CONFIDENTIAL

LEHMAN BROTHERS

MEMORANDUM

TO: **INVESTMENT BANKING COMMITMENT COMMITTEE - PUBLIC FINANCE** *As of 1/7/08*

Committee Members (full book)	cc: (full book)
Steven Berkenfeld, Chairman (28)	Emily Davis (28)
Madelyn Antoncic (30)	
Kevin Genirs (28)	
John Niebuhr (28)	Evette Saldana (28)
Allan S. Kaplan *(In Memoriam)*	Blanca Garrido (28) (Committee Coordinators)

cc: (memo only via Outlook)	cc: (memo only via Outlook)
Emma Bailey	Skip McGee
Gary Fox	Christopher O'Meara
Gary Killian	Joseph Polizzotto
Stephen Lessing	Ronald Stack

FROM:	**GARY KILLIAN, JOHN DANIEL, ERNIE GREEN, GREG SHLIONSKY, ELIZABETH YEE, DAVID ARDAYFIO, MAUREEN ELLINWOOD, JESSICA LYERLA**
MEETING DATE:	**MONDAY, JANUARY 14, 2008**
TIME:	**SEE AGENDA**
LOCATION:	**ALLAN KAPLAN'S CONF.ROOM 28A– 28TH FLOOR (SOUTHEAST CORNER) 745 SEVENTH AVENUE** **ALSO VIA CONFERENCE CALL-IN # 866-779-0772 (US) OR 334-309-0261 (INT'L)** **CONF. ROOM # (*SEE MEETING PLANNER*) (YOU MUST ENTER THE *)**
SUBJECT:	**$660,000,000* MAIN STREET NATURAL GAS, INC. GAS PROJECT REVENUE BONDS SERIES 2008B**

PLEASE CALL JOHN DANIEL (212-526-3508) FOR ADDITIONAL INFORMATION

Recipients Should Discard This Memorandum After Review

* (Preliminary, subject to change)

I. The Transaction

A. **Transaction Name:** **Main Street Natural Gas, Inc. Gas Project Revenue Bonds, Series 2008B**

CORE Number: 112580 .20

Advance Refunding (Y/N): No

B. **Lehman Brothers Team:**

Senior Bankers:	Public Finance: John Daniel, Ernie Green; ***Municipal Derivatives***: Greg Shlionsky; ***Commodities***: Ron Ruffini, Roy Salame
Team Members:	***Public Finance***: Elizabeth Yee, Maureen Ellinwood, Jessica Lyerla, David Ardayfio, Giles Nicholson; ***Municipal Derivatives***: James Vergara; ***Commodities (Structuring)***: Miguel Puertas, Guilherme Castellan; ***Commodities (Legal)***: David Perlman; ***Commodities (Physical Supply)***: John Calhoun, Jeff Green

C. **Proposed Transaction:**

Lehman Brothers will serve as senior manager for approximately $660 million* Gas Project Revenue Bonds, Series 2008B on behalf of Main Street Natural Gas, Inc ("Main Street", "Issuer", "Gas Purchaser"). Main Street is a Georgia non-profit corporation established by and acting on behalf of the Municipal Gas Authority of Georgia (the "Gas Authority"). Main Street will use the proceeds of the bonds to pre-pay Lehman Brothers Commodities Services ("LBCS" or the "Gas Supplier") for specified quantities of natural gas that LBCS will deliver to Main Street over the next 30 years, pursuant to a Gas Purchase Agreement "GPA"). Main Street will in turn make deliveries to the Customers (the City of Tallahassee (the "City"), Reedy Creek Improvement District ("RCID" or "the District") and the Municipal Gas Authority of Georgia "Gas Authority") pursuant to separate NAESB Contracts with Main Street. Therefore, in addition to its role as bond underwriter, Lehman Brothers will also serve as gas supplier. The bond proceeds used to prepay LBCS for natural gas deliveries will be deposited with Lehman Brothers' Treasury Department.

