

NEW ISSUE – FULL BOOK-ENTRY ONLY**Ratings:** See “EXPECTED RATINGS” herein

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.

\$[_____]

**California Infrastructure and Economic Development Bank
Variable Rate Demand Revenue Bonds
(California Independent System Operator Corporation Project)**

\$[_____]
2007 Series A

\$[_____]
2007 Series B

Dated: Date of Issuance

Price: 100%

Due: [____], 20[__]

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The \$[_____] aggregate principal amount of 2007 Series A Bonds (the “Series A Bonds”) and the \$[_____] aggregate principal amount of 2007 Series B Bonds (the “Series B Bonds”) and, together with the Series A Bonds, the “Bonds”) are being issued by the California Infrastructure and Economic Development Bank (the “Infrastructure Bank”) for the purpose of providing funds to (i) finance a portion of the costs of the California Independent System Operator Corporation’s (the “Corporation”) market redesign and technology upgrade project and other planned capital projects, which consist primarily of computer hardware and software systems, related development costs and other associated costs (the “Project”); (ii) fund a debt service reserve fund; and (iii) pay costs of issuance of the Bonds. See “PLAN OF FINANCE” herein. The Bonds are being issued pursuant to an Indenture of Trust, dated as of April 1, 2007, between the Infrastructure Bank and Deutsche Bank National Trust Company, as trustee (the “Trustee”).

In order to finance the Project, the Infrastructure Bank will loan the proceeds of the Bonds to the Corporation pursuant to a Loan Agreement, dated as of April 1, 2007 (the “Loan Agreement”), by and between the Infrastructure Bank and the Corporation. Pursuant to the Loan Agreement, the Corporation has pledged its Net Operating Revenues to secure its obligation to make payments of principal of and interest on the Bonds, which pledge is on a parity with the pledge of such Net Operating Revenues securing the \$129.7 million aggregate principal amount of outstanding California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Project) 2000 Series A, 2000 Series B, 2000 Series C, 2004 Series A and 2004 Series B and certain other Parity Obligations as described herein. See “SECURITY FOR THE BONDS—Outstanding Parity Obligations” herein.

[ISO Logo]

The Bonds will be issuable as fully registered bonds initially in authorized denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. The Bonds will be initially issued in book-entry form, registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Individual purchases of beneficial interests in the Bonds and tenders of Bonds for purchases will be made through DTC’s book-entry system. Purchasers of beneficial interests in the Bonds will not receive certificates representing their ownership interests in the Bonds. So long as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest on the Bonds and of the Purchase Price of tendered Bonds will be paid through the facilities of DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the purchasers of beneficial interests in the Bonds is the responsibility of DTC Participants, as more fully described herein. See “APPENDIX B — BOOK-ENTRY ONLY SYSTEM” herein.

Each Series of the Bonds will initially be in a Weekly Rate Period and will bear interest at a Weekly Rate as described herein. The Rate Period for each Series of the Bonds may be converted to a Daily Rate Period, Commercial Paper Rate Period, ARS Period or Fixed Rate Period as described herein. All of the Bonds of a Series must be in the same Rate Period at the same time. *This Official Statement is not intended to provide certain information with respect to the Bonds (including the terms of such Bonds) in any Rate Period other than the Weekly Rate Period. Owners and prospective purchasers of the Bonds should not rely on this Official Statement for information concerning the Bonds in connection with any Conversion of the Bonds, but should look solely to the offering document to be used in connection with any such Conversion.*

The Bonds are subject to redemption and mandatory and optional purchase prior to maturity as described herein.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds. Payment of the Purchase Price of each Series of the Bonds by the Tender Agent (as described herein) shall not be so insured.

[Ambac Logo]

Payment of the Purchase Price of the Bonds of a Series tendered or deemed tendered for purchase but not remarketed in an amount equal to the principal amount thereof and up to 34 days of accrued interest thereon at a maximum rate of 12% per annum will be made pursuant to and subject to the terms of a Standby Bond Purchase Agreement, dated as of April 1, 2007, by and among the Corporation, the Trustee, Bank of America, N.A. and JPMorgan Chase Bank, N.A. (the “Liquidity Banks”). UNDER CERTAIN CIRCUMSTANCES DESCRIBED HEREIN, THE OBLIGATION OF THE LIQUIDITY BANKS TO PURCHASE BONDS TENDERED BY THE HOLDERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED; AND, IN SOME SUCH CIRCUMSTANCES, THE TERMINATION OR SUSPENSION OF SUCH OBLIGATION WILL BE IMMEDIATE AND WITHOUT NOTICE TO BONDHOLDERS. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE SUCH BONDS.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE INFRASTRUCTURE BANK, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, OR PURCHASE PRICE OF, THE BONDS.

The Bonds are offered when, as and if issued by the Infrastructure Bank and accepted by the Underwriters, subject to prior sale or withdrawal or modification of the offer without notice, and subject to receipt of an approving legal opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Certain legal matters will be passed upon for the Infrastructure Bank by its General Counsel, Brooke Bassett, Esq., for the Corporation by its General Counsel and by its special counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, for the Liquidity Banks by their counsel, Chapman and Cutler LLP, and for the Underwriters by their counsel, Sidley Austin LLP. The Bonds are expected to be available for delivery through the facilities of DTC in New York, New York, on or about April __, 2007.

Banc of America Securities LLC

JPMorgan

Dated: [____], 2007

No broker, dealer, salesperson or other person has been authorized by the Infrastructure Bank, the Corporation or the Underwriters to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the foregoing. 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 in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements in this Official Statement which involve estimates, forecasts or matters of opinion whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information contained in this Official Statement has been obtained from the Infrastructure Bank, the Corporation and other sources which are believed to be reliable. The information and expressions of opinion contained in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale made by means hereof shall, under any circumstances, create any implication that there have not been changes in the affairs of the Infrastructure Bank or the Corporation since the date of this Official Statement.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their 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.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. EXCEPT WHEN BEARING INTEREST AT AN ARS RATE OR THE FIXED RATE, THE BONDS ARE EXEMPT FROM THE CONTINUING DISCLOSURE REQUIREMENTS OF RULE 15c2-12 OF THE SECURITIES AND EXCHANGE COMMISSION.

In connection with the offering of the Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Bonds to certain dealers, institutional investors and others at prices lower than the public offering price stated on the cover page hereof and such public offering price may be changed from time to time by the Underwriters.

**CAUTIONARY STATEMENTS REGARDING
FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Neither the Infrastructure Bank nor the Corporation plans to issue any updates or revisions to those forward-looking statements if or when expectations or events, conditions or circumstances on which such statements are based occur.

**CALIFORNIA INFRASTRUCTURE AND
ECONOMIC DEVELOPMENT BANK**

Members

Barry R. Sedlik, *Chair*
Bill Lockyer
Rosario Maria
Michael C. Genest
D. Everett Rice

CALIFORNIA INDEPENDENT SYSTEM OPERATOR

Officers

Yakout Mansour, *President and Chief Executive Officer*
William J. Regan, Jr., *Chief Financial Officer and Vice President of Corporate Services*
Charles King, *Vice President Market Development and Program Management*
Jim Detmers, *Vice President of Operations*
Anthony Ivancovich, *Acting General Counsel*
Steve Berberich, *Chief Information Officer and Vice President of Information Services*
Karen Edson, *Vice President of External Affairs*
Armando Perez, *Vice President of Planning and Infrastructure Development*

Financial Administrator for Bonds

Philip Leiber, *Treasurer and Director of Financial Planning*

SPECIAL SERVICES

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Pricing Advisor

Sperry Capital
Tiburon, California

Remarketing Agent for the Series A Bonds

Banc of America Securities LLC

Remarketing Agent for the Series B Bonds

J. P. Morgan Securities Inc.

Trustee, Tender Agent, Registrar and Paying Agent

Deutsche Bank National Trust Company
New York, New York

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Purpose	1
Plan of Finance	1
The Infrastructure Bank	1
The Corporation	2
Security and Sources of Payment for the Bonds	2
Rate Covenant	3
Debt Service Reserve	3
Bond Insurance	3
Liquidity Facility	3
Other Matters	4
PLAN OF FINANCE	4
The Project	4
Swap Agreement	5
ESTIMATED APPLICATION OF PROCEEDS	5
THE INFRASTRUCTURE BANK	5
THE CORPORATION	6
THE BONDS	7
General	7
Weekly Rate Period for Bonds	8
Conversion of Interest Rate Determination Method from Weekly Rate	9
Tender of Bonds for Purchase	11
Remarketing	13
Redemption	14
Book-Entry Only System	17
SECURITY FOR THE BONDS	17
Payments by the Corporation Under the Loan Agreement	17
Rate Covenant	18
Outstanding Parity Obligations	18
Additional Parity Obligations	19
Debt Service Reserve Fund	19
Limitations on Remedies	20
BOND INSURANCE	20
THE STANDBY BOND PURCHASE AGREEMENT	23
Substitute Liquidity Facility	26
THE LIQUIDITY BANKS	27
Bank of America, N.A.	27
JPMorgan Chase Bank, N.A.	27
ABSENCE OF LITIGATION	27
The Infrastructure Bank	27
The Corporation	28
EXPECTED RATINGS	28
UNDERWRITING	28
CERTAIN RELATIONSHIPS	29
TAX MATTERS	29
OTHER LEGAL MATTERS	30
EXECUTION AND DELIVERY	31
APPENDIX A — SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS	A-1
APPENDIX B — BOOK-ENTRY ONLY SYSTEM	B-1

APPENDIX C — FORM OF OPINION OF BOND COUNSELC-1
APPENDIX D — SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY D-1

OFFICIAL STATEMENT

relating to

\$_[_____]

California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project)

\$_[_____]

2007 Series A

\$_[_____]

2007 Series B

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. See “APPENDIX A –SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” herein.

Purpose

This Official Statement, which includes the cover page and Appendices hereto, of the California Infrastructure and Economic Development Bank (the “Infrastructure Bank”) is being furnished to provide certain information concerning the Infrastructure Bank’s Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2007 Series A in the principal amount of \$_[_____] (the “Series A Bonds”) and 2007 Series B in the principal amount of \$_[_____] (the “Series B Bonds” and together with the Series A Bonds, the “Bonds”). The Bonds are being issued by the Infrastructure Bank under and pursuant to an Indenture of Trust, dated as of April 1, 2007 (the “Indenture”), by and between the Infrastructure Bank and Deutsche Bank National Trust Company, as trustee (the “Trustee”), for the purpose of providing funds to: (i) finance a portion of the costs of the California Independent System Operator Corporation’s (the “Corporation”) market redesign and technology upgrade project and other planned capital projects, which consist primarily of computer hardware and software systems, related development costs and other associated costs (the “Project”); (ii) fund a debt service reserve fund; and (iii) pay costs of issuance of the Bonds. See “PLAN OF FINANCE” herein.

Plan of Finance

The Bonds are being issued for the purpose of financing the costs of the Project. The Corporation intends to enter into an interest rate swap agreement in connection with the Bonds pursuant to which the Corporation will convert [60% to 100%] of the total floating interest amounts on the Bonds into substantially fixed payments. To effectuate this conversion, the Corporation will agree in such swap agreement to pay a fixed interest rate on a notional amount of \$_[_____] and in return, [_____] will agree to pay a variable rate of interest on a like notional amount. See “PLAN OF FINANCE” herein.

The Infrastructure Bank

The Infrastructure Bank is a public body organized within the government of the State of California (the “State”) and created pursuant to the Bergesen-Peace Infrastructure and Economic

Development Bank Act, codified at Section 63000 et seq. of the California Government Code, as amended. See “THE INFRASTRUCTURE BANK” herein.

