$105,055,000
Puerto Rico Electric Power Authority
Power Revenue Refunding Bonds, Series MM

The Power Revenue Refunding Bonds, Series MM (the "Bonds") are being issued pursuant to a Trust Agreement, dated as of January 1, 1974, as amended, with State Street Bank and Trust Company, N.A., New York, New York, successor trustee (the "1974 Agreement").

The Bonds, the outstanding bonds of the Puerto Rico Electric Power Authority (the "Authority") previously issued under the 1974 Agreement and any additional bonds that the Authority may from time to time issue under the 1974 Agreement are payable solely from the net revenues of the Authority's electric system.

The Bonds will have the following characteristics:

- The Bonds will be dated their date of delivery.
- The Bonds will be registered under The Depository Trust Company's book-entry only system. Purchasers of the Bonds will not receive definitive bonds.
- The Bonds are not subject to redemption.
- Interest on the Bonds will be payable on January 1, 2003 and on each July 1 and January 1 thereafter.
- The inside cover page contains information concerning the maturity schedule, interest rates and yields of the Bonds.
- The scheduled payment of principal and of interest when due on a portion of the Bonds will be guaranteed under insurance policies to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation as set forth on the inside cover page.
- The issuance of the Bonds and the purchase of the Bonds by the Underwriters are subject to the approval of legality by Sidley Austin Brown & Wood LLP, New York, New York, Bond Counsel, and certain other conditions.
- In the opinion of Bond Counsel, under existing federal laws and regulations, interest on the Bonds will be exempt from federal income taxation and the Bonds and interest thereon will be exempt from state, Commonwealth and local income taxation. However, see *Tax Exemption,* beginning on page 52 of the Official Statement, dated June 13, 2002, relating to the Authority's Power Revenue Refunding Bonds, Series KK and Power Revenue Bonds, Series LL incorporated herein by reference, for alternative minimum tax consequences with respect to interest on the Bonds, a description of certain rules that the Authority must comply with to preserve the federal tax exemption of interest, and other tax considerations.
- Fiddler González & Rodríguez, LLP, San Juan, Puerto Rico will pass upon certain legal matters for the Underwriters.
- It is expected that settlement for the Bonds will occur on or about October 3, 2002.

The Bonds are not a debt or obligation of the Commonwealth or any of its municipalities or other political subdivisions, other than the Authority, and neither the Commonwealth nor any such municipalities or other subdivisions, other than the Authority, shall be liable for the payment of the principal of or interest on the Bonds.

Goldman, Sachs & Co. **Banc of America Securities LLC** **UBS PaineWebber Inc.**

ABN Amro Financial Services, Inc. **Bear, Stearns & Co. Inc.**
Lehman Brothers **Merrill Lynch & Co.** **Morgan Stanley**
Salomon Smith Barney **Wachovia Bank, National Association**

September 20, 2002

$105,055,000
Puerto Rico Electric Power Authority
Power Revenue Refunding Bonds, Series MM

Maturity (July 1)	Principal Amount	Interest Rate	Yield
2004	$ 2,255,000	3.00 %	1.70%
2005	12,270,000	4.00	2.02
2006	11,370,000	5.00	2.37
2007†	3,285,000	4.00	2.33
2008	10,460,000	5.00	3.00
2009†	1,005,000	4.00	2.86
2010†	1,045,000	3.00	3.06
2011†	1,075,000	3.125	3.17
2012†	1,110,000	4.50	3.28
2013†	1,160,000	4.50	3.41
2014†	1,215,000	4.50	3.55
2015†	1,270,000	5.00	3.68
2016†	1,335,000	5.00	3.80
2017†	3,695,000	5.00	3.90
2018†	4,825,000	5.00	3.98
2019†	21,010,000	5.00	4.07
2020†	22,055,000	5.00	4.17
2021†	1,465,000	5.00	4.27
2022†	1,535,000	5.00	4.36
2023†	1,615,000	5.00	4.44

† Insured by MBIA Insurance Corporation

No dealer, broker, sales representative or other person has been authorized by the Authority or the Underwriters to give any information or to make any representations, other than those contained herein, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority or any Underwriter. This Official Statement does not constitute an offer to sell, or 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 set forth herein has been obtained from the Authority, the Commonwealth, and other official sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by any Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Commonwealth since the date hereof.

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

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

Other than with respect to information concerning MBIA Insurance Corporation ("MBIA") contained under the caption *Bond Insurance* and in *Appendix IV* herein, none of the information in this Official Statement has been supplied or verified by MBIA, and MBIA makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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$105,055,000
Puerto Rico Electric Power Authority
Power Revenue Refunding Bonds, Series MM

INTRODUCTORY STATEMENT

The purpose of this Official Statement of Puerto Rico Electric Power Authority (the "Authority"), which includes the cover page, the Appendices hereto and the information incorporated by reference as set forth below, is to furnish information in connection with the issuance and sale by the Authority of its $105,055,000 Power Revenue Refunding Bonds, Series MM (the "Bonds").

The Bonds will be issued under and secured by a Trust Agreement, dated as of January 1, 1974, as amended (the "1974 Agreement"), between the Authority and State Street Bank and Trust Company, N.A., successor trustee (the "1974 Trustee"). The Bonds, the $4,674,441,000 Puerto Rico Electric Power Authority Power Revenue Bonds to be outstanding after the issuance of the Bonds and the refunding of the Power Revenue Bonds refunded thereby (see *Plan of Financing*) (including $32,411,000 of bonds held by the United States Rural Utilities Service, see "Rural Electrification Bonds" under *Debt*) and such additional bonds as may be issued under the 1974 Agreement are herein collectively called the "Power Revenue Bonds."

The scheduled payment of principal of and interest on the Bonds maturing on July 1, 2007, and maturing on July 1, 2009 to July 1, 2023 (the "Insured Bonds") will be insured by a municipal insurance policy to be issued by MBIA Insurance Corporation concurrently with the delivery of the Bonds (the "MBIA Bond Insurance Policy").

