Decision on 2008 Bond Issuance and Facility Reimbursement Resolution

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California ISO
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Board of Governors Meeting
General Session
March 26 - 27, 2008

Overview

Funding Needs

$60 million for
2008-09 CapEx
and Temporary
Funding for New Facility

$139 million to
Refinance
Existing Bonds

Type of Bonds

Variable Rate
Demand Bonds
with Interest Rate Swaps
(Synthetic Fixed Rate Debt)

Or

Fixed Rate Bonds

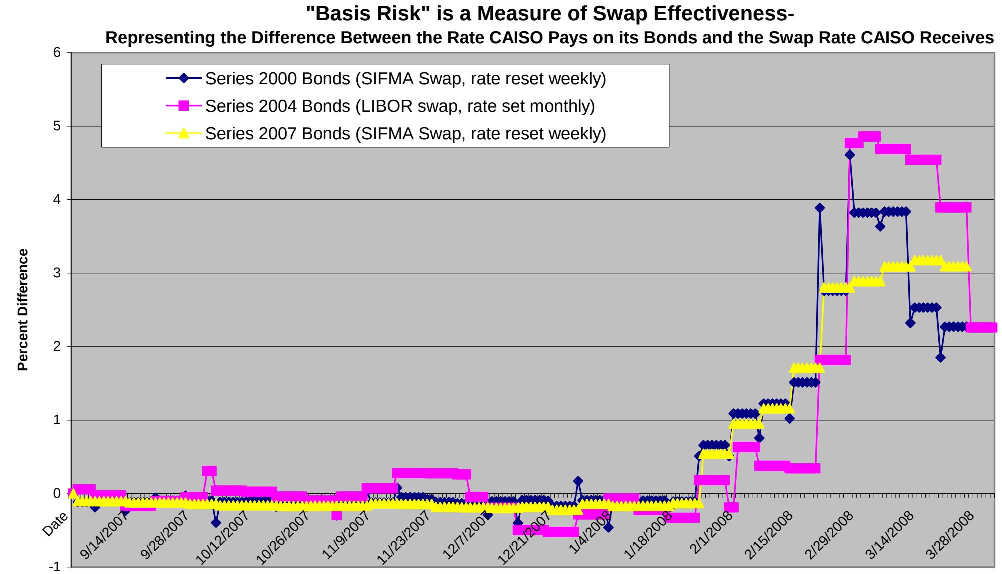
Recommended Action

Two Issuance
Resolutions
and one
Reimbursement
Resolution

The bond offering will provide funding for capital expenditure needs

- Up to $70 million of bonds to fund:
  - $60 million for 2008-2009 Capital Expenditures
    - Including temporary funding for up to $16 million in construction planning and site preparation work for new facility for later reimbursement from facility related bond issue
  - $10 million in other bond related costs
    - $3 million in capitalized interest and bond issuance expenses
    - $7 million in a debt service reserve fund
- 6-year amortization of debt to provide for stable GMC

The need to refinance existing debt



- Situation
  - Decreased investor demand for bonds backed by "risky" bond insurers
- Consequences
  - Higher interest costs of up to $400K monthly
    - Decreased swap effectiveness and higher rates on uncovered bonds
- Refinancing decision is difficult as
  - Value of refinancing hinges on how long these conditions persist
  - Improvement seen in last three remarketing results (March 11,18,25)

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We considered two types of bonds

- Variable rate demand bonds (VRDBs) with swaps
  - Bank letter of credit
  - Stable performance during recent financial market turbulence
  - Interest rate uncertainty

- Fixed rate bonds
  - Interest cost certainty
  - $2-3 million higher costs than VRDBs
  - More extensive disclosure requirements resulting in longer execution time (and lower value to refinancing)

- Based on continued assessment of these factors and discussion with the Board, fixed rate bonds are viewed as preferable

Issues involved with a fixed rate transaction

- Insured or uninsured?
  - Uninsured more likely, due to cost, availability and value of insurance.
- Matters involved with refinancing
  - Need to “unwind” existing swaps, at expected cost to CAISO of $2-4 million, funded by new bond proceeds.
- CAISO ratings important.
  - We are awaiting confirmation or changes in ratings.
- Rate certainty upon issuance, but some volatility in rate outlook until then.

Recommended Actions

- Management will direct financing team towards execution of a fixed rate offering targeted for June 2008
- Request Board approval for this transaction now
  - Allows for Conduit Issuer approval in April or May
- Continue to review need for refinancing
  - If unnecessary, will request authorization to cancel refinancing component, and *potentially* defer new money issuance
- Board review of bond documents in May
- Issue Bonds in June/early July
- Later this year:
  - Develop and brief board on Facilities financing plan in early Autumn
  - Present financing plan for approval late 2008/early 2009

NEW MONEY BORROWING RESOLUTION (2008-03-26)

MOVED, that the ISO Board of Governors authorizes and empowers the Chief Executive Officer or the Chief Financial Officer of the California Independent System Operator Corporation (the "Corporation") in the name and on the behalf of the Corporation, to perform the following:

> ***Issue fixed rate bonds in an amount not to exceed $70,000,000 through the California Infrastructure and Economic Development Bank (Bond Offering);***
>
> ***Borrow money, incur other obligations and guarantee the obligations of the Corporation in an amount not to exceed $70,000,000, and in furtherance thereof to execute and deliver from time to time any note or other instrument evidencing indebtedness or other obligations of the Corporation, including related agreements and documents and guarantees of obligations or endorsements of notes, when deemed to be in the best interests of the Corporation, at a rate or rates of interest, and upon such other term or terms as shall be agreed upon by such officers;***
>
> ***Procure bond insurance to secure such bonds to the extent determined advantageous by such officers and to enter into agreements related thereto; and***

MOVED, that the Board authorizes and directs Management to take any and all actions necessary and appropriate to execute an interest rate swap to partially hedge the bonds; and

MOVED, that the Board authorizes the Chief Executive Officer or the Chief Financial Officer of the Corporation to take any and all other action necessary to effectuate the Bond Offering, and further authorizes any other agent(s) of the Corporation to whom the Chief Executive Officer or the Chief Financial Officer may delegate such necessary actions in writing.

REFINANCING RESOLUTION (2008-03-26)

MOVED, that the ISO Board of Governors authorizes and empowers the Chief Executive Officer or the Chief Financial Officer of the California Independent System Operator Corporation (the "Corporation") in the name and on the behalf of the Corporation, to perform the following:

> *Retire the Corporation's existing debt, consisting of Series 2000, Series 2004 and Series 2007 bonds with an outstanding amount of $139,000,000 as of April 2, 2008, through the issuance of new fixed rate bonds in an amount not to exceed $145,000,000 through the California Infrastructure and Economic Development Bank (the "Refinancing");*
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> *In order to effectuate the refinancing: borrow money, incur other obligations and guarantee the obligations of the Corporation in an amount not to exceed $145,000,000, and in furtherance thereof to execute and deliver from time to time any note or other instrument evidencing indebtedness or other obligations of the Corporation, 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 Corporation, at a rate or rates of interest, and upon such other term or terms as shall be agreed upon by such officers;*
>
> *Procure bond insurance to secure such bonds to the extent determined advantageous by such officers and to enter into agreements related thereto; and*

MOVED, that the Board authorizes and directs Management to take any and all actions necessary and appropriate to terminate or modify existing interest rate swaps relating to any bonds refunded, or procure new off- setting interest rate swaps as Management shall determine necessary or appropriate in connection with the refunding of the bonds; and

MOVED, that the Board authorizes the Chief Executive Officer or the Chief Financial Officer of the Corporation to take any and all other action necessary to effectuate the Bond Offering, and further authorizes any other agent(s) of the Corporation to whom the Chief Executive Officer or the Chief Financial Officer may delegate such necessary actions in writing.

REIMBURSEMENT RESOLUTION (2008-03-26)

RESOLUTION DECLARING OFFICIAL INTENT OF
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO REIMBURSE CERTAIN EXPENDITURES FROM PROCEEDS OF INDEBTEDNESS
AND TO USE 2008 BORROWINGS ON AN INTERIM BASIS PRIOR TO THE AVAILABILITY OF PROCEEDS FROM SUBSEQUENT FACILITY RELATED FINANCING
ADOPTED MARCH 26, 2008

WHEREAS, the California Independent System Operator Corporation (the "Corporation") expects to pay certain expenditures (the "Expenditures") in connection with its new facility program (collectively, the "Project") prior to and in anticipation of the issuance of indebtedness for the purpose of financing the Project on a long-term basis;

WHEREAS, the Corporation intends to fund such Expenditures on an interim basis with either general corporate funds, or the proceeds from the planned mid- 2008 bond issuance;

WHEREAS, the Corporation reasonably expects that debt obligations will be issued during 2009 in one or more series and that certain of the proceeds of such debt obligations will be issued to pay or reimburse either general corporate funds or the mid- 2008 bond construction fund the Expenditures for the Project in an amount not to exceed $18,000,000;

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Corporation to declare its official intent to reimburse itself for prior expenditures for the Project with proceeds of debt obligations;

NOW, THEREFORE, THE CORPORATION hereby resolves:

- ***The Corporation finds and determines that the foregoing recitals are true and correct.***
- ***The Corporation hereby declares its official intent to use proceeds of the facility indebtedness to be incurred in 2009 to pay or reimburse itself or the 2008 bond offering construction fund for Expenditures in an amount not expected to exceed $18,000,000.***

This Resolution shall take effect from and after its adoption.