The Corporation

The Corporation is a California nonprofit public benefit corporation organized as directed by the California legislation providing for the restructuring of the electric utility industry in California (Assembly Bill 1890 enacted as Chapter 854 of the California Statutes of 1996, “AB 1890”) and subsequent legislation. The Corporation has received a determination letter from the Internal Revenue Service that it has qualified as a nonprofit corporation described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). The Corporation assumed operational control of the transmission facilities of the three largest investor-owned electric utilities in California in March 1998. Since then, the Corporation has assumed operational control of the transmission facilities of nine additional transmission-owning entities, providing open, nondiscriminatory access to such facilities for energy suppliers. Since 1998, numerous changes have affected the structure of the California energy industry, including legislative, regulatory and competitive factors; however the Corporation’s essential mission to provide open access transmission service to consumers remains unchanged. The Corporation is the operator of the transmission grid covering most of California, which is composed of over 25,000 circuit miles of transmission lines. See “THE CORPORATION” herein.

The Corporation has no obligation under the Loan Agreement to make any payments with respect to the Purchase Price of any Bonds tendered or deemed tendered for purchase and the Purchase Price of such Bonds is payable solely from the proceeds of the remarketing of such Bonds or from amounts made available under the Liquidity Facility as hereinafter described. As a result, no financial or operating data concerning the Corporation has been included in this Official Statement as such information should not be considered material in an evaluation of the offering of the Bonds or any decision to purchase, hold or sell the Bonds while the Bonds are in a Weekly Rate Period.

Security and Sources of Payment for the Bonds

In connection with the loan of the proceeds of the Bonds to the Corporation, the Infrastructure Bank and the Corporation will enter into a Loan Agreement, dated as of April 1, 2007 (the “Loan Agreement”). Pursuant to the Loan Agreement, the Corporation will be obligated to make certain payments (the “Repayment Installments”) to the Trustee, as assignee of the Infrastructure Bank, in an amount which is sufficient to pay as and when due the principal of, premium, if any, and interest on the Bonds. Pursuant to the Loan Agreement, the Corporation has pledged its Net Operating Revenues to secure its obligation to make payments of principal of and interest on the Bonds, which pledge is on a parity with the pledge of such Net Operating Revenues securing the \$129,700,000 aggregate principal amount of outstanding California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Project) 2000 Series A, 2000 Series B and 2000 Series C (the “2000 Bonds”) and 2004 Series A and 2004 Series B (the “2004 Bonds”) and certain other Parity Obligations as described herein. See “SECURITY FOR THE BONDS—Outstanding Parity Obligations” herein. The Purchase Price of Bonds tendered or deemed tendered for purchase and not remarketed is payable solely from amounts drawn under the Liquidity Facility as described herein and is not otherwise payable from or secured by Net Operating Revenues of the Corporation. The Bonds will not be secured by a legal or equitable pledge of, or mortgage upon, the Project.

THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN A LIMITED OBLIGATION OF THE INFRASTRUCTURE BANK PAYABLE SOLELY FROM REVENUES. THE BONDS DO NOT CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY

POLITICAL SUBDIVISION THEREOF, BUT WILL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR INTEREST ON, THE BONDS; AND NO HOLDER OR BENEFICIAL OWNER OF ANY BONDS SHALL HAVE ANY RIGHT TO DEMAND PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE BONDS BY THE INFRASTRUCTURE BANK, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OUT OF ANY FUNDS TO BE RAISED BY TAXATION OR APPROPRIATION.

Rate Covenant

The Corporation has covenanted in the Loan Agreement that, so long as any Bonds remain Outstanding, for each year it shall establish a Grid Management Charge in accordance with the Grid Management Charge Formula which shall include in its budgeted revenue requirements a Coverage Requirement with respect to budgeted debt service on the Bonds and any Parity Obligations of not less than 25% and shall not take any action to modify the Grid Management Charge Formula in any manner which would adversely affect the security afforded the Bondholders under the Loan Agreement including, without limitation, ceasing to maintain the Reserve Requirement at 15% of its annual Operating Expenses for purposes of the Grid Management Charge Formula. See “SECURITY FOR THE BONDS — Rate Covenant” herein.

Debt Service Reserve

A Debt Service Reserve Fund is established pursuant to the Indenture in an amount equal to the Debt Service Reserve Requirement (as defined in the Indenture). The Debt Service Reserve Requirement for the Bonds shall be approximately \$[_____] upon the issuance of the Bonds. See “SECURITY FOR THE BONDS–Debt Service Reserve Fund” herein. Amounts on deposit in the Debt Service Reserve Fund shall be applied to the payment of the principal or redemption price of, or interest on, the Bonds in the event that amounts on deposit in the Bond Fund are insufficient therefor.

Bond Insurance

Payment of the principal of and interest on each Series of the Bonds when due will be insured by a financial guaranty insurance policy (the “Policy”) to be issued by Ambac Assurance Corporation (the “Insurer” or “Ambac Assurance”) simultaneously with the delivery of the Bonds. The Policy does not insure payments due with respect to the Bonds by reason of redemption (except scheduled mandatory sinking fund redemption), purchase by the Tender Agent or acceleration. See “BOND INSURANCE” herein.

Liquidity Facility

Payment of the Purchase Price of the Bonds tendered or deemed tendered for purchase but not remarketed in an amount equal to the principal amount thereof, and up to 34 days of accrued interest thereon at a maximum rate of 12% per annum will be made pursuant to and subject to the terms of a Standby Bond Purchase Agreement, dated as of April 1, 2007 (the “Standby Bond Purchase Agreement”), by and among the Corporation, the Trustee and Bank of America, N.A. and JPMorgan Chase Bank, N.A. (the “Liquidity Banks”). The Standby Bond Purchase Agreement is a several, not joint, obligation of the Liquidity Banks. Each Liquidity Bank’s obligation under the Standby Bond Purchase Agreement is limited to 50% of the Available Commitment contained therein. The Standby Bond Purchase Agreement constitutes a Liquidity Facility and a Liquidity Agreement under the Indenture. UNDER CERTAIN CIRCUMSTANCES DESCRIBED HEREIN, THE OBLIGATION OF THE LIQUIDITY BANKS TO

PURCHASE BONDS TENDERED BY THE HOLDERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED; AND, IN SOME SUCH CIRCUMSTANCES, THE TERMINATION OR SUSPENSION OF SUCH OBLIGATION WILL BE IMMEDIATE AND WITHOUT NOTICE TO BONDHOLDERS. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE SUCH BONDS.

Other Matters

Brief descriptions of the Infrastructure Bank and the Project, as well as certain provisions of the Bonds, the Policy, the Standby Bond Purchase Agreement, the Loan Agreement, the Indenture and certain other documents relating to the Bonds, are included in this Official Statement. Such information and descriptions do not purport to be comprehensive or definitive. All references herein to the specified documents are qualified in their entirety by reference to each such document, copies of which are available from the Corporation and the Underwriters during the period of the offering. All references to the Bonds are qualified in their entirety by reference to the definitive form thereof and the information with respect thereto included in the aforesaid documents. Unless otherwise indicated, capitalized terms not defined herein have the meanings specified in “APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—Definitions” or if not defined therein, in the Indenture.

PLAN OF FINANCE

The Project

The Corporation’s Market Redesign and Technology Upgrade (MRTU) project commenced in 2002, originally designated as the “MD02” project, to address flaws identified during the energy crisis (which occurred in California in 2000 and 2001) and earlier in the Corporation’s market design. Phases of MD02 were implemented during 2004. The name of the project was later changed to MRTU. On February 9, 2006, the Corporation filed with the Federal Energy Regulatory Commission (“FERC”) its MRTU tariff amendment to implement this comprehensive overhaul of the wholesale electricity markets administered by the Corporation. The market redesign segment of the MRTU project will restructure the market rules that govern the Corporation’s real-time energy and operating reserve markets, manage congestion of the transmission grid, and introduces a day-ahead energy market and forward unit commitment that will operate more efficiently and minimizes opportunities for market manipulation. The technology upgrade portion of the MRTU project will update other computer systems necessary to operate the electric grid.

The Corporation requested that its MRTU tariff be approved by FERC, without modification, suspension or hearing, to be effective on November 1, 2007. On September 21, 2006, FERC issued an order conditionally approving the Corporation’s MRTU tariff, and requiring certain changes to the MRTU tariff and market design, which implicated certain changes to the software design by the targeted implementation date or within specified timeframes thereafter. In certain instances, FERC indicated that the Corporation could respond if such changes would have an adverse impact upon the project schedule and targeted implementation date. The Corporation subsequently requested deferral of certain aspects of FERC’s proposed changes that would have a significantly adverse impact on the initial implementation date. In December 2006, the Corporation’s Governing Board approved a revised project plan, including scope, schedule and budget, which provides for the completion project including most of the significant FERC required changes at a cost of \$189.2 million, with an implementation date of February 1, 2008 (commencing January 31, 2008).

The project has been funded to date through the Corporation’s revenues in the amount of \$47 million, and with \$92.2 million in funding from the Series 2004 Bonds. The remaining cost to complete the project expenditures in 2007-2008 will be funded from the proceeds of the Bond.

Additional projects to be funded from the proceeds of the Bonds include approximately \$42 million in other capital projects deemed necessary by the Corporation in 2007 and 2008. The projects include other computer software and hardware and other equipment or facilities upgrades.

Swap Agreement

The Corporation intends to enter into an interest rate swap agreement in the form of an ISDA Master Agreement and Schedule and related Transaction (the “2007 Swap Agreement”) with [_____] (“[2007 SWAP PROVIDER]”) in connection with the Bonds for the purpose of converting [_____] % of the floating interest payments the Corporation is required to make on the Bonds into substantially fixed payments. The effect of the 2007 Swap Agreement is to modify the Corporation’s risk of interest rate changes with respect to a specified percentage of the interest payments on the Bonds. Pursuant to the Transaction under the 2007 Swap Agreement, the Corporation agrees to pay a fixed interest rate on an initial notional amount equal to \$[_____]. In return, [2007 SWAP PROVIDER] agrees to pay a variable rate of interest, equal to (1. [_____] % of the [London Interbank Offering Rate (“LIBOR”) one month index plus a specified spread of [_____] % (_____ basis points)] or The Bond Market Association Municipal Swap index, a weekly index) on a like notional amount. The amounts payable by a party under the 2007 Swap Agreement are due monthly but are netted against the payments to be received by such party thereunder. The 2007 Swap Agreement constitutes a Parity Obligation for purposes of the Indenture. Under certain circumstances, the 2007 Swap Agreement is subject to termination and the Corporation may be required to make a substantial termination payment to the counterparty thereunder. Any amounts payable upon early termination thereof are payable on a parity with the payment of the Bonds. Ambac Assurance will insure the regularly scheduled amounts payable by the Corporation under the 2007 Swap Agreement, as well as termination payments up to \$[_] million. None of the Infrastructure Bank, the Trustee nor the Bondholders shall have any interest in or rights under the 2007 Swap Agreement. See “SECURITY FOR THE BONDS – Outstanding Parity Obligations” herein.

ESTIMATED APPLICATION OF PROCEEDS

The proceeds of the Bonds are expected to be applied as follows:

Construction Fund	\$
Debt Service Reserve Fund	
Capitalized Interest	
Costs of Issuance ⁽¹⁾	
Underwriters’ Discount	
Total	\$

⁽¹⁾ Includes bond insurance and swap surety premiums, legal, financing, consulting and Liquidity Banks fees, rating agency fees, printing costs and other miscellaneous expenses.