The result of the transaction is that the arbitrage earned through the investment of the tax-exempt bond proceeds at the taxable higher rate of return made available by Lehman Brothers' Treasury is passed back to the municipal utilities in the form of a discount to the monthly gas price the Customers will pay for their deliveries, expressed in cents/MMBtu. The use of tax-exempt bonds to prepay for natural gas that will ultimately be delivered to municipal utilities along with a discount to the market price was clarified in IRS Bullletin 2003-41 published on October 14, 2003, and subsequently in Section 1327 of the Energy Policy Act of 2005.

D. **Amount and Type of Security:**

The bonds will be tax-exempt from Federal and Georgia State taxes, and are limited revenue obligations of Main Street payable solely from the Trust Estate, and are non-recourse to the Customers. The Trust Estate consists of:

- Bond proceeds
- Revenues (all monies in the Revenue Fund net of O&M, and all other Funds under the Indenture)
- Surety provider payments

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- All of Main Street's rights under the agreements and swap documents

All monthly payments of each Customer under its NAESB Contract (revenues of the Trust Estate) are limited obligations of the Customer, payable solely from the revenues of each Customer's gas system or from the sale of gas or electricity to the Customer's municipal members and other customers. The Customers have no obligation to make payments to Main Street if gas is not delivered. The Bonds are not a debt of any of the Customers or of the State of Georgia or any political subdivision thereof, and none of the Customers, the State of Georgia or any political subdivision thereof is liable thereon.

Monthly payments for up to three months of gas deliveries by the City of Tallahassee, the Municipal Gas Authority of Georgia, and Reedy Creek Improvement District are secured by a Surety Bond to be provided by XL Capital Assurance, capped at a first-of-month gas price of $40/MMBtu. The GPA provides that in the case of XL non-payment, Lehman Brothers will cover non-payment by customers, in addition to the balance of non-payments by customers not covered Surety Policy because the price of gas has exceeded $40/MMBtu. The NAESB contracts provide Main Street with the right to suspend future deliveries upon customer non-payment. A deposit of [$1.6] million to the Operating Reserve Fund will be provided from bond proceeds to cover any non-payments, and a nominal amount of proceeds will be deposited into the General Fund from Costs of Issuance.

In no event will the Bonds be payable out of any funds or properties other than those pledged and assigned by Main Street for the benefit of the Bondholders.

The payment obligations of each Customer under its Supply Agreement are "take-and-pay" and are limited obligations payable solely from the revenues of such Customer's gas system or revenues derived from the sale of gas or electricity to its municipal members and other customers.

In no event will any Customer be obligated to exercise any power of taxation in order to make such payments.

The Gas Purchase Agreement between LBCS and Main Street may terminate upon the occurrence of certain events, such as the failure of LBCS to make deliveries of gas over a specified period of time, Lehman Brothers Holdings, Inc. bankruptcy, Commodity Swap Counterparty defaults by either the Customers or LBCS, Main Street covenant defaults, failure to remarket gas to qualified users within IRS timeframe guidelines and failing to make certain payment advances. While LBCS is the named participant on the Gas Purchase Agreement, its obligations are guaranteed by Lehman Brothers Holdings, Inc (the "Guarantor"). Upon the occurrence of certain of these events (mostly related to an act or omission on the part of Lehman Brothers), LBCS and LBH are required to make certain payments upon termination to Main Street in addition to their receipt of proceeds from the Trust Estate used to pay off the un amortized Bonds. (These payments are discussed further in subsequent sections.)

E. **Use of Proceeds**:

The proceeds of the Bonds will be used to (i) pay the cost of purchasing Gas under the Gas Purchase Agreement (ii) fund capitalized interest on the Bonds, (iii) pay the premium for the Surety Bond, (iv) fund the Operating Reserve Fund held by the Trustee, (v) pay the costs of issuing the Bonds.

F. **Sole Manager**:	**Lehman Brothers**
G. **Bond Counsel**:	Alston & Bird LLP (Della Wells - Partner)
Underwriter's Counsel:	Orrick, Herrington & Sutcliffe LLP (William Doyle – Partner)
Special Counsel:	Gas Supply Counsel to the City of Tallahassee: John & Hengerer (Doug John, Esq. – Partner)
Surety Provider:	XL Capital Assurance

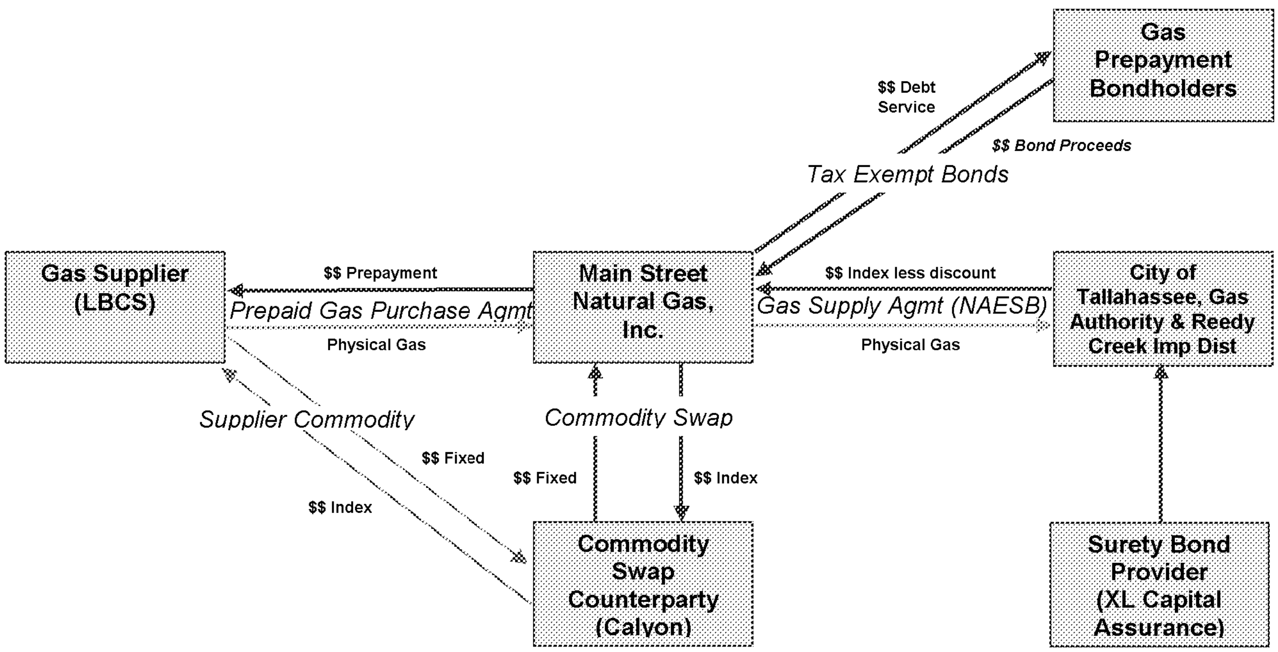
H. **Ratings:** Moodys: A1 S&P: A+ Fitch: AA- (Senior Unsecured Ratings of Lehman Brothers Holdings)

Expected/to be confirmed

I. **Tentative Schedule**:

Mail POS:	Wednesday, January 23, 2008
Price:	Wednesday, January 30, 2008
Closing:	Tuesday, February 12, 2008

J. **Structure:**



- The Gas Purchase Agreement, the Supply Agreements, the Main Street Commodity Swap, the Interest Rate Swap (if variable or index rate bonds are issued), the Indenture, the Bonds (including the investment agreement on the debt service fund) and related agreements have been structured so that, assuming timely performance and payment by LBCS, the Customers, the Commodity Swap Counterparty, the Interest Rate Swap Counterparty and Main Street of their respective obligations, the Revenues available to Main Street from the Supply Agreement, together with the amounts required by the Indenture to be on deposit in certain Funds and Accounts held by the Trustee, will be sufficient at all times to provide for the timely payment of Operating and Maintenance Expenses and the scheduled debt service requirements on the Bonds. These arrangements include, but are not limited to, the following:

- The failure of LBCS to deliver gas results in an obligation by LBCS to make payments to the Issuer equal to the replacement cost, which is an amount equal to the greater of: (i) the price paid by the Issuer for replacement gas or (ii) the monthly Index Price for gas.
- Pursuant to the Gas Purchase Agreement between the LBCS and the Main Street, LBCS has agreed to deliver to Main Street natural gas on a monthly basis in daily quantities specified in such agreement. Main Street will in turn sell daily quantities, billed on a monthly basis, of delivered natural gas to the Customers pursuant to the Supply Contracts. The contract price will be based upon the First of the Month Index Price less the specified discount.
- Main Street is entering into the Main Street Commodity Swap in order to convert the floating price of the Gas received from customers each month to a fixed price. The monthly floating payments to be made by Main Street under the Main Street Commodity Swap will be netted against the monthly fixed payments required to be made by the Commodity Swap Counterparty (Calyon Corporate & Investment Banking,

rated Aa1/AA-/AA) under the Main Street Commodity Swap. Net payments to be made by the Commodity Swap Counterparty are included in the Revenues pledged to the payment of the Bonds.

- Each Customer has agreed to pay for gas delivered under its Supply Agreement at prices based upon the applicable monthly market index price less a fixed discount specified in the Supply Agreement and to pay specified damages to Main Street for its failure to take gas pursuant to the terms of the Supply Agreement, unless such failure is due to either the actions or inactions of Main Street or Force Majeure. The City expects to receive 10,000 MMBtus/day for 30 years, the District expects to receive 2,000 MMBtus/day for 20 years and the Gas Authority expects to receive 5,000 MMBtus/day for 20 years.

- Pursuant to the Gas Purchase Agreement, Main Street and LBCS are required to undertake certain remediation measures to resell Gas not sold to Customers under the Supply Agreements to Qualified Users for Qualifying Use in order to maintain the Tax-Exempt Status of the Bonds.

- The GPA provides that Lehman Brothers will make certain advances upon notification that certain deficiencies exist in transaction accounts. Specifically, (i) a Mandatory Termination Advance is due upon notice that Covered Termination Deficiency exists, which is a deficiency in the Bond Redemption Account on the date the balance of the Bond Redemption Account is to be used to retire the Bonds in and early termination of the transaction; (ii) a Mandatory Swap advance is due upon notice that a Covered Swap Deficiency exists, which is a deficiency in the Debt Service Account due to failure to receive regularly schedule swap payments from either the Commodity Swap or Interest Rate Swap Counterparties, or Surety Bond Provider (in the event of a Customer Shortfall); (iii) Lehman Brothers also has the option to make Optional Advances upon notice of a Covered General Deficiency, which is a deficiency in any transaction fund exclusive of the funds included in the scope of a Covered Termination or Swap Deficiency. It should be noted that, upon payment of a Mandatory Swap Advance, or if no Deficiency occurred but an Event of Default has, including and especially downgrade below Investment Grade, Lehman Brothers will use commercially reasonable best efforts to to assist Main Street in securing an alternative Commodity Swap or Interest Rate Swap Counterparty within 30 days of the notice of the Advance.

- Upon collapse of the structure and extraordinary mandatory redemption of the Bonds, LBCS will make a payment to Main Street on the second business day following the termination date equal to the Termination Amount. The Termination Amount includes: (i) an amount sufficient to pay principal and interest on the bonds until the redemption date minus any net payments payable by the Main Street under the investment agreement or commodity swap, minus the current balances in the debt service fund and commodity swap fund.

- Depending on market conditions, the Gas Project Revenue Bonds issued by Main Street may be a debt type other than fixed rate bonds. Specifically, the debt may be issued partially or completely as Variable Rate Demand Bonds LIBOR-Indexed Floating Rate Notes or CPI-Indexed Floating Rate Notes. Should any of these types of debt be issued, Main Street will enter into a floating-to-fixed interest rate swap with Lehman Brothers Special Financing to fix the rate of interest paid on the bonds.

K. **Redemption Provisions:**

Optional Redemption: Main Street has the option to redeem the bonds at any time using a make-whole call subject to the approval of all participants in the transaction. This is a highly remote probability given all parties financial interest in ensuring the transaction remains in tact to maturity.

Extraordinary Redemption: Upon the occurrence of certain events the Gas Purchase Agreement may or, under certain circumstances, shall be terminated by Main Street in whole or in part, and LBCS will be required to pay to the Trustee, on behalf of Main Street, the Amortized Value redemption amount, which is the amount equal to the principal amount of each Bond to be redeemed, multiplied by the price of such Bond expressed as a percentage, calculated based on the industry standard method of calculating bond prices, with a delivery date of the date of redemption, a maturity date of the stated maturity date of such Bond and a yield equal to the original reoffering yield of such Bond, as set forth in the Official Statement. If the Trustee has not received payment of such amount from the Gas Supplier by the close of business on the date of such termination, the Trustee will demand payment from the Guarantor under the Guaranty for the payment of such amount, which shall be deposited by the Trustee in the Bond Redemption Fund pursuant to the Indenture and applied to the extraordinary redemption of the Bonds.

The events that trigger the termination of the Gas Purchase Agreement are:

1)Lehman Brothers Holdings, Inc. bankruptcy.

2)Persistent Delivery Failure. Failure of LBCS to deliver 100% of the Daily Contract Quantity of Gas for five days, or at least 50% of the Daily Contract Quantity of gas for 15 days.

3)Commodity Swap Counterparty Default. The commodity swap may terminate at the option of the non-defaulting party upon certain standard ISDA events of default and termination events. For this transaction the relevant defaults and termination events which allow termination are:

- (i) failure to pay scheduled swap payments by either party
- (ii) bankruptcy of either party
- (iii) merger without assumption by either party;
- (iv) illegality;
- (v) tax event;
- (vi) tax event upon merger;
- (vii) credit event upon merger;
- (viii) termination of the GPA and
- (ix) downgrade of the Commodity Swap Counterparty below Investment Grade

There are no automatic terminations of the commodity swap. If the termination event due to Calyon's downgrade occurs; the Issuer must give notice of termination of the swap. The Gas Purchaser and Gas Suplier will attempt to assign or replace the commodity swap within the specified number of days.

If there is an Event of Default, or termination event under Main Street's Commodity Swap or the Interest Rate Swap Agreement, LBCS shall assist Main Street in locating a Qualified Substitute Counterparty.

Failure by Main Street or LBCS in finding a qualified substitute counterparty upon an event of default or termination of either the Main Street Commodity Swap or LBCS Commodity Swap within 60-120 days (timeframe depends upon the type of default) will result in the termination of the Gas Purchase Agreement and extraordinary redemption of the Bonds

4) Sales to Unqualified Users. If attempts by Main Street and LBCS to sell gas not taken by the Customers to Qualified Users are unsuccessful, the redemption of Bonds is required to maintain the tax-exempt status of the Bonds (i.e. under the $15 million/10% "bad use" safe harbor). Main Street shall provide the Trustee with written notice of the requirement for any redemption of the Bonds not more than five days after determining that such redemption will be required.

5) Interest Rate Swap Replacement. Failure by Main Street or LBCS in finding a qualified substitute counterparty upon an event of default or termination of the interest rate swap will result in the termination of the Gas Purchase Agreement and extraordinary redemption of the Bonds.

6) Failure of Lehman Brothers to make funding Advances. Lehman Brothers' failure to make Mandatory Advances is an even of termination under the GPA.

L. Trustee: Bank of New York (Atlanta, GA)

II. Lehman Brothers Relationship

City of Tallahasee: Lehman Brothers was the senior manager of a $150 million issue for the City's Capital Program Revenue Bonds in 1988. Subsequent to that underwriting, the Firm has only participated on a co-manager on Capital Bond and Utility System and Electric Revenue Bond issues in 1991, 1992, 1993, 1994 and 1998. The Firm is not in the City's current underwriter pool, but has been covering the City since mid-2006 and has relationships with the Mayor, Treasurer & Clerk and Debt Manager.
LBCS has no prior commodities relationship with the City of Tallahassee, but employees of Eagle Energy Partners do have a relationship with the Energy Manager at the City and are a physical supplier to the City.

Reedy Creek Improvement District: Public Finance has recently added RCID to its client roster, however it has not participated in any bond financings to date. Employees of Lehman/Eagle have a strong relationship with their commodities dept, and have been supplying the District with natural gas for several years.

Municipal Gas Authority of Georgia: Lehman Brothers has not previously served as an underwriter for the Municipal Gas Authority of Georgia. Employees of Lehman/Eagle have a strong relationship with the CEO of the Gas Authority.

III. Expected Compensation to the Firm from Deal

We expect to receive approximately $10 million* as compensation for our work as senior manager for this issue. Our Takedown of $2.50/bond on this issue will account for approximately $1.625 million of expected compensation. The remainder will come from the excess return on funds deposited with Lehman Brothers' Treasury Department above the rate of return passed on to Main Street.

IV. Function of the Authority, Agency, Municipal Department and/or Entity Obtaining Financing

A. Main Street:

Main Street is a Georgia nonprofit corporation established in November 2006 by the Gas Authority for the purposes of purchasing natural gas for resale to the Gas Authority and other governmental entities.

Main Street has a five-member Board of Directors who also serve on the nine-member Gas Authority Board. Main Street is not permitted by Georgia law to be a debtor under the municipal provisions of the Bankruptcy Code, and is not authorized to be a Chapter 11 debtor.

Main Street enters into Supply Contracts with municipal utilities (the City, the District and The Gas Authority in this transaction) to facilitate the financing of the purchase of natural gas. Main Street currently has no substantial assets or revenues other than those that are pledged to the payment of outstanding municipal prepayment bonds

Main Street will have served as the issuer and purchaser of gas in four prepay transactions on behalf of Southeast issuers since 2006, by the time the Series 2008B Bonds are issued.

B. The City of Tallahassee:

Tallahassee's Electric Utility and Gas Utility systems make up the City's Municipal Energy System. The City's electric generation, transmission and distribution system supplies power and energy to approximately 110,500 customers. The City sold 2.8 million MWh of electric energy to ultimate customers and 51,125 MWh to other utilities resulting in total operating revenues of $337.4 million. The electric generation function uses 90% of the City's total natural gas requirements. Baseload generation mix has remained relatively constant, with the addition of new natural gas peaking units in the last 2 years. City generating resources now stand at 733 MW of installed capacity with natural gas as the primary fuel.

The City has previously executed a gas pre-pay transaction through TEAC and is entering into a concurrent transaction with J. Aron/Goldman Sachs. Following this transaction, the City will have pre-paid approximately 35% of its annual natural gas supply.

C. The Municipal Gas Authority of Georgia:

The Gas Authority is made up of 76 members located in Georgia, Florida, Alabama, Pennsylvania and Tennessee. The Gas Authority serves the gas needs of 243,000 customers with a total annual throughput of 65.3 million Dth, total revenues of $370.5 million, and total assets of $518.8 million. From 1991 to 1998, the Gas Authority completed 11 gas prepayments totaling more than 600 Bcf for its customers and other municipal utilities.

The Gas Authority will have participated in four gas prepayment transactions since the IRS ruling in 2003 by the time the sale of these bonds occurs. With this prepayment of 5,000 MMBtu/day, 55% of the Gas Authority's portfolio will be tied to long-term contracts

D. Reedy Creek Improvement District, Orlando, Florida:

The Reedy Creek Improvement District is a public corporation and political subdivision of the State of Florida, created by a special act of the Florida legislature, and is located in Orange and Osceola Counties in central Florida. The District encompasses approximately 25,000 acres or 40 square miles. The Walt Disney World Resort Complex is located within the territorial boundaries of the District, and most of the land in the District is owned by wholly-owned subsidiaries of Disney Enterprises, Inc.

