECTRIC DEPARTMENT MANAGEMENT

Gary Larsen
Director of Public Works

Hank Vejvoda
Electric Department Superintendent

BOND COUNSEL
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FINANCIAL ADVISOR
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Wilmette, Illinois

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A – 2005 Basic Financial Statements of the City with financial statements for the Electric Fund for the fiscal year ending December 31, 2004

B - General Information Regarding the City

C - Proposed Form of Opinion of Bond Counsel

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information set forth in the Official Statement. The offering of the Bonds is made only by means of the entire Official Statement. No person is authorized to detach this Summary Statement from the Official Statement or to otherwise use this Summary Statement without the entire Official Statement. Unless otherwise defined, all terms in this Summary Statement shall be as defined in the main text of the Official Statement.

The City: Settled in the 1830s, the City of Batavia (the “City”) is located 35 miles due west of downtown Chicago along the banks of the Fox River. The City was incorporated as a village in 1856 and as a city in 1891. Population at the 2000 Census was 23,866, and a special census in 2003 determined the population to be 24,978. The City operates under an aldermanic form of government with 14 aldermen, two from each ward, elected for overlapping four year terms. The Mayor is elected on an at-large basis. The City is nicknamed ‘The Windmill City’ as a result of its industrial role at the turn of the last century as the windmill manufacturing capital of the world. Many antique and replicated windmills may be seen throughout the City. Batavia is the home of over 200 manufacturing, research and warehousing firms, as well as the Fermi National Accelerator Laboratory, the world renowned center for high energy physics research.

The System: The City owns and operates an electric system (the “System”). The System began operations in 1889 when the City developed its own street lighting system. The System purchases all energy required to serve its 10,600 customers. For purposes of accounting for the operations of the System, the City has established and maintains a separate enterprise fund known as the Electric Fund. Under the Bond Ordinance, the City may issue bonds, notes and other obligations secured by the Net Revenues (as herein defined) of the System.

The 138 kV Transmission Project: The project includes the construction of two new 138 kV to 34.5 kV substations and two 138 kV lines along with the acquisition of rights in land for said improvements and the provision of distribution lines and services to the land owner. The City will also pay Commonwealth Edison Company to construct certain facilities that will interconnect the two systems.

Project Status: The City currently estimates that the cost of the 138 kV Transmission Project is \$23.9 million. To date, the City has awarded \$9.7 million in equipment and construction contracts. Cost estimates include contingency amounts of \$1.5 million. The City to date has expended \$2.9 million on the 138 kV Transmission Project for which it will reimburse itself from proceeds of the Bonds.

Purpose of Issue: The Bonds are being issued for the purpose of providing monies which, when combined with other funds of the System will be sufficient to (i) pay the cost of the 138 kV Transmission Project, (ii) finance other capital improvements of the System, (iii) fully fund the Bond Reserve Account created under the Bond Ordinance, (iv) pay interest on the Bonds through October 1, 2007 and (v) pay the costs related to the issuance of the Bonds.

Authority: The Bonds are issued pursuant to the provisions of Division 117 and Division 119 of Article 11 of the Illinois Municipal Code and the Local Government Debt Reform Act of the State of Illinois, and in accordance with an ordinance adopted by the City Council of the City on November 6, 2006 and entitled: “An Ordinance Authorizing and Providing For The Issue of not to exceed \$30,000,000 Electric System Revenue Bonds, Series 2006, of the City of Batavia, Kane and DuPage Counties, Illinois, For the Purpose of Constructing Improvements to the Existing System of Said City, Prescribing All the Details of Said Bonds, and Providing for the Collection, Segregation and Distribution of the Revenues of the System of Said City” (hereinafter referred to as “the Bond Ordinance”).

Security: The Bonds are the only bonds or obligations currently outstanding which are payable from the revenues of the System. Pursuant to the Bond Ordinance, the City may hereafter issue additional Parity Bonds (herein called “Additional Bonds”) for the purposes, in the amount and upon the conditions set forth in the Bond Ordinance. The Bonds are payable from, and secured by a pledge of the Net Revenues of the System. The Bond Reserve Account established under the Bond Ordinance will, upon issuance of the Bonds, be fully funded to the requirements of the Bond Ordinance and be equal to Maximum Annual Debt Service on the Bonds.

Bond Ordinance Rate Covenant: Under the Bond Ordinance, the City is required to establish and maintain at all times fees, charges and rates for the use and service of the System and provide for their collection and the segregation and application of the Revenues of the System sufficient at all times to pay or provide for Operation and Maintenance Costs, to provide Net Revenues in each Fiscal Year in an amount not less than 125% of the Current Debt Service Requirement for all Outstanding Electric System Revenue Bonds, and other obligations (such as swap payments) on a parity with such bonds, and to the extent necessary after application of the Net Revenues to pay the Current Debt Service Requirement for such Fiscal Year, to make such additional deposits as may be required into the Accounts created under the Bond Ordinance and to pay any other obligations payable from the Revenues of the System (herein, the “Bond Ordinance Rate Covenant”).

Additional Electric System Revenue Bonds: Under the Bond Ordinance, and upon compliance with certain conditions applicable thereto, the City may issue additional Electric System Revenue Bonds or other obligations, all of which shall be payable from Net Revenues of the System. For a description of such conditions, see “Additional System Obligations” – herein.

Service Area: The area served by the System encompasses approximately ten square miles, encompassing the City of Batavia. The population of the System's service area is approximately 25,000.

The System: The City has operated a municipal electric utility since 1889. The System consists of 109 miles of overhead and underground line and six substations. The System does not own any generating facilities and purchases all of its energy requirements pursuant to a contract with Commonwealth Edison Company that will terminate on May 31, 2007. The City has executed confirmations and will be entering into contracts for substantially all of its power requirements for the year beginning June 1, 2007. On November 6, 2006, the City approved a

long-term contract with the Northern Illinois Municipal Power Agency. See “Northern Illinois Municipal Power Agency” and “Future Power Supply.”

Electric Customers: The System served approximately 10,600 customers as of the end of Fiscal Year 2005. The largest customer is Suncoast Corporation, which manufactures home and outdoor storage products. During Fiscal Year 2005, residential customers accounted for approximately 89% of total System customers and approximately 29% of the System’s total retail revenue. Also, during Fiscal Year 2005, the energy requirements of non-residential customers accounted for approximately 71% of the System’s total retail revenue. Retail peak demand during Fiscal Year 2005 was 87 MW and was 90 MW this past summer.

Electric Rates: The City Council has exclusive authority to establish the rates and charges for electric service provided by the System. Electric rates are not subject to review or approval by any federal or State governmental or administrative agency. The City Council has approved the following rate increases on usage and demand charges:

<u>Effective Date</u>	<u>Percentage Increase In Base Rates</u>
January 1, 2008	8.9%
January 1, 2007	8.9%
February 1, 2006	5.0%
September 1, 2001	4.0%
August 1, 1989	5.0%

Assuming typical energy usage, after all of the approved rate increases are phased in, the cost of electric service for a residential customer in the City will be \$114.06 per month for 1,000 kilowatt hours (“kWh”) during the summer and \$45.20 per month for 600 kWh during the non summer months.

Projected Coverage: Shown below are the Net Revenues of the System which are expected to be available for the payment of debt service on the Bonds.

<u>Fiscal Year Ending Dec. 31</u>	<u>Net Revenues Available for Debt Service</u> (\$000's omitted)	<u>Annual Debt Service on Bonds</u> (\$000's omitted)	<u>Coverage on the Bonds</u>
2007	\$ 4,111	\$ 285	14.4 x
2008	2,977	1,424	2.09
2009	2,876	1,424	2.02
2010	2,920	1,424	2.05

OFFICIAL STATEMENT

\$26,870,000

CITY OF BATAVIA, ILLINOIS ELECTRIC SYSTEM REVENUE BONDS, SERIES 2006

INTRODUCTION

This Official Statement, including the Summary Statement and the Appendices, sets forth certain information relating to the City of Batavia, Kane and DuPage Counties, Illinois (the “City”) and its electric system (the “System”) in connection with the sale by the City of \$26,870,000 aggregate principal amount of Electric System Revenue Bonds, Series 2006 (the “Bonds”). The Bonds are issued under and pursuant to the provisions of Division 117 and Division 119 of Article 11 of the Illinois Municipal Code, as supplemented and amended, and the Local Government Debt Reform Act of the State of Illinois, and under and in accordance with an ordinance adopted by the Council of the City (the “City Council”) on November 6, 2006 and entitled: “An Ordinance Authorizing and Providing For The Issue of not to exceed \$30,000,000 Electric System Revenue Bonds, Series 2006, of the City of Batavia, Kane and DuPage Counties, Illinois, For the Purpose of Constructing Improvements to the Existing System of Said City, Prescribing All the Details of Said Bonds, and Providing for the Collection, Segregation and Distribution of the Revenues of the System of Said City” (hereinafter referred to as “the Bond Ordinance”).

This Official Statement contains summaries and descriptions of the terms and provisions of, and security for, the Bonds, together with a summary and description of certain provisions of the Bond Ordinance and certain related documents. All references to the Bonds are qualified in their entirety by reference to the Bond Ordinance and such other documents, including the form of the Bonds. For a description of the conditions under which additional Electric System Revenue Bonds may be issued, see “ADDITIONAL SYSTEM OBLIGATIONS.”

Certain factors concerning the City, the System, the Bonds and the Bond Ordinance are described throughout this Official Statement which should be read in its entirety. Copies of statutes, ordinances, reports or other documents referred to in this Official Statement are available, upon request, from the City Clerk’s Office, 100 N. Island Avenue, Batavia, Illinois 60510.

PURPOSE OF THE BONDS

General

The Bonds are being issued for the purpose of providing monies, which, when combined with other funds of the System, will be sufficient to (i) pay the cost of the 138 kV Transmission Project, (ii) finance other capital improvements of the System, (iii) fully fund the Bond Reserve Account created under the Bond Ordinance, (iv) pay interest on the Bonds through October 1, 2007 and (v) pay the costs related to the issuance of the Bonds.

The 138 kV Transmission Project includes the construction of two new 138 kV to 34.5 kV substations and two 138 kV lines which will connect to network transmission system lines that are owned by Commonwealth Edison Company. The 138 kV substations and lines will be

owned and operated by the City. The 138 kV Transmission Project also includes the acquisition of rights in land for said improvements and the provision of distribution lines and services to the land owner. The City will also pay Commonwealth Edison to construct certain facilities that will interconnect the two systems.

Description of the 138 kV Transmission Project

The City is in the final year of a 20-year, “all requirements” power supply contract with ComEd an investor-owned utility and subsidiary of Exelon Corporation. ComEd owns and operates the network transmission system that serves all of northern Illinois including the System. The System currently takes delivery of all of its energy from the transmission system network through six ComEd 34 kV distribution lines that interconnect with three ComEd substations.

In 2005, ComEd informed the City that after its current power supply contract expires on May 31, 2007, ComEd would assess the City a local distribution charge (“LDC”) for taking delivery of energy on ComEd’s 34 kV facilities. ComEd provided the City with a preliminary estimate of the LDC of \$1.284 million per year. The LDC would be in addition to the charges that the City would pay as a network transmission customer. The City anticipates that over time, the LDC would increase as ComEd builds additional 34 kV facilities to serve the City’s growing load.

Maintaining the existing 34 kV interconnections with ComEd would also require the City to purchase additional energy to compensate ComEd for energy losses on its 34 kV facilities. ComEd has determined an energy loss rate of 2.12% for its 34 kV facilities and required the City to make additional energy purchases at this rate in connection with certain energy purchases made by the City from 2000 through 2005. (See “THE ELECTRIC SYSTEM – Current Power Contract.”)

The City has also determined that a 138 kV interconnection would provide its System with a greater reliability. City records for 2005, for example, indicate that half of the outages that the System experienced for the year could be traced to the 34 kV facilities of ComEd.

In early 2005, the City engaged Burns & McDonnell to perform a preliminary design and engineering study that would evaluate different options for the City to construct its own 138 kV interconnection into the regional transmission grid. In its final report of August 2005, Burns & McDonnell recommended a design that included the construction of two 138 kV to 34 kV substations and two 138 kV transmission lines that would interconnect with the regional transmission system. The 138 kV lines and substations would be built on land owned by the U.S. Department of Energy at the Fermi National Accelerator Laboratory (“FermiLab”), which borders the City on the east and the ComEd network transmission corridor on the west. The 2005 report estimated a total cost for the project of \$20.248 million, including contingencies and the cost of acquiring easement rights at the FermiLab site.

In May 2006, the City and ComEd signed Interconnection and Construction Management Agreements (the “ComEd Agreements”) which the City agreed to pay for and ComEd agreed to construct the facilities (the “ComEd Facilities”) that are needed to interconnect the two systems. The ComEd Agreements lay out a schedule for completion of the ComEd Facilities by June 1,

2007 based, among other milestones, upon the City completing its 138 kV substations by March 1, 2007 and its 138 kV transmission lines by April 3, 2007. The ComEd Agreements also establish procedures for ComEd's review of the design, construction and modification of the 138 kV Transmission Project insofar as they relate to the ability of the 138 kV Transmission Project to reliably interconnect with its transmission system. The City has the right to cancel the ComEd Agreements upon 60 days written notice, but would remain obligated for construction and other costs incurred by ComEd through the cancellation date.

The ComEd Agreements establish an estimated cost for the ComEd Facilities of \$3,112,621. In accordance with the ComEd Agreements, the City has provided ComEd with a \$2.0 million letter of credit to secure its payments to ComEd through August 2007.

In October 2006, the City and Department of Energy executed an easement agreement that allows the City to construct the two 138 kV substations on FermiLab property. The easement has a term of 99 years with a 99 year renewal.

The City entered into a master easement agreement for the same term with the Department of Energy covering all locations for the 138 kV Transmission Project on November 20, 2006. This agreement combines the previous easement agreements for the substations and other facilities with one that includes the locations for the 138 kV transmission lines. Under the agreement, as consideration for the easement, the City will agree to construct a 345 kV distribution line and install 345 kV switches that will be used by FermiLab (the cost of which was included in the \$20.248 million estimate from 2005 and the current estimate of project costs). The City will also assume future maintenance and repair of existing FermiLab power line tower structures and lines (but without any obligation to replace FermiLab facilities). The easement agreement gives the Department of Energy the right, at its own expense, to have the City relocate such portion of the 138 kV Transmission Project as it may require to other locations on FermiLab property upon 12 months written notice. Construction of the transmission lines is scheduled to begin in January 2007.