THE INFRASTRUCTURE BANK

The Infrastructure Bank is located within the Business, Transportation and Housing Agency and is governed by a five-member board of directors (the “Infrastructure Bank Board”) consisting of the

Secretary of the Business, Transportation and Housing Agency, who serves as chair, the State Director of Finance, the State Treasurer, the Secretary of the State and Consumer Services Agency and an appointee of the Governor. The Infrastructure Bank Board members serve without compensation.

The Bonds are limited obligations of the Infrastructure Bank payable solely from the funds pledged therefor under the Indenture. The Infrastructure Bank makes no representations with respect to the accuracy or completeness of the statements and information set forth in this Official Statement, other than the information set forth in this section and in the subsection entitled “ABSENCE OF LITIGATION—The Infrastructure Bank.”

THE CORPORATION

The restructuring of the wholesale electric utility industry in California, which occurred during the 1990s, was the result of certain FERC Orders (Orders 888 and 889), which provided a framework for open access to the nation’s transmission grids, and State legislation (AB 1890), which, among other things, directed the establishment of the Corporation as an independent entity to operate the State’s electric transmission grid. In 1998, the Corporation received a determination letter from the Internal Revenue Service indicating that it qualified as a corporation described in Section 501(c)(3) of the Code.

Following its incorporation, the Corporation began preparing to take over operational control of the investor-owned electric transmission facilities in California. Prior to such date, development of the infrastructure for the Corporation was commenced through a trust established by the three largest investor-owned California electric utilities. Among the many elements necessary for the Corporation to assume its role as directed by AB 1890 were: (i) the establishment of the necessary dispatch control centers and metering devices; (ii) the development of the communications infrastructure needed to link the Corporation with transmission and power plant operators and scheduling coordinators; and (iii) the creation of computer programs to accept and synchronize schedules for transmission on an hourly basis from multiple scheduling coordinators and to provide the reliability and congestion management necessary for the transmission system to assure uninterrupted electric service.

The Corporation was established in May 1997 as a nonprofit public benefit California corporation governed by a Board of Governors representing the various classes of stakeholders interested in the restructuring of the electric industry in California; and on March 31, 1998, the Corporation commenced operations and exercised operational control of the electric transmission facilities of the three largest investor-owned California utilities. Since that time, six municipal utilities, the cities of Vernon, Riverside, Pasadena, Anaheim, Azusa and Banning, and another transmission owner, Atlantic Path 15, have turned over operational control of their transmission facilities to the Corporation. One additional application is currently pending approval by FERC. In addition, a federal power agency, Western Area Power Administration - Sierra Nevada Region, has turned over operational control of its Path 15 entitlement, and Florida Power and Light, as a project sponsor, has paid to upgrade certain transmission facilities which resulted in increased transmission capacity available for consumers. The Corporation is the operator of an interconnected transmission grid dispatching over 800 generation units and operating markets for transmission congestion and ancillary services, and balancing energy. The operation of the interconnected transmission grid is coordinated with neighboring control areas through transmission interconnections.

The Corporation’s executive offices and primary dispatch and communications facilities are located in Folsom, California. The Corporation maintains a back-up dispatch and communications center at Alhambra, California.

Since its startup, the Corporation has successfully operated the electric transmission system through a period of significant changes in the California electric industry. The Corporation's fundamental mission has remained largely unchanged throughout this period. Facilitating open access to the 25,000 circuit-mile wholesale transmission network grid, the Corporation acts as the impartial link between the power plants and utilities that provide electricity to customers. The Corporation also operates transmission lines connecting California with neighboring control areas including Mexico and British Columbia. The Corporation directs generation and dispatchable load to ensure that the supply of power matches demand every few seconds. The Corporation has a fundamental role in ensuring the coordination and availability of both generation and transmission resources, both of which are critical to ensuring the availability of reliable and accessible power. Since the energy crisis of 2000-01, the Corporation has modified its computer systems and market rules to enhance the robustness of the competitive energy markets, to ensure the reliable operation of the grid and to be responsive to the market participants it serves. The MRTU Project, as described in the Plan of Finance, represents a major upgrade of these systems.

The Corporation is regulated by FERC. The Corporation is governed by a Board of Governors appointed by the State Governor and confirmed by the State Senate. The current members of the Board of Governors are Mason Willrich (Chair), Elizabeth Lowe, Tim Gage, Linda Capuano, and Thomas Page. Mr. Gage, Mr. Page and Ms. Capuano were appointed on February 2, 2007 and serve pending confirmation by the State Senate.

The Corporation has no obligation under the Loan Agreement to make any payments with respect to the Purchase Price of any Bonds tendered or deemed tendered for purchase and the Purchase Price of such Bonds is payable solely from the proceeds of the remarketing of such Bonds or from amounts made available under the Standby Bond Purchase Agreement. As a result, no financial or operating data concerning the Corporation has been included in this Official Statement as such information should not be considered material in an evaluation of the offering of the Bonds or any decision to purchase, hold or sell the Bonds while the Bonds are in a Weekly Rate Period.

THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds for the complete text thereof and to the Indenture for a more detailed description of such provisions. The discussion herein is qualified by such reference. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS" herein. This Official Statement provides information as of its date with respect to the Bonds (including the terms of such Bonds) in a Weekly Rate Period. Purchasers of the Bonds should not rely on this Official Statement for information concerning the Bonds in connection with any Conversion of the Bonds from a Weekly Rate Period, but should look solely to the offering document to be used in connection with any such Conversion.

General

The Bonds of each Series will be dated their date of issuance and will be issued in the principal amount indicated on the cover page of this Official Statement. The Bonds of each Series will mature on [____], 20[___] (the "Maturity Date").

Pursuant to the Indenture, the Bonds of each Series shall bear interest at the Daily Rate, Weekly Rate, Commercial Paper Rate (each, a "Variable Rate"), ARS Rate or a Fixed Rate, based on the Interest Rate Determination Method specified from time to time by the Corporation. The interest rate for all the Bonds of a Series shall be determined based on the same Interest Rate Determination Method and (except

as to Liquidity Provider Bonds) shall bear interest at the same interest rate. The Bonds of each Series will initially bear interest at the Weekly Rate, determined as described herein. The maximum rate of interest any of the Bonds (other than Liquidity Provider Bonds) may bear is 12% per annum. The Bonds shall bear interest payable on each Interest Payment Date computed on the basis of a 365/366-day year and actual days elapsed. The Bonds will initially be issued in authorized denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof.

The Bonds will be registered in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. So long as the Bonds are held in the book-entry system, DTC or its nominee will be the registered owner of the Bonds for all purposes of the Indenture, the Bonds and this Official Statement. For purposes of this Official Statement, DTC or its nominee, and its successors and assigns, are referred to as the “Securities Depository.” So long as the Bonds are held in book-entry form through DTC, all payments with respect to principal of, premium, if any, interest on, and Purchase Price of, the Bonds will be made pursuant to DTC’s rules and procedures. See “APPENDIX B — BOOK-ENTRY ONLY SYSTEM” herein.

Deutsche Bank National Trust Company is the Trustee, Tender Agent, Registrar and Paying Agent for the Bonds. Banc of America Securities LLC and J.P. Morgan Securities Inc. have been appointed under the Indenture and under separate Remarketing Agreements with the Corporation to serve as Remarketing Agents for the Series A Bonds and Series B Bonds, respectively. The Remarketing Agents may resign or be removed and successor Remarketing Agents may be appointed, all in accordance with the terms of the Indenture and the Remarketing Agreements.

There are a number of provisions in the Indenture relating to the terms of Liquidity Provider Bonds (*i.e.*, Bonds purchased by the Liquidity Banks pursuant to the Indenture and the Liquidity Facility) which are not described in the forepart of this Official Statement. All references to the terms of the Bonds in the forepart of this Official Statement describe only Bonds which are not owned by the Liquidity Banks unless expressly indicated herein.

Weekly Rate Period for Bonds

Upon issuance, the Bonds of each Series will initially bear interest at a Weekly Rate, provided that during the period from the date of issuance of the Bonds of each Series through the first Tuesday thereafter, the Bonds of each Series shall bear interest at the rate specified in a Certificate of the Infrastructure Bank. During each Weekly Rate Period, the applicable Remarketing Agent will set a Weekly Rate by 5:00 p.m., New York City time, on each Tuesday (or the immediately preceding Business Day, if such Tuesday is not a Business Day) for the next Calendar Week. Each Weekly Rate shall be the rate of interest which, if borne by Bonds of a Series in the Weekly Rate Period, would, in the judgment of the applicable Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Bonds of a Series or Tax-Exempt Securities which are competitive as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of the Bonds of a Series in the Weekly Rate Period, be the lowest interest rate which would enable the applicable Remarketing Agent to place such Bonds at a price of par (plus accrued interest, if any) on the first day of the Calendar Week for which such Weekly Rate is established.

The interest on each Bond of a Series bearing interest at the Weekly Rate will be payable on the first Business Day of each calendar month, on each Conversion Date for such Bond and on the Maturity Date, to the registered Bondholder whose names appear on the registration books maintained by the Registrar as of the close of business on the Record Date, which shall be the Business Day immediately preceding the Interest Payment Date; except that if there is a default in any payment of interest and sufficient funds thereafter become available to pay such interest, such payment shall be made to the

registered Bondholder whose names appear on the registration books as of a special record date to be established by the Trustee.

The Bonds of each Series shall bear interest from their respective dates of issuance until payment of the principal thereof shall have been made or provided for in accordance with the provisions of the Indenture whether at maturity, upon redemption or otherwise. While the Bonds are held in a book-entry-only system, all payments and delivery of Bonds shall be made in the manner described in “APPENDIX B — BOOK-ENTRY ONLY SYSTEM” herein.

The Interest Rate Determination Method for the Bonds of each Series may be converted from time to time as provided in the Indenture. Prior to any such change, notices shall be given to the Holders of the Bonds of such Series to be converted at least 20 days before such Conversion and the Holders (and Beneficial Owners) of the Bonds to be converted shall be required to tender their Bonds of such Series for purchase as provided in the Indenture.

Failure to Determine Rate for Certain Rate Periods. If, for any reason, the Rate on any Bond is not established as aforesaid by the applicable Remarketing Agent for such Bond of a Series or no Remarketing Agent shall be serving as such for such Bond of a Series or any Rate so established is held to be invalid or unenforceable with respect to any such Rate Period, then the interest rate for such Rate Period shall be 100% of the applicable Rate Index on the date such Rate was (or would have been) determined as provided above.

Notice of Rates. Promptly following the determination of any Rate for a Bond of a Series, the applicable Remarketing Agent shall give written notice thereof to the Trustee. Such notice shall also include details as to principal amounts of Bonds of such Series and the Interest Rate Determination Method at the time applicable.

Absence of Remarketing Agent. If no Remarketing Agent shall be serving under the Indenture for the Bonds of a Series, the determination of the Rate pursuant to the applicable Rate Index for the Bonds of such Series shall be made by the Corporation. The determination of any Rate or Rate Index by a Remarketing Agent or the Corporation (as aforesaid in the immediately preceding sentence) shall be conclusive and binding upon the Infrastructure Bank, the Corporation, the Trustee, the applicable Remarketing Agent and the Bondholders.

No Liability. In determining the interest rate that the Bonds of a Series shall bear as provided in the Indenture, the applicable Remarketing Agent and the Corporation (as aforesaid in the immediately preceding sentence) shall have no liability to the Infrastructure Bank, the Corporation, the Trustee or any Bondholder, except for its negligence or willful misconduct.