This Official Statement also includes the following documents, which have been filed with each nationally recognized municipal securities information repository ("NRMSIR") and are incorporated herein by reference:

(1) Appendix I to the Official Statement dated July 18, 2002 of the Commonwealth of Puerto Rico General Obligation Bonds, $460,000,000 Public Improvement Bonds of 2003, Series A and $95,295,000 Public Improvement Refunding Bonds, Series 2003, known as the Commonwealth of Puerto Rico Financial Information and Operating Data Report, dated May 10, 2002 (see updated information on *Appendix I, Recent Events Relating to the Commonwealth of Puerto Rico for Fiscal Years 2002 and 2003*); and

(2) The Official Statement, dated June 13, 2002, relating to the Authority's $401,785,000 Power Revenue Refunding Bonds, Series KK and $98,125,000 Power Revenue Bonds, Series LL (the "Series KK and LL OS").

Terms used in this Official Statement and not defined shall have the meanings given to them in the Series KK and LL OS.

Any Appendix of an Official Statement of the Commonwealth or any appendix of an Official Statement of any instrumentality of the Commonwealth containing the same information as the Commonwealth's Annual Financial Report, filed with each NRMSIR and the Municipal Securities Rulemaking Board ("MSRB") after the date hereof and prior to the termination of any offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be part of this Official Statement from the date of filing of such document. Any statement contained herein or in any of the above described documents incorporated herein by reference shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Authority's fiscal year ends on June 30. The Authority is currently undergoing an audit of its financial statements as of June 30, 2002 conducted by its independent auditors. This audit is not yet completed. Therefore, all financial information as of June 30, 2002 presented in this Official Statement is unaudited information prepared by the Authority's management.

PLAN OF FINANCING

The Authority is issuing the Bonds pursuant to Section 210 of the 1974 Agreement to refund the following Power Revenue and Power Revenue Refunding Bonds (collectively, the "Refunded Power Revenue Bonds") on the redemption dates and at the redemption prices set forth below plus accrued interest to the dates fixed for redemption:

Refunded Bonds	Maturity Date	Principal Amount to be Refunded	Interest Rate	Redemption Date	Redemption Price
REA Issue, Series H	07/01/2023	$ 21,900,000	5.00%	11/04/2002	100 %
Power Revenue Refunding Bonds, Series Q	07/01/2004	5,325,000	6.20	01/01/2003	101½
	07/01/2006	1,725,000	5.90	01/01/2003	101½
	07/01/2006	140,000	5.75	01/01/2003	101½
	07/01/2007	1,025,000	5.75	01/01/2003	101½
	07/01/2008	1,080,000	5.75	01/01/2003	101½
Power Revenue Bonds, Series T	07/01/2005	8,600,000	5.80	07/01/2004	102
	07/01/2006	9,080,000	6.00	07/01/2004	102
	07/01/2020	45,720,000	5.50	07/01/2004	100
Power Revenue Refunding Bonds, Series V	07/01/2004	1,190,000	5.70	01/01/2003	101½
	07/01/2005	1,545,000	5.75	01/01/2003	101½
	07/01/2006	265,000	5.75	01/01/2003	101½
	07/01/2007	1,240,000	5.75	01/01/2003	101½
Power Revenue Bonds, Series X	07/01/2008	8,360,000	5.70	07/01/2005	102

The refunding will permit the Authority to realize savings on its debt service requirements on bonds outstanding under the 1974 Agreement. The Authority will deposit the net proceeds of the Bonds with the 1974 Trustee, as escrow agent, under the terms of an Escrow Deposit Agreement. The net proceeds will be invested in Government Obligations, the principal of and interest on which when due, will provide moneys sufficient to pay the principal or the redemption price of the Refunded Power Revenue Bonds and the interest coming due on the Refunded Power Revenue Bonds through their respective dates of maturity or redemption.

Upon the deposit with the 1974 Trustee referred to above, the Refunded Power Revenue Bonds will, in the opinion of Bond Counsel, no longer be outstanding under the provisions of the 1974 Agreement and the Refunded Power Revenue Bonds will thereupon be defeased.

Estimated Sources and Uses of Funds

Sources:	
Principal amount of the Bonds	$105,055,000.00
Net original issue premium	9,880,295.85
Other available moneys	1,483,484.38
Total Sources	$ 116,418,780.23
Uses:	
Deposit to Escrow Fund for Refunded Power Revenue Bonds	$ 114,211,191.80
Underwriting discount, municipal bond insurance premium and estimated legal, printing and other financing expenses	2,207,588.43
Total Uses	$ 116,418,780.23

SECURITY

Reserve Account

Reference is made to the information in the Series KK and LL OS under the headings "Reserve Account" and "Additional Bonds." Such information is made applicable to the Bonds offered hereby with the following modifications:

With respect to the subheading "Reserve Account":

> "The amount required to be accumulated in the 1974 Reserve Account will be approximately $243.8 million, after the issuance of the Bonds and the refunding of the Refunded Power Revenue Bonds. As of June 30, 2002, approximately $260.2 million was on deposit to the credit of the 1974 Reserve Account, which amount is in excess of the amount required to be on deposit therein. The Authority will transfer the excess amount to the 1974 Bond Service Account."

With respect to the subheading "Additional Bonds":

> "Under the earnings coverage tests of the 1974 Agreement, Net Revenues for the twelve months ended June 30, 2002 of $633.9 million were 153% of the maximum aggregate annual Principal and Interest Requirements of $415.9 million on all outstanding Power Revenue Bonds. Average annual Net Revenues for the five fiscal years ending June 30, 2008 of $778.6 million are estimated to be 187% of the maximum aggregate annual Principal and Interest Requirements of $415.9 million on all outstanding Power Revenue Bonds (including the Bonds, but excluding the Refunded Power Revenue Bonds)."

BOND INSURANCE

Reference is made to the information in the Series KK and LL OS under the subheading "The MBIA Bond Insurance Policy," which information is hereby made applicable to the Insured Bonds with the understanding that references to "the MBIA Insured Bonds" under such subheading shall for all purposes of this Official Statement be deemed to refer to the Insured Bonds offered hereby.