138 kV Transmission Project Status

The City engaged Burns & McDonnell as design/engineer for the 138 kV Transmission Project in April 2006. The ComEd Agreements and easement with the Department of Energy constitute the only outside agreements that the City needs to undertake the 138 kV Transmission Project.

The City currently estimates a total cost of \$23.9 million for the 138 kV Transmission Project, including \$3.1 million for the ComEd Facilities. To date, the City has awarded \$9.7 million in equipment and construction contracts on the project. The balance of estimated costs is based upon the design estimates in the Burns & McDonnell report of August 2005 and ComEd's estimate of costs for the ComEd Facilities. Included in the total cost are contingencies of \$1.5 million. To date, the City has expended \$2.9 million on the 138 kV Transmission Project for which it will reimburse itself from proceeds of the Bonds.

Based on work to date, the City believes that it will be able to meet the schedule set out in the ComEd Agreements. In the event that the City does not meet the schedule and is not taking

all of its load off of the 138 kV Transmission Project by June 1, 2007, the City would be required to pay temporary monthly local distribution charges to ComEd based on its use of ComEd's 34 kV distribution facilities. The City's obligation to pay these charges would continue until it no longer is taking any service from ComEd's 34 kV distribution facilities.

The City anticipates that over time, the 138 kV Transmission Project will provide financial savings to the System by eliminating the LDC and reducing the energy losses that the City would otherwise incur by continuing to take delivery of its energy on ComEd's 34 kV facilities.

Sources and Uses of Funds

The following table shows the estimated sources and uses of the proceeds of the Bonds, exclusive of accrued interest:

Sources of Fund

Principal Amount of Bonds	\$ 26,870,000
Net Original Issue Discount	(98,598)
System Cash Contribution	<u>4,463,587</u>
 Total Sources of Funds.....	 \$ <u>31,234,989</u>

Uses of Funds

Deposit to 2006 Construction Fund	\$ 23,912,605
Other 138 kV Transmission Project Costs.....	4,463,587
Deposit to Bond Reserve Account.....	1,705,719
Deposit to Series 2006 Capitalized Interest Account.....	791,702
Costs of Issuance ⁽¹⁾	<u>361,376</u>
 Total Uses of Funds	 \$ <u>31,234,989</u>

⁽¹⁾Costs of issuance include the Underwriters' discount, Bond Insurance Policy premium, rating agency, legal and accounting fees and other costs incurred in connection with the issuance of the Bonds.

THE BONDS

General

The Bonds will be dated, will be issuable in the denominations, will bear interest at the rates per annum and will mature on January 1 in the years and the principal amounts set forth on the cover page and the inside cover page of this Official Statement. Interest on the Bonds will be payable on January 1, 2007 and semiannually thereafter on July 1 and January 1 of each year. The Bonds are subject to redemption prior to maturity as described below under the caption "Redemption."

Rights and Duties of Bond Registrar

The Bank of New York Trust Company, N.A., Chicago, Illinois, has been appointed as Bond Registrar and Paying Agent (the “Bond Registrar and Paying Agent”) under the Bond Ordinance. The City shall at all times retain a Bond Registrar with respect to the Bonds; it will maintain at the designated office(s) of such Bond Registrar a place or places where Bonds may be presented for payment, registration, transfer or exchange; and it will require that the Bond Registrar properly maintain the Bond Register and perform the other duties and obligations imposed upon it by the Bond Ordinance in a manner consistent with the standards, customs and practices of the municipal securities industry.

The City may remove the Bond Registrar at any time. In case at any time the Bond Registrar shall resign, shall be removed, shall become incapable of acting, or shall be adjudicated a bankrupt or insolvent, or if a receiver, liquidator, or conservator of the Bond Registrar or of the property thereof shall be appointed, or if any public officer shall take charge or control of the Bond Registrar or of the property or affairs thereof, the City covenants and agrees that it will thereupon appoint a successor Bond Registrar. The City shall give notice of any such appointment made by it to each registered owner of any Bond within twenty days after such appointment in the same manner, or as nearly the same as may be practicable, as for a redemption of Bonds. Any Bond Registrar appointed under the provisions of this Section shall be a bank, trust company, or national banking association maintaining its principal corporate trust office in Illinois, and having capital and surplus and undivided profits in excess of \$100,000,000.

The Depository Trust Company

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation (“NSCC”), Fixed Income Clearing Corporation (“FICC”) and Emerging

Markets Clearing Corporation (“EMCC”), (NSCC, FICC and EMCC are also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Book-Entry System

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2006 Senior Lien Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2006 Senior Lien Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners; in the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and Paying Agent and request that copies of the notices be provided directly to them.

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

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

Principal (including redemption payments) and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Bond Registrar and Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payment by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the City or the Bond Registrar and Paying Agent, as applicable, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, or the Bond Registrar and Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Bond Registrar and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2006 Senior Lien Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2006 Electric System Revenue Bond certificates are required to be printed and delivered.

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

NEITHER THE CITY NOR THE BOND REGISTRAR AND PAYING AGENT HAS ANY RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO. OR ANY PARTICIPANT; THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR PURCHASE PRICE OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BENEFICIAL OWNERS; THE SELECTION BY DTC OR ANY PARTICIPANT OF ANY PERSON TO

RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS;
OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC.

Replacement Bonds Upon Termination of Global Book Entry

The City may remove DTC or any successor securities depository for the Bonds at any time. In case at any time the securities depository for the Bonds shall resign or shall be removed or shall become incapable of acting, then the City may appoint a successor securities depository to provide a system of book-entry only transfers for the Bonds, by written notice to the predecessor securities depository directing it to notify its Direct and Indirect participants of the appointment of a successor securities depository.

The City may terminate the system of book-entry only transfers for the Bonds at any time, by written notice to the securities depository directing it to notify its participants of the availability of bond certificates. In such event, the City shall issue, and the Bond Registrar and Paying Agent shall authenticate, register and deliver to the Beneficial Owners of the Bonds, bond certificates in replacement of such Beneficial Owners' beneficial interests in the Bonds, all as shown in the records maintained by the securities depository.

Redemption

Optional Redemption. The Bonds maturing on or after January 1, 2018 are subject to redemption prior to maturity at the option of the City, in such principal amounts and from such maturities as the City shall determine, and by lot within a single maturity, on January 1, 2017 and on any date thereafter, at a redemption price of par plus accrued interest to the date fixed for redemption.

Mandatory Redemption. The Bonds maturing on January 1 of the years 2028, 2030, 2033, and 2037 are subject to mandatory redemption by operation of the Bond and Interest Account prior to maturity on January 1 of the years and in the amounts set forth below, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption:

Term Bonds due January 1, 2028

Year	Sinking Fund Requirement
2027	\$1,060,000
2028 (final maturity)	1,105,000

Term Bonds due January 1, 2030

Year	Sinking Fund Requirement
2029	\$1,155,000
2030 (final maturity)	1,205,000

Term Bonds due January 1, 2033

<u>Year</u>	<u>Sinking Fund Requirement</u>
2031	\$1,255,000
2032	1,310,000
2033 (final maturity)	1,370,000

Term Bonds due January 1, 2037

<u>Year</u>	<u>Sinking Fund Requirement</u>
2034	\$1,430,000
2035	1,490,000
2036	1,560,000
2037 (final maturity)	1,630,000

The City covenants that it will redeem Term Bonds pursuant to the mandatory redemption requirement for such Term Bonds and provide Net Revenues accordingly. If the City redeems pursuant to optional redemption as hereinabove provided or purchases Term Bonds of any maturity and cancels the same from funds in the Bond and Interest Account as hereinafter described, then an amount equal to the principal amount of the Term Bonds so redeemed or purchased shall be deducted from the mandatory redemption requirements provided for Term Bonds of such maturity, first, in the current year of such requirement, until the requirement for the current year has been fully met, and then in any order of such Term Bonds as due at maturity or subject to mandatory redemption in any year, as the City shall determine. If the City redeems pursuant to optional redemption or purchases Term Bonds of any maturity and cancels the same from moneys other than in said Bond and Interest Account, then an amount equal to the principal amount of Term Bonds so redeemed or purchased shall be deducted from the amount of such Term Bonds as due at maturity or subject to mandatory redemption requirement in any year, as the City shall determine.

Redemption Procedures. The Bonds subject to redemption shall be identified, notice given, and paid and redeemed pursuant to the procedures as follows.

A. Notice to Registrar. For a mandatory redemption, unless otherwise notified by the City, the Bond Registrar will proceed on behalf of the City as its agent to provide for the mandatory redemption of Term Bonds without any further order or direction. For an optional redemption, the City shall, at least 45 days prior to a redemption date (unless a shorter time period shall be satisfactory to the Bond Registrar), notify the Bond Registrar of such redemption date and of the Series and maturities and principal amounts of Bonds to be redeemed and, if applicable, for a partial redemption of Term Bonds, the effect thereof on the mandatory redemption schedule of such Term Bonds.

B. Selection of Bonds within a Maturity. For purposes of any redemption of less than all of the Bonds of a single Series and maturity, the particular Bonds or portions of Bonds to be redeemed shall be selected by lot by the Bond Registrar for the Bonds of such maturity by such method of lottery as the Bond Registrar shall deem fair and appropriate; provided, that such lottery shall provide for the selection for redemption of Bonds or portions thereof so that any \$5,000 Bond or \$5,000 portion of a Bond shall be as likely to be called for redemption as any other such \$5,000 Bond or \$5,000 portion. The Bond Registrar shall make such selection upon

the earlier of the irrevocable receipt of funds sufficient to pay the redemption price of the Bonds to be redeemed or the time of the giving of official notice of redemption.

C. Official Notice of Redemption. The Bond Registrar shall promptly notify the City in writing of the Bonds or portions of Bonds selected for redemption and, in the case of any Bond selected for partial redemption, the principal amount thereof to be redeemed. Unless waived by the registered owner of Bonds to be redeemed, official notice of any such redemption shall be given by the Bond Registrar on behalf of the City by mailing the redemption notice by first class U.S. mail not less than 30 days and not more than 60 days prior to the date fixed for redemption to each registered owner of the Bond or Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such registered owner to the Bond Registrar. All official notices of redemption shall include the name of the Bonds and at least the information as follows: the redemption date; the redemption price; if less than all of the outstanding Bonds of a particular maturity are to be redeemed, the identification (and, in the case of partial redemption of Bonds within such maturity, the respective principal amounts) of the Bonds to be redeemed; a statement that on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption and that interest thereon shall cease to accrue from and after said date; and the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the office of the Bond Registrar maintained for that purpose.

D. Conditional Redemption. Unless moneys sufficient to pay the redemption price of the Bonds to be redeemed shall have been received by the Bond Registrar prior to the giving of such notice of redemption, such notice may, at the option of the City, state that said redemption shall be conditional upon the receipt of such moneys by the Bond Registrar on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the City shall not redeem such Bonds, and the Bond Registrar shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed.

E. Bonds Shall Become Due. Subject to the provisions for conditional redemption immediately preceding, official notice of redemption having been given as described, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the City shall default in the payment of the redemption price) such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Bond Registrar at the redemption price. The procedure for the payment of interest due as part of the redemption price shall be as provided for payment of interest otherwise due.

F. Insufficiency in Notice Not Affecting Other Bonds; Failure to Receive Notice; Waiver. Neither the failure to mail such redemption notice, nor any defect in any notice so mailed, to any particular registered owner of a Bond, shall affect the sufficiency of such notice with respect to other registered owners. Notice having been properly given, failure of a registered owner of a Bond to receive such notice shall not be deemed to invalidate, limit or delay the effect of the notice or redemption action described in the notice. Such notice may be waived in writing by a registered owner of a Bond entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by registered owners shall

be filed with the Bond Registrar, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. In lieu of the foregoing official notice, so long as the Bonds are held in Book Entry Form, notice may be given as provided in the Letter of Representations provided to DTC, and the giving of such notice shall constitute a waiver by the DTC or its nominee, as registered owner, of the official notice.

G. **New Bond in Amount Not Redeemed.** Upon surrender for any partial redemption of any Bond, there shall be prepared for the registered owner a new Bond or Bonds of like Series and tenor, of authorized denominations, of the same maturity, and bearing the same rate of interest in the amount of the unpaid principal.

H. **Effect of Nonpayment upon Redemption.** If any Bond or portion of Bond called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid or duly provided for, bear interest from the redemption date at the rate borne by the Bond or portion of Bond so called for redemption.

I. **Bonds to be Cancelled; Payment to Identify Bonds.** All Bonds which have been redeemed shall be cancelled and destroyed by the Bond Registrar and shall not be reissued. Upon the payment of the redemption price of Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

J. **Additional Notice.** The City agrees to provide such additional notice of redemption as it may deem advisable at such time as it determines to redeem Bonds, taking into account any requirements or guidance of the Securities and Exchange Commission, the Municipal Securities Rulemaking Board, the Government Accounting Standards Board, or any other federal or state agency having jurisdiction or authority in such matters; provided, however, that such additional notice shall be (1) advisory in nature, (2) solely in the discretion of the City, (3) not be a condition precedent of a valid redemption or a part of the Bond contract, and (4) any failure or defect in such notice shall not delay or invalidate the redemption of Bonds for which proper official notice shall have been given. Reference is also made to the provisions of the Continuing Disclosure Undertaking of the City with respect to the Bonds, which may contain other provisions relating to notice of redemption of Bonds.

SECURITY FOR THE BONDS

Source of Payment

The Bonds and any Additional Bonds (collectively, the “Electric System Revenue Bonds”) have a claim for payment as to principal and interest on an equal and ratable basis solely from the Net Revenues derived by the City from the ownership and operation of the System and from accounts in the Electric Fund securing the Electric System Revenue Bonds. “Net Revenues” is defined in the Bond Ordinance to mean that portion of the Revenues remaining after providing sufficient funds for Operation and Maintenance Costs.

The Electric System Revenue Bonds are secured by a pledge of the Net Revenues of the Electric System Fund described below to be deposited and expended as provided in the Bond

Ordinance. As described herein under “Bond Reserve Account”, the Bond Ordinance establishes a Bond Reserve Account that, upon issuance of the Bonds, will be funded in an amount equal to the Maximum Annual Debt Service on the Bonds. In addition, until expended on the costs of the capital improvements to and other costs of the System described above, the net proceeds received by the City from the sale of the Bonds and deposited in the 2006 Construction Fund established under the Bond Ordinance and the investment earnings on those net proceeds are also subject to the pledge created under the Bond Ordinance. The Electric System Revenue Bonds are not secured by a lien or security interest on the physical assets of the System.

THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION AS TO INDEBTEDNESS. THE BONDS DO NOT HAVE A CLAIM FOR PAYMENT FROM ANY TAXES OF THE CITY.

Bonds and Other Obligations Permitted Under the Bond Ordinance

Under the Bond Ordinance, the City is authorized to issue Electric System Revenue Bonds and subordinate bonds and obligations. In addition, certain obligations related to Electric System Revenue Bonds, consisting of credit enhancer obligations and interest rate exchange transactions are permitted to be payable from the Bond and Interest Account on a parity with Electric System Revenue Bonds. Electric System Revenue Bonds are payable from Net Revenues of the System. Other than the Bonds, the System currently has no outstanding bonded indebtedness. The City is permitted to issue additional series of Electric System Revenue Bonds pursuant to the provisions of the Bond Ordinance summarized under “ISSUANCE OF PARITY BONDS”.

Although any future subordinate bonds and obligations would also be payable from Net Revenues, such subordinate bonds and obligations would not be issued on a parity with Electric System Revenue Bonds. As shown below under the caption “FLOW OF FUNDS”, monthly deposits of Net Revenues in respect of subordinate bonds and obligations would be made only after making deposits to the Accounts maintained under the Bond Ordinance for the payment of Electric System Revenue Bonds, and the Depreciation, Repair and Replacement Account.

Under the Bond Ordinance, the City may not authorize and issue any additional bonds that have a lien on Net Revenues superior to the Electric System Revenue Bonds. Certain long term power payment obligations may be treated as Operation and Maintenance costs, superior in lien to all bonds. See “Northern Illinois Municipal Power Agency” herein.

Bond Reserve Account

The Bond Ordinance establishes a Bond Reserve Account. Moneys on deposit to the credit of the Bond Reserve Account are required to be used by the City to pay principal and interest on the Electric System Revenue Bonds and obligations on a parity therewith at any time when there are insufficient funds available in the Bond and Interest Account to pay the same as due. Moneys on deposit to the credit of the Bond Reserve Account are not pledged, and will not be available to pay any subordinate bonds and obligations.

The City shall, on the date of issuance of the Bonds, cause the Bond Reserve Account to be funded in an amount equal to the Maximum Annual Debt Service on the Bonds. Accordingly,

the amount on deposit in the account as of the date of issuance of the 2006 Electric System Revenue Bonds will be \$1,705,719. In the event at any time that the balance on deposit in the Bond Reserve Account is less than the Bond Reserve Requirement, the Bond Ordinance requires the City to deposit monthly to the credit of the Bond Reserve Account an amount equal to one-twelfth of the amount of such deficiency. In the event of a decreased value of investments resulting in the amount on deposit to the credit thereof being less than the required amount, the City covenants to replenish the Bond Reserve Account to Maximum Annual Debt Service at the rate of not less than one-third of the deficiency per month.

Bond Ordinance Rate Covenant

The City will establish and maintain at all times reasonable fees, charges, and rates for the use and service of the System and will provide for the collection thereof and the segregation and application of the Revenues in the manner provided by the Bond Ordinance, sufficient at all times (1) to pay Operation and Maintenance Costs, to pay the principal of and interest on all revenue bonds or other obligations of the City which by their terms are payable solely from the Revenues, and to provide Net Revenues in each Fiscal Year in the amount of not less than 125% of the Current Debt Service Requirement for all Electric System Revenue Bonds and other obligations payable from the Bond and Interest Account for such Fiscal Year, provided, however, that such coverage requirement shall not apply to any accelerated payments; and (2) to the extent necessary after application of the Net Revenues available pursuant to the aforesaid covenant relating to the provision of 125% of the Current Debt Service Requirement, to provide such additional amounts as may be required to provide an adequate depreciation fund and to provide for the creation and maintenance of the respective accounts as provided in the Bond Ordinance and to provide not less than 110% coverage in each Fiscal Year of any interest payable upon obligations payable from the Surplus Account (such as subordinate bonds) which, at the time of issuance or incurrence, have a term in excess of five years.

There shall be charged against all users of the System, including the City, such rates and amounts for electric services as shall be adequate to meet the requirements of this covenant. Charges for services rendered the City shall be made against the City, and payment for the same shall be made monthly from the corporate funds into the Fund as Revenues derived from the operation of the System; provided, however, that the City need not charge itself for street lighting purposes.

Effect of Defeasance on Bondholder Rights

Bonds which are no longer outstanding and unpaid, including Bonds which have been defeased under the terms of the Bond Ordinance, shall cease to have any lien on or right to receive or be paid from Revenues and shall no longer have the benefits of any covenant for the holders or registered owners of Electric System Revenue Bonds as set forth in the Bond Ordinance.

Enforcement and Remedies

The Bond Ordinance does not provide for the appointment of a trustee to act on behalf of the registered owners of the Electric System Revenue Bonds. Any holder or registered owner of a Bond may proceed by civil action to compel performance of all duties required by law and the Bond Ordinance, including the making and collection of sufficient charges and rates for the service supplied by the System and the application of income and revenue therefrom.

RIGHTS RESERVED TO CITY

Credit Instruments

The City reserves the right to provide one or more irrevocable letters of credit, lines of credit, standby purchase agreements, financial guaranty insurance policies or surety bonds or similar instruments (for purposes hereof, collectively, "Instruments") (including an Instrument for the purposes of the Debt Service Reserve Fund rated "Aa" or better by Moody's or "AA" or better by Standard and Poors), or a combination thereof to secure the payment of the principal of, premium, if any, and interest on one or more series of Electric System Revenue Bonds, or in the event owners of such Bonds have the right to require purchase thereof, to secure the payment of the purchase price of such Bonds upon the demand of the owners thereof. In connection with any such Instruments, the City may execute and deliver an agreement setting forth the conditions upon which drawings or advances may be made under such Instruments and the method by which the City will reimburse the issuer of such Instruments for such drawings together with interest thereon at such rate or rates and otherwise make payments as may be agreed upon by the City and the issuer of such Instruments. Any such obligation of the City to reimburse or otherwise make payments to the issuer of such Instruments securing a series of Electric System Revenue Bonds shall be payable from the Bond and Interest Account to the same extent as any series of Electric System Revenue Bonds, and any and all amounts payable by the City to reimburse the issuer of any such Instruments, together with interest thereon, shall for purposes of the Bond Ordinance be deemed to constitute the payment of principal of, premium, if any, and interest on Electric System Revenue Bonds.

Rights Pertaining to Swap Agreements

Under the terms of the Bond Ordinance, the City may enter into a swap agreement with a swap provider (a "Swap Provider") whose unsecured obligations or whose guarantor's unsecured obligations are rated by the rating agencies described in the section "RATINGS" with a rating at least as high as the current rating on the Electric System Revenue Bonds (a "Qualified Swap Agreement"). If such Qualified Swap Agreement is entered into, then the City has reserved the right to determine the calculation of the Debt Service Reserve Requirement for Electric System Revenue Bonds using the interest rate on the related Bonds of such maturity or maturities shall be determined as if such Bonds bore interest at the fixed interest rate or the variable interest rate, as the case may be, payable by the City under such Swap Agreement. Any net payments required to be made by the City to the Swap Provider pursuant to such Qualified Swap Agreement from Net Revenues will be made on a parity with payments due on other Electric System Revenue Bonds from amounts on deposit to the credit of the Bond and Interest Account. Any net payments received by the City from the Swap Provider pursuant to such Qualified Swap

Agreement will, so long as there is no deficiency in any account requirement, be applied as directed by the City.

If the City shall enter into a swap agreement of the type generally described in the paragraph above that does not satisfy the requirements for qualification as a Qualified Swap Agreement (with regard to ratings), then the interest rate adjustment or assumptions referred to in paragraph above shall not be made; any net payments required to be made by the City to the Swap Provider pursuant to such swap agreement from Net Revenues shall be made only from the Surplus Account; and any net payments received by the City from the Swap Provider pursuant to such swap agreement may be treated as Net Revenues at the option of the City and applied as directed by the City.

ADDITIONAL SYSTEM OBLIGATIONS

No Prior Lien Obligations

The City does not have nor is it authorized to issue any bonds, notes or other evidences of indebtedness payable from or having a lien on Revenues of the System prior to the lien granted under the Bond Ordinance in favor of the registered owners of Electric System Revenue Bonds including the Bonds.

Additional Electric System Revenue Bonds

Upon compliance with the conditions set forth in the Bond Ordinance and summarized below, the City may issue additional Electric System Revenue Bonds on a parity with the Bonds to finance any lawful purpose of the City related to the System or to refund all or a portion of the Bonds or any other outstanding Electric System Revenue Bonds.

Electric System Revenue Bonds for System Purposes No obligations or bonds of any kind are to be issued which are payable from the Revenues except upon compliance with one of the options (A) through (D) set out below.

A. Additional Bonds may be issued for the purpose of paying the cost of repairs, replacements, renewals, improvements and extensions to the System, the prepayment of the cost of purchased power or other Operations and Maintenance costs, termination fees related to interest rate exchange obligations or hedge fees relating to same or to Bonds, or for refunding Outstanding Bonds upon compliance with the following conditions:

1. The amounts required to be credited monthly to the respective accounts described in "FLOW OF FUNDS" in the text below must have been credited in full up to the date of the delivery of such Additional Bonds.

2. The Net Revenues of the System as shown by the audit of an independent certified public accountant, which audit shall be for either the most recent Fiscal Year or the preceding Fiscal Year if (i) the most recent Fiscal Year has ended within 270 days of the date of issuance of the Proposed Parity Bonds and (ii) the audit for the most recent Fiscal Year is not yet available, or the Rate Adjusted Revenues (as defined below) of the System for such year must equal at least 125% of Maximum Annual Debt Service, computed immediately after the issuance

of the proposed Additional Bonds, but only for those Fiscal Years in which the Outstanding Bonds immediately prior to such issuance will continue to be Outstanding Bonds as provided herein; or the Engineer Adjusted Net Revenues (as defined below) of the System for such year must equal at least 140% of Maximum Annual Debt Service, computed immediately after the issuance of the proposed Additional Bonds, but only for those Fiscal Years in which the Outstanding Bonds immediately prior to such issuance will continue to be Outstanding Bonds as provided herein.

3. Net Revenues of the System may be adjusted: (a) In the event there shall have been an increase in the rates of the System from the rates in effect for the Fiscal Year of such audit, the Net Revenues as described hereinabove may be adjusted (the "Rate Adjusted Net Revenues") to reflect the Net Revenues of the System for the said Fiscal Year as they would have been had said then existing rates been in effect during all of said Fiscal Year, which adjustment shall be evidenced by the certificate of the chief financial officer of the City, which certificate shall be filed with and approved by the City Council prior to the issuance of the proposed Parity Bonds.

(b) In the event that the project or purpose for which the proposed Additional Bonds are to be issued is expected to result in new sources of Revenues (such as new customers) or reduced Operations and Maintenance Costs (such as a favorable power supply arrangement), the Net Revenues as described hereinabove may be adjusted (the "Engineer Adjusted Net Revenues") to take into account such Net Revenues as they are projected to be in the first full Fiscal Year of the anticipated adjustment, which adjustment shall be evidenced by the certificate of an independent consulting engineer employed for that purpose.

B. Additional Bonds may be issued to refund Electric System Revenue Bonds if the Additional Bonds result in a Current Debt Service Requirement in each Fiscal Year after the proposed issuance not greater than the corresponding year's Current Debt Service Requirement were such Additional Bonds not to be issued.

C. Additional Bonds may be issued to refund Outstanding Bonds in order to avoid or remedy default in the payment of principal of or interest on Outstanding Bonds; provided they are issued to avoid such default not earlier than three months prior to the due date of such principal or interest.

D. Bonds or other obligations may be issued payable from the Revenues subordinate to the Outstanding Bonds. Such subordinate bonds shall be payable from the Surplus Account described in the FLOW OF FUNDS or may be made payable from such other fund or account as may be provided, upon the transfer of moneys from the Surplus Account to such other fund or account. Contracts or agreements, including long-term and take or pay contracts or agreements, for the supply of power which by their terms require payment by the City as an Operation and Maintenance Cost or from the Operation and Maintenance Account are expressly excluded from the provisions of the Bond Ordinance pertaining to Additional Bonds.

FLOW OF FUNDS

The System shall continue to be operated on a Fiscal Year basis. All Revenues shall be set aside as collected and be deposited into the Electric System Fund (also referred to as the "Fund"), which constitutes a trust fund for the sole purpose of carrying out the covenants, terms, and conditions of the Bond Ordinance, and shall be used only in paying Operation and Maintenance Costs, paying the principal of and interest on all revenue bonds and other obligations of the City which by their terms are payable from the Revenues derived from the System, providing an adequate depreciation fund, and providing for the establishment of and expenditure from the respective accounts as hereinafter described. There are established the separate accounts in the Fund known as the "Operation and Maintenance Account," the "Bond and Interest Account," the "Bond Reserve Account," the "Depreciation, Repair and Replacement Account," and the "Surplus Account," to which there shall be credited on a given day of each month as selected by the chief financial officer of the City, in the order in which said accounts are hereinafter mentioned, all moneys held in the Fund, in accordance with the following provisions.

A. **Operation and Maintenance Account.** There shall be credited to the Operation and Maintenance Account an amount sufficient, when added to the amount then on deposit in said Account, to establish a balance to an amount not less than the amount necessary to pay Operation and Maintenance Costs for the then current month. Amounts in said Account shall be used to pay Operation and Maintenance Costs. Subaccounts within the Operation and Maintenance Account may be established by the City and funded as may be provided for the purpose of securing payment obligations for the purchase of power.

B. **Bond and Interest Account.** There next shall be credited to the Bond and Interest Account and held, in cash and investments, an even monthly fractional amount of the then Current Debt Service Requirement (defined in the text below) until and for so long as there shall have been accumulated and held, in cash and investments, in the Bond and Interest Account on or before the time needed the entire Current Debt Service Requirement. Moneys in said Account ("Bond Moneys") to be used for the purpose of paying interest on and principal of Outstanding Bond may be applied as follows: (1) Bond Moneys shall be applied to the payment of interest when due and principal or redemption price when due at maturity or as redeemed pursuant to mandatory redemption from the Bond and Interest Account, or (2) on or before 45 days preceding any mandatory redemption date, Bond Moneys up to the amount of the redemption requirement on such mandatory redemption date plus interest due on related Term Bonds on such date may be applied (a) to the purchase of Term Bonds of the maturity for which such mandatory redemption requirement was established at prices (including commissions and charges, if any) not exceeding par and accrued interest to such mandatory redemption date or (2) to the redemption of such Bonds, without premium, pursuant to optional redemption provisions applicable thereto.