Conversion of Interest Rate Determination Method from Weekly Rate

Right of Conversion. With the consent of the Insurer, the Interest Rate Determination Method for the outstanding Bonds of each Series is subject to Conversion from time to time by an Authorized Corporation Representative, with such right to be exercised by written notice (the “Conversion Notice”) to the Liquidity Provider, the Infrastructure Bank, the Trustee and the applicable Remarketing Agent for the Bonds of the Series to be converted as follows: (A) at least four (4) Business Days prior to the thirtieth (30th) day prior to the effective date of such proposed Conversion, in the event of a Conversion to a Daily Rate Period, ARS Period or Commercial Paper Rate Period; and (B) no less than thirty (30) days prior to the thirtieth (30th) day prior to the effective date of such proposed Conversion, in the event of a Conversion to a Fixed Rate Period.

The Conversion Notice must be accompanied by (i) an Opinion of Bond Counsel stating that the Conversion is authorized and permitted under the Indenture and will not adversely affect the Tax-Exempt status of the interest on any of the Bonds, and (ii) a Rating Confirmation, if at the same time as the Bonds of a Series are converted there will be either a change of Liquidity Provider or any modification of the Liquidity Facility applicable to the Bonds of such Series, including, but not limited to, a modification of such Liquidity Facility to increase the amount of accrued interest required to be included in the Liquidity Facility (as specified in the Indenture) in connection with a Conversion of Bonds of a Series to a Commercial Paper Rate.

Limitations. Any Conversion from the Weekly Rate must comply with certain requirements under the Indenture, including, but not limited to the following: (A) the Conversion Date must be an Interest Payment Date on which the Bonds of a Series designated for Conversion are subject to mandatory tender pursuant to the applicable provisions of the Indenture; (B) the Conversion Date must be a Business Day; (C) the Liquidity Facility for the Bonds of a Series being converted to be held by the Trustee after a Conversion to another Variable Rate must cover accrued interest (computed at the Maximum Interest Rate then in effect on the basis of a 365/366 day year and actual days elapsed) for the maximum number of days between Interest Payment Dates permitted under that Interest Rate Determination Method plus such additional number of days as shall be required in order to obtain or maintain a rating on the Bonds to be converted; provided that if the number of days of interest coverage provided by the Liquidity Facility is being changed, the Trustee shall have received a Rating Confirmation; (D) no Conversion shall become effective unless the Opinion of Bond Counsel referred to above is redelivered on (and as of) the Conversion Date and all outstanding Bonds are successfully remarketed in the new Interest Rate Determination Method on the Conversion Date; (E) no Conversion from a Weekly Rate Period to a ARS Period shall become effective unless the Conversion Date shall be a regularly scheduled Interest Payment Date on which interest is payable for the Weekly Rate Period; and (F) upon Conversion of the Bonds of a Series to a Fixed Rate or to a ARS Rate, an Authorized Corporation Representative may provide in the Conversion Notice to the Liquidity Provider for the Bonds of a Series being converted a request for termination of the Liquidity Facility to be effective upon such Conversion Date to a Fixed Rate or to a ARS Rate.

Notice to Bondholders. Upon receipt of a Conversion Notice from an Authorized Corporation Representative, as soon as possible, but in any event not less than twenty (20) days prior to the proposed Conversion Date, the Trustee shall give notice by first-class mail to the Bondholders, which notice shall state in substance: (A) that the interest rate on the Bonds of a Series so selected shall be converted to the specified Variable Rate, ARS Rate or the Fixed Rate, as the case may be, on the applicable Conversion Date if the conditions specified in the Indenture are satisfied on or before such date; (B) the applicable Conversion Date; (C) that the Corporation has delivered to the Trustee an Opinion of Bond Counsel and a summary of the matters covered in such opinion in the form provided to the Trustee by the Corporation; (D) that the Interest Rate Determination Method for the Bonds of a Series so selected shall not be converted unless the Opinion of Bond Counsel referred to above is redelivered to the Trustee on (and as of) the Conversion Date and all the Bonds of a Series are successfully remarketed in the new Interest Rate Determination Method on the Conversion Date; (E) the CUSIP numbers or other identification information of the Bonds of such Series; (F) that all the Bonds of such Series are subject to mandatory tender for purchase on the Conversion Date (whether or not the proposed Conversion becomes effective on such date) at the applicable Purchase Price; and (G) that, to the extent that there shall be on deposit with the Trustee on the applicable Conversion Date an amount of money sufficient to pay the Purchase Price thereof, all Bonds of such Series not delivered to the Trustee on or prior to the Conversion Date shall be deemed to have been properly tendered for purchase and shall cease to constitute or represent a right on behalf of the former Holder thereof to the payment of principal thereof or interest thereon and shall represent and constitute only the right to payment of the Purchase Price on deposit with the Trustee, without interest accruing thereon after the Conversion Date.

Failure of Conditions to be Met. If on the Conversion Date the Corporation fails to deliver to the Trustee the Opinion of Bond Counsel required by the Indenture or if the applicable Remarketing Agent has not successfully remarketed all of the outstanding Bonds of a Series to be converted, the Interest Rate Determination Method shall not be converted but the Bonds of such Series which were the subject of the Conversion Notice shall be deemed to have been tendered for purchase on the Conversion Date specified in the Conversion Notice and shall be purchased on the proposed Conversion Date specified in the Conversion Notice and the Bonds of such Series shall continue to bear interest at the Interest Rate Determination Method in effect for the Bonds of such Series prior to the proposed Conversion Date specified in the proposed Conversion Notice; provided, however, that the rate of interest on such Bonds of such Series shall be determined on the proposed Conversion Date. In such event, the Infrastructure Bank and the Holders of such Bonds of such Series shall be restored (except as aforesaid with respect to the purchase of the Bonds of such Series) to their former positions and rights under the Indenture with respect to the Bonds of such Series, and all rights of the Infrastructure Bank and the Corporation shall continue as if no such proceedings, for the Conversion of the Interest Rate Determination Method on the Bonds of such Series had taken place.

Notice Failure No Bar. Failure of a Bondholder to receive the notice described above, or any defect therein, shall not affect the validity of any interest rate or continuation of or change in the Interest Rate Determination Method for any of the Bonds of a Series or extend the period for tendering any of the Bonds of a Series for purchase, and the Trustee shall not be liable to any Bondholder by reason of the failure of a Bondholder to receive such notice or any defect therein.

No Conversion During Continuance of Event of Default. No Conversion of any Bonds of a Series shall occur under the Indenture if at the time of such proposed Conversion an Event of Default shall have occurred and be continuing under the Indenture.

Rescission of Election. Notwithstanding anything in the Indenture to the contrary, the Corporation may rescind any Conversion Notice for any Series of Bonds prior to the Conversion Date by giving written notice thereof to the Infrastructure Bank, the Trustee, the Liquidity Provider and the applicable Remarketing Agent prior to such proposed Conversion Date. If the Trustee receives notice of such rescission prior to the time the Trustee has given notice to the Holders of the affected Series of Bonds, then the Conversion Notice previously delivered by the Corporation shall be of no force and effect. If the Trustee receives notice of such rescission after the Trustee has given notice to the Holders of the Series of Bonds to be converted, then such Series of Bonds shall continue to be subject to mandatory tender for purchase on the proposed Conversion Date specified in the Conversion Notice and the Rate Period for the Bonds of such Series shall automatically adjust to, or continue as, a Weekly Rate Period on the proposed Conversion Date specified in the Conversion Notice. No Opinion of Bond Counsel shall be required in connection with the automatic adjustment to a Weekly Rate Period as described in this paragraph.

Tender of Bonds for Purchase

Optional Tender. During each Weekly Rate Period, any Bond or portion thereof in an Authorized Denomination shall be subject to tender for purchase at the option of the Holder of such Bond on any Business Day at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon to but not including the date of purchase (provided, however, if the date of such purchase occurs after the Record Date applicable to the interest accrued on such Bond from the last occurring Interest Payment Date, then the Purchase Price shall not include accrued and unpaid interest, which shall be paid to the Holder of record on the applicable Record Date) payable in immediately available funds, upon delivery by the Holder or Beneficial Owner of such Bond to the Tender Agent at its Principal Office of an irrevocable notice by telephone (promptly confirmed in writing) or written or

Electronic notice by 5:00 p.m. (New York City time) on any Business Day at least seven (7) days prior to the Purchase Date, which states the principal amount of such Bond to be tendered for purchase and the Purchase Date. The Purchase Price of such tendered Bond shall be payable only upon delivery of such Bond to the Tender Agent in accordance with the Indenture.

Effect of Tender. Any instrument delivered to the Trustee or Tender Agent in accordance with the above paragraph shall be irrevocable with respect to the purchase for which such instrument was delivered and shall be binding upon any subsequent Holder or Beneficial Owner of the Bond to which it relates, including any Bond issued in exchange therefor or upon the registration of transfer thereof, and as of the date of such instrument, the Holder or Beneficial Owner of the Bonds specified therein shall not have any right to optionally tender for purchase such Bonds prior to the date of purchase specified in such notice. The Tender Agent and the Trustee may conclusively assume that any person (other than a Holder) providing notice of optional tender pursuant to the above paragraphs is the Beneficial Owner of the Bond to which such notice relates, and neither the Tender Agent nor the Trustee shall assume any liability in accepting such notice from any person whom it reasonably believes to be a Beneficial Owner of the Bonds.

If moneys sufficient to pay the Purchase Price of Bonds to be purchased pursuant to an optional tender shall be held by the Tender Agent on the date such Bonds are to be purchased, such Bonds shall be deemed to have been purchased for all purposes of the Indenture, irrespective of whether or not such Bonds shall have been delivered to the Tender Agent or transferred on the books of DTC in accordance with the Indenture, and neither the former Holder nor the former Beneficial Owner of such Bonds shall have any claim thereon, under the Indenture or otherwise, for any amount other than the purchase price thereof without interest on and after the Purchase Date.

SEE “APPENDIX B—BOOK-ENTRY ONLY SYSTEM” FOR THE TENDER PROVISIONS APPLICABLE WHILE THE BONDS ARE IN THE BOOK-ENTRY ONLY SYSTEM. THE INFRASTRUCTURE BANK, THE CORPORATION, THE TENDER AGENT AND THE TRUSTEE SHALL NOT BE RESPONSIBLE IN THE EVENT DTC DOES NOT TENDER OR DELIVER BONDS FOR TENDER IN ACCORDANCE WITH DIRECTIONS DTC RECEIVES FROM A DTC PARTICIPANT.