The District is governed by a Board of Supervisors of five members, who are elected by the landowners of the District for staggered terms of four years each. The District owns and operates a combined system that includes a wastewater collection and treatment system, a water reclamation system, an electric generation and distribution system, a water supply and distribution system, a hot water system, a natural gas distribution system and a solid waste collection and transfer system and leases and operates a chilled water system. The System's service area includes approximately 20 square miles. Approximately 84.7% of the District's operating revenues were attributable to The Walt Disney Company subsidiaries in 2006.

The Board of Supervisors of the District is responsible for establishing rates to be charged for individual utility services and for ensuring that adequate revenues are available. The District operates the System through agreements with Reedy Creek Energy Services, a subsidiary of Walt Disney World Co.

V. <u>Significant Credit Factors</u>

While these bonds will be issued in the U.S. tax exempt municipal market, they are backed by Lehman Brothers' credit due to LBH's obligation to use the prepaid funds to redeem bonds in the case of an early termination of the structure. As a result, bondholders will view these bonds essentially as Lehman Brothers tax-exempt debt, rather than traditional municipal debt.

The Issuer is considered an instrumentality of the State of Georgia and therefore is not subject to an involuntary bankruptcy proceeding, and additionally the Issuer has no statutory authority to file a voluntary bankruptcy petition. Bondholders will have a first lien perfected interest in the pledge of revenues in the Trust Estate.

A failure on the part of any Customer to pay for the delivered gas could result in a shortfall in the amounts required to be made to the Commodity Swap Counterparty. Under each Supply Contract, the Customer is obligated to pay the contract price when gas is delivered.

A Surety policy has been obtained from XL Capital for the customer supply contract that will cover the maximum amount of gas to be delivered in any three month period to a price of $40/MMBtu. The policy covers three consecutive months of payments for gas delivered. Each customer has a separate XL surety amount limit. These surety payments are further secured by Lehman Brothers in the case of XL non-payment.

Currently, regulations regarding the discount to index of tariff transportation charges have not been specifically reviewed and filed by the FERC (Federal Regulation Regulatory Commission). The legal documents for this transaction reflect transportation commodity costs, defering transportation prepayment until the FERC can explicitly authorize the inclusion of such costs in the prepayment for up to 48 months after such confirmation.

In all subsequent months following a termination of a Supply Contract, LBCS shall remarket gas and pay no less than the contract price. Therefore the transaction is designed to stay in place with LBCS remarketing the gas to other qualified users. The obligation to pay the contract price in such remarketing is guaranteed by Lehman Brothers Holdings, Inc.

In the event of transaction termination due to LBCS non-performance, Lehman Brothers has covenanted in the Gas Supply Agreement to provide both the City, the District and the Gas Authority with the benefit of the discount – i.e. they receive from Lehman Brothers the present value future expected gas discount ("Unearned Amount").

A default by the Commodity Swap Counterparty with respect to any such payment may have a material adverse affect on Main Street's ability to make the required deposits to the Debt Service Fund each month and its ability to pay the principal of or interest on the Bonds.

In the event that a Customer fails to pay for gas delivered by Main Street or fails to pay damages for gas as aforesaid, Main Street has covenanted in the Indenture to exercise its right under the Supply Agreement to suspend further deliveries of gas to such Customer and request LBCS to remarket such gas.

In the case of a GPA termination due to the failure of a replacement swap counterparty to be found after a commodity swap counterparty default, Lehman Brothers will pay 10% of Unearned Amount (or 100% of Unearned Amount if Lehman is defaulting party under Interest Rate Swap Agreement) to Main Street.

In the case of a pro-rata reduction of volumes delivered under the GPA due to failure of gas to be delivered to qualified users, Lehman Brothers will pay 20% of the Unearned Amount to Main Street.

The bonds shall be subject to mandatory redemption on the last day of the month in which the early termination of the GPA occurs. Lehman Brothers will guarantee LBCS's payment of the Termination Amount.

Lehman Brothers' Holdings Inc. Guaranty of the payment obligations of LBCS under the GPA include:

(i) the Termination Amount due from LBCS under the GPA upon its early termination
(ii) payments owing from LBCS under its obligation to remarket gas
(iii) reimbursement for replacement gas or a direct payment if LBCS fails to deliver gas to the Issuer
(iv) any commodity swap payments owed following a default under the swap prior to its termination
(v) collateral posting of 102% of the Unearned Amount if Lehman Brothers Holdings Inc. ratings fall below Investment Grade.

Any investment agreement provider will have minimum ratings of [Aa3/AA-]. Earnings from the Investment Agreement are not necessary to support debt service.

Risk	Mitigant	Rating of Covering Party

Customer fails to pay for gas	Payments made by XL Capital LBH obligation in the event of XL nonpayment	Aaa/AAA/AAA
Gas is not delivered	Gas Supplier pays the higher of (a.) the replacement cost of gas or (b.) monthly index. Payment guaranteed by LBH	A1/A+/AA-
Force Majeure	Gas Supplier pays Index Price. Payment guaranteed by LBH	A1/A+/AA-
Commodity Swap Counterparty Default	Calyon's creditworthiness as counterparty LBH obligation in event of Calyon's non-payment	Aa1/AA-/AA
Guaranteed Investment Contract Provider fails to return the deposits	Initial and any replacement provider will have a minimum rating of Aa3	Aa3/AA-/__

VI Issues/Pros and Cons

Pros

- Financing is essentially a tax-exempt debt offering of Lehman Brothers
- Surety Policy provided by XL Capital Assurance to cover 3 months of Customer non-payment up to gas price of $40/MMBtu; non-performance of XL covered by LBH
- Operating fund reserve of [$1.6] million
- Bondholders will have a first lien perfected interest in the pledge of revenues in the Trust Estate
- In the event a customer does not take the monthly expected amount of gas, LBCS may remarket the gas to other qualified users. The obligation to pay the contract price in such remarketing is guaranteed by LBH
- Commodity Swap with highly rated counterparty (Calyon, Aa1/AA-/AA) whose payments are further secured by LBH
- Main Street has large amounts of other qualified use gas distribution customers which should assist in maintenance of the private use requirement
- Structure allows for partial redemption of bonds after Excess Gas Event occurs to allow transaction to remain in place even after qualified use disruptions (unremediated unqualified sales)

Cons

- Contracts with Customers are take-and-pay, that is Customers are not obligated to pay for gas that is not delivered
- If gas is not properly delivered for 30 year timeframe in a potentially volatile energy market (especially Florida) transaction will terminate with extraordinary redemption of bonds
- If LBCS is not able to properly meet performance obligation, Main Street and Customers receive from LBH the present value of the remaining benefit of the discount to Index Price of gas
- Ratings assigned to the bonds may be changed if the long-term rating of Lehman, Calyon or XL Capital changes
- Transaction must comply with certain IRS rules on private use
- Other forms of electric generation could replace gas over a thirty-year period and so the contracted gas volumes may no longer be needed, necessitating remarketing of volumes
- Recent market volatility has caused investors to question XL Capital Assurance's capital sufficiency and AAA ratings

- Recent market volatility has put pressure on various swap counterparties including Calyon causing investors to inquire about ratings downgrades

VII. <u>Recommendation</u>

We recommend the approval of this transaction.

cc: Ed Papantonio (745 7th Ave., 30th Floor)
Scott Lechner (745 7th Ave., 28th Floor)
Gary Rosen (745 7th Ave., 19th Floor)
Katie Chan (745 7th Ave., 13th Floor)
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