The City has the right to provide one or more irrevocable letters of credit, lines of credit, standby purchase agreements, financial guaranty insurance policies or surety bonds or similar instruments (for purposes hereof, collectively, "Instruments"), or a combination thereof to secure the payment of the principal of, premium, if any, and interest on one or more series of Electric System Revenue Bonds, or in the event owners of such Bonds have the right to require purchase thereof, to secure the payment of the purchase price of such Bonds upon the demand of the

owners thereof. In connection with any such Instruments, the City may execute and deliver an agreement setting forth the conditions upon which drawings or advances may be made under such Instruments and the method by which the City will reimburse the issuer of such Instruments for such drawings together with interest thereon at such rate or rates and otherwise make payments as may be agreed upon by the City and the issuer of such Instruments. Any such obligation of the City to reimburse or otherwise make payments to the issuer of such Instruments securing a series of Electric System Revenue Bonds shall be payable from the Bond and Interest Account under the Bond Ordinance to the same extent as any series of Electric System Revenue Bonds, and any and all amounts payable by the City to reimburse the issuer of any such Instruments, together with interest thereon, shall for purposes of this Ordinance be deemed to constitute the payment of principal of, premium, if any, and interest on Electric System Revenue Bonds.

C. Bond Reserve Account. The Bond Reserve Account shall be maintained in the amount of Maximum Annual Debt Service. In the event of a withdrawal from the Bond Reserve Account resulting in the amount on deposit to the credit thereof being less than the required amount, the City covenants to replenish the Bond Reserve Account to Maximum Annual Debt Service at the rate of not less than 1/12th the deficiency per month. In the event of a decreased value of investments resulting in the amount on deposit to the credit thereof being less than the required amount, the City covenants to replenish the Bond Reserve Account to Maximum Annual Debt Service at the rate of not less than one-third of the deficiency per month.

At the time of the issuance of any Additional Bonds or other increase of the Maximum Annual Debt Service Requirement (occasioned by entering into a credit enhancer obligation or interest rate exchange transaction), the Bond Reserve Account shall be immediately funded to the fullest extent as may be both (1) permitted by Illinois law at the time and (2) if the Additional Bonds so issued are tax-exempt, as may be limited by the provisions for funding under the Internal Revenue Code. In the event full funding is not available as a result of such limitations, then the difference between what is available and Maximum Annual Debt Service shall be accumulated in the Bond Reserve Account by a credit each month, beginning the month after the event (such as the issuance of Additional Bonds) resulting in such increase, in the amount of 1/24th of the difference between the amount on deposit to the credit of said Account immediately after such event and Maximum Annual Debt Service as calculated at such time, until the credit balance of said Account aggregates the amount of Maximum Annual Debt Service.

Amounts to the credit of the Bond Reserve Account shall be used to pay principal of or interest on the Outstanding Bonds at any time when there are insufficient funds available in the Bond and Interest Account to pay the same and, further, to pay other amounts due from the Bond and Interest Account when insufficient funds are available therein, as and to the extent provided in the relevant instruments (such as Credit Enhancer Obligations or Interest Rate Exchange Transactions). A Qualified Reserve Account Instrument may also be utilized in lieu of cash to provide the reserve amount for one or more series of Electric System Revenue Bonds, including the Bonds.

With respect to any series of Electric System Revenue Bonds, the City may provide for a subaccount of the Bond Reserve Account securing solely such series, and such series shall then have no claim on any other cash or assets in or of the Bond Reserve Account.

D. Depreciation, Repair and Replacement Account. A beginning deposit shall be made to the credit of the Depreciation, Repair and Replacement Account in the amount of \$2,000,000. Thereafter no further deposits need be made to the Depreciation, Repair and Replacement Account so long as the amount of \$2,000,000 remains; but if, for any reason, the account balance shall be less than \$2,000,000, there shall be deposited each month the amount of \$100,000 until the credit balance shall again be not less than \$2,000,000. The amount to be provided in this Account and the monthly funding requirement may be increased at the discretion of the City Council; provided, however, that if increased at the discretion of the City Council (and not by contract such as, by way of example, an ordinance relating to Additional Bonds), then the amounts may thereafter also be decreased but not below the amounts herein provided.

Amounts to the credit of the Depreciation, Repair and Replacement Account shall be used (1) to provide an adequate allowance for depreciation as shall be determined from time to time by the City Council in its sole discretion, (2) to pay the cost of extraordinary maintenance, or contingencies, or for improvements or extensions to the System as shall be determined from time to time by the City Council in its sole discretion and in order that the System may at all times be able to render efficient service, and (3) at any time required, for the payment of principal of or interest on any Electric System Revenue Bonds or other obligations payable from the Bond and Interest Account when there are no other funds available for that purpose in order to prevent a default and shall be transferred to the Bond and Interest Account for such purpose.

Whenever an amount is withdrawn from such Account for the purpose stated in clause (3) of the preceding paragraph, the amount so transferred shall be added to the amount to be next and thereafter credited to said Depreciation, Repair and Replacement Account until full reimbursement to said Account has been made.

E. Surplus Account. All moneys remaining in the Fund, after crediting the required amounts to the respective accounts hereinabove provided for, and after making up any deficiency in the accounts described in (A) to (D), inclusive, of the above text, shall be credited each month to the Surplus Account. Funds in the Surplus Account shall first be used to make up any subsequent deficiencies in any of the accounts hereinabove named and then, at the discretion of the City Council or as covenanted by the City in proceedings related to any issue of Additional Bonds or other obligations, including subordinate revenue obligations payable from Revenues, shall be used for one or more of the following purposes without any priority among them except as may be covenanted:

1. For the purpose of constructing or acquiring repairs, replacements, or improvements or extensions to the System.

2. For the purpose of calling and redeeming Electric System Revenue Bonds which are callable at the time or for the purpose of purchasing Electric System Revenue Bonds.

3. For the purpose of paying principal of and interest on any bonds or other obligations issued for the purpose of acquiring or constructing repairs, replacements, or improvements or extensions to the System or otherwise properly payable from the Electric System Fund or refunding obligations issued for such purposes.

4. For the payment of rebate of “excess arbitrage profits” under the Code to the United States Government.

5. For transfer to the general funds of the City as payments in lieu of taxes or as return on equity or for any other lawful purpose, subject that such transfers in the aggregate shall not exceed 4% of Revenues in any Fiscal Year; provided, however, that this transfer is in addition to amounts permitted to be charged as Operation and Maintenance Costs of the System and also in addition to certain free service to the City as described in the text above.

6. For the purpose of making one or more interfund loans for any lawful corporate purpose of the City subject to (a) the aggregate amount of such loans outstanding at any time shall not exceed 2-1/2% of Revenues as shown by the most recent audit, (b) such loans shall have a term not to exceed 20 years, and (c) the rate of interest thereon may be zero or any rate above zero not in excess of a reasonable rate.

7. For the purpose of creating and providing funds for a Rate Stabilization Subaccount to operate as follows: The City Council may at any time direct funding of or withdrawal from such Subaccount, including providing for funding or withdrawal as a part of a given Fiscal Year budget. Any amounts deposited into the Rate Stabilization Subaccount shall be subtracted from Net Revenues in the Fiscal Year of the deposit for purposes of determining compliance with the covenants set forth in this Ordinance, and any amounts withdrawn from the Rate Stabilization Subaccount shall be added to Revenues in the Fiscal Year of withdrawal, provided, however, that if there remains on deposit to the credit of the Surplus Account an unallocated sum, after such transfer, not less than two times Maximum Annual Debt Service, then the transfer shall not be subtracted from Net Revenues. All funds withdrawn shall be treated as Revenues on withdrawal and held in the Electric System Fund and credited to accounts of the fund as hereinabove provided.

8. For any other lawful System purpose.

AMENDMENTS TO BOND ORDINANCE

The rights and obligations of the City and of the registered owners of Electric System Revenue Bonds may from time to time be modified or amended by a supplemental ordinance adopted by the City Council with the written consent of the registered owners of not less than two-thirds of the principal amount of all Electric System Revenue Bonds (excluding any of said bonds owned by or under the control of the City); provided, however, that no such modification or amendment shall extend or change the maturity of or date of redemption prior to maturity, or reduce the interest rate on, or permit the creation of a preference or priority of any Electric System Revenue Bond or Electric System Revenue Bonds over any other Electric System Revenue Bond or Electric System Revenue Bonds, or otherwise alter or impair the obligation of the City to pay the principal of, interest on and redemption premium (if any) on any of the Electric System Revenue Bonds at the time, place, rate, and in the currency provided therein, or alter or impair the obligations of the City with respect to the tax-exempt status, the registration, transfer, exchange or notice of redemption of Bonds, without the express consent of the registered owners of all the Electric System Revenue Bonds affected; nor shall any such modification or amendment reduce the percentage of the registered owners of Electric System

Revenue Bonds required for the written consent of such modification or amendment without the consent of the owners of all of the Electric System Revenue Bonds. If a given Series of Bonds is fully and irrevocably insured or otherwise provided for as to the timely payment of principal and interest by a bond insurance policy, a letter of credit, or some other means, and such policy provider or letter of credit provider shall not be in default, then any consent to amendment as herein provided shall not be given by the owners of Bonds of such Series, but rather shall be obtained from such provider, whose consent may or may not be given in its complete discretion, and whose consent shall be binding on such owners and all successors in interest. Ownership of Bonds for purposes of consent by the registered owners thereof shall be conclusively proved by the Bond Register. In obtaining or receiving the consents of registered owners, the City may establish reasonable rules of procedure including, without limitation, rules relating to (i) a record date to fix the registered owners who are entitled to vote, (ii) solicitation of proxies and (iii) a meeting of the registered owners for the taking of actions. The registered owners of Bonds may vote their Bond interest in fractional shares. In the event that Bonds are registered in the name or names of nominees or depositories, consent of such owners by proxy in accordance with the applicable customs of the securities industry or rules of the Securities and Exchange Commission, Municipal Securities Rulemaking Board or other association or agency having jurisdiction shall be sufficient.

ADDITIONAL COVENANTS OF THE CITY

Covenant Regarding Sale of Property of System

The City may sell or dispose of any property of the System only when such sale or disposal is in the judgment of the City advisable for the best interests of the City and the System and which will not impair the ability of the System to produce the Net Revenues sufficient to meet the covenant described under the caption "Bond Ordinance Rate Covenant" above; provided, however, that if such sale either at one time or pursuant to a course of action will result in disposition of 20% or more of the System as valued by gross book value of assets or outstanding debt (whichever is less), then the City must obtain a report of an independent electric utility professional concurring in the City's judgment as to no impairment of Net Revenues; and the City will take no action in relation to the System which would unfavorably affect the security of all Electric System Revenue Bonds and other obligations payable or the prompt payment of the principal thereof and interest thereon. Any amounts received from the sale of property of the System shall be deposited to the credit of the Surplus Account.

Covenant to Insure System

The City will carry insurance on the System of the kinds and in the amounts which are usually carried by private parties operating similar properties, covering such risks as shall be recommended by a competent insurance consultant employed by the City for the purpose of making such recommendations. Alternatively the City shall self-insure or provide insurance by means of a self-insurance pool with other units of local government, provided that either private insurance is not available at a reasonable cost or the City or the pool shall have assets or shall have created a self-insurance reserve fund in an amount as shall be determined by a competent insurance consultant to be not unreasonable in view of the risks insured. All moneys received for property loss under such insurance policies or from the self-insurance reserve fund or pool shall be deposited to the credit of the Depreciation, Repair and Replacement Account and used in

making good the loss or damage in respect of which they were paid, either by repairing the property damaged or making replacement of the property destroyed, and provision for making good such loss or damage shall be made within 90 days from the date of the loss. The proceeds derived from any and all policies for workers' compensation or public liability or from the self-insurance reserve fund or pool shall be paid into the Operation and Maintenance Account and used in paying the claims on account of which they were received or shall be used to reimburse any account from which the claim was previously paid. The payment of premiums, regular payments to a pool and regular accumulations for a reserve fund required under the provisions of this covenant shall be considered an Operation and Maintenance Cost.

Miscellaneous Covenants

Except as expressly provided in the Bond Ordinance, the City covenants not to provide any free service of the System, and, to the extent permitted by law, the City will not grant a franchise for the operation of any competing electric system within the City.

The City will adopt a budget for the Electric System Fund prior to the beginning of each Fiscal Year, subject to applicable state law, providing for Revenues sufficient for payment of all sums to be required in the Fiscal Year so as to comply with the terms of the Bond Ordinance and of any long-term power supply or other agreements related to the System. If during the Fiscal Year there are unexpected receipts or payments, the City will adopt an amended budget for the remainder of the Fiscal Year.

THE CITY

The City is located 35 miles due west of downtown Chicago along the banks of the Fox River. First settled in 1833, Batavia was incorporated as a village in 1856 and as a city in 1891. Population at the 2000 Census was 23,866, and a special census in 2003 determined the population to be 24,978. The City comprises an area of 9.65 miles and, with annexations and additional development, could grow to an area of approximately 10.2 square miles with an estimated population of 32,000 to 34,000. Batavia is located primarily in Kane County, Illinois, although a portion of the City is in DuPage County. Kane County was the third fastest growing county in Illinois in terms of population between 2000 and 2003. The City is nicknamed 'The Windmill City' as a result of its industrial role at the turn of the last century as the windmill manufacturing capital of the world. The City's windmill manufacturing industry continued into the 1940s.

Today, Batavia is the home of over 200 manufacturing, research and warehousing firms, as well as the Fermi National Accelerator Laboratory, the world renowned center for high energy physics research. Batavia's industrial park is 85% full, but there remains a total of 93 acres that is available for industrial development. The City has also created tax increment financing districts to redevelop former manufacturing buildings into commercial facilities and residential use. Batavia's per capita income and median family income are well above the averages for the State of Illinois.

The City is a non-home rule unit of local government under the Illinois Constitution. The City operates under an aldermanic form of government with 14 aldermen, two from each ward,

elected for overlapping four year terms. The Mayor is elected on an at-large basis. Day to day operations are managed by the City Administrator. Major department administrators, including the City Administrator, Finance Director and Budget Officer, Police Chief, Fire Chief and Public Works Director are appointed by the Mayor and approved by the City Council. The City Attorney is also appointed by the Mayor, but is not an employee of the City. The City has approximately 172 full time employees and 50 part time employees.

