



Authorization for 2007 Bond Issuance

Board of Governors Meeting
March 7, 2007

Presented by: Phil Leiber, Treasurer/Dir. Financial Planning

Financing Goals

- Provide bond proceeds to meet the known funding requirement for completion of MRTU
 - Completion of MRTU original scope (\$170 million budget): \$31 million¹
 - September FERC Order and other scope changes \$19.1 million
 - Subtotal \$50.1 million
- Have funding available near the date when the existing 2004 bond proceeds are fully spent
- Match the “benefits” and “burdens” of CAISO spending by recovering the costs of CAISO system infrastructure from the users of the infrastructure over a period of time that approximates the reasonably expected useful life of those assets.
- Obtain a low cost, low risk funding source
- Structure debt service to be consistent with a stable to declining bundled GMC rate of \$0.76 or less over the next several years

¹ 2004 Bond offering provided funding for MRTU to \$139 million. Funds will be depleted during early 2007

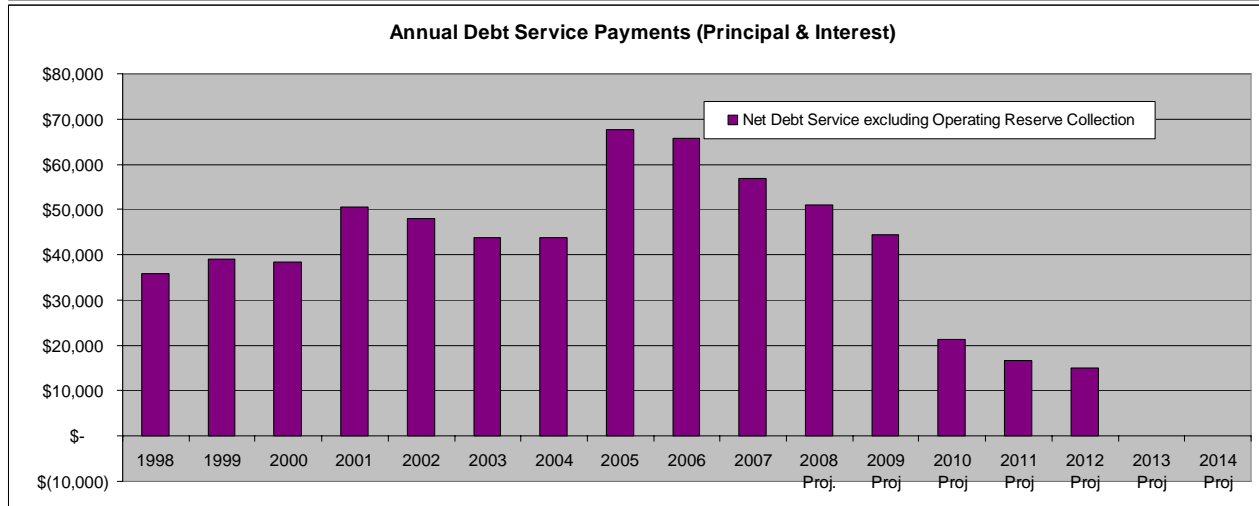
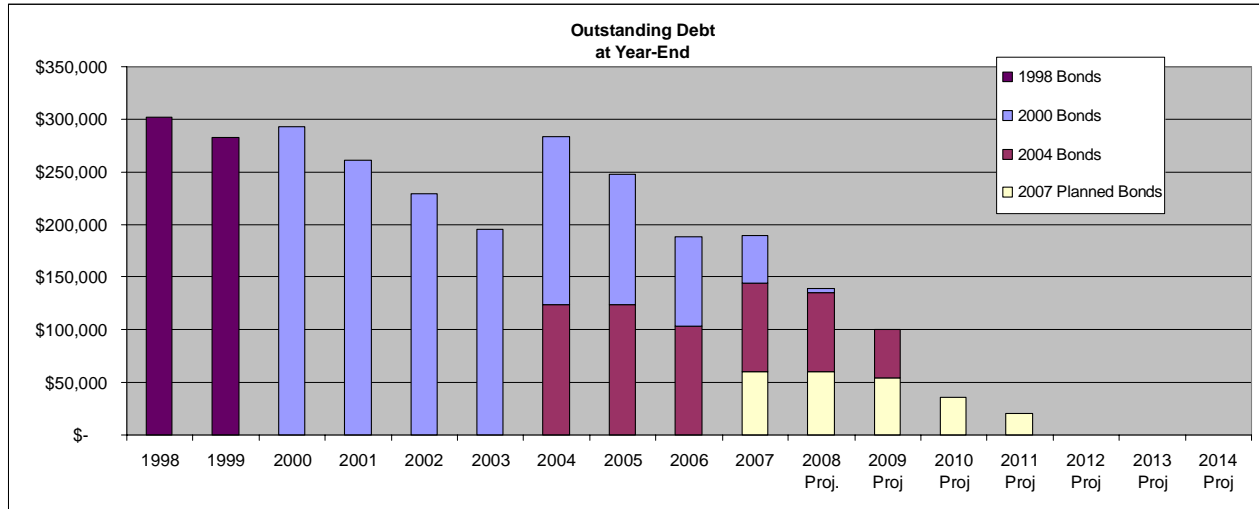
Proposed Structure

- Tax-exempt, variable rate demand bonds.
- Par value of \$60 million
- Supported by bond insurance and a standby bond purchase agreement
- Interest rate swap covers 60%-100% of bonds
- Amortize bonds over 6 years
 - Consistent with GMC of 76 cents or less
 - Most principal repayment obligations collected in rate years 2010-2012 when existing debt has been retired
 - Capacity for additional bond funding, to include other significant market design enhancements subsequent to MRTU remains

<u>Bond Proceeds (\$ in millions)</u>	<u>Amount</u>	<u>Comments</u>
Construction Fund	\$52,255,000	\$50.1 million for MRTU and \$2 million for other capital expenditures.
Debt Service Reserve Fund	6,000,000	This amount is borrowed, but is deposited with the Bond Trustee. It is available to CAISO to offset debt repayment requirements in the final year the bonds are outstanding.
Capitalized 2007 Interest Costs	570,000	The CAISO 2007 Revenue Requirement anticipated \$1.5 million in interest costs. Scheduled interest cost above that level for 2007 will be funded from bond proceeds.
Costs of Issuance	<u>1,175,000</u>	Costs of issuance include bond insurance premium, counsel, underwriter's fees, and other miscellaneous issuance costs.
Total	\$60,000,000	



Outstanding Debt and Debt Service



Financing Team

- Underwriter(s): Bank of America / JPMorganChase
- Counsel
 - Bond counsel: Orrick, Herrington & Sutcliffe
 - Issuer counsel: Stradling, Yocca, Carlson & Rauthe
 - Underwriter Counsel: Sidley, Austin & Brown
 - SBPA Bank counsel: Chapman & Cutler
- Bond insurer: AMBAC
- Conduit issuer: California Infrastructure & Economic Development Bank
- Pricing advisor: Sperry Capital
- Standby bond purchase providers: Bank of America & JPMorganChase
- Swap provider: TBD through competitive process
- Rating agencies: Standard & Poors and Moody's

Financing Timeline

Step	Date
Initial Discussion of Funding Need During MRTU Budget Presentation	December 2006
Further define funding need and consider alternative bond structures	December/January
Begin assembly of financing team (Bond Counsel, Issuer Counsel, Underwriter, Rating Agencies, Bond Insurer, Liquidity Banks) and calendar	December/January
Initial Presentation of Financing Plan and authorization of reimbursement resolution	January 25, 2007
File Section 204 Filing with FERC requesting authorization to issue bonds File Application with Conduit Issuer	February 9 February 13
Bond preparation work including structuring, coordination with bond insurers, conduit issuer, pricing agent, etc	January - March
Board approval of bond issuance resolution	March 7
FERC Approval for Issuance (60 days from filing)	Subsequent to CAISO Board Approval
Approval of Conduit Issuer (requires CAISO Board Approval)	March 21
Submit final documents to CAISO Board (for information/ review only)	Late March/early April
Closing Date / Bond Issuance	April 5
Board Report on Issuance	April 18, 2007 (May 30 if April date slips)



Borrowing Resolution (2007-03-07)

MOVED, that the Chief Executive Officer or the Chief Financial Officer of the California Independent System Operator Corporation (CAISO) be, and they hereby are, authorized and empowered, in the name and on the behalf of the CAISO, to perform the following:

- **Issue variable rate demand bonds in an amount not to exceed \$60,000,000 through the California Infrastructure and Economic Development Bank.**
- **Borrow money, incur other obligations and guarantee the obligations of the CAISO in an amount not to exceed \$60,000,000, and in furtherance thereof to execute and deliver from time to time any note or other instrument evidencing indebtedness or other obligations of the CAISO, including related agreements and documents and guarantees of obligations or endorsements of notes, when deemed by them to be in the best interests of the CAISO, at a rate or rates of interest, and upon such other term or terms as shall be agreed upon by such officers.**
- **Procure a standby bond purchase agreement for a term not to exceed three years at a cost not to exceed 18 basis points annually plus other associated expenses.**
- **Procure a bond insurance policy at a cost not to exceed 50 basis points of principal and interest paid over the life of the bonds and other associated expenses.**

MOVED FURTHER, that Management be authorized and directed to take any and all actions necessary and appropriate to execute an interest rate swap to partially hedge the bonds and provide for synthetic fixed rate debt for not less than 60% and up to 100% of the outstanding bond principal amount.

MOVED FURTHER, that with respect to any single transaction covered by the foregoing motions, the Chief Executive Officer or the Chief Financial Officer of the CAISO may delegate in writing to any one or more Officers of the CAISO the power to sign such instruments, agreements or other documents on his or her behalf as may be required to effectuate such transaction.