Decision on refinancing the 2013 bonds

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Vice President, Chief Financial Officer & Treasurer

Board of Governors Meeting
General Session
December 17, 2020
The ISO currently has $163.4 million in outstanding debt.

- Tax-exempt bonds issued in 2013
  - Advance refunding of 2009 bonds
  - Primarily for the building of the Folsom headquarters

- Annual debt payments of $13.5 million until 2/1/39

- All-in true interest cost = 4.48%

- Bonds callable on, or anytime after, 2/1/23
Interest rates are at historical lows and the yield curve is flat making refinancing options attractive.

- **Current refunding at the call date**
  - Most efficient option, but exposed to interest rate risk

- **Interest rate hedge**
  - Not efficient at these interest rate levels

- **Advance refunding now with taxable bonds**
  - Tax-exempt bonds can only be advance refunded once
Management is proposing the refinancing of existing debt with a taxable advance refunding bond issue.

• Interest rates have fallen by approximately 200 basis points (2%) since the 2013 issuance

• The spread between taxable and tax-exempt rates remains compressed allowing an efficient opportunity.
Interest rates movements since 2013
In addition to annual savings, there are other benefits to refinancing our bonds.

• More efficiency around software utilization between Folsom and Lincoln

• Flexibility for usage of Folsom campus

• Removal of building and operating revenues pledge
Relatively small increases in interest rates over the next two years erode the savings.

<table>
<thead>
<tr>
<th></th>
<th>Par Amount</th>
<th>Annual Pmt</th>
<th>Total Pmts</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current debt (Feb '21)</td>
<td>158.0</td>
<td>13.5</td>
<td>243.4</td>
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<tr>
<td>Refinance now</td>
<td>175.0</td>
<td>12.2</td>
<td>220.2</td>
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<tr>
<td>Refinance at call date (Feb '23)</td>
<td>147.0</td>
<td>11.2</td>
<td>205.9</td>
<td>12.1</td>
<td>220.4</td>
</tr>
</tbody>
</table>

$ in millions

Rates +1.0%
## Timeline:

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
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<tbody>
<tr>
<td>FERC filing</td>
<td>November 5, 2020</td>
</tr>
<tr>
<td>Bond structure and documents</td>
<td>Now thru January</td>
</tr>
<tr>
<td>Board decision on debt refinancing</td>
<td>December 17, 2020</td>
</tr>
<tr>
<td>FERC decision</td>
<td>By January 5, 2021</td>
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<tr>
<td>Tentative bond pricing</td>
<td>Week of January 11, 2021</td>
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