General demographic and economic information relating to the City is included in APPENDIX B– “General Information Regarding the City” to this Official Statement.

THE ELECTRIC DEPARTMENT

General

The City owns and operates the electric utility serving the residents of the City. Under the supervision and direction of the City Administrator, the City's utilities are administered by the Department of Public Works, which includes the Electric Department, Street Department, Water Department, and Waste Water Treatment Department.

Activities of the Electric Department

The Department has overall responsibility for construction, maintenance and operation of the City's electric utility. The 18 full time employees of the Electric Department are responsible for maintaining 109 miles of overhead and underground line as well as the Department's six substations. Electric linemen and crew leaders (11 employees) are represented by the International Brotherhood of Electrical Workers, Local 196 and are working under a contract that extends through December 31, 2007. The City maintains a good working relationship with the union. There has never been a labor strike against the Electric Department or the City.

Separate books are maintained by the City with respect to the financial operations of the Electric Department. For the purposes of accounting for the operations of the System, the City has established and maintains a separate enterprise fund known as the Electric Fund. Excerpts from the Fiscal Year 2005 financial statements, including the Electric Fund, are included as Appendix A to this Official Statement.

THE ELECTRIC SYSTEM

History

Batavia's Electric Department began in 1889 when the City constructed facilities for a municipally owned street lighting system. In its early years, the System generated its own electricity, but for most of its recent history has purchased all of its energy requirements from Commonwealth Edison Company (now a subsidiary of Exelon Corporation). The System serves 10,592 customers, making it the fourth largest municipal electric utility in Illinois. With full residential and commercial/industrial development, the System expects to serve about 12,500 customers within ten to fifteen years.

Service Area

The area served by the System is the City of Batavia, encompassing an area of approximately ten square miles. The System's service area population is approximately 25,000 persons.

Customers

The following table, prepared by the City, shows the number of retail customers at fiscal year end for Fiscal Years 2001 through 2005.

RESIDENTIAL, COMMERCIAL AND INDUSTRIAL CUSTOMERS

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Residential	8,858	9,013	9,208	9,298	9,395
Small Commercial	456	490	480	504	500
Large Commercial	554	583	611	657	691
Large Power	<u>7</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>6</u>
Total	9,875	10,091	10,304	10,464	10,592

As of September 30, 2006, the System had a total of 10,687 customers. The composition of the System's customer base is predominately residential. Of the 10,592 customers served as of December 31, 2005, 9,395, or 88.7%, are residential and 1,197 or 11.3% are commercial or large power customers. These non-residential customers provided approximately 71% of the System's retail revenues in Fiscal Year 2005.

The following table, prepared by the City, lists the System's ten largest users of electric energy in Fiscal Year 2005, which in total represent 39.1% of annual kWh sales and 32.9% of annual retail sales revenues which, excluding the state sales tax, penalties and other revenues totaled \$24.5 million for the year.

TEN LARGEST SYSTEM CUSTOMERS

(Fiscal Year Ending December 31, 2005)

<u>CUSTOMER</u>	<u>PERCENT OF ANNUAL RETAIL SALES REVENUE</u>
Suncast Corporation	13.5%
Pechiney Plastic Packaging, Inc	6.1%
Candle Corporation of America	3.2%
Portola Packaging Co.	2.4%
Proex, Inc.	2.2%
Millard Warehouse	1.9%
AGCO Parts Division	1.1%
Aldi's Grocery	1.0%
Power Packaging, Inc.	0.8%
Batavia High School	<u>0.8%</u>
TOTAL	<u>32.9%</u>

Retail Energy Sales

In Fiscal Year 2005, the System sold 409,950,538 kilowatt hours (kWh) of energy. This represents an increase of 7.7% in energy consumption from Fiscal Year 2004. The following table, prepared by the City, shows the System's sales of energy, in kWh, operating revenues and average revenue per kWh sold to principal customer classes for Fiscal Years 2001 through 2005.

HISTORICAL CUSTOMER STATISTICS

	Fiscal Year Ending December 31				
	2001	2002	2003	2004	2005
Sales of Electricity (kWh):					
Residential	80,441,763	87,758,074	86,187,494	88,626,498	99,418,700
Small Commercial	5,580,525	5,559,697	5,830,733	5,285,600	5,264,330
Large Commercial	160,633,353	166,132,533	170,826,408	184,872,014	193,864,283
Large Power	92,210,000	103,204,100	101,940,800	101,846,187	111,403,225
Total Sales of Electricity (kWh)	338,865,641	362,654,404	364,785,435	380,630,299	409,950,538
Operating Revenues					
Residential	\$5,657,209	\$6,272,197	\$5,998,840	\$6,156,626	\$7,134,958
Small Commercial	419,436	408,245	421,782	385,083	402,081
Large Commercial	9,331,850	9,790,511	9,997,513	10,712,029	11,387,117
Large Power	4,613,568	5,074,712	4,946,866	5,097,712	5,586,444
Total Operating Revenues	\$20,022,063	\$21,545,665	\$21,365,001	\$22,351,450	\$24,510,601
Average Revenue per kWh Sold ⁽¹⁾ :					
Residential	\$0.0703	\$0.0715	\$0.0696	\$0.0695	\$0.0718
Small Commercial	0.0752	0.0734	0.0723	0.0729	0.0764
Large Commercial	0.0581	0.0589	0.0585	0.0579	0.0587
Large Power	0.0500	0.0492	0.0485	0.0501	0.0501
Total Average Revenue Per kWh Sold	\$0.0591	\$0.0594	\$0.0586	\$0.0587	\$0.0598

(1) Net of utility taxes and penalties.

Power Supply

The City is in the final year of a 20-year, "all requirements" power supply contract with ComEd. The contract, which was amended in 1994 (the "ComEd Contract") provides service through May 31, 2007 at fixed annual rates that include all costs for capacity, energy and delivery of energy to the City on ComEd's transmission and distribution systems. The City estimates that the cost of power in the final year of the ComEd Contract will be approximately \$47 per MWh.

The ComEd Contract contains options for the City to purchase portions of its load from other suppliers. The initial purchase option was for up to 5 MW of power at a 100% load factor (i.e., 5 MW at each hour of the day) beginning June 1, 2000. Beginning June 1, 2001, the ComEd Contract allowed the City to purchase up to 20% of its system peak from other suppliers.

The City first exercised these options in December 1999 when it entered into a two-year contract with the Illinois Municipal Electric Agency (“IMEA”) to purchase power for two, nine-month periods beginning September 1, 2000 and September 1, 2001. In September 2001, the City extended its contract with IMEA for three additional nine-month periods that began on September 1 2002, 2003 and 2004. In April 2002, the City entered into a three-month contract with Constellation Power Source, Inc. to purchase 15 MW at a 100% load factor from June 1 through August 31, 2002. The City estimates that these purchases reduced its power costs by approximately \$2.0 million over this five year period.

In connection with these outside purchases, the City became a network transmission customer of ComEd and beginning, May 1, 2004 a network transmission customer of PJM Interconnection LLC (“PJM”), the regional transmission organization for northern Illinois.

As a ComEd and PJM transmission customer, the City was responsible for paying network transmission and ancillary charges. The City also paid to ComEd an additional monthly charge (“Local Distribution Charges” or “LDCs”) for taking delivery of energy from the ComEd transmission system on 34 kV distribution facilities owned by ComEd. Avoiding the payment of LDCs once the ComEd Contract ends is a major reason for the City undertaking the 138 kV Transmission Project. See “The 138 kV Transmission Project” herein.

Northern Illinois Municipal Power Agency

The City is a member of the Northern Illinois Municipal Power Agency (“NIMPA”). The City, along with the cities of Geneva and Rochelle (both of whom have municipal electric utilities) created NIMPA on June 21, 2004 under the provisions of the Illinois Joint Municipal Electric Power Act.

On February 7, 2005, NIMPA entered into agreements with respect to the Prairie State Project that is being developed by Prairie State Generating Company LLC (“PSGC”), a subsidiary of Peabody Energy (“Peabody”). The Prairie State Project is a mine mouth, pulverized coal-fueled power generating facility that is being developed in Washington County, Illinois. The Prairie State Project agreements give NIMPA the right to obtain an ownership interest equivalent to 105 MW of the Prairie State Project and require that NIMPA contribute its pro rata share of the development costs associated with the Prairie State Project. NIMPA has also declared its intent to issue approximately \$250 million in bonds to finance its ownership interest in the Prairie State Project.

The City has formally declared its intent to purchase an entitlement share of 50 MW from the Prairie State Project. In 2005, the City paid \$1.4 million for its share of development costs on the Prairie State Project. The City has authorized \$921,825 for development costs in 2006. The City expects that payments for the year will be approximately \$500,000 and has budgeted \$250,000 for development costs in 2007. The City has recorded and will continue to record

these payments as operating expenses of the System. (See “Historical Revenues and Expenses” herein.) The City’s payments for development costs on the Prairie State Project are expected to be reimbursed by NIMPA upon its expected issuance of bonds for the Prairie State Project. However, if the City or NIMPA revokes or reduces its entitlement share, these payments may not be refunded.

Prior to NIMPA’s issuance of bonds for the Prairie State Project, NIMPA must obtain the express written approval of each member’s governing body. The City anticipates that the final notice to proceed on the Prairie State Project will occur and construction will begin in 2007. The City expects that the Prairie State units will be available for commercial operation in the 2011 to 2012 time period.

The Prairie State Project

The Prairie State Project will be located in Washington County, Illinois. The plant site is currently owned by Peabody and has the necessary infrastructure available to support two 800 MW coal-fired power plants. NIMPA and other Prairie State Project participants will make the necessary transmission system improvements to interconnect to the transmission grid.

The Prairie State Project is designed to use commercially-available and proven technology with an air quality control system that is capable of operating at the emission levels expected to be required by the environmental permits. The fuel supply for the Prairie State Project will be coal mined from on-site reserves presently owned or controlled by Peabody. Peabody is in the process of obtaining the required permits and licenses.

Future Power Supply

In August and September 2006, the City executed confirmation agreements with Exelon Generation Company, LLC, J. Aron & Company and Constellation Energy Commodities Group, Inc. for the purchase of 497,680 MWh of energy and 90 MW of capacity for the year beginning June 1, 2007. The City anticipates that these resources will satisfy substantially all of its energy requirements for the year beginning June 1, 2007 and that any shortfalls (or sale of excess energy that it has contracted for) will be made through the daily energy market operated by PJM. The City anticipates that standard industry contracts with these sellers, which will include all of the commercial terms provided under the confirmation agreements, will be signed by the end of the year.

The City expects that over the next year it will make additional purchases of energy and capacity to fulfill its energy needs for the period beginning after May 31, 2008.

On November 6, 2006, the City approved a long-term Power Sales Agreement with NIMPA (the “NIMPA Contract”) for the purchase of power from the Prairie State Project. The cities of Geneva and Rochelle have approved similar agreements. The NIMPA Contract gives the City a 48% entitlement (50 MW) to the capacity and output of the Prairie State Project and obligates the City to pay its percent share of all of NIMPA’s costs associated with the acquisition and construction of the Prairie State Project. (Under their respective contracts, Rochelle is obligated for a 28%, 30 MW share and Geneva for 24%, 25 MW share.) The term of the NIMPA Contract will commence upon execution of the agreement by all three cities and will end

at the later date of when bonds issued by NIMPA for the Prairie State Project have been paid in full or defeased or Prairie State has been decommissioned.

The NIMPA Contract will require Batavia (as well as Rochelle and Geneva) to pay its respective share of all Prairie State Project costs, including debt service on bonds to be issued by NIMPA for the Prairie State Project, whether the Prairie State Project is operating or operable or its output is suspended, interrupted, interfered with, reduced or curtailed or terminated in whole or in part, whether by offset, counterclaim, recoupment or otherwise, and is not conditioned upon the performance of NIMPA or any other person under the NIMPA Contract or any other agreement for any cause whatsoever.

The NIMPA Contract contains a “step-up” provision that requires the City to increase its purchase percentage, up to a cap of 200% of its original purchase percentage, if an event of default has occurred with respect to either Rochelle or Geneva and such defaulting party’s entitlement rights to the output of the Prairie State Project are terminated in accordance with the provisions of the NIMPA Contract. Identical step up provisions are in the NIMPA Contracts of Rochelle and Geneva.

Payments made under the NIMPA Contract would be an operating expense of the City’s municipal electric utility and would be payable from Revenues prior to deposits to the Bond and Interest Account for payment of the Bonds.

Transmission and Distribution

The System currently has six interconnections with the ComEd at the 34 kV voltage level. Upon completion of the 138 kV Transmission Project, the System will have two, 138 kV interconnections directly into the ComEd transmission system. ComEd completed a system impact study of the 138 kV Project in December 2005 and concluded that the proposed interconnection could reliably connect Batavia to the ComEd transmission system starting June 1, 2007, subject to the City meeting terms and conditions for the construction of the 138 kV Project. See “Purpose of the Bonds – Description of the Project” herein.

The System’s distribution network consists of approximately 109 miles of overhead and underground facilities. The City maintains a Supervisory Control and Data Acquisition (SCADA) System. The SCADA system links the System’s six substations with the System’s headquarters and allows remote control of System operations. The SCADA system was installed in 2001 and the City has recently completed a major upgrade of the system, including new software, to bring the system up to state of the art standards.

The System has adopted a number of operating and maintenance procedures to insure and improve the reliability of its System. The System spends about \$100,000 annually for its tree trimming program to insure System reliability. During 2004 and 2005, the System upgraded its 4 kV substations to 12 kV, resulting in a decrease from 6% to 5% in System energy losses. See “Summary of Operating Statistics” herein.

Electric Rates

Establishment by City Council. Rates and charges for electric service provided by the System are under the exclusive jurisdiction of the City Council. Electric rates are not subject to the control of any governmental regulatory agencies.

Present Rates. On October 16, 2006, the Batavia City Council approved an electric rate increase of 8.9%, effective January 1, 2007, and an electric rate increase of 8.9%, effective January 1, 2008. The increases apply uniformly across all customer classes and charges.

At the same meeting, the City Council also approved a Purchased Power Adjustment Factor (PPAF), to become effective August 1, 2007, for power and transmission costs associated with its new power supply contracts beginning June 1, 2007. The PPAF will track expenses of purchased power and transmission and any changes in costs associated with line losses. Any increases in expenses related to purchased power, transmission or line losses will be recovered from customers through a monthly charge added to all customers' bills. Conversely, any decrease in purchased power, transmission and line loss expenses will be returned to customers as a credit on their bills. The City believes the PPAF is the best way to protect the System from fluctuating costs of energy and transmission as well as sharing with its rate payers the benefits of any decreases in these costs.