Mandatory Tender During Weekly Rate Period. The Bonds of a Series shall be subject to mandatory tender for purchase at a Purchase Price equal to 100% of the principal amount of any Bond of a Series tendered or deemed tendered to the Trustee for purchase, plus accrued and unpaid interest thereon to but not including the date of purchase (provided, however, if the date of such purchase occurs after the Record Date applicable to the interest accrued on such Bond from the last occurring Interest Payment Date, then the Purchase Price shall not include accrued and unpaid interest, which shall be paid to the Holder of record on the applicable Record Date), upon the occurrence of any of the events stated below:

- (i) on the effective date of any new Interest Rate Determination Method for such Bonds of a Series;
- (ii) on the day before the termination date of the then current Liquidity Facility as a result of providing a substitute Liquidity Facility with respect to the Bonds of a Series pursuant to the Loan Agreement;
- (iii) on the day before the effective date of any amendment or modification of the Liquidity Facility applicable to the Bonds of such Series unless the Trustee shall have received a Rating Confirmation with respect to such amendment or modification;

(iv) upon receipt by the Trustee of written notice from the Liquidity Provider for that Series of Bonds stating that an event has occurred as a result of which the Liquidity Provider is permitted under the Liquidity Agreement, to terminate or to suspend its obligation to purchase Bonds of such Series under the Liquidity Agreement, on a Business Day selected by the Trustee not more than five (5) days after receipt of such notice; or

(v) on the last Business Day that is not less than five (5) calendar days preceding the expiration, or the termination by the Corporation, of the Liquidity Facility then in effect with respect to such Series, in the event that at least 35 days prior to the expiration in whole of any Liquidity Facility then in effect with respect to such Bonds of a Series (other than an expiration of the Liquidity Facility at the maturity of the such Bonds of a Series) the Trustee shall have not received (a) a renewal or extension of the existing Liquidity Facility for a period of at least 364 days (or, if shorter, the period to maturity of the Bonds of a Series) or (b) a substitute Liquidity Facility meeting the requirements of the Loan Agreement.

With respect to Bonds of a Series subject to mandatory tender for purchase pursuant to clause (i) above, the Trustee will give notice as described under the caption “Conversion of Interest Rate Determination Method from Weekly Rate – Notice to Bondholders” herein. With respect to Bonds of a Series subject to mandatory tender for purchase pursuant to clause (ii), (iii) or (v) above, the Trustee shall give notice by first-class mail to the Holders of the Bonds of a Series at their address shown on the registration books kept by the Registrar, not later than the fifteenth (15th) day prior to the date on which such Bonds are subject to mandatory tender. With respect to Bonds of a Series subject to mandatory tender pursuant to clause (iv) above, the Trustee shall give notice by first-class mail to the Holders of the affected Bonds of the applicable Series at their addresses shown on the registration books kept by the Registrar within two (2) Business Days of receipt of the notice pursuant to clause (iv) above.

If moneys sufficient to pay the Purchase Price of Bonds to be purchased pursuant to a mandatory tender shall be held by the Tender Agent on the date such Bonds are to be purchased, such Bonds shall be deemed to have been purchased for all purposes of the Indenture, irrespective of whether or not such Bonds shall have been delivered to the Tender Agent or transferred on the books of DTC in accordance with the Indenture, and neither the former Holder nor the former Beneficial Owner of such Bonds shall have any claim thereon, under the Indenture or otherwise, for any amount other than the purchase price thereof without interest on and after the Purchase Date.

Funds for Purchase of Tendered Bonds. Funds for the payment of the Purchase Price of such Bonds (or portions thereof in Authorized Denominations) shall be paid by the Tender Agent solely from the following sources and in the following order of priority:

- (i) Proceeds of the remarketing of such Bonds; and
- (ii) If the proceeds from the remarketing of such Bonds on any Purchase Date are insufficient to purchase all such tendered Bonds, money drawn or received under Liquidity Facility for such Bonds.

Remarketing

Banc of America Securities LLC and J.P. Morgan Securities Inc. will serve as Remarketing Agents for the Series A Bonds and the Series B Bonds, respectively, pursuant to the terms of the Indenture and separate Remarketing Agreements with the Corporation. The Remarketing Agents may resign, or the Corporation or the Infrastructure Bank may remove the Remarketing Agents, pursuant to the terms of the Remarketing Agreements.

Upon receipt of notice that any Bonds of a Series will be or are required to be tendered for purchase in accordance with the Indenture, the applicable Remarketing Agent is required under the Indenture and the respective Remarketing Agreement to use its best efforts to remarket such Bonds at a price equal to the Purchase Price on the date designated for purchase by the Bondholder thereof in accordance with the optional or mandatory tender provisions of the Indenture, as applicable. The Remarketing Agent will transfer to the Tender Agent the proceeds of the remarketing of such Bonds.

Redemption

The Bonds are subject to redemption prior to the Maturity Date, as described below:

Optional Redemption. The Bonds of each Series as shall be designated by the Corporation will be subject to redemption on any Interest Payment Date at a redemption price equal to 100% of the principal amount thereof, upon prepayment of the Repayment Installments at the option of the Corporation, in whole, or in part by lot in Authorized Denominations, prior to their maturity dates, but only from Available Amounts.

Optional Redemption Upon Extraordinary Events. The Bonds of such Series as shall be designated by an Authorized Corporation Representative shall be redeemed in whole or in part, and if in part by lot, at any time, but only from Available Amounts (provided that the portion of the redemption price that is accrued interest need not be paid with Available Amounts if the redemption date is an Interest Payment Date for the Bonds of a Series to be redeemed), at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date upon receipt by the Trustee of a written notice from the Corporation stating that any of the following events has occurred and that the Corporation therefore intends to exercise its option to prepay the payments due under the Loan Agreement and thereby effect the redemption of Bonds in whole or in part to the extent of such prepayments:

(1) All or part of the Project shall have been damaged or destroyed to such an extent that, in the opinion of the Corporation (expressed in a certificate filed with the Infrastructure Bank and the Trustee), the Project or such affected portion could not reasonably be restored within a period of twelve (12) months to the condition thereof immediately preceding such damage or destruction, and the Corporation will be prevented, or is likely to be prevented for a period of twelve (12) consecutive months or more, from carrying on all or substantially all of its normal operation of the Project.

(2) The temporary use of all or a part of the Project shall have been taken under the exercise of the power of eminent domain or as a result of the termination or expiration of the underlying lease of the property upon which any of the Project is located.

(3) Unreasonable burdens or excessive liabilities shall have been imposed upon the Corporation affecting all or a part of the Project including, without limitation, federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Loan Agreement.

If any of the events described above shall have occurred with respect to any portion, and less than all, of the Project, the portion of the Repayment Installments that may be prepaid shall not exceed an amount derived by multiplying the total principal amount of the outstanding Bonds by a fraction (i) the numerator of which is the cost of such Project or portion thereof affected by one of the events listed above and (ii) the denominator of which is the aggregate amount of Bonds issued.

Redemption Upon Mandatory Prepayment. The Bonds of each Series shall be subject to redemption from amounts which are required to be prepaid by the Corporation pursuant to the Loan Agreement, (but only after such amounts have become Available Amounts, provided that the portion of

the redemption price that is accrued interest need not be paid with Available Amounts if the redemption date is an Interest Payment Date for the Bonds of a Series to be redeemed), upon the occurrence of a Determination of Taxability, in whole or in part (as described below) on any date at a redemption price equal to the principal amount thereof plus interest accrued to the redemption date, which shall be within 180 days after the occurrence of such Determination of Taxability; provided, however, that if, in an Opinion of Bond Counsel delivered to the Trustee, the redemption of a specified portion of the Bonds outstanding would have the result that interest payable on the Bonds remaining outstanding after such redemption would remain Tax-Exempt, then the Bonds shall be redeemed in part by lot (in Authorized Denominations), in such amounts as Bond Counsel in such opinion shall have determined is necessary to accomplish that result, and such partial redemption shall be allocated among the outstanding Bonds of each maturity as designated by an Authorized Corporation Representative.

Mandatory Sinking Fund Redemption.

Series A Bonds. The Series A Bonds are subject to redemption from mandatory sinking fund payments set aside in the Bond Fund, at a redemption price equal to the principal amount of the Series A Bonds to be redeemed plus accrued interest to the redemption date, without premium, in the respective amounts and on the respective dates set forth below:

Redemption Date	<u>Principal Amount</u>
[_____]	\$

†

† Maturity.

Series B Bonds. The Series B Bonds are subject to redemption from mandatory sinking fund payments set aside in the Bond Fund, at a redemption price equal to the principal amount of the Series B Bonds to be redeemed plus accrued interest to the redemption date, without premium, in the respective amounts and on the respective dates set forth below:

Redemption Date	<u>Principal Amount</u>
[_____]	\$

†

† Maturity.

In the event Bonds of a Series are redeemed pursuant to the optional redemption or redemption upon mandatory prepayment provisions set forth above, the remaining mandatory sinking fund redemption amounts with respect to the Bonds of such Series shall be reduced, in an aggregate amount equal to the principal amount of the Bonds of such Series so redeemed, as directed in writing by the Corporation, and

in the absence of such direction, as proportionally as possible in integral multiples of the applicable Authorized Denominations.

Notice of Redemption. The Trustee will give notice of any redemption of Bonds of a Series (other than mandatory sinking fund redemption), by first-class mail, postage prepaid, to the registered owners of all Bonds of such Series to be redeemed, at the addresses appearing in the registration books kept for such purpose, and other entities specified in the Indenture, including the applicable Remarketing Agent, not less than thirty (30) days nor more than sixty (60) days prior to the redemption date. Each notice of redemption of Bonds of a Series will identify the Bonds of such Series to be redeemed and will state, among other things, the redemption date, the redemption price and the place of redemption. So long as DTC or its nominee is the sole registered owner of the Bonds of a Series under the book-entry system, redemption notices will be sent to Cede & Co. Notice of redemption will also be sent to certain information services that disseminate redemption notices and to certain nationally recognized municipal securities information repositories.

With respect to any notice of optional redemption or redemption upon mandatory prepayment as described above, unless upon the giving of such notice the Bonds of a Series to be redeemed are deemed to have been paid, such notice must state that such redemption is conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of Available Amounts sufficient to pay the principal of, and premium, if any, and interest on, such Bonds to be redeemed, and that if such Available Amounts are not received, such notice will be of no force and effect and the Infrastructure Bank will not be required to redeem such Bonds. If such redemption is not effected, the Trustee will, within a reasonable time thereafter, give notice that such Available Amounts were not so received to such persons and entities that received the original notice of redemption.

Effect of Redemption. Notice of redemption having been duly given and moneys for the payment of the redemption price being held by the Trustee, the Bonds of a Series so called for redemption will, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Bonds of such Series to be redeemed will cease to accrue, said Bonds shall cease to be entitled to any lien, benefit or security under the Indenture and the Holders thereof will have no rights except to receive payment of the redemption price of and interest, if any, accrued to the redemption date on the Bonds of such Series.

Selection of Bonds to be Redeemed. The principal amount of Bonds of each Series to be redeemed with prepayments by the Corporation pursuant to the optional prepayment by the Corporation of Repayment Installments under the Loan Agreement shall be as specified by the Corporation pursuant to the Loan Agreement. If less than all of the Bonds of any Series are called for redemption, the Trustee shall select the Bonds of such Series or any given portion thereof to be redeemed, first from the Outstanding Liquidity Provider Bonds of such Series, if any, or such portion thereof not previously called for redemption, by lot in such manner as it may determine, until all Liquidity Provider Bonds of such Series, if any, shall have been redeemed. If there are no Liquidity Provider Bonds of a Series and less than all of the Bonds of any Series are called for redemption, the Trustee shall select the Bonds of such Series or any given portion thereof to be redeemed, from the Outstanding Bonds of such Series, or such portion thereof not previously called for redemption, by lot in such manner as it may determine. For the purpose of any such selection the Trustee shall assign a separate number for each minimum Authorized Denomination of each Bond of a denomination of more than such minimum; provided that following any such selection, both the portion of such Bond to be redeemed and the portion remaining shall be in Authorized Denominations. The Trustee shall promptly notify the Infrastructure Bank and the Corporation in writing of the numbers of the Bonds or portions thereof so selected for redemption. Notwithstanding the foregoing, if less than all of the Bonds of any Series are to be redeemed at any time while the Bonds are Book-Entry Bonds, selection of the Bonds to be redeemed after Liquidity Provider

Bonds have been redeemed shall be made in accordance with customary practices of DTC or the applicable successor depository, as the case may be.