Concerning the Policy

As provided in the insurance agreement to be entered into by the Authority with MBIA concurrently with the delivery of the municipal bond insurance policy, as long as MBIA shall not be in default on its obligations under the municipal bond insurance policy, MBIA shall be deemed to be the owner of the Insured Bonds insured by it for purposes of, among other things, (1) taking remedial actions under the 1974 Agreement and (2) the giving of consents to the execution of any supplemental agreement to the 1974 Agreement.

PROPOSED SUPPLEMENTAL AGREEMENT

Reference is made to the above heading in the Series KK and LL OS. Upon the issuance of the Bonds (and the refunding of the Refunded Power Revenue Bonds), the owners of approximately 99.3% of the outstanding Power Revenue Bonds will have consented to the execution of the Supplemental Agreement. See Proposed Supplemental Agreement and Appendix I, Summary of Certain Provisions of Proposed Supplemental Agreement in the Series KK and LL OS incorporated herein by reference, for additional information respecting the provisions of the Supplemental Agreement.

DESCRIPTION OF THE BONDS

General

The Bonds will bear interest at such rates and will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. The Bonds will be dated their date of delivery. Interest on the Bonds will be payable on each January 1 and July 1, commencing January 1, 2003. Principal of and premium, if any, and interest on the Bonds will be payable in the manner described under "Book-Entry Only System" and "Discontinuance of the Book-Entry Only System" in the Series KK and LL OS incorporated herein by reference. The Bonds are being issued in fully registered form and, when issued, are to be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC is to act as securities depository for the Bonds. Individual purchases of interests in the Bonds will be made in book-entry form only, in denominations of $5,000 or any multiple thereof. Purchasers of such interests will not receive definitive Bonds. Reference is made to the information under such subheadings, which information is hereby made applicable to the Bonds with the understanding that references to "the Bonds" under such subheadings shall for all purposes of this Official Statement be deemed to refer to the Bonds offered hereby.

Redemption Provisions

The Bonds are not subject to redemption.

DEBT

The following table sets forth the bonds and notes of the Authority outstanding as of July 2, 2002 and as adjusted for the issuance of the Bonds and the refunding of the Refunded Power Revenue Bonds.

	Outstanding as of July 2, 2002	**As Adjusted**
	(in thousands)	
Power Revenue Bonds		
Publicly offered[1]	$4,622,270	$4,642,030
Rural Electrification Bonds	54,311	32,411
Subordinate Obligations[2]	43,689	43,689
Total	$4,720,270	$4,718,130

(1) Includes $43.6 million of accretion on Capital Appreciation Bonds as of July 2, 2002.

(2) In connection with the installation of the Authority's fiber optic telecommunication system, see "Transmission and Distribution Facilities" under *The System* in the Series KK and LL OS incorporated herein by reference, the Authority entered into an installment purchase agreement with PRIN under which the Authority will be obligated to make purchase price payments to PRIN to acquire the system. The Authority's obligation to make these payments will be satisfied from moneys in the Subordinate Obligations Fund under the 1974 Agreement. See "Flow of Funds Under 1974 Agreement" and "Subordinate Obligations" under *Security* in the Series KK and LL OS incorporated herein by reference. The obligation of the Authority to make these installment purchase payments is subordinate to its obligation to pay the outstanding Power Revenue Bonds. The Authority has determined that the aforementioned telecommunications system will not be part of the System and as such, any rentals received by the Authority from the long-term lease of surplus fiber optic cable capacity to PRIN will not be pledged to the payment of the Power Revenue Bonds.

Rural Electrification Bonds

The Rural Utilities Service (formerly the Rural Electrification Administration) ("RUS") has purchased Power Revenue Bonds issued by the Authority to provide funds for the construction of distribution facilities to service RUS qualified areas. As of July 2, 2002, the Authority had issued to RUS a total of $301.0 million of its Power Revenue Bonds, $54.3 million of which were outstanding, at interest rates of 2% and 5%. A portion of these bonds is included in the Refunded Power Revenue Bonds being refunded upon the issuance of the Bonds. See *Plan of Financing*.

Principal and Interest Requirements

Principal and Interest Requirements, as used herein and as defined in the 1974 Agreement, means for any fiscal year the sum of all principal of, including Amortization Requirements for, and interest on, outstanding Power Revenue Bonds which is payable on January 1 in such fiscal year and on July 1 in the following fiscal year. The following table shows the annual Principal and Interest Requirements for the outstanding Power Revenue Bonds after giving effect to the issuance of the Bonds and the refunding of the Refunded Power Revenue Bonds. The Amortization Requirements are subject to adjustment as provided in the definition thereof. See Appendix I, *Summary of Certain Provisions in the 1974 Agreement Excluding Proposed Supplemental Agreement* in the Series KK and LL OS incorporated herein by reference.