Customer Billing Procedures. Meters are read monthly and bills are prepared on a 30-day billing cycle. Past due accounts are notified and penalties are assessed on the first day of the next billing cycle. Where billings in the amount of less than \$50.00 remain delinquent and unpaid for a period of two consecutive months, or where billings in excess of \$50.00 remain delinquent and unpaid for a period of 30 days, the billing department supervisor shall order the service to be discontinued. If City personnel are required to travel to a residence to discontinue service due to the account being delinquent, a \$30.00 service charge shall be charged whether or not the service is actually discontinued. A charge of \$75.00 shall be paid for reinstatement if performed at times other than regular working hours in addition to payment in full of any outstanding balance and penalty. A 10-day notice of shut-off will be mailed prior to actual disconnection. All accounts scheduled for disconnection of service are reviewed prior to actual cut-off. Disconnections are delayed if weather forecasts predict temperatures below 32 degrees Fahrenheit during the succeeding 24 hours (48 hours on weekends), or if the National Weather Service has issued a heat index warning. No residential disconnections are done between December 1 and April 1. Special arrangements may also be made for delinquent customers suffering from certain illnesses. Termination procedures comply with the federal standards established in the Public Utility Regulatory Policies Act of 1978.

The following table sets forth the changes in the City's electric base rates from 1989 through 2008.

**ELECTRIC RATE CHANGES
1989 - 2008**

Effective Date	Percentage Increase in Base Rates
January 1, 2008	8.9%
January 1, 2007	8.9
February 1, 2006	5.0
September 1, 2001	4.0

The following table sets forth the current residential electric bills for the City of Batavia and other area utilities, as well as Batavia's residential electric bills after all approved rate increases have taken effect on January 1, 2008. The table also includes projected rates for other utilities where increases in energy costs are known.

**Comparison of Residential Rates ¹
(600 kWh winter usage; 1,000 kWh summer)**

	Winter <u>Month</u>	Summer <u>Month</u>	Monthly <u>Average</u>	Total <u>Annual</u>	Annual Variance to Batavia's Approved <u>2008 Rates</u>	
					<u>Amount</u>	<u>Percent</u>
Batavia ²						
Current Rates	\$38.11	\$ 96.18	\$57.47	\$ 689.60		
Approved 2008 Rates	45.20	114.06	68.15	817.84		
Naperville ³	52.35	80.92	61.87	742.48	-75.36	-9.2%
Geneva	60.41	112.75	77.86	934.28	116.44	14.2%
St. Charles ⁴	40.33	91.63	57.43	689.16	-128.68	-15.7%
ComEd ⁵						
Current Rates	55.86	94.95	68.89	826.68	8.84	1.1%
Projected	67.71	108.12	81.18	974.16	156.32	19.1%

- 1) Amounts exclude the state utility tax, but include applicable local franchise fees and municipal taxes. Amounts for ComEd include the municipal utility tax for Aurora, Illinois, which is located south of the City.
- 2) Includes 4% municipal franchise tax. Approved 2008 rates are the rates (without any purchase power adjustment factor) enacted by the City Council on October 16, 2006 that will be effective beginning January 1, 2008.
- 3) On July 7, 2006, Naperville announced that it had secured a new power purchase contract for a four-year term beginning June 1, 2007 at a price of 6.049 cents/kWh, an increase of 1.709 cents/kWh, or more than 39% over the cost in its current contract with ComEd for 2006. The City of Naperville also announced that it would conduct a comprehensive cost-of-service study to determine new retail rates. Naperville's contract with ComEd has rates that are identical to those in the City's ComEd Contract.

- 4) St. Charles has a long-term all requirements contract with ComEd that has identical rates and terms with the City's ComEd Contract. Beginning June 1, 2007, St. Charles will become an all requirements customer of the Illinois Municipal Electric Agency.
- 5) Projected rates based upon the bill estimator program provided at ComEd's website. Amounts are based upon energy prices derived from the September 2006 energy auction. See "Changes in the Electric Utility Industry" herein for discussion of potential legislation to extend the current rate freeze.

Insurance

Under the Bond Ordinance, the City is required to maintain insurance with respect to the System of the kinds and in the amounts customarily carried by private parties operating similar properties or, if insurance is not available at a reasonable cost, to self-insure. The City has a property coverage contract with a private insurance carrier, which provides property insurance coverage for the facilities of the System. This contract expires November 30, 2006. The policy's total limit of liability, including all levels of coverage, is \$11,000,000.

Changes in the Electric Utility Industry

In general, the electric utility industry has been, and in the future may be, affected by a number of actions which could impact upon the financial condition of an electric utility such as the System. Such factors include, among others: (i) effects of inflation on the operation and maintenance costs of an electric utility and its facilities, (ii) changes from projected future load requirements and relative costs and availability of electric energy, (iii) changes resulting from conservation and demand side management programs on the timing and use of electric energy, (iv) changes that might result from a national energy policy or other federal or state legislative changes. Any of these factors could have an effect on the financial condition of any given electric utility, including the System, and likely would affect individual utilities in different ways.

Fundamental changes in the Federal regulation of the electric utility industry have been made by the Energy Policy Act of 1992 (the "Energy Policy Act") and the Federal Energy Regulatory Commission (FERC) regarding transmission access and pricing, increased consolidation and mergers of electric utilities, the proliferation of self-generators and independent power producers, surplus generation in certain regional markets, and substantial changes in pricing and structures for electric services by many regulatory commissions and legislative bodies to promote increased competition in the electric utility industry. These changes increased competition in the electric utility industry, by increasing the opportunities for wholesale transactions. The City cannot predict what effect, if any, these changes will have on the System's business and affairs.

On August 8, 2005, the Energy Policy Act of 2005 was signed into law. This legislation provides, among its other provisions, for the following: (i) repeal of the Public Utility Company Holding Act; (ii) enforceable mandatory reliability standards; (iii) the grant to FERC of the authority to site transmission facilities if states are unwilling or unable to approve siting; (iv) the direction to FERC to permit incentive rate policies as a means to encourage transmission expansion; (v) revisions to the Public Utility Regulatory Policies Act; (vi) initiatives for renewable energy production; and (vii) protections for native load customers for utilities in

certain areas of the country. The legislation's effects on the System's business and affairs cannot be determined at this time.

In December, 1997, the Illinois General Assembly enacted the Illinois Electric Service Customer Choice and Rate Relief Law of 1997 (the "Rate Relief Law") which initiates the restructuring of the electric utility industry in Illinois by providing a framework by which retail electric customers may choose their electric supplier and a timetable by which such customers transition into retail choice. The Rate Relief Law also imposed a retail rate freeze which was later extended to January 1, 2007. Municipal utilities and their customers are exempt from the application of the law, unless the municipality should elect to be covered. Municipalities are not able to make this election if doing so would affect their status as tax exempt organizations or any tax exempt debt obligations. The City has not elected to become subject to the law and does not currently anticipate becoming subject to the law.

To determine the energy portion of the electric rates that will be paid after January 1, 2007 by customers of the utilities directly affected by the Rate Relief Law, the Illinois Commerce Commission conducted an energy auction during the week of September 5, 2006. The auction set fixed prices for supply of energy from January 2, 2007 through May 31, 2008 for residential and commercial customers who choose to receive their energy from Commonwealth Edison and the Ameren companies.

In reaction to the rate increases that would go into effect based upon the September 5 auction, lawmakers have introduced bills in the Illinois Legislature to extend the retail rate freeze imposed by the 1997 Rate Relief Law for another three years. On November 14, 2006, one such bill was approved by a committee of the Illinois House of Representatives. On November 30, 2006, the Illinois Senate approved a bill that would phase-in the rate increase for ComEd customers over three years by increasing rates 7% in 2007, 7% in 2008 and 8% in 2009. Whether either bill or other legislation extending the retail rate freeze will be passed by the Illinois Legislature and signed by the Governor is unknown and the long term consequences of an extension of the rate freeze cannot be predicted.

SUMMARY OF OPERATING STATISTICS

The following table, prepared by the City, shows the System's purchases of energy in megawatt hours (MWh) and the amount sold to retail customers for Fiscal Years 2001 through 2005.

ENERGY PURCHASES AND SALES (MWh)

	Fiscal Year Ending December 31				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Purchased Power	361,193	387,223	388,262	401,272	432,307
Less: Losses and Unaccounted	22,327	24,569	23,477	20,641	22,356
Total Retail Sales	338,866	362,654	364,785	380,630	409,951
Per Cent Unaccounted	6.18%	6.34%	6.05%	5.14%	5.17%

Upgrades in the voltage level of System substations from 4kV to 12 kV have reduced the percent of unaccounted for sales and energy losses in 2004 and 2005.

HISTORICAL REVENUES AND EXPENSES

The following table, prepared by the City, shows the System's historical revenues and expenses. For the purposes of this table, the System's audited financial statements of income and expense have been used to reflect funds available for capital improvements and other lawful System purposes. Financial information is presented for Fiscal Years 2001 through 2005. Financial statements for the electric utility for 2004 and 2005 are included in Appendix A to this Official Statement.

	Fiscal Year Ending December 31 (\$s in 000s)				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenues:					
Sale of Electricity	\$20,022	\$21,546	\$21,365	\$22,351	\$24,511
Other ⁽¹⁾	2,044	2,479	2,495	2,106	2,513
Total Revenues	<u>\$22,066</u>	<u>\$24,025</u>	<u>\$23,860</u>	<u>\$24,457</u>	<u>\$27,024</u>
Operating Expenses: ⁽²⁾					
Purchased Power	\$15,379	\$16,144	\$16,260	\$16,647	\$19,242
State Utility Tax	903	992	989	1,059	1,140
Distribution ⁽³⁾	1,260	1,510	1,667	1,880	3,078
Administrative and General	985	1,259	1,241	1,378	1,590
Total Operating Expenses	<u>\$18,528</u>	<u>\$19,906</u>	<u>\$20,157</u>	<u>\$20,963</u>	<u>\$25,050</u>
Net Operating Revenues	\$3,538	\$4,119	\$3,703	\$3,494	\$1,974
Transfers In (Out)	(62)	18	(33)	(33)	(34)
Net Revenues Available for System Purposes	<u>\$3,476</u>	<u>\$4,138</u>	<u>\$3,670</u>	<u>\$3,460</u>	<u>\$1,940</u>
Capital Improvements ⁽⁴⁾	\$2,648	\$1,816	\$1,746	\$3,480	\$1,786
Payments in Lieu of Taxes	413	528	549	523	497
Net Revenues After Capital Improvements and Payments in Lieu of Taxes	<u>\$416</u>	<u>\$1,794</u>	<u>\$1,375</u>	<u>(\$543)</u>	<u>(\$343)</u>

(1) Includes state utility tax, interest income, developer reimbursements and connection fees

(2) Excludes depreciation expense

(3) Increase in distribution expenses in 2005 due to the payment of \$1.4 million of development costs for the Prairie State Project. See "Northern Illinois Municipal Power Agency" herein.

(4) Capital improvements in 2004 include a \$1.3 million land purchase for development of a new substation. As the 138 kV Transmission Project eliminated the need for this site, the land was sold by the City in 2006 for \$1.3 million.

**Unaudited Operating Revenues and Expenses for the
Nine Months Ending September 30, 2005 and 2006 (\$s in 000s)**

	<u>2005</u>	<u>2006</u>
Operating Revenues		
Sales of Electricity	\$18,235	\$19,559
Other Revenues	1,632	1,621
Total Operating Revenues	\$19,867	\$21,180
Operating Expenses		
Purchased Power	\$13,052	\$13,027
State Utility Tax	822	858
Electric Distribution	2,077	2,305
Administrative and General	909	1,269
Total Operating Expenses	\$16,860	\$17,459
Net Operating Revenues	\$3,007	\$3,721
Non-Operating Revenues		
Interest Earnings	\$ 149	\$ 312
Sale of land	0	1,276
Total Non-Operating Revenues	\$ 149	\$ 1,588
Excess of Revenues over Operating Expenses	\$ 3,156	\$ 5,309

ELECTRIC DEPARTMENT STATEMENT OF NET ASSETS

(\$s in 000s)

	Fiscal Year Ending December 31				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
ASSETS					
Current Assets					
Cash and Investments	\$9,502	\$10,429	\$12,161	\$11,070	\$11,082
Receivables	2,758	2,807	2,614	2,759	3,111
Prepaid Expense	0	173	99	79	76
Inventory	1,572	1,456	1,274	1,236	1,055
Total Current Assets	\$13,833	\$14,865	\$16,147	\$15,145	\$15,324
Fixed Assets					
Cost	28,619	30,434	32,181	29,574	31,218
Accumulated Depreciation	(13,212)	(14,799)	(16,437)	(11,475)	(12,378)
Total Fixed Assets	15,407	15,635	15,744	18,100	18,840
Total Assets	\$29,240	\$30,500	\$31,891	\$33,244	\$34,164
LIABILITIES AND FUND EQUITY					
Current Liabilities					
Accounts Payable	\$2,097	\$1,310	\$1,447	\$1,033	\$1,622
Accrued Payroll	61	89	102	51	43
Deposits Payable	103	101	74	79	93
Total Liabilities	\$2,261	\$1,499	\$1,623	\$1,163	\$1,759
Fund Equity	26,979	29,001	30,268	32,081	32,405
Total Liabilities and Fund Equity	\$29,240	\$30,500	\$31,891	\$33,244	\$34,164

Source: City of Batavia, Audited Financial Statements

PROJECTED REVENUES, EXPENSES AND DEBT SERVICE COVERAGE

A summary prepared by the City of the System's projected revenues, expenses and debt service coverage for Fiscal Years 2006 through 2010 is provided below. These estimates are based on certain assumptions, also prepared by the City and discussed on the next page.