Book-Entry Only System

The Infrastructure Bank, the Corporation, the Trustee, the Paying Agent, the Tender Agent and the Remarketing Agents will have no responsibility or obligation to any Securities Depository, any Participants in the book-entry system, or the Beneficial Owners with respect to (a) the accuracy of any records maintained by the Securities Depository or any Participant, (b) the payment by the Securities Depository or by any Participant of any amount due to any Participant or Beneficial Owner, respectively, in respect of the principal amount or redemption or Purchase Price of, or interest on, any Bonds, or (c) the delivery of any notice by the Securities Depository or any Participant.

In the event of the discontinuance of the book-entry system for the Bonds, Bond certificates will be printed and delivered and the following provisions of the Indenture will apply: (a) principal of the Bonds will be payable upon surrender of the Bonds at the Principal Office of the Paying Agent, (b) Bonds may be transferred or exchanged for other Bonds of Authorized Denominations at the designated office of the Registrar, without cost to the owner thereof except for any tax or other governmental charge, and (c) Bonds will be issued in denominations as described above under “General.”

SECURITY FOR THE BONDS

Payments by the Corporation Under the Loan Agreement

Payment of the principal of, and premium, if any, and interest on the Bonds will be secured by an assignment by the Infrastructure Bank to the Trustee of all of the Revenues and any and all of the Infrastructure Bank’s rights and privileges under the Loan Agreement, including all Repayment Installments to be made by the Corporation to the Infrastructure Bank under the Loan Agreement (except the Infrastructure Bank’s rights with respect to notices, consents and approvals, and its rights to receive certain payments with respect to fees, expenses and indemnification rights). Pursuant to the Loan Agreement, the Corporation has pledged its Net Operating Revenues to secure its obligation to make payments of principal of and interest on the Bonds, which pledge is on a parity with the pledge of such Net Operating Revenues securing certain other obligations. Payment of the principal of and interest on the Bonds when due (not including acceleration or redemption except mandatory sinking fund redemption) will be insured by the Policy to be issued by the Insurer. The Purchase Price of Bonds tendered or deemed tendered for purchase is payable solely from amounts drawn under the Liquidity Facility and from remarketing proceeds, and is not otherwise payable from or secured by Net Operating Revenues of the Corporation. While the Bonds are in a Weekly Rate Period, prospective investors should base their investment decision on the credit worthiness of the Insurer and the Liquidity Banks. See “BOND INSURANCE,” “THE STANDBY BOND PURCHASE AGREEMENT” and “THE LIQUIDITY BANKS” herein. The Bonds will not be secured by a mortgage or a security interest in the Project or any other property of the Corporation, other than Net Operating Revenues.

THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN A LIMITED OBLIGATION OF THE INFRASTRUCTURE BANK PAYABLE SOLELY FROM REVENUES. THE BONDS DO NOT CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, BUT WILL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF

THE PRINCIPAL OF, OR INTEREST ON, THE BONDS; AND NO HOLDER OR BENEFICIAL OWNER OF ANY BONDS SHALL HAVE ANY RIGHT TO DEMAND PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE BONDS BY THE INFRASTRUCTURE BANK, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OUT OF ANY FUNDS TO BE RAISED BY TAXATION OR APPROPRIATION.

Rate Covenant

The Corporation has covenanted in the Loan Agreement that, so long as any Bonds remain Outstanding, for each year it shall establish a Grid Management Charge in accordance with the Grid Management Charge Formula which shall include in its budgeted revenue requirements a Coverage Requirement with respect to budgeted debt service on the Bonds and any Parity Obligations of not less than 25% and shall not take any action to modify the Grid Management Charge Formula in any manner which would adversely affect the security afforded the Bondholders under the Loan Agreement including, without limitation, ceasing to maintain the Reserve Requirement at 15% of its annual Operating Expenses for purposes of the Grid Management Charge Formula. "Grid Management Charge" means the Corporation's monthly charge on certain entities that is intended to recover the Corporation's start-up and development costs and the costs associated with the ongoing operation and maintenance (including financing costs) of the Corporation's controlled grid. "Grid Management Charge Formula" means the formula according to which the Grid Management Charge is calculated, which is set forth in the Tariff and which includes: (i) an amount necessary to fully amortize the Corporation's start-up and development costs over a period of not less than 5 years, (ii) budgeted annual operating costs, (iii) financing costs and (iv) budgeted annual costs of pay-as-you-go capital expenditures and reasonable coverage of debt service obligations.

Outstanding Parity Obligations

As of April 2, 2007, there will be outstanding \$45,300,000 aggregate principal amount of 2000 Bonds, comprised of \$16,800,000 principal amount of 2000 Series A Bonds, \$10,100,000 principal amount of 2000 Series B Bonds and \$18,400,000 principal amount of 2000 Series C Bonds, and there was outstanding \$84,400,000 aggregate principal amount of 2004 Bonds, comprised of \$57,200,000 principal amount of 2004 Series A Bonds and \$27,200,000 principal amount of 2004 Series B Bonds. Payment of the principal of and interest on the 2000 Bonds and the 2004 Bonds by the Corporation is secured by a pledge of Net Operating Revenues of the Corporation on a parity with the pledge of such Net Operating Revenues securing the Corporation's obligation to make payments of principal of and interest on the Bonds and such 2000 Bonds and 2004 Bonds constitute Parity Obligations for purposes of the Indenture.

In connection with the 2000 Series A Bonds and the 2000 Series B Bonds, the Corporation entered into an interest rate swap agreement in the form of an ISDA Master Agreement and Schedule and related Transactions (the "2000 Swap Agreement") with Morgan Guaranty Trust Company of New York, which has been succeeded by JPMorgan Chase Bank, N.A. ("Morgan Guaranty"). Pursuant to the Transactions under the 2000 Swap Agreement, the Corporation agreed to pay a fixed interest rate on an initial notional amount of \$163,400,000 and declining in accordance with the amortization of the 2000 Series A Bonds and 2000 Series B Bonds. In return, Morgan Guaranty agreed to pay a variable rate of interest, equal to The Bond Market Association Municipal Swap Index (now the Securities Industry and Financial Markets Association Swap Index), a weekly index, on a like notional amount. The amounts payable by a party under the 2000 Swap Agreement are due monthly but are netted against the payments to be received by such party thereunder.

In connection with the 2004 Series A Bonds and the 2004 Series B Bonds, the Corporation entered into an interest rate swap agreement in the form of an ISDA Master Agreement and Schedule and

related Transactions (the “2004 Swap Agreement”) with JPMorgan Chase Bank, N.A. (“JPMorgan”). Pursuant to the Transactions under the 2004 Swap Agreement, the Corporation agreed to pay a fixed interest rate on an initial notional amount of \$74,460,000 and declining in accordance with the amortization of the 2004 Series A Bonds and 2004 Series B Bonds. In return, JPMorgan agreed to pay a variable rate of interest, equal to London Interbank Offering Rate (“LIBOR”) one month index plus a specified spread of 0.32% (thirty-two basis points) on a like notional amount. The amounts payable by a party under the 2004 Swap Agreement are due monthly but are netted against the payments to be received by such party thereunder.

The 2000 Swap Agreement and the 2004 Swap Agreement constitute Parity Obligations for purposes of the Indenture. Under certain circumstances, the 2000 Swap Agreement and the 2004 Swap Agreement are subject to termination and the Corporation may be required to make a substantial termination payment to the counterparty thereunder. Any amounts payable upon early termination thereof are also payable on a parity with the payment of the 2000 Bonds, the 2004 Bonds and the Bonds. Liquidity for the 2000 Bonds and the 2004 Bonds is provided by separate standby bond purchase agreements. Unreimbursed draws on such agreements bear interest payable by the Corporation up to 20% per annum or the maximum rate permitted by law. The obligations of the Corporation under the 2000 and 2004 standby bond purchase agreements constitute Parity Obligations pursuant to the Indenture.

The Corporation’s payment obligations under the Liquidity Agreement for the Bonds and the 2007 Swap Agreement also constitute Parity Obligations pursuant to the Indenture. See “PLAN OF FINANCE —Swap Agreement” above.

Additional Parity Obligations

Pursuant to the Loan Agreement, the Corporation shall not, without the written consent of the Insurer, create, incur or issue any additional Parity Obligations unless, at the time of such creation, incurrence or issuance, there shall have been filed with the Trustee a certificate of an Authorized Corporation Representative to the effect that the Grid Management Charge Formula, as then in effect, (i) provides for the payment of debt service on the Bonds, any then outstanding Parity Obligations and the Parity Obligations to be created, incurred or issued and (ii) permits inclusion in its budgeted revenue requirements of a Coverage Requirement with respect to budgeted debt service on the Bonds, the outstanding Parity Obligations and the Parity Obligations to be created, incurred or issued, of not less than 25%.

Debt Service Reserve Fund

Upon the issuance of the Bonds, there will be deposited from the proceeds of the Bonds in the Debt Service Reserve Fund an amount equal to the least of (i) 10% of the initial offering price to the public of the Bonds as determined under the Code, or (b) the greatest amount of Bond Debt Service in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Bond is due, or (c) 125% of the sum of the Bond Debt Service for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the execution and delivery of any Bonds) and terminating with the last Fiscal Year in which any Bond Debt Service is due, divided by the number of such Fiscal Years, all as computed and determined by the Corporation and specified in writing to the Trustee; provided, however that in determining Bond Debt Service during any Weekly Rate Period, the interest rate on such Bonds for any period as to which such interest rate has not been established shall be assumed to be 110% of the daily average interest rate on such Bonds during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Bonds

shall have been Outstanding (the “Debt Service Reserve Requirement”) (approximately \$[_____] upon the delivery of the Bonds).

“Bond Debt Service” means, for any period of time, the sum of (a) the interest payable during such period on all Outstanding Bonds, assuming that all Outstanding Bonds which are Serial Bonds are retired as scheduled and that all Outstanding Bonds which are Term Bonds are redeemed or paid from mandatory sinking fund payments as scheduled, (b) that portion of the principal amount of all Outstanding Bonds which are Serial Bonds maturing on each principal payment date during such period, and (c) that portion of the principal amount of all Outstanding Bonds which are Term Bonds required to be redeemed or paid from mandatory sinking fund payments during such period (together with the redemption premiums, if any, thereon).

Pursuant to the terms of the Loan Agreement, within two Business Days after a withdrawal of moneys from the Debt Service Reserve Fund and on each Debt Service Reserve Valuation Date, the Corporation will deposit an amount necessary to bring the balance in the Debt Service Reserve Fund to be at least equal to the Debt Service Reserve Requirement.

In lieu of deposits and transfers to the Debt Service Reserve Fund, the Corporation may cause to be deposited in the Debt Service Reserve Fund a Reserve Financial Guaranty or Reserve Financial Guaranties in an amount equal to the difference between the Debt Service Reserve Requirement and the sums, if any, then on deposit in the Debt Service Reserve Fund or being deposited in such Fund concurrently with such Reserve Financial Guaranty or Guaranties.

Limitations on Remedies

The rights of the Holders of the Bonds are subject to the limitations on legal remedies against public agencies in the State. Additionally, enforceability of the rights and remedies of the Holders of the Bonds, and the obligations incurred by the Infrastructure Bank and the Corporation, may become subject to the following: the Federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor’s rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Holders of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

BOND INSURANCE

The following information has been furnished by Ambac Assurance Corporation for use in this Official Statement. Such information has not been independently confirmed or verified by the Infrastructure Bank or the Corporation. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. Reference is made to Appendix D for a specimen of Ambac Assurance Corporation’s Policy.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation (“Ambac Assurance”) has made a commitment to issue a financial guaranty insurance policy (the “Policy”) relating to the Bonds, effective as of the date of issuance of the Bonds. Under the terms of the Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the “Insurance Trustee”), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay the principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance’s obligations under the Policy shall be fully discharged.