Debt Service Requirements

Years Ending June 30,	Outstanding Principal and Interest Requirements[1]	The Bonds: Maturity and Amortization Requirements	The Bonds: Interest	The Bonds: Total	Total Debt Service Requirements
2003……….	$ 377,467,809.33		$ 3,709,990.07	$ 3,709,990.07	$ 381,177,799.40
2004……….	396,898,480.05	$ 2,255,000.00	4,983,568.76	7,238,568.76	404,137,048.81
2005……….	396,487,770.05	12,270,000.00	4,915,918.76	17,185,918.76	413,673,688.81
2006……….	400,123,115.05	11,370,000.00	4,425,118.76	15,795,118.76	415,918,233.81
2007……….	399,531,975.05	3,285,000.00	3,856,618.76	7,141,618.76	406,673,593.81
2008……….	361,984,615.05	10,460,000.00	3,725,218.76	14,185,218.76	376,169,833.81
2009……….	373,071,361.30	1,005,000.00	3,202,218.76	4,207,218.76	377,278,580.06
2010……….	343,320,396.30	1,045,000.00	3,162,018.76	4,207,018.76	347,527,415.06
2011……….	338,814,808.80	1,075,000.00	3,130,668.76	4,205,668.76	343,020,477.56
2012……….	342,114,798.80	1,110,000.00	3,097,075.00	4,207,075.00	346,321,873.80
2013……….	347,539,073.80	1,160,000.00	3,047,125.00	4,207,125.00	351,746,198.80
2014……….	344,959,222.54	1,215,000.00	2,994,925.00	4,209,925.00	349,169,147.54
2015……….	329,217,323.78	1,270,000.00	2,940,250.00	4,210,250.00	333,427,573.78
2016……….	322,274,973.78	1,335,000.00	2,876,750.00	4,211,750.00	326,486,723.78
2017……….	318,753,751.26	3,695,000.00	2,810,000.00	6,505,000.00	325,258,751.26
2018……….	246,539,207.50	4,825,000.00	2,625,250.00	7,450,250.00	253,989,457.50
2019……….	229,618,813.76	21,010,000.00	2,384,000.00	23,394,000.00	253,012,813.76
2020……….	227,253,663.76	22,055,000.00	1,333,500.00	23,388,500.00	250,642,163.76
2021……….	248,539,281.26	1,465,000.00	230,750.00	1,695,750.00	250,235,031.26
2022……….	226,804,662.52	1,525,000.00	157,500.00	1,692,500.00	228,497,162.52
2023……….	226,508,606.26	1,615,000.00	80,750.00	1,695,750.00	228,204,356.26
2024……….	208,062,293.76				208,062,293.76
2025……….	181,664,125.02				181,664,125.02
2026……….	158,207,256.26				158,207,256.26
2027……….	158,206,162.50				158,206,162.50
2028……….	125,860,300.00				125,860,300.00
2029……….	90,780,212.50				90,780,212.50
2030……….	90,779,387.50				90,779,387.50
2031……….	48,283,437.50				48,283,437.50
Total…….	$7,859,666,885.04	$ 105,055,000.00	$ 59,689,215.15	$ 164,744,215.15	$8,024,411,100.19

(1) Debt service requirements on all Power Revenue Bonds outstanding on July 2, 2002, excluding debt service on the Refunded Power Revenue Bonds.

RECENT EVENTS

Net Revenues and Coverage

The following table presents the Net Revenues (exclusive of certain investment income) of the Authority under the provisions of the 1974 Agreement for the fiscal years ended June 30, 2001 and 2002 and the ratio of such Net Revenues to Principal and Interest Requirements on the Power Revenue Bonds. These calculations of Net Revenues differ in several important respects from the Authority's calculations of net income prepared in conformity with generally accepted accounting principles. For example, they do not include depreciation as a current expense and do not reflect interest expense as a deduction from Net Revenues. Results for the fiscal years 1997 through 2000 are contained in the Series KK and LL OS incorporated herein by reference.

Historical Net Revenues and Coverage

	Years Ended June 30,	
	2001	**2002***
Average number of clients	1,365,668	1,383,888
Electric energy sales (in millions of kWh)	18,723	19,130
Source of Net Revenues	**(dollars in thousands)**	
Revenues:		
Sales of electrical energy:		
Residential(1)	$ 779,682	$ 725,797
Commercial	1,026,219	969,182
Industrial	436,313	382,140
Other	86,889	85,052
	2,329,103	2,162,171
Revenues from Commonwealth for rural electrification	705	739
Other operating revenues	8,210	8,514
Other (principally interest earned)	35,059	29,129
	2,373,077	2,200,553
Current Expenses:		
Operations:		
Fuel	944,760	720,292
Purchased power	177,330	227,923
Other production	56,301	56,029
Transmission and Distribution	105,034	114,971
Customer accounting and collection	83,453	84,689
Administrative and general	139,117	146,497
Maintenance (2)	213,666	212,959
Other	3,028	3,235
	1,722,689	1,566,595
Net Revenues	$ 650,388	$ 633,958
Coverage		
Principal and Interest Requirements	$ 367,796	$ 392,043
Ratio of Net Revenues to Principal and Interest Requirements	1.77	1.62

* Unaudited

(1) Includes residential subsidy. See "Subsidies, Contributions in Lieu of Taxes and Set Aside" under *The System* in the Series KK and LL OS incorporated herein by reference.

(2) Includes, for maintenance of generating facilities, $113.0 and $112.2 million for fiscal years ended June 30, 2001 and 2002, respectively.

Management's Discussion and Analysis of Operating Results

The following represents the Authority's analysis of its operations for the fiscal year ended June 30, 2002 (unaudited) compared to the fiscal year ended June 30, 2001.

For the fiscal year ended June 30, 2002 as compared to the fiscal year ended June 30, 2001, Revenues and Current Expenses decreased by $172.5 and $156.1 million, respectively, resulting in a decrease in Net Revenues of $16.4 million. The decrease in Revenues and Current Expenses was mainly due to a decrease of $6.48 per barrel (or 22.1%) in the price of fuel oil. Accounts receivable of the Authority increased $7.6 million from $410.7 million on June 30, 2001 to $418.3 million on June 30, 2002. In addition, accounts receivable from the governmental sector decreased from $93.1 million on June 30, 2001 to $89.6 million in June 30, 2002.

The following table presents the disposition of Net Revenues, in the order of priority of payment, for the fiscal years ended June 30, 2001 and June 30, 2002, in accordance with the provisions of the 1974 Agreement. As discussed above, the Net Revenues shown below and in "Projected Net Revenues" under Net Revenues and Coverage are calculated in a manner that differs in several important respects from the Authority's calculation of net income prepared in accordance with generally accepted accounting principles.