	Fiscal Year Ending December 31,				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Retail Sales (MWh)	417,161	449,201	462,241	471,781	481,321
Peak Demand (MW)	90	99	102	105	108
Operating Revenues					
Retail Electric Sales	\$25,999	\$30,374	\$34,149	\$35,529	\$37,107
State Utility Tax	1,118	1,306	1,468	1,528	1,596
Other Revenues	2,218	900	900	900	900
Total Operating Revenues	<u>\$29,335</u>	<u>\$32,580</u>	<u>\$36,517</u>	<u>\$37,957</u>	<u>\$39,603</u>
Operating Expenses					
Purchased Power	\$19,947	\$24,439	\$26,803	\$28,047	\$29,338
State Utility Tax	1,118	1,306	1,468	1,528	1,596
Transmission	0	944	1,698	1,781	1,868
Electric Distribution and Administration	3,909	3,950	4,069	4,191	4,316
Total Operating Expenses	<u>\$24,974</u>	<u>\$30,639</u>	<u>\$34,038</u>	<u>\$35,547</u>	<u>\$37,118</u>
Net Operating Revenues	<u>\$4,361</u>	<u>\$1,941</u>	<u>\$2,479</u>	<u>\$2,410</u>	<u>\$2,485</u>
Non-Operating Revenues					
Interest Earnings	\$ 507	\$ 534	\$ 515	\$ 485	\$ 455
NIMPA costs/(reimbursement)	(512)	1,644	-	-	-
Total Non-Operating Revenues	<u>\$ (5)</u>	<u>\$ 2,178</u>	<u>\$ 515</u>	<u>\$ 485</u>	<u>\$ 455</u>
Net Revenues Available for Debt Service	<u>\$ 4,356</u>	<u>\$ 4,119</u>	<u>\$ 2,994</u>	<u>\$ 2,895</u>	<u>\$ 2,940</u>
Debt Service	<u>-</u>	<u>285</u>	<u>1,424</u>	<u>1,424</u>	<u>1,424</u>
Net Revenues Available for other Lawful Purposes	<u>\$ 4,356</u>	<u>\$ 3,834</u>	<u>\$ 1,570</u>	<u>\$ 1,471</u>	<u>\$ 1,516</u>
Capital Improvements (non-bond funded)	700	5,000	1,858	1,429	1,739
Payments in lieu of taxes	487	612	630	649	669
Net change in cash	<u>\$ 3,169</u>	<u>\$ (1,778)</u>	<u>\$ (918)</u>	<u>\$ (607)</u>	<u>\$ (892)</u>
Prior Year's Cash Balance	<u>11,082</u>	<u>14,251</u>	<u>12,473</u>	<u>11,556</u>	<u>10,948</u>
End-of-Year Cash Balance	<u><u>\$ 14,251</u></u>	<u><u>\$ 12,473</u></u>	<u><u>\$ 11,556</u></u>	<u><u>\$ 10,948</u></u>	<u><u>\$ 10,056</u></u>
Debt Service Coverage					
Current Debt Service		14.45	2.10	2.03	2.06
Maximum Annual Debt Service		2.39	1.74	1.68	1.71
Estimated Breakdown of Cash Balances					
Operation and Maintenance Account	\$2,122	\$2,604	\$2,784	\$2,908	\$3,037
Depreciation, Repair and Replacement Account	2,000	2,000	2,000	2,000	2,000
Surplus Fund	10,129	7,869	6,771	6,040	5,018
Total	<u>\$ 14,251</u>	<u>\$ 12,473</u>	<u>\$ 11,556</u>	<u>\$ 10,948</u>	<u>\$ 10,056</u>

ASSUMPTIONS FOR THE PROJECTED REVENUES, EXPENSES AND DEBT SERVICE COVERAGE FOR THE SYSTEM

- 1) Growth in MWh sales for residential and commercial customers is based upon increases in the number of customers, with average MWh sales per customer class held constant over the projection period. The City projects an annual increase of 40 new commercial customers and 100 residential customers through 2010, compared to an annual average increase of 134 residential customers and 45 commercial customers from 2002 to 2005.
- 2) The City anticipates 28,597 MWh of new industrial sales by 2008 from 2005 levels (7.9% annual growth) based on announced expansions by two of its customers.
- 3) Revenues are based on rate increases adopted by the City on October 16, 2006 that will be effective on January 1, 2007 and January 1, 2008. Beginning in 2008, revenues include amounts billed to customers through the purchase power tracker based on the projected increases in power and transmission costs discussed below.
- 4) The amount (in MWh) of purchased power is derived from the MWh forecast of retail sales and is increased by a 6% System energy loss factor. Purchase power costs through May 31, 2007 are based on prices in the ComEd Contract. Thereafter, the cost of purchase power is based upon the energy and capacity prices from the purchases made this past August and September (see "Future Power Supply" herein.) and are escalated at an annual rate of 2.5% beginning June 1, 2008. Purchase power costs include an estimate of the cost of additional purchases and are net of estimated sales that will occur due to the difference between the City's actual hourly load and the amount of power that the City has contracted for in its contracts.
- 5) Transmission costs are based upon the current rate of \$33.43/MW per day for network transmission service filed by ComEd with PJM plus an estimate of \$360,000 for related PJM ancillary and administrative charges. Transmission costs are escalated at an annual rate of 2.5%
- 6) Electric distribution, administrative and general expenses and non-bond funded capital improvements are based upon the 2007 budget and historical spending trends. Electric distribution and administration expenses are escalated at an annual rate of 3%; Capital improvements are based on projects identified by staff for the period.
- 7) Payments in lieu of taxes are based upon the 2007 budget and are escalated at an annual rate of 3.0%. Interest earnings are calculated at a rate of 4.0%.
- 8) For 2007, the projections include \$1.644 million in non-operating revenues based upon NIMPA issuing bonds for the Prairie State Project and reimbursing the City for its past advances for project expenditures. This amount is net of \$250,000 that the City has budgeted in 2007 for additional Prairie State development costs. See discussion in "Northern Illinois Municipal Power Agency" and "Future Power Supply" herein.

DEBT SERVICE SCHEDULE

The following schedule shows the debt service requirements for the Bonds.

Year Ending <u>January 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	\$ -	\$ -
2008	-	284,851	284,851 *
2009	285,000	1,139,405	1,424,405 *
2010	295,000	1,129,430	1,424,430
2011	305,000	1,119,105	1,424,105
2012	315,000	1,108,430	1,423,430
2013	605,000	1,097,405	1,702,405
2014	630,000	1,073,205	1,703,205
2015	655,000	1,048,005	1,703,005
2016	680,000	1,021,805	1,701,805
2017	710,000	994,605	1,704,605
2018	735,000	966,205	1,701,205
2019	765,000	936,805	1,701,805
2020	795,000	906,205	1,701,205
2021	830,000	874,405	1,704,405
2022	865,000	840,375	1,705,375
2023	900,000	804,694	1,704,694
2024	935,000	766,894	1,701,894
2025	975,000	727,156	1,702,156
2026	1,020,000	685,719	1,705,719
2027	1,060,000	642,369	1,702,369
2028	1,105,000	597,319	1,702,319
2029	1,155,000	550,356	1,705,356
2030	1,205,000	499,825	1,704,825
2031	1,255,000	447,106	1,702,106
2032	1,310,000	392,200	1,702,200
2033	1,370,000	334,888	1,704,888
2034	1,430,000	274,950	1,704,950
2035	1,490,000	210,600	1,700,600
2036	1,560,000	143,550	1,703,550
2037	1,630,000	73,350	1,703,350
	<u>\$ 26,870,000</u>	<u>\$ 21,691,216</u>	<u>\$ 48,561,216</u>

* Net of interest paid from bond proceeds.

ENVIRONMENTAL MATTERS

The City is unaware of any environmental matters that could significantly affect System operations.

INDEPENDENT AUDITORS

The financial statements of the City of Batavia, Illinois for the year ended December 31, 2005 have been audited by Lauterbach and Amen, LLP, consultants and accountants. The Basic Financial Statements for 2005 and portions of the financial statements relating to the electric utility for 2004 have been included in Appendix A of this Official Statement.

RATINGS

Prior to the sale of the Bonds, Moody's Investor's Service and Fitch Ratings have assigned the Bonds an underlying rating of "A1" and "A-" respectively. Generally, these ratings agencies base their ratings on any information and materials furnished to them and on their own investigations, studies and assumptions. These ratings are not recommendations to buy the Bonds. Further, there is no assurance that such ratings will continue for any given period of time or that such ratings will not be lowered or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any change in or withdrawal of such ratings could have an adverse effect on the market price of the Bonds.

FINANCIAL ADVISOR

The City has engaged Kaplan Financial Consulting, Inc. as financial advisor (the "Financial Advisor") in connection with the issuance and sale of the Bonds. The Financial Advisor is not obligated to undertake any independent verification of or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement, nor is the Financial Advisor obligated by the City's continuing disclosure undertaking. Kaplan Financial Consulting, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

UNDERWRITING

The City offered the Bonds at a public, competitive sale on November 29, 2006. Citigroup Global Markets Inc. (the "Underwriter") submitted the best bid at the sale for the Bonds. The City awarded the contract for sale of the Bonds to the Underwriter at an aggregate purchase price of \$26,578,850.15 (reflecting an underwriters' discount of \$192,532.35 plus net original issue discount of \$98,597.50). The Underwriter has represented to the City that the Bonds have been subsequently reoffered to the public initially at the yield or price set forth on the inside cover to the Official Statement.

RISK FACTORS

The future financial condition of the System and the cost of the 138 kV Transmission Project could be affected adversely by, among other things, legislation, environmental and other regulatory actions as set forth above, changes in demand for services, economic conditions, demographic changes, and litigation. In addition to those items listed above and elsewhere

herein, some of the possible changes in the future may include, but not be limited to, the following:

1. The System is subject to regulation and control by numerous federal, state and local governmental agencies. Neither the City nor its consultants can predict future policies such agencies may adopt.

2. Estimates of projected revenues and expenses and the cost of the 138 kV Transmission Project contained in this Official Statement and the realization of such estimates are subject to, among other things, future economic and other conditions which are unpredictable and which may adversely affect such revenues and expenses.

CONTINUING DISCLOSURE

The City will enter into a Continuing Disclosure Undertaking (the “*Undertaking*”) for the benefit of the beneficial owners of the Bonds to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the “*Rule*”) adopted by the Securities and Exchange Commission (the “*Commission*”) under the Securities Exchange Act of 1934. The information to be provided on an annual basis, the events which will be noticed on an occurrence basis and a summary of other terms of the Undertaking, including termination, amendment and remedies, are set forth below under “THE UNDERTAKING.”

The City has represented that it is in compliance with each and every undertaking previously entered into by it pursuant to the Rule. A failure by the City to comply with the Undertaking will not constitute a default under the Bond Ordinance and beneficial owners of the Bonds are limited to the remedies described in the Undertaking. See “THE UNDERTAKING—Consequences of Failure of the City to Provide Information.” A failure by the City to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

Bond Counsel expresses no opinion as to whether the Undertaking complies with the requirements of Section (b)(5) of the Rule.

THE UNDERTAKING

The following is a brief summary of certain provisions of the Undertaking of the City and does not purport to be complete.

ANNUAL FINANCIAL INFORMATION DISCLOSURE

The City covenants that it will disseminate its Annual Financial Information and its Audited Financial Statements (as described below) to each Nationally Recognized Municipal Securities Information Repository (a “*NRMSIR*”) then recognized by the Securities and Exchange Commission for purposes of the Rule and to the repository, if any, designated by the State of Illinois as the state depository (the “*SID*”) and recognized as such by the Commission for purposes of the Rule. The City is required to deliver such information so that such entities receive the information by 210 days after the close of each Fiscal Year.

“*Annual Financial Information*” means information of the type as contained under the following captions or tables in the Official Statement: “THE ELECTRIC SYSTEM - Customers”; “THE ELECTRIC SYSTEM - Retail Energy Sales”; “SUMMARY OF OPERATING STATISTICS”; and “HISTORICAL REVENUES AND EXPENSES.”

“*Audited Financial Statements*” means financial statements prepared by the City in conformance with generally accepted accounting procedures for municipal enterprise funds and will be prepared in accordance with standards of the Governmental Accounting Standards Board and the Financial Accounting Standards Board, as applicable.

MATERIAL EVENTS DISCLOSURE

The City covenants that it will disseminate to each NRMSIR or to the Municipal Securities Rulemaking Board (the “*MSRB*”) and to the *SID*, if any, in a timely manner the disclosure of the occurrence of an Event (as described below) with respect to the Bonds that is material, as materiality is interpreted under the Securities Exchange Act of 1934, as amended. The “*Events*” are:

- Principal and interest payment delinquencies
- Non-payment related defaults
- Unscheduled draws on debt service reserves reflecting financial difficulties
- Unscheduled draws on credit enhancements reflecting financial difficulties
- Substitution of credit or liquidity providers, or their failure to perform
- Adverse tax opinions or events affecting the tax-exempt status of the security
- Modifications to the rights of security holders
- Bond calls
- Defeasances
- Release, substitution or sale of property securing repayment of the securities
- Rating changes

CONSEQUENCES OF FAILURE OF THE CITY TO PROVIDE INFORMATION

The City shall give notice in a timely manner to each NRMSIR or to the *MSRB* and to the *SID*, if any, of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when the same are due under the Undertaking.

In the event of a failure of the City to comply with any provision of the Undertaking, the beneficial owner of any Bond may seek mandamus or specific performance by court order, to cause the City to comply with its obligations under the Undertaking. A default under the Undertaking shall not be deemed a default under the Bond Ordinance, and the sole remedy under the Undertaking in the event of any failure of the City to comply with the Undertaking shall be an action to compel performance.

AMENDMENT; WAIVER

Notwithstanding any other provision of the Undertaking, the City by resolution or ordinance authorizing such amendment or waiver, may amend the Undertaking, and any provision of the Undertaking may be waived, if:

(a) The amendment or the waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted;

(b) The Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of the beneficial owners of the Bonds, as determined either by parties unaffiliated with the City (such as Bond Counsel).

TERMINATION OF UNDERTAKING

The Undertaking shall be terminated if the City shall no longer have any legal liability for any obligation on or relating to repayment of the Bonds under the Bond Ordinance. The City shall give notice to each NRMSIR or to the MSRB and to the SID, if any, in a timely manner if this paragraph is applicable.

ADDITIONAL INFORMATION

Nothing in the Undertaking shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a material Event, in addition to that which is required by the Undertaking. If the City chooses to include any information from any document or notice of occurrence of a material Event in addition to that which is specifically required by the Undertaking, the City shall have no obligation under the Undertaking to update such information or include it in any future disclosure or notice of occurrence of a material Event.

DISSEMINATION AGENT

The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. So long as such method continues to be approved by the Commission for purposes of the Rule, the City may satisfy its obligations for all purposes of the Agreement to provide information or notice to each NRMSIR and to the SID, if any, by sending such information or notice to DisclosureUSA (at, as of the date of this Official Statement, www.DisclosureUSA.org) for submission to each NRMSIR and to the SID, if any.

TAX EXEMPTION

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The City has covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to the City's compliance with the above-referenced covenants, under present law, in the opinion of Bond Counsel, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. The Internal Revenue Code of 1986, as amended (the "*Code*") includes provisions for an alternative minimum tax ("*AMT*") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("*AMTI*"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include all tax exempt interest, including interest on the Bonds.

In rendering its opinion, Bond Counsel will rely upon certifications of the City with respect to certain material facts within the City's knowledge. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have

incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the “*Issue Price*”) for each maturity of the Bonds is the price at which a substantial amount of such maturity of the Bonds is first sold to the public. The Issue Price of a maturity of the Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the cover page hereof.

If the Issue Price of a maturity of the Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity, if any, of the Bonds (the “*OID Bonds*”) and the principal amount payable at maturity is original issue discount.

For an investor who purchases an OID Bond in the initial public offering at the Issue Price for such maturity and who holds such OID Bond to its stated maturity, subject to the condition that the City complies with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Bond constitutes interest which is excludable from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year. Based upon the stated position of the Illinois Department of Revenue under Illinois income tax law, accreted original issue discount on such OID Bonds is subject to taxation as it accretes, even though there may not be a corresponding cash payment until a later year. Owners of OID Bonds should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such OID Bonds.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from the Issue Price or purchase Bonds subsequent to the initial public offering should consult their own tax advisors.

If a Bond is purchased at any time for a price that is less than the Bond’s stated redemption price at maturity or, in the case of an OID Bond, its Issue Price plus accreted original issue discount (the “*Revised Issue Price*”), the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser’s election, as it accrues. Such treatment would apply to any purchaser who purchases an OID Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market

price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as “bond premium” and must be amortized by an investor on a constant yield basis over the remaining term of the Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor’s basis in the Bond. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Bond’s basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the “*Service*”) has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service may treat the City as a taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

Interest on the Bonds is not exempt under the income tax laws of the State of Illinois. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approving legal opinion of Chapman and Cutler LLP, Chicago, Illinois, as Bond Counsel (the “Bond Counsel”) who has been retained by, and acts as, Bond Counsel to the City. Bond Counsel has not been retained or consulted on disclosure matters and has not undertaken to review or verify the accuracy, completeness or sufficiency of this Official Statement or other offering material relating to the Bonds and assumes no responsibility for the statements or information contained in or incorporated by reference in this Official Statement, except that in its

capacity as Bond Counsel, Chapman and Cutler LLP has reviewed the information under the heading "TAX EXEMPTION" solely to determine whether such descriptions are accurate summaries in all material respects. Certain legal matters will be passed upon for the City by John Noble, City Attorney of the City.

LITIGATION

No litigation is now pending or threatened against the City affecting the issuance or delivery of the Bonds, or in any way contesting the validity or enforceability of the Bonds.

MISCELLANEOUS

The attached Appendices are integral parts of this Official Statement and should be read together with the foregoing text. Any statement made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the registered owners of the Bonds.

The preparation, execution and delivery of this Official Statement have been duly authorized by the City.

CITY OF BATAVIA, ILLINOIS

/s/ Jeffrey D. Schielke
Mayor

APPENDIX A

2005 BASIC FINANCIAL STATEMENTS OF THE CITY FINANCIAL STATEMENTS FOR THE ELECTRIC UTILITY FOR THE FISCAL YEAR ENDING DECEMBER 31, 2004

The Annual Financial Report of the City for the fiscal year ended December 31, 2005 is available in its entirety at www.cityofbatavia.net/Content/templates/?a=914

**APPENDIX B
GENERAL INFORMATION REGARDING THE CITY**

The information contained in this Appendix B has been compiled from various sources believed to be reliable. However, nothing contained in this Appendix represents a warranty by the City as to the completeness or accuracy of information presented. The City has not undertaken an independent verification of the information contained in this Appendix.

General

The City is located 35 miles west of downtown Chicago, on the banks of the Fox River. Covering an area of 9.65 square miles, the City is primarily in Kane County, although a small portion is located in DuPage County. A special census conducted in 2003 established the population of the City to be 24,978. The City has nearly doubled in population since 1980. The City estimates that with annexations and additional development, Batavia will grow to approximately 10.2 square miles with a population of 32,000 to 34,000 over the next fifteen years. Batavia has a diversified economy with the principal sectors being manufacturing, and retail and wholesale trade. The City is the home of over 200 varied manufacturing, research and warehousing firms, as well as serving as the hometown for the Fermi National Accelerator Laboratory, the world renowned center for high energy physics research. Batavia has also experienced significant growth in retail trade over the last 15 years. The City's industrial park is about 85% occupied. The City has also created two tax increment finance districts to redevelop vacant industrial buildings along the riverfront. Future economic development will concentrate on revitalizing the City's quaint and historic downtown area.

SOCIOECONOMIC INFORMATION

Population

	<u>1980</u>	<u>1990</u>	<u>% Change</u>	<u>2000</u>	<u>% Change</u>	<u>2003</u>	<u>% Change</u>
City of Batavia	12,574	17,076	35.8%	23,866	39.8%	24,978	4.7%

Source: U.S. Bureau of the Census

Wealth Indicators

	<u>City of Batavia</u>	<u>Kane County</u>	<u>DuPage County</u>	<u>State of Illinois</u>
Median Family Income	\$81,689	\$66,558	\$79,314	\$55,545
Median Household Income	\$68,656	\$59,351	\$67,887	\$46,590

Source: U.S. Bureau of the Census, 2000 Census

Major City Employers (1)

Name	Product/Service	Employment
Fermi National Accelerator Laboratory	High Energy Physics Research Laboratory	2,000
Suncast Corporation	Plastic Lawn and Garden Products	450
Agco, Corporation, Parts Division	Farm Equipment Parts Distributor	425
Eagle Concrete, Inc.	Concrete Construction	300
Walmart	Retail Store	300
Power Packaging, Inc.	Contract Packaging and Assembling	250
Sealy Mattress Company, Inc.	Foam and Innerspring Bedding	250
VWR International, Inc.	Scientific Supplies and Equipment Distribution	225
Aldi, Inc.	Grocery Warehouse and Corporate Office	200
Waste Management, Inc.	Waste Disposal Services	200
Jewel	Grocery Store	200

(1) Source: 2006 Illinois Manufacturers Directory, 2006 Illinois Services Directory, and a selective telephone survey.

Unemployment Rates

<u>Year</u>	<u>City of Batavia</u>	<u>Kane County</u>	<u>State of Illinois</u>
1996	2.8%	4.8%	5.3%
1997	2.5	4.2	4.7
1998	2.3	3.9	4.5
1999	2.4	3.8	4.3
2000	2.4	3.9	4.3
2001	3.3	5.2	5.4
2002	4.7	6.7	6.5
2003	4.9	7.0	6.7
2004	4.6	5.9	6.2
2005	4.6	5.7	5.7
October, 2006	2.7	3.1	3.6

Source: Illinois Department of Employment Security.

City Equalized Assessed Valuation

<u>Property Class</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Residential	\$448,091,664	\$498,817,625	\$558,692,175	\$610,936,400	\$683,901,433
Commercial	72,461,436	77,531,484	92,226,983	98,100,789	107,668,502
Industrial	101,047,239	108,244,329	113,477,923	131,015,821	134,484,376
Farm	4,080,539	3,792,932	4,277,092	4,083,962	3,981,078
Railroad	100,078	105,401	87,004	85,113	78,643
Total	\$625,780,956	\$688,491,771	\$768,761,177	\$844,222,085	\$930,114,032
Per Cent Change	10.4%	10.0%	11.7%	9.8%	10.2%

Source: Kane County Clerk

APPENDIX C

[PROPOSED FORM OF OPINION OF BOND COUNSEL]

[LETTERHEAD OF CHAPMAN AND CUTLER LLP]

[DATED THE DATE OF CLOSING]

We hereby certify that we have examined a certified copy of the proceedings (the “*Proceedings*”) of the City Council of the City of Batavia, Kane and DuPage Counties, Illinois (the “*City*”) passed preliminary to the issue by the City of its fully registered Electric System Revenue Bonds, Series 2006 (the “*Bonds*”) to the amount of \$26,870,000, dated December 19, 2006, of the denomination of \$5,000 or authorized integral multiples thereof, and due serially and as Term Bonds on January 1 of the years, in the respective amounts and bearing interest at the respective rates percent per annum as follows:

YEAR	AMOUNT (\$)	RATE (%)	YEAR	AMOUNT (\$)	RATE (%)
2009	285,000	3.500	2024	935,000	4.250
2010	295,000	3.500	2025	975,000	4.250
2011	305,000	3.500	2026	1,020,000	4.250
2012	315,000	3.500	2027	***	***
2013	605,000	4.000	2028	2,165,000	4.250
2014	630,000	4.000	2029	***	***
2015	655,000	4.000	2030	2,360,000	4.375
2016	680,000	4.000	2031	***	***
2017	710,000	4.000	2032	***	***
2018	735,000	4.000	2033	3,935,000	4.375
2019	765,000	4.000	2034	***	***
2020	795,000	4.000	2035	***	***
2021	830,000	4.100	2036	***	***
2022	865,000	4.125	2037	6,110,000	4.500
2023	900,000	4.200			

Each Bond bears interest from the later of the dated date as stated above or from the most recent interest payment date to which interest has been paid or duly provided for, until the principal amount of each Bond, respectively, is paid or duly provided for, such interest (computed upon the basis of a 360-day year of twelve 30-day months) being payable on January 1 and July 1 of each year, commencing on January 1, 2007.

The Bonds maturing on January 1 of the years 2028, 2030, 2033 and 2037 are term bonds and are subject to mandatory redemption on January 1 of the years and in the amounts set forth below, at a redemption price equal to par plus accrued interest to the redemption date:

2028 TERM BOND

YEAR	PRINCIPAL AMOUNT (\$)
2027	1,060,000
2028	1,105,000 (final maturity)

2030 TERM BOND

YEAR	PRINCIPAL AMOUNT (\$)
2029	1,155,000
2030	1,205,000 (final maturity)

2033 TERM BOND

YEAR	PRINCIPAL AMOUNT (\$)
2031	1,255,000
2032	1,310,000
2033	1,370,000 (final maturity)

2037 TERM BOND

YEAR	PRINCIPAL AMOUNT (\$)
2034	1,430,000
2035	1,490,000
2036	1,560,000
2037	1,630,000 (final maturity)

Those of the Bonds due on or after January 1, 2018, are subject to redemption prior to maturity at the option of the City, from any available funds, in whole or in part on any date on or after January 1, 2017, and if in part, in any order of maturity as shall be selected by the City, and if less than an entire maturity, in integral multiples of \$5,000, selected by lot, at the redemption price of par plus accrued interest to the date fixed for redemption.

The Bonds are being issued for the purpose of constructing improvements to the existing electric system (the "System") of the City.

We have examined the authorized form of bond prescribed for the Bonds and find the same in due form of law, and, based upon our review, we are of the opinion that the Proceedings show lawful authority for the issuance of the Bonds under the laws of the State of Illinois now in force.

In our opinion, the Bonds are valid and binding special obligations of the City which, together with any additional parity obligations which may be issued in the future under the terms of the ordinance authorizing the Bonds, are payable solely and only from the revenues derived from the operation of the System and after making any payments required to pay costs of operation and maintenance of the System, and not otherwise, and except that enforcement thereof may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights generally and except that enforcement by equitable and similar remedies, such as mandamus, is subject to the exercise of judicial discretion.

It is our opinion that, subject to the City's compliance with certain covenants, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended (the "*Code*"), but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such City covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

In rendering this opinion, we have relied upon certifications of the City with respect to certain material facts within the City's knowledge. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

APPENDIX D

BOND INSURANCE

DESCRIPTION OF THE INSURER

The following information has been supplied by the Insurer for inclusion in this Official Statement. No representation is made by Issuer/Underwriter as to the accuracy or completeness of the information.

The Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this heading. In addition, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

General

XL Capital Assurance Inc. (the “Insurer” or “XLCA”) is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore.

The Insurer is an indirect wholly owned subsidiary of Security Capital Assurance Ltd (“SCA”), a company organized under the laws of Bermuda. Through its subsidiaries, SCA provides credit enhancement and protection products to the public finance and structured finance markets throughout the United States and internationally. XL Capital Ltd beneficially owns approximately 63% of SCA’s outstanding shares. The common shares of SCA are publicly traded in the United States and listed on the New York Stock Exchange (NYSE: SCA). **SCA is not obligated to pay the debts of or claims against the Insurer.**

Financial Strength and Financial Enhancement Ratings of XLCA

The Insurer's insurance financial strength is rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s and Fitch, Inc. (“Fitch”). In addition, the Insurer has obtained a financial enhancement rating of “AAA” from Standard & Poor’s. These ratings reflect Moody’s, Standard & Poor’s and Fitch's current assessment of the Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XL Financial Assurance Ltd. (“XLFA”) described under "Reinsurance" below.

The above ratings are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody’s, Standard & Poor’s or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Reinsurance

The Insurer has entered into a facultative quota share reinsurance agreement with XLFA, an insurance company organized under the laws of Bermuda, and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 75% of its business to XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 75% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Policy.

Based on the audited financials of XLFA, as of December 31, 2005, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of \$1,394,081,000, \$704,007,000, \$39,000,000 and \$651,074,000, respectively, determined in accordance with generally accepted accounting principles in the United States ("US GAAP"). XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The ratings of XLFA or any other member of the SCA group of companies are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the Bondholders will have direct recourse against the Insurer only, and XLFA will not be directly liable to the Bondholders.

Capitalization of the Insurer

Based on the audited financials of XLCA, as of December 31, 2005, XLCA had total assets, liabilities, and shareholder's equity of \$953,706,000, \$726,758,000, and \$226,948,000, respectively, determined in accordance with U.S. GAAP.

Based on the audited statutory financial statements for XLCA as of December 31, 2005 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$328,231,000, total liabilities of \$139,392,000, total capital and surplus of \$188,839,000 and total contingency reserves of \$13,031,000 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP").

Incorporation by Reference of Financials

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement.

The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the “Commission”) by SCA, with respect to all periods ending after August 4, 2006, and by XL Capital Ltd, with respect to all periods ending prior to August 4, 2006, and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by SCA or XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in the reports filed with the Commission by SCA or XL Capital Ltd is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the Insurer

The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THE INSURANCE POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

[Specimen Policy to Follow]