In the event the Trustee has notice that any payment of principal of or interest on a Bond that has become Due for Payment and that is made to a holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Policy does not insure any risk other than Nonpayment (as set forth in the Policy). Specifically, the Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium; and
3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Policy, payment of principal requires surrender of the Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Policy. Payment of interest pursuant to the Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder’s right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of the principal of or interest on such Bond and will be fully subrogated to the surrendering holder’s rights to payment.

The Policy does not insure against loss relating to payments of the purchase price of the Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of the Bonds upon tender by a registered owner thereof.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$9,699,000,000 (unaudited) and statutory capital of approximately \$6,223,000,000 (unaudited) as of September 30, 2006. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006;
2. The Company's Current Report on Form 8-K dated and filed on April 26, 2006;
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006 and filed on May 10, 2006;
4. The Company's Current Report on Form 8-K dated July 25, 2006 and filed on July 26, 2006;
5. The Company's Current Report on Form 8-K dated and filed on July 26, 2006;
6. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2006 and filed on August 9, 2006;
7. The Company's Current Report on Form 8-K dated and filed on October 25, 2006;
8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2006 and filed on November 8, 2006;
9. The Company's Current Report on Form 8-K dated and filed on January 31, 2007; and
10. The Company's Current Report on Form 8-K dated and filed on February 12, 2007.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

THE STANDBY BOND PURCHASE AGREEMENT

The following summarizes certain provisions of the Standby Bond Purchase Agreement, to which document, in its entirety, reference is made for the complete provisions thereof. The provisions of any substitute Liquidity Facility may be different from those summarized below.

[To be reviewed by liquidity provider counsel.] Pursuant to the Standby Bond Purchase Agreement, the Liquidity Banks provide an Available Commitment severally, and not jointly, in an amount equal to \$[_____]. Each Liquidity Bank's obligation under the Standby Bond Purchase Agreement is limited to 50% of the Available Commitment contained therein. The Trustee, upon compliance with the terms of the Standby Bond Purchase Agreement, is authorized and directed to draw up to an amount sufficient to pay the portion of the purchase price of Bonds in a Daily Rate Period or a Weekly Rate Period delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed equal to the principal amount of such Bonds, plus an amount not to exceed thirty-four (34) days of accrued interest on such Bonds at a rate of 12% per annum to pay interest on Bonds when due.

The Liquidity Banks' Available Commitment under the Liquidity Facility will terminate on the earlier of (a) [_____], 200[] (unless renewed or extended); (b) the Business Day immediately

following a Conversion to a Fixed Rate [or ARS Rate??] under the Indenture with respect to all outstanding Bonds covered by the Liquidity Facility; (c) the date on which the Trustee accepts a Substitute Liquidity Facility; (d) the date on which the Liquidity Banks are no longer required to purchase tendered Bonds following an event of termination as described below; or (e) the date on which no Bonds covered by the Liquidity Facility are outstanding.

Each of the following events shall constitute an “*Event of Termination*” under the Standby Bond Purchase Agreement:

(a) any principal or interest due on the Bonds is not paid by the Infrastructure Bank when due and such principal or interest is not paid by the Insurer when, as, and in the amounts required to be paid pursuant to the terms of the Policy, or the Policy is surrendered, canceled, terminated, amended or modified in any material respect, or a new insurer is substituted for [_____] as the Insurer without the prior written consent of the Liquidity Banks; or

(b) (i) any material provision of the Policy at any time for any reason ceases to be valid and binding on the Insurer in accordance with the terms of the Policy or is declared to be null and void by the Insurance Commissioner of the State of Wisconsin or by a court or other governmental agency of appropriate jurisdiction, or (ii) the validity or enforceability of the Policy is contested by the Insurer in writing or any governmental agency or authority, or the Insurer denies in writing that it has any or further liability or obligation under the Policy or the Insurer attempts to rescind or revoke the Policy; or

(c) a proceeding is instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect to the Insurer or for any substantial part of its property under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) and such proceeding is not terminated for a period of 30 consecutive days or such court enters an order granting the relief sought in such proceeding or the Insurer shall institute or take any corporate action for the purpose of instituting any such proceeding; or the Insurer shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the Insurer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts or claims as they become due, or shall take any corporate action in furtherance of any of the foregoing; or

(d) any representation or warranty made by the Corporation under or in connection with the Standby Bond Purchase Agreement or any of the Related Documents shall prove to be untrue in any material respect on the date as of which it was made; or

(e) nonpayment of certain fee amounts payable under the Standby Bond Purchase Agreement within 10 Business Days after the Corporation, the Trustee, the Insurer and the Infrastructure Bank have received written notice from the Liquidity Banks that the same were not paid when due; or

(f) nonpayment of any other fees, or any other amount when due under the Standby Bond Purchase Agreement, if such failure to pay when due shall continue for 10 Business Days

after written notice thereon to the Corporation, the Infrastructure Bank and the Insurer by the Liquidity Banks; or

(g) the breach by the Corporation of any of the terms or provisions of certain covenants set forth in the Standby Bond Purchase Agreement; or

(h) the breach by the Corporation of any of the other terms or provisions of the Standby Bond Purchase Agreement which is not remedied within 30 days after written notice thereof shall have been received by the Corporation from the Liquidity Banks; or

(i) the Loan Agreement or the Indenture shall terminate or cease to be of full force and effect, other than as a result of any redemption in full of the Bonds or provision for such redemption in full in accordance with the Indenture; or

(j) an Insurer Adverse Change shall at any time occur; or

(k) the Insurer shall fail to make any payment required under any insurance policy (other than the Policy) or surety bond (other than a fee surety bond) issued by it insuring obligations rated by Moody's and S&P when due and such failure shall continue for a period of five Business Days (it being understood by the Liquidity Banks that default, for purposes of this paragraph, shall not mean a situation whereby the Insurer contests in good faith its liability under any such policy or policies in light of claims made thereunder); or

(l) each of Moody's and S&P shall downgrade the rating of the financial strength or claims-paying ability of the Insurer to below Investment Grade or each of Moody's and S&P shall suspend or withdraw such financial strength or claims-paying ability rating.

"Insurer Adverse Change" means the lowering of the Insurer's claims-paying ability or financial strength rating below "AA-" by S&P or "Aa2" by Moody's.

"Investment Grade" means a rating of "Baa3" (or its equivalent) or better by Moody's or "BBB-" (or its equivalent) or better by S&P.

"Related Documents" means the Loan Agreement, the Indenture, the Bonds, the Policy, the Fee Surety Bond and the Remarketing Agreements.

Upon the occurrence of any Event of Termination described in clauses (a), (b)(i), (c), (k) or (l) above, the Available Commitment and the obligation of the Liquidity Banks to purchase Bonds shall immediately terminate without notice or demand, and thereafter the Liquidity Banks shall be under no obligation to purchase Bonds.

Upon the occurrence of any Event of Termination described in clauses (d) through (j) above, the Liquidity Banks may terminate the Available Commitment by giving written notice to the Corporation, the Infrastructure Bank, Trustee and the Insurer, specifying the date on which the Available Commitment shall terminate and directing the Trustee to cause a mandatory tender with respect to the Bonds, which shall not be less than thirty (30) days from the date of receipt of such notice by the Trustee, and after such termination date, the Liquidity Banks shall be under no further obligation to purchase Bonds under the Standby Bond Purchase Agreement.

Upon the occurrence of an Event of Termination described in clause (b)(ii) above, the obligations of the Liquidity Banks to purchase Bonds shall be immediately suspended, without notice or demand to

any person, until a final non-appealable order of a court having jurisdiction in the premises shall be entered declaring that all material contested provisions of the Policy are upheld in their entirety.

Upon the occurrence of any event which, with the passage of time, the giving of notice, or both, would become an Event of Termination described in clause (c) above, which, with the passage of time, the giving of notice, or both, would become an event of termination specified above, the obligations of the Liquidity Banks to purchase Bonds shall be immediately suspended without notice or demand, and such suspension shall thereafter be effective until the case or proceeding referred to therein is terminated. In the event such case or proceeding is terminated, the obligations of the Liquidity Banks to purchase Bonds shall be reinstated and the terms of the Standby Bond Purchase Agreement shall continue in full force and effect (unless the Available Commitment shall have otherwise terminated) as if there had been no suspension.

In addition to the rights and remedies described above, in the case of any Event of Termination described above, upon the election of the Liquidity Banks: (i) all amounts payable under the Standby Bond Purchase Agreement (other than payments of principal and interest on the Liquidity Provider Bonds or payments of deferred interest or any deferred interest amounts) shall upon notice to the Corporation, the Infrastructure Bank, the Trustee and the Insurer, become immediately due and payable, without presentment, demand, protest or further notice of any kind, and/or (ii) the Liquidity Banks shall have all the rights and remedies available to them under the Standby Bond Purchase Agreement, the Related Documents or otherwise pursuant to law or equity.

Substitute Liquidity Facility

Pursuant to the Loan Agreement, the Corporation has agreed to maintain one or more Liquidity Facilities, either by maintaining the Standby Bond Purchase Agreement or providing one or more substitute Liquidity Facilities to provide a source of payment of the Purchase Price of all Bonds bearing interest at a Variable Rate.

With respect to the Bonds of a Series while bearing interest at a Variable Rate, at least thirty-five (35) days prior to the expiration or termination of any existing Liquidity Facility for the Bonds of such Series, including any renewals or extensions thereof (other than an expiration of such Liquidity Facility at the final maturity of the Bonds), the Corporation has agreed pursuant to the Loan Agreement to provide to the Trustee (with a copy to the Remarketing Agents): (i) a renewal or extension of the term of the existing Liquidity Facility for the Bonds for a term of at least 364 days (or, if shorter, the period to maturity of the Bonds) or (ii) a substitute Liquidity Facility meeting the requirements set forth in the Loan Agreement (as described below).

The Corporation may at any time provide a substitute Liquidity Facility with respect to a Series of Bonds in accordance with the provisions of the Loan Agreement and the Indenture (provided, however, that the Corporation shall not substitute any Liquidity Facility with respect to the Bonds during a Rate Period if such Bonds are not then required to be tendered for purchase pursuant to the Indenture) upon delivery to the Trustee of the following: (i) an Opinion of Bond Counsel addressed to the Trustee to the effect that the delivery of such substitute Liquidity Facility to the Trustee is authorized under the Indenture and the Loan Agreement and complies with the terms thereof and will not adversely affect the Tax-Exempt status of interest on any of the Bonds, and (ii) an opinion or opinions of counsel to the Liquidity Provider addressed to the Trustee and the Infrastructure Bank, to the effect that the Liquidity Facility has been duly authorized, executed and delivered by the Liquidity Provider and constitutes the valid, legal and binding obligation of the Liquidity Provider enforceable against the Liquidity Provider in accordance with its terms.