Historical Disposition of Net Revenues
(in thousands)

	Years Ended June 30,	
Disposition of Net Revenues	**2001**	**2002***
1974 Revenue Fund:		
1974 Sinking Fund:		
Interest	$ 240,459	$ 248,469
Principal	146,989	158,357
Reserve Maintenance Fund	7,000	7,000
Capital Improvement Fund	100,500	82,179
Contributions in lieu of taxes and other[1]	155,440	137,953
Net Revenues	$ 650,388	$ 633,958

* Unaudited

(1) Including the following amounts retained by the Authority to offset certain Commonwealth obligations to the Authority, the residential subsidy and other subsidies granted to the hotel industry: $33.6 and $26.0 million for fiscal years ended June 30, 2001 and 2002, respectively. See "Subsidies, Contributions in Lieu of Taxes and Set Aside" under *The System* in the Series KK and LL OS incorporated herein by reference.

Environmental Litigation

Reference is made to "Environmental Litigation" in the Series KK and LL OS which is hereby made applicable to the Bonds. The following three paragraphs modify the information contained on page 47 of said OS.

On June 20, 2002, the Government of the United States (the "Federal Government") and the Authority executed a Settlement Agreement to resolve litigation over the proposed extension of the Authority's term of probation arising from certain alleged environmental violations and to resolve the dispute over the events occurring earlier this year at San Juan Steam Plant.

The United States District Court for the District of Puerto Rico accepted the terms of the Settlement Agreement, after a hearing held on July 18, 2002, and entered an Amended Order of Probation on July 24, 2002. The material points of the Settlement Agreement and the Probation Order are the following:

- The Authority's term of probation will extend for 18 months, commencing on the date the Federal Government and the Authority select a Visible Emissions Compliance Auditor acceptable to the Court;

- The Authority will burn fuel with a sulfur content not to exceed 0.50% by weight at the Authority's Palo Seco and San Juan power plants for a period not less than two years, starting not later than one year from July 24, 2002. This shall be a test period and the Authority is not obligated to continue burning such fuel after the test period expires. Based on current market prices, this would increase the Authority's fuel costs by approximately $15 to $27 million per year for these two years. The Authority plans to mitigate this cost increase by using money in its Clients Fund and through hedging;

- The Authority will pay for the purchase of up to14 air quality monitoring stations in an amount not exceeding $420,000; and

- The Authority is required to pay a nominal fine of $10,000 to the Federal Government.

In addition, the Authority has voluntarily decided to burn fuel with a sulfur content not to exceed 1.0% by weight at Palo Seco and San Juan power plants, starting in late 2002 until use of 0.50% sulfur content fuel begins at both plants.

Litigation

Reference is made to "Litigation" in the Series KK and LL OS which is hereby made applicable to the Bonds. The following paragraph modifies the information contained on page 52 of said OS.

On May 18, 2000, Abengoa, Puerto Rico, S.E. ("Abengoa"), the Authority's contractor for the repowering of San Juan Units 5 and 6 (the "San Juan project"), unilaterally declared a termination of the contract and filed a complaint for breach of contract. The Authority filed a counter claim for breach of contract and for damages caused to the Authority by the allegedly illegal contract termination. The Authority has explored alternatives to litigating its counterclaim against Abengoa but decided to pursue the litigation and, at the same time, negotiate settlements with Abengoa's subcontractors and suppliers in order to continue with the San Juan project. The Authority believes that this litigation will not materially affect the ability of the Authority to provide service or the quality of service provided by the Authority.

TAX EXEMPTION

Reference is made to the information in the Series KK and LL OS under the heading *Tax Exemption*, which information is made applicable to the Bonds with the understanding that references to "the Bonds" under such heading shall for all purposes of this Official Statement be deemed to refer to the Bonds offered hereby.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Samuel Klein and Company will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in such schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the Refunded Power Revenue Bonds. Samuel Klein and Company will express no opinion on the assumptions provided or as to the exemption from taxation of the interest on the Bonds.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Bonds from the Authority at an aggregate discount of $615,927.19 from the initial public offering prices for such Bonds set forth or derived from information contained on the inside cover page hereof. The obligations of the Underwriters are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds, if any such Bonds are purchased. The Underwriters may offer to sell the Bonds to certain dealers and others at prices lower than the initial public offering prices. The offering prices may be changed from time to time by the Underwriters. The Authority has agreed to indemnify, to the extent permitted by law, the Underwriters against certain liabilities, including liabilities under federal securities laws.

Goldman, Sachs & Co. ("GS"), a managing underwriter, has entered into an agreement with FirstBank Puerto Rico ("FirstBank"), a bank organized under the laws of the Commonwealth, pursuant to which FirstBank has agreed to act as a consultant to GS in connection with the provision of underwriting and investment banking services to the Authority with respect to the Bonds. Pursuant to this arrangement, the existence of which has been disclosed to the Authority and Government Development Bank, FirstBank will be entitled to receive a portion of GS's net profits, if any, in connection with the underwriting of the Bonds. Other similar agreements with respect to the sharing of underwriting net profits have been entered into and disclosed to the Authority and Government Development Bank by the following Underwriters: Banc of America Securities LLC and Oriental Financial Services Corp.; Lehman Brothers Inc. and Santander Securities Corporation; Wachovia Bank, National Association and Doral Securities Inc.; Morgan Stanley & Co. Incorporated and Popular Securities, Inc.; ABN Amro Financial Services, Inc. and Prudential Securities Incorporated; and Bear, Stearns & Co. Inc. and BBVA Capital Markets of Puerto Rico, Inc.

INDEPENDENT ACCOUNTANTS

Reference is made to the information in the Series KK and LL OS under the heading *Independent Accountants*, which information is made applicable to the Bonds.

The Authority's financial statements for the fiscal year ended June 30, 2002 are currently being audited and will, upon their release, be filed with the NRMSIRs.

RATINGS

The Bonds have been assigned ratings of "Baa1" by Moody's and "A-" by S&P. These ratings do not reflect the expected issuance by MBIA of the MBIA Insurance Policy covering the Insured Bonds. Moody's and S&P are expected to give the Insured Bonds ratings of "Aaa" and

"AAA", respectively, based on the expected issuance of the MBIA Insurance Policy. The ratings reflect only the respective opinions of such rating agencies. Any explanation of the significance of such ratings must be obtained from the respective rating agency. There is no assurance that the ratings will continue for any given period of time or will not be revised downward or withdrawn entirely by any or all of such rating agencies. Any such downward revision or withdrawal of the ratings could have an adverse effect on the market prices of the Bonds.

CONTINUING DISCLOSURE

Reference is made to the information in the Series KK and LL OS under the heading *Continuing Disclosure*, which information is made applicable to the Bonds with the understanding that references to "the Bonds" under such heading shall for all purposes of this Official Statement be deemed to refer to the Bonds offered hereby. In addition, the information regarding the addresses of the NRMSIRs is modified to read as follows:

> "As of August 31, 2002, there is no Commonwealth SID, and the name and address of each NRMSIR is: Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, New Jersey 08558; Standard & Poor's J.J. Kenny Repository, 55 Water Street, 45th Floor, New York, New York 10041; FT Interactive Data, Attn: NRMSIR, 100 William Street, New York, New York 10038; and DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024."

MISCELLANEOUS

The summaries of or references contained or incorporated herein by reference to certain provisions of the 1974 Agreement, the proposed Supplemental Agreement, the various acts and the Bonds are made subject to all the detailed provisions thereof to which reference is hereby made for further information and do not purport to be complete statements of any or all of such provisions.

There are appended to this Official Statement (i) a discussion of recent events relating to the Commonwealth of Puerto Rico for fiscal years 2002 and 2003, (ii) a letter from the Authority's Consulting Engineers, Washington Group International, Inc., regarding its opinion as to certain engineering matters relating to the System, (iii) the proposed form of opinion of Sidley Austin Brown & Wood LLP, Bond Counsel, and (iv) a specimen of the MBIA Insurance Policy relating to the Insured Bonds. The information set forth in this Official Statement, except for certain information on page (i) and the information appearing in *Underwriting*, and *Appendices I, II*, *III,* and *IV* was supplied by the Executive Director of the Authority in his official capacity as such Executive Director and is included in this Official Statement on his authority.

This Official Statement will be filed with the repository established by the MSRB and each NRMSIR.

PUERTO RICO ELECTRIC POWER AUTHORITY

By: /s/ Héctor R. Rosario
Executive Director

APPENDIX I

RECENT EVENTS RELATING TO THE COMMONWEALTH OF PUERTO RICO FOR FISCAL YEARS 2002 AND 2003

Preliminary Revenues and Expenditures for Fiscal Year 2002. For the fiscal year ended June 30, 2002, General Fund revenues were $7.50 billion, which is $540 million or 7.8% higher than General Fund revenues during fiscal year 2001, and $37 million higher than budgeted revenues for this period. Revenues for fiscal year 2002 included $6.90 billion of recurring revenues and approximately $472 million of non-recurring revenues, including the liquidation of certain reserves which were no longer required, the sale of certain receivables due from various municipalities to Government Development Bank, the collection of past due receivables from other governmental entities, and a one-time payment from a taxpayer with respect to a disallowed deduction. Revenues for fiscal year 2002 also included $129 million of taxes already collected in prior periods but not previously applied against outstanding tax receivables.

Expenditures for the 2002 fiscal year are estimated to be $7.64 billion, which is $131 million or 1.8% higher than the $7.50 billion budgeted for the fiscal year, and $95 million higher than General Fund revenues for the fiscal year. The principal reasons for the higher expenditures are (i) health reform costs that are estimated to be approximately $152 million higher than the amount budgeted (mostly as a result of health reform costs); (ii) payroll and other costs of education that are estimated to be approximately $77 million higher than the amount in the revised budget; (iii) public safety costs that are estimated to be approximately $47 million higher than the amount in the revised budget. Lower estimated expenditures in other areas of approximately $139 million partially offset the higher health, education and public safety expenditures. The Government expects to cover these additional expenditures with $120 million of reserve funds from the Commonwealth's Budgetary Fund and with $20 million of unused funds from certain agencies that have operating surpluses.

Approved Budget for Fiscal Year 2003. The approved budget for fiscal year 2003 (which commenced on July 1, 2002) includes General Fund expenditures of $7.84 billion, which is $373 million or 5.0% higher than the $7.47 billion budgeted for fiscal year 2002. The major changes in General Fund expenditures from fiscal year 2002 to fiscal year 2003 are the following: (i) an increase of $122 million or 5.3% in education costs; (ii) an increase of $119 million or 9.2% in public safety and protection costs; (iii) an increase of $88 million or 7.4% in health costs; (iv) an increase of $32 million or 45.8% in special pension contributions costs; (v) an increase of $16 million or 4.1% in welfare costs; (vi) a decrease of $14 million or 1.8% in general government expenses; and (vii) an increase of $11 million or 3.1% in contributions to the municipalities.

General Fund revenues for fiscal year 2003 are projected to be $7.84 billion. The major changes from the preliminary revenues of $7.50 billion for fiscal year 2002 to projected revenues in fiscal year 2003 are expected to be: (i) a projected increase in individual income taxes of $371 million; (ii) a projected increase in corporate income taxes of $218 million; (iii) a projected increase in Commonwealth excise taxes of $328 million; and (iv) a projected decrease in miscellaneous non-tax revenues of $549 million (which is principally the result of the $472 million of non-recurring revenues in fiscal year 2002).

For July 2002, the only month of fiscal year 2003 for which the Treasury Department has revenue information available, General Fund revenues were $488 million, which is $40 million or

8.9% higher than General Fund revenues during July 2001, and $7 million or 1.4% higher than budgeted revenues for this period.

The projected General Fund revenues for fiscal year 2003 assume a 6.8% nominal, 2.7% real growth in gross national product, and additional revenues of $596 million from recently enacted legislative measures. Projected revenues do not take into consideration the result of a lawsuit filed by one of the eight air cargo carriers that service Puerto Rico. In the lawsuit, this air cargo carrier seeks to prevent the Treasury Department from implementing a local regulation that precludes the carrier from delivering goods brought into the island prior to obtaining from the consignee evidence of the payment of the excise tax on such goods. The United States District Court for the District of Puerto Rico entered a permanent injunction in favor of the carrier. The Secretary of the Treasury appealed and moved for a stay pending the appeal. On July 18, 2002, the United States Court of Appeals granted the Secretary's motion and ordered the stay of the injunction while expediting the appeal. A hearing was held on September 6, 2002. The total amount of excise taxes collected annually in recent years by the eight air cargo carriers that service Puerto Rico has been approximately $53 million.

Contracts with Health Reform Insurance Companies. The Government has entered into new contracts with the insurance companies providing coverage to health reform beneficiaries, which contracts are for three-year terms commencing on July 1, 2002. Under the new contracts, and based on certain assumptions relating to the number of beneficiaries and other matters, the cost of the health insurance program for fiscal year 2003 is expected to exceed the amount in the approved budget for such fiscal year by approximately $75 million. However, the Government expects to reduce the insurance cost through audits of the health reform lists of eligible beneficiaries and from rebates on medications from pharmaceutical companies. The budgeted amount includes $200 million from the newly created Health Reform Stabilization Fund, which will be funded from certain excise taxes that were recently raised (projected to be approximately $200 million in fiscal year 2003). The insurance cost for fiscal years 2004 and 2005 will be negotiated with the insurance companies before the commencement of each such fiscal year.

Special Communities Perpetual Trust. On August 19, 2002, the Governor of the Commonwealth proposed and introduced legislation for the creation of a Special Communities Perpetual Trust of $1 billion to serve primarily the housing and basic infrastructure needs of over 686 needy communities throughout the Commonwealth. The corpus of this Trust is proposed to be constituted from a $500 million transfer from Government Development Bank and $500 million from the Commonwealth. The proposed financing plan of the Commonwealth's contribution is under the consideration by the Commonwealth's Legislature.

Washington Power

APPENDIX II

September 20, 2002

Puerto Rico Electric Power Authority
San Juan, Puerto Rico

Dear Sirs:

Washington Group International, Inc. ("Washington"), operating through its affiliate Washington Engineers P.S.C., serves as the Consulting Engineers under the provisions of the Trust Agreement, dated as of January 1, 1974, as amended, by and between Puerto Rico Electric Power Authority (the "Authority") and State Street Bank and Trust Company, N.A., in the Borough of Manhattan, City and State of New York, successor trustee. Such Trust Agreement is referred to herein as the "Agreement", and the trustee under the Agreement is referred to herein as the "Trustee". The Agreement requires the Consulting Engineers annually to prepare and file with the Authority and the Trustee a report with their recommendations as to any necessary or advisable revisions of rates and charges and such other advices and recommendations as they may deem desirable. In addition, the report will include the amount that should be deposited monthly during the next fiscal year to the credit of the Reserve Maintenance Fund; the amount, if any, to be deposited to the Self-insurance Fund in the next fiscal year; and, the amount to be deposited to the Capital Improvement Fund in the next fiscal year. The most recent such recommendations and report provided to the Authority and the Trustee was dated as of June 2001.

In preparing this letter and in reaching the conclusions and opinions contained herein and referred to in the Official Statement to which this letter is appended, Washington has relied upon inquiries, observations and analyses made and conducted by it in the performance of its duties under the Agreement and upon its professional experience. Washington also has relied upon various financial, economic, political and other information and projections provided to it by the Authority and other sources, some of such information and projections having been accepted by Washington without it having conducted an independent investigation thereof. In addition, Washington has made assumptions which it believes to be reasonable to make including, but not limited to, the following:

1. that the Authority will adhere to its proposed schedule of programmed regular maintenance;

2. that the Authority will continue to maintain the effective availability of its generating units;

3. that the Authority's current capacity expansion plan will be realized as to increases in capacity and approximate timing;

4. that the Authority's forecasts of costs and availability of fuels are reasonable;

5. that financing will be available to the Authority at reasonable rates, in adequate amounts and at appropriate times;

6. that the Authority will not be adversely affected by labor disputes and will have adequate levels of labor productivity;

7. that there will be no material changes in the requirements of regulatory authorities, the Legislature of Puerto Rico will not enact any legislation that will adversely affect the Authority, nor will there be unforeseen technological developments;

8. that the demographic, statistical, economic and other information regarding Puerto Rico obtained by Washington from publicly available sources is reliable;

9. that the Authority will not be unduly affected by natural disasters; and

10. that the Authority will not experience unforeseeable or extraordinary conditions not included in usual estimates and opinions of engineers.

Based upon and subject to the foregoing which should be read in conjunction with and as part of the following conclusions, it is our considered opinion with respect to the Authority that:

1. The Authority's production, transmission and distribution plant is in good repair and sound operating condition;

2. The Authority's generating capacity expansion plan is adequate and should allow the Authority to meet targeted electric reliability criteria;

3. The Authority's projections of future load growth and estimates of peak load referred to in the Official Statement, to which this letter is appended, under the caption "Adequacy of Capacity" are reasonable for base planning purposes;

4. The Authority's revenue and base capacity planning forecasts (and the methodologies and assumptions on which they are based) are reasonable for planning purposes and are generally consistent with electric utility industry practices;

5. The Authority's current projected capital improvement program is reasonable and the estimated expenditures are consistent with the Authority's future needs;

6. The Authority's estimates of future growth form a reasonable basis for its projected operating results;

7. The Authority's electric rates and charges should generate sufficient revenues to pay its current expenses and debt service and to finance that portion of its capital improvement program that is currently anticipated to be financed with current operating revenues; and

8. The 507 MW of capacity presently being provided by a cogenerator and the 454 MW of capacity expected to be available in the third quarter of 2002 as described in the Official Statement to which this letter is appended, and their role in the Authority's capacity expansion program should not cause the Authority to experience a meaningful reduction in control over its revenue producing capability as a result of the purchase rather than self-generation of electricity. The, methodology used by the Authority in determining its avoided cost of generating or otherwise obtaining an equivalent amount of energy, pursuant to the Public Utilities Regulatory Policies Act of 1978, as amended (which requires the Authority to pay an amount based upon such avoided cost for power generated and made available to the Authority), is reasonable.

Very truly yours,

WASHINGTON GROUP INTERNATIONAL, INC.

George W Romano Jr

George W. Romano, Jr.
Manager,
Utility Management
Services Department

SIDLEY AUSTIN BROWN & WOOD LLP

CHICAGO
DALLAS
LOS ANGELES
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FOUNDED 1866

BEIJING
GENEVA
HONG KONG
LONDON
SHANGHAI
SINGAPORE
TOKYO

October __, 2002

Puerto Rico Electric Power Authority
San Juan, Puerto Rico

Gentlemen:

We have examined the Puerto Rico Electric Power Authority Act (Act No. 83 of the Legislature of Puerto Rico, approved May 2, 1941, as amended and re-enacted by Act No. 19, approved April 8, 1942, as amended) creating Puerto Rico Electric Power Authority (formerly called Puerto Rico Water Resources Authority and herein called the "Authority"), a governmental instrumentality of the Commonwealth of Puerto Rico, and also Act No. 111, approved May 6, 1941, as amended by Act No. 153, approved May 14, 1943 (said Acts No. 83, No. 19, No. 111 and No. 153, as amended, being herein collectively called the "Authority Act").

We have also examined certified copies of the proceedings of the Governing Board of the Authority in authorizing the execution and delivery of the Agreement hereinafter referred to and certified copies of the proceedings and other proofs submitted relative to the authorization, issuance and sale of

$105,055,000
PUERTO RICO ELECTRIC POWER AUTHORITY
POWER REVENUE REFUNDING BONDS, SERIES MM
Dated the date hereof.

Issued in such denominations, transferable and exchangeable, bearing interest at such rates and payable on such dates, maturing on July 1 in the years and in such principal amounts, all as set forth in the resolution of the Authority authorizing the issuance of said Series MM Bonds (the "Bonds"). The Bonds are not subject to redemption.

We have also examined one of the Bonds as executed and authenticated.

From such examination, we are of the opinion that:

1. The Authority Act is valid.

2. Said proceedings have been validly and legally taken.

3. The Bonds have been duly authorized and issued to refund the Authority's outstanding Puerto Rico Electric Power Authority Power Revenue and Power Revenue Refunding Bonds set forth in said resolution authorizing the issuance of the Bonds.

4. As authorized by the Authority Act and by said proceedings, a trust agreement, dated as of January 1, 1974, as amended (herein called the "Agreement"), has been duly executed by and between the Authority and State Street Bank and Trust Company, N.A., successor Trustee, which contains reasonable and sufficient covenants and provisions in accordance with law with respect to the custody and application of the proceeds of bonds issued thereunder, the collection and disposition of revenues, the maintenance, repair and operation of the electric power properties of the Authority (such properties, together with all improvements, renewals and replacements thereof and extensions and additions thereto, being herein called the "System"), the conservation and application of all funds, the safeguarding of moneys on hand or on deposit and the rights and remedies of the Trustee and the holders of all bonds issued thereunder.

5. The Agreement provides for the issuance of additional Puerto Rico Electric Power Authority Power Revenue Bonds under the conditions and limitations therein set forth.

6. The Bonds are valid and binding special obligations of the Authority, payable solely from the Puerto Rico Electric Power Authority Power Revenue Bonds Interest and Sinking Fund established under the Agreement, to the credit of which Fund the Authority has covenanted to deposit a sufficient amount of revenues of the System, over and above the expenses of repair, maintenance and operation, to pay the principal of and interest on all bonds issued under the provisions of the Agreement (including the Bonds) as the same become due and payable and to create a reserve for such purpose, which Fund is pledged to and charged with the payment of the principal of and the interest on all bonds issued under the Agreement (including the Bonds).

7. The Agreement provides for the fixing and collecting by the Authority of rates and charges for the use of the services and facilities of the System sufficient for the payment of the expenses of the Authority incurred in the repair, maintenance and operation of the System and for the payment of the principal of and the interest on all bonds issued under the provisions of the Agreement (including the Bonds) as the same become due and payable including reserves for such purposes.

8. The bonds issued under the provisions of the Agreement do not constitute a debt of the Commonwealth of Puerto Rico or of any of its municipalities or other political subdivisions, and neither the Commonwealth of Puerto Rico nor any such municipality or other political subdivision is liable thereon, and such bonds are payable only out of the revenues of the System, to the extent provided in the Agreement.

9. Under the provisions of the Acts of Congress now in force and under existing regulations, rulings and court decisions, (i) subject to compliance with the covenant referred to below and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use,

expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the Treasury of the United States, if required, interest on the Bonds is not includable in gross income for federal income tax purposes, and (ii) the Bonds and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. No opinion is expressed as to the effect of any action taken or not taken after the date of this opinion without our approval (except for such action or omission to act as is otherwise provided in the Agreement or in the aforementioned resolution authorizing the issuance of the Bonds) or in reliance upon advice of counsel other than ourselves on the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds will be includable in the computation of the federal alternative minimum tax on corporations imposed by the Code. The Code contains other provisions that could result in tax consequences, upon which we express no opinion, as a result of (a) ownership of the Bonds or (b) the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax) of interest that is not included in gross income.

The Authority has covenanted to comply with the requirements of the Code, to the extent permitted by the Constitution and laws of the Commonwealth of Puerto Rico, so that interest on the Bonds will remain exempt from federal income taxes to which it is not subject on the date of issuance of the Bonds. We are not aware of any provisions of the Constitution or laws of the Commonwealth of Puerto Rico which would prevent the Authority from complying with the requirements of the Code.

Respectfully submitted,

[To be signed “Sidley Austin Brown & Wood LLP”]

APPENDIX IV

FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

COUNTERSIGNED: **MBIA Insurance Corporation**

_______________________________ _______________________________

Resident Licensed Agent President

_______________________________ Attest: _______________________________

City, State Assistant Secretary

STD-RCS-6
4/95