In addition, any substitute Liquidity Facility must meet the following conditions:

- (i) the substitute Liquidity Facility must be a Liquidity Facility entered into by, or issued by, a commercial bank or other financial institution;
- (ii) the terms and provisions of the substitute Liquidity Facility with respect to the purchase of Bonds thereunder must be in all material respects no less favorable to the Trustee than the terms and provisions of the initial Liquidity Facility provided under the Loan Agreement;
- (iii) the substitute Liquidity Facility must take effect on or before the date of termination of the existing Liquidity Facility and the term of the substitute Liquidity Facility must be at least 364 days (or, if shorter, the period to maturity of the applicable Series of Bonds); and
- (iv) the substitute Liquidity Facility must be in an amount sufficient to pay the maximum purchase price of the Series of Bonds which will be applicable during the then current Rate Period.

Pursuant to the Indenture, if there shall have been delivered to the Infrastructure Bank and the Trustee in connection with a Series of Bonds (i) a substitute Liquidity Facility meeting the requirements of the Loan Agreement and (ii) the opinions and documents required by the Loan Agreement, then the Trustee shall accept such substitute Liquidity Facility and, if so directed by the Corporation, on or about the fifth (5th) Business Day succeeding the effective date of such substitute Liquidity Facility promptly surrender the Liquidity Facility theretofore in effect for such Series of Bonds in accordance with the respective terms thereof for cancellation by the applicable Bank. In the event that the Corporation elects to provide a substitute Liquidity Facility, the Bonds shall be subject to mandatory tender as provided in the Indenture. See “THE BONDS – Tender of Bonds for Purchase – Mandatory Tender during Weekly Rate Period” herein. Pursuant to the Indenture, the Trustee shall give notice by first class mail of the provision of any substitute Liquidity Facility with respect to the applicable Bonds to the Holders of such Bonds at their addresses shown on the registration books kept by the Registrar, not later than the fifteenth (15th) day prior to the date on which the Bonds are subject to mandatory tender.

THE LIQUIDITY BANKS

Bank of America, N.A.

[To come.]

JPMorgan Chase Bank, N.A.

[To come.]

ABSENCE OF LITIGATION

The Infrastructure Bank

There is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body known to the Infrastructure Bank to be pending or threatened against the Infrastructure Bank wherein an unfavorable decision, ruling or finding would adversely affect (i) the existence or organization of the Infrastructure Bank or the title to office of any member or officer of the Infrastructure Bank or any power of the Infrastructure Bank material to the transaction, or (ii) the validity

of the proceedings taken by the Infrastructure Bank for the adoption, authorization, execution, delivery and performance by the Infrastructure Bank of, or the validity or enforceability of, the Bond Purchase Contract relating to the Bonds, the Bonds, the Indenture or the Loan Agreement.

The Corporation

There is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body known to the Corporation to be pending or threatened against the Corporation wherein an unfavorable decision, ruling or finding would adversely affect (i) the corporate existence or organization of the Corporation or the title to office of any member of the Corporation's Board of Governors or officer of the Corporation or any power of the Corporation material to the transaction, or (ii) the validity of the proceedings taken by the Corporation for the adoption, authorization, execution, delivery and performance by the Corporation of, or the validity or enforceability of, the Bonds, the Loan Agreement or the Standby Bond Purchase Agreement.

EXPECTED RATINGS

Standard & Poor's and Moody's Investors Service are expected to assign the Bonds the long-term ratings of "AAA" and "Aaa," and the short-term ratings (with respect to Bonds in a Daily Rate Period or Weekly Rate Period) of "A-1+" and "VMIG 1," respectively, with the understanding that upon the delivery of the Bonds, the Policy will be delivered by the Insurer and the Standby Bond Purchase Agreement will be executed and delivered by the Liquidity Banks. As described under the caption "THE STANDBY BOND PURCHASE AGREEMENT," the obligation of each of the Liquidity Banks under the Standby Bond Purchase Agreement is a several, and not a joint, obligation. Therefore, a change in the rating of either of the Liquidity Banks may impact the ratings on all of the Bonds. Any such rating reflects only the view of the respective rating agency, and an explanation of the significance of such rating may be obtained only from the respective rating agency issuing such rating. There is no assurance that any such rating will be maintained for any given period of time or that any such rating will not be revised downward, suspended or withdrawn entirely by the rating agency issuing such rating if, in its sole judgment, circumstances so warrant. Neither the Infrastructure Bank nor the Corporation undertakes any responsibility to oppose any such revision or withdrawal or to inform any Bondholder of any such revision or withdrawal. Any such downward revision, suspension or withdrawal of a rating may have an adverse affect on the market price of the Bonds.

UNDERWRITING

The Underwriters named on the cover page hereof (the "Underwriters") are expected to agree, subject to certain conditions, to purchase the Bonds from the Infrastructure Bank at a price of \$[_____] (which reflects an Underwriters' discount of \$[_____]). The Bond Purchase Contract provides that the Underwriters are obligated to purchase all of the Bonds if any are purchased. The Bonds may be offered and sold by the Underwriters to certain dealers and others at prices lower than the public offering price indicated on the cover of this Official Statement, and the public offering price may be changed, from time to time, by the Underwriters. The Corporation has agreed to indemnify the Infrastructure Bank and the Underwriters against certain liabilities, including certain liabilities under federal securities laws.

CERTAIN RELATIONSHIPS

Bank of America, National Association, which is serving as a Liquidity Provider, is an affiliate of Banc of America Securities Inc., an Underwriter and the Remarketing Agent for the Series A Bonds. JPMorgan Chase Bank, N.A., which is serving as a Liquidity Provider, is an affiliate of J.P. Morgan Securities Inc., an Underwriter and the Remarketing Agent for the Series B Bonds. [TO BE MODIFIED IF SWAP PROVIDER IS RELATED.]

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), based upon an analysis of existing laws, regulations, ruling and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Corporation has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal incomes tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on the Bonds.

The opinion of Bond Counsel assumes that the Corporation is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”). Orrick, Herrington & Sutcliffe LLP expects to issue a separate opinion to the Infrastructure Bank regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. Such opinion will be subject to a number of qualifications and limitations and will rely upon representations of the Corporation regarding the use of the assets financed with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code. This opinion regarding the qualification of the Corporation as an organization described in Section 501(c)(3) of the Code will not address Section 513 of the Code. Failure of the Corporation to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the Bond-financed assets in activities that are considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The interest rate mode and certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions

(including without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or dispositions of, or the accrual or receipt of the interest on, the Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other taxes consequences depend upon the particular tax status of the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Corporation or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Corporation has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Corporation or the beneficial owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Corporation and its appointed counsel, including the beneficial owners, would have no right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Corporation legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Corporation or the beneficial owners to incur significant expense.

OTHER LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Certain legal matters will be passed upon for the Infrastructure Bank by its General Counsel, Brooke Bassett, Esq.; for the Corporation by its General Counsel and by its special counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation; for the Liquidity Banks by its counsel, Chapman and Cutler LLP; and for the Underwriters by their counsel, Sidley Austin LLP.

EXECUTION AND DELIVERY

This Official Statement has been duly authorized by the Infrastructure Bank and approved by the Corporation.

**CALIFORNIA INFRASTRUCTURE AND
ECONOMIC DEVELOPMENT BANK**

By: /s/ Stanton C. Hazelroth
Stanton C. Hazelroth
Executive Director

Approved by:

CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION

By: /s/ William J. Regan, Jr.
William J. Regan, Jr.
Chief Financial Officer

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture of Trust (the “Indenture”) and the Loan Agreement (the “Agreement”) which are not described elsewhere in the Official Statement. This summary does not purport to be comprehensive, and reference should be made to the Indenture and the Agreement for a full and complete statement of their provisions.

[TO COME FROM BOND COUNSEL]

APPENDIX B

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning The Depository Trust Company (“DTC”), New York, New York, and DTC’s book-entry system has been obtained from DTC and the Corporation takes no responsibility for the completeness or accuracy thereof. The Corporation cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (“NSCC,” “FICC,” and “EMCC,” also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant

through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

Payments of principal of, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent, or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Procedures in the Event of a Tender of a Bond. As more fully described in this Official Statement, the Owner of a Bond may have the right to or be required to tender its Bond for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the date of purchase on the purchase dates, at the times and in the manner set forth herein. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, the mechanics for exercising such tender for purchase and the right of such Owner to receive payment of the purchase price of any Bond tendered for purchase as described herein pertain only to the rights Cede & Co. and not the rights of any Beneficial Owner. The ability of any Beneficial Owner to tender its interest in any Bond and receive payment therefor is based solely upon and subject to the procedures and limitations of the book-entry only system, including the contractual arrangement of such Beneficial Owner with one of the Direct or Indirect Participants and the contractual arrangements of such Direct or Indirect Participants with DTC. Such procedures and limitations may cause a delay in the ability of a Beneficial Owner to receive timely payment of the purchase price thereof in the manner described in this Official Statement. As noted above, neither the District nor the Trustee will have any responsibility to any Beneficial Owner with respect to the timely remittance by DTC or any Direct or Indirect Participant of the purchase price of the Bonds.

NEITHER THE CORPORATION, THE INFRASTRUCTURE BANK NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR PREPAYMENT.

Neither the Corporation, the Infrastructure Bank nor the Paying Agent can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

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

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

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and none of the Corporation, the Infrastructure Bank or the Paying Agent take any responsibility for the accuracy thereof.

The Corporation, the Infrastructure Bank and the Underwriters do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Corporation, the Infrastructure Bank nor the Underwriters is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel, proposes to render its final opinion with respect to the Bonds in substantially the following form:

[Date of Issuance]

California Infrastructure and Economic Development Bank
1101 I Street
Sacramento, California

California Infrastructure and Economic Development Bank
Variable Rate Demand Revenue Bonds
(California Independent System Operator Corporation Project)
2007 Series A and 2007 Series B
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with issuance by the California Infrastructure and Economic Development Bank (the "Infrastructure Bank") of \$[_____] aggregate principal amount of California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2007 Series A and 2007 Series B (the "Bonds"), issued pursuant to the provisions of the Bergeson-Peace Infrastructure and Economic Development Bank Act of the State of California (constituting Division 1 of Title 6.7 of the Government Code of the State of California, commencing with Section 63000), and an Indenture of Trust, dated as of April 1, 2007 (the "Indenture"), between the Infrastructure Bank and Deutsche Bank National Trust Company, as trustee (the "Trustee"). The Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to the California Independent System Operator Corporation, a California nonprofit public benefit corporation (the "Corporation"), pursuant to a Loan Agreement, dated as of April 1, 2007 (the "Agreement"), between the Infrastructure Bank and the Corporation. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Agreement, the Tax Certificate and Agreement, dated the date hereof (the "Tax Agreement"), between the Infrastructure Bank and the Corporation, opinions of counsel to the Infrastructure Bank, the Trustee and the Corporation, certificates of the Infrastructure Bank, the Trustee, the Corporation and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein assume that the Corporation is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We are issuing a separate opinion to the Infrastructure Bank regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. We note that such opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Corporation regarding the use of the assets financed with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code. We note that our opinion regarding the qualification of the Corporation as an organization described in Section 501(c)(3) of the Code does not address Section 513 of the Code. Failure of the Corporation to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the Bond-financed assets in activities that are considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Agreement, the Tax Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Infrastructure Bank. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Agreement and the Tax Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against instrumentalities and agencies of the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the personal property described in or as subject to the lien of the Indenture or the Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Infrastructure Bank.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Infrastructure Bank. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid assignment to the Trustee, for the benefit of the holders from time to time of the Bonds, of the right, title and interest of the Infrastructure Bank in the Agreement (to the extent more particularly described in the Indenture).
3. The Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Infrastructure Bank.
4. The Bonds are not a lien or charge upon the funds or property of the Infrastructure Bank except to the extent of the aforementioned pledge and assignment. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.
5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

APPENDIX D

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY