

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System) Docket No. ES13-____-000
Operator Corporation)**

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION'S
APPLICATION UNDER SECTION 204 OF THE FEDERAL POWER ACT FOR
AN ORDER AUTHORIZING THE ISSUANCE OF SECURITIES**

The California Independent System Operator Corporation (“ISO”) files this application for a Commission order authorizing the ISO to issue bonds in an amount not to exceed \$210 million.¹ This new issuance is designed to enable the ISO to refund approximately \$200 million of Series A bonds that it issued in 2009,² which have a call date of February 1, 2015 and a maximum maturity of 30 years.³ The ISO has determined that, by issuing new bonds at today’s interest rates, it can lower annual debt service costs and obtain present value savings over the remaining term of these bonds of approximately \$32 million.

¹ The ISO files this application pursuant to Section 204 of the Federal Power Act (“FPA”), 16 U.S.C. § 824c, and Part 34 of the regulations of the Federal Energy Regulatory Commission (“FERC” or “Commission”), 18 C.F.R. Part 34. Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO tariff.

² See California Independent System Operator Corporation’s Application under Section 204 of the Federal Power Act for an Order Authorizing the Issuance of Securities, Docket No. ES-09-26-000 (filed April 20, 2009) (“2009 Bond Filing”); *California Independent System Operator Corp.*, 127 FERC ¶ 62,136 (2009) (authorizing the ISO to issue bonds in an amount up to \$225 million). In addition to the 2009 issuance, the Commission has previously accepted a number of other applications that the ISO has submitted for authorization to issue bonds. *California Independent System Operator Corp.*, 123 FERC ¶ 62,091 (2008) (authorizing the ISO to issue up to \$215 million in bonds); *California Independent System Operator Corp.*, 118 FERC ¶ 62,250 (2007) (authorizing the ISO to issue up to \$60 million in bonds); *California Independent System Operator Corp.*, 109 FERC ¶ 62,138 (2004) (authorizing the ISO to issue up to \$127 million in bonds); *California Independent System Operator Corp.*, 90 FERC ¶ 62,088 (2000) (authorizing the ISO to issue up to \$297 million in bonds); *California Independent System Operator Corp.*, 83 FERC ¶ 62,039 (1998) (amending earlier letter order to authorize the ISO to issue up to \$310 million in bonds); *California Independent System Operator Corp.*, 81 FERC ¶ 62,220 (1997) (authorizing the ISO to issue up to \$260 million in bonds).

The new bonds will be structured as traditional fixed-rate bonds with a final maturity of February 1, 2039, which matches the maturity date of the ISO's currently outstanding Series A bonds. Most of the proceeds of the new offering, approximately \$205 million, will be deposited into an escrow account to pay debt service due on the outstanding Series A bonds. The balance will be used for contingency interest costs and issuance costs. Issuing the new bonds will also allow the ISO to retire a reserve fund established to pay debt service on the 2009 bonds. The ISO intends to use approximately \$15 million of the proceeds from the 2009 bond issuance debt service reserve fund to fund ongoing capital expenditures.

The ISO respectfully requests that the Commission issue an order on this application no later than August 2, 2013. Obtaining an order by August 2 will allow the ISO to conduct the issuance in the first two weeks of August, which will benefit the ISO in two respects. First, an earlier issuance will allow the ISO to minimize the risk of interest rate increases, thereby decreasing the overall cost of this issuance to the ISO and maximizing the savings benefits. Second, it will allow the ISO to avoid a seasonal slowdown in the bond market that generally occurs at the end of August.

³ See ISO Report of Securities Issued, Docket No. ES09-26-000 (Aug. 18, 2009) ("2009 Securities Report").

I. BACKGROUND AND REASONS FOR THIS APPLICATION TO ISSUE BONDS TO REFINANCE THE ISO'S EXISTING DEBT

A. The Issuance of New Bonds

1. Funding Needs for Payment of Debt Service on 2009 Series A Bonds

In 2009, the ISO issued approximately \$200 million in fixed-rate Series A bonds, which have a call date of February 1, 2015 and a maximum maturity of 30 years.⁴ The ISO has determined that it can lower annual debt service costs and obtain present value savings over the remaining term of these bonds of approximately \$32 million by issuing new bonds.

To achieve these savings, the ISO proposes to execute an advance refunding of the 2009 Series A bonds by issuing no more than \$210 million in new bonds, as proposed in this application. The ISO will deposit approximately \$205 million of the proceeds from the new bond issuance into an escrow account to pay all debt service due on the 2009 Series A bonds being refunded, up to and including the call date of the 2009 Series A bonds.

2. Funding Needs for Contingency Interest and Issuance Costs

If needed, the ISO plans to use up to \$3.5 million of this issuance as a contingency fund to account for any potential increase in interest rates between now and the time of the offering, which could impact the estimated sources and uses. The remaining balance of the proceeds, approximately \$1.5 million, would be used to pay the estimated issuance costs of the new bonds.

⁴ See *id.*

3. Anticipated Term of New Bonds

The ISO anticipates issuing fixed-rate bonds with a final maturity of 26 years, *i.e.*, February 1, 2039. The amortization schedule of the proposed bond offering will be tailored to facilitate a stable overall revenue requirement for the ISO.

The ISO intends to incorporate the debt service costs for this new bond offering into its Grid Management Charge (“GMC”) for 2014 through 2039.

B. Transfer of Funds from 2009 Debt Service Reserve Fund

As part of its 2009 bond issuance, the ISO deposited approximately \$15 million in a reserve fund to pay debt service on the bonds in the event financial difficulties were to affect the ISO.⁵ Because the ISO is proposing to pay the debt service on the 2009 bonds using the new issuance that is the subject of the current application, there is no longer any benefit to retaining this reserve fund. The proposed new issuance will not include a debt service reserve fund, which is now common in the current municipal debt market for strongly rated issuers. The ISO intends to apply \$15 million of the money in this fund to the project fund that was established for the proceeds of the 2009 offering, which will continue to be used on capital expenditures approved by the ISO’s Governing Board such as software upgrades for its market systems.⁶ The remaining balance of the fund,

⁵ See 2009 Bond Filing at 3-4; 2009 Securities Report, Exhibit 1.

⁶ Although not technically a part of the issuance which is the subject of this application, the ISO is including information regarding this transfer of funds in this filing because it would involve using the money for a purpose different from the one specified in the ISO’s 2009 bond application. See Federal Power Act, Section 204(c). To the extent that the Commission determines that explicit authorization is necessary in order to make this transfer, the ISO respectfully requests that the Commission grant such approval in its order on this application.

approximately \$1.2 million, will be deposited into the refunding escrow account. The ISO is including as Exhibit H to this filing a partial list of ongoing and potential capital projects over the next three years.

C. The Proposed Bond Issuance Will Not Require a Change in Existing Rates

The ISO is not planning any changes to the GMC rates currently in effect, which were established by the Commission's acceptance of the current GMC rate structure in Docket No. ER11-4000-000. The GMC rate formula in the ISO tariff provides that the ISO may adjust the GMC charges for 2013, without filing a rate case pursuant to Section 205 of the Federal Power Act, as long as the ISO's overall annual revenue requirement is below \$199 million.⁷ The revenue requirement in 2013 is below the threshold established in Docket No. ER11-4000-000. No changes are proposed to the existing 2013 GMC rates as a result of this bond offering.

The ISO's goal is to achieve a stable revenue requirement. Consistent with this goal, the ISO will include the debt service for this proposed bond offering in the ISO's annual revenue requirement for future years (2014-2039).

II. PART 34 REQUIREMENTS

A. Section 34.3 Requirements

As required by Section 34.3 of the Commission's regulations (18 C.F.R. § 34.3) the ISO provides the following information:

⁷ ISO tariff section 11.22.2.5.

(a) Applicant's official name and principal business address.

California Independent System Operator Corporation
250 Outcropping Way
Folsom, California 95630

(b) State and date of incorporation; states within which applicant operates.

The ISO was incorporated in the State of California on May 5, 1997. The ISO operates within the State of California.

(c) The name, address, and telephone number of the person at the ISO authorized to receive notices and communications regarding this application.

Ryan Seghesio
Chief Financial Officer and Treasurer
California Independent System Operator Corporation
250 Outcropping Way
Folsom, CA 95630
Tel: (916) 351-4422
E-mail: rseghesio@caiso.com

The ISO requests that notices regarding this filing also be sent to:

Michael Kunselman
Bradley R. Miliauskas
Alston & Bird LLP
950 F Street, NW
Washington, DC 20004
Tel: (202) 239-3300
Fax: (202) 239-3333
E-mail: michael.kunselman@alston.com
bradley.miliauskas@alston.com

(d) Requested action date.

The ISO respectfully requests that the Commission issue an order authorizing the ISO to issue bonds as described in this application by August 2, 2013. Commission approval by August 2 will allow the ISO to conduct the issuance within the first two weeks of August

2013. Issuing the bonds on this schedule will minimize the risks of interest rate increases, thereby decreasing the overall cost of this issuance to the ISO and maximizing the savings benefits. Also, it will allow the ISO to avoid a seasonal slowdown in the bond market that generally occurs at the end of August.⁸

(e) Description of the securities proposed to be issued.

1. Type and nature of the securities.

The ISO anticipates using traditional fixed-rate bonds for this offering that will be amortized over 26 years. This will result in level annual debt service and a stable revenue requirement.

2. Amount of the securities.

The value of the bonds to be issued is not to exceed \$210 million, consisting of:⁹

Refunding escrow deposit	\$205.0 million
Contingency for interest rate differential	\$3.5 million
Issuance costs	\$1.5 million
	Total \$210 million

⁸ The Commission has in the past issued orders granting applications submitted pursuant to FPA Section 204 within a shorter span than the amount of time between the submittal of the instant application and the August 2 action date the ISO requests. *See, e.g., AEP Texas Central Co.*, 143 FERC ¶ 62,152 (2013) (granting FPA Section 204 application submitted 45 days earlier); *ITC Great Plains, LLC*, 142 FERC ¶ 62,171 (2013) (granting FPA Section 204 application submitted 30 days earlier).

⁹ The individual listed amounts are approximate amounts that are subject to change and that will be finalized by the time the bonds are sold and issued. In any event, the total amount of the bond issuance will not exceed \$210 million.

3. Interest or dividend rate.

Based on a fixed rate offering, the estimated all-in interest rate will be approximately 3.9%, based on current market conditions. These bonds will likely be issued at a premium due to current market conditions.

4. Dates of issuance and maturity.

The target issuance date for the bonds is early August of 2013.

Final maturity of the bonds will be February 1, 2039.

5. Institutional rating, estimated future rating, or an explanation of why not rated.

The ISO's existing underlying credit ratings (which are updated annually) are as follows:

Moody's: A1

Standard & Poor's: A

Fitch: A+

Fitch is expected to rate the bonds described in this application as AA-, due to the ISO's building serving as collateral. This is consistent with Fitch's treatment with regard to the ISO's 2009 Series A bond issuance, which is being refunded pursuant to this application.

(f) The purpose for which the securities are to be issued.

The securities are being issued to execute an advance refunding of the ISO's 2009 Series A bonds. Most of the proceeds will be

deposited into a refunding escrow account to pay all debt service due on the 2009 Series A bonds being refunded, up to and including the call date of the 2009 Series A bonds, February 1, 2015. The balance of the proceeds will be used for contingency interest costs and issuance costs. The refinancing transaction will result in lower annual debt service costs and present value savings over the remaining term of the 2009 Series A bonds of approximately \$32 million. All proceeds of this issuance will be used solely for these purposes.

(g) State applications.

No application with respect to this issuance is required to be filed with any state utility regulatory body. As is necessary for the issuance of tax-exempt debt, the bonds will be issued through a conduit. After filing this application with the Commission, the ISO anticipates filing an application for issuance through a government entity conduit issuer that is an agency of the State of California. The ISO's bonds were issued through the California Infrastructure and Economic Development Bank in 2000, 2004, 2007, 2008, and 2009.

(h) Facts relied upon to show that the issuance is lawful and necessary.

The ISO's issuance of the bonds is consistent with its corporate purposes and responsibilities, its operation as an independent transmission system operator, and the public interest. The

refinancing of the 2009 Series A bonds is a prudent business decision in the current market that will result in significant present value savings.

The ISO will present this proposed bond offering to its Board and will request formal approval of the transaction at the Board's July 11-12, 2013 meeting. The ISO will provide the Commission with the record of the Board's approval of the transaction after that meeting.¹⁰

(i) Statement of bond indentures and/or other limitations on issuance of debt.

The bond indenture for the proposed new debt is expected to contain terms similar to the indenture issued in connection with the ISO's bond issuance in 2009. There are no restrictions in the existing bond documents that limit the ISO from this additional bond issuance.

(j) Summary of rate changes.

This filing includes financial statements for the period from April 1, 2012 through March 31, 2013. The ISO's updated rates for the 2013 GMC were posted on the ISO website in December 2012. No changes in the 2013 GMC rates are requested or anticipated as a result of the bond offering that is the subject of this application.

¹⁰ In previous bond issuance proceedings, the ISO requested Commission approval of the proposed bond issuance prior to obtaining Board approval of the issuance, which approval the ISO then provided to the Commission. See ISO FPA Section 204 Application, Docket No. ES07-20-000, at 11 (Feb. 9, 2007); ISO FPA Section 204 Application, Docket No. ES08-36-000, at 14 (Mar. 17, 2008); ISO FPA Section 204 Application, Docket No. ES09-26-000, at 11 (Apr. 10, 2009). The ISO will do the same in this proceeding.

B. Section 34.4 Requirements

In accordance with Section 34.4 of the Commission's regulations, 18

C.F.R. § 34.4, the ISO provides the following exhibits:

Exhibit A - The Articles of Incorporation of the California Independent System Operator Corporation, dated May 5, 1997 and amended January 23, 2001

Exhibit B - Placeholder exhibit. As discussed above, the ISO will provide the Commission with the record of the Board's resolution authorizing the issuance of securities after the Board's July 11-12, 2013 meeting

Exhibit C - Projected *Pro Forma* Balance Sheets of the ISO for the twelve months ending March 31, 2013, and Schedule of *Pro Forma* Adjustments¹¹

Exhibit D - Projected *Pro Forma* Income Statements for the twelve months ending March 31, 2013

Exhibit E - Projected *Pro Forma* Statement of Cash Flows for the twelve months ending March 31, 2013 and calculation of interest coverage¹²

¹¹ The ISO's most recent 12-month financial statements were for the period ending December 31, 2012, which is more than four months prior to the date of this application. Therefore, the ISO is including in Exhibits C, D, and E both FERC Form No. 1 12-month data and Form No. 3Q data from the first quarter of 2013. The Commission has accepted financial information in other applications submitted under FPA Section 204 that includes financial data submitted in this manner. See, e.g., FPA Section 204 Application of KCP&L Greater Missouri Operations Company, Docket No. ES12-2-000, at Exhibits C, D, and E (Oct. 6, 2011); FPA Section 204 Application of Kentucky Utilities Company, Docket No. ES11-48-000, at Exhibits C, D, and E (Sept. 21, 2011); FPA Section 204 Application of Louisville Gas and Electric Company, Docket No. ES11-49-000, at Exhibits C, D, and E (Sept. 21, 2011).

¹² The traditional computation of interest coverage is the ratio of Earnings before Interest and Taxes to Interest Charges. Since the ISO is nonprofit entity, it does not have traditional earnings because all costs are recovered through a formula rate to recover its expenses that is designed to result in zero net earnings (ignoring depreciation and amortization). Through this rate, the ISO has the ability to recover its expenses from market participants, including interest expenses. However, the interest coverage ratio calculated by the traditional method is 1.0, since the amount of revenue before interest expense is equal to interest expense. To more realistically reflect the interest coverage, the ISO has calculated it after adding back depreciation, because it is a non-cash expense, as indicated in Exhibit E. Under the calculation, the ratios for interest expenses compared to overall revenues, for both the actual and pro-forma calculations, are 3.58 and 4.86 respectively.

Exhibit F - Official Statement for the year 2009 bonds

Exhibit G - Indicative bond run numbers for the issuance proposed in this application

Exhibit H - Partial list of ongoing and potential 2013-2015 capital projects

C. Request for Exemption from or, in the Alternative, Waiver of, the Requirements of Section 34.2(a)

With respect to the ISO's proposed bond issuance, Section 34.2(b)(4) of the Commission's regulations, 18 C.F.R. § 34.2(b)(4), provides an exemption from the competitive bid and negotiated placement requirements of Section 34.2(a) of the Commission's regulations, 18 C.F.R. § 34.2(a). The exemption applies to securities to be issued "in support of or to guarantee securities issued by governmental or quasi-governmental bodies for the benefit of the utility."

A governmental entity will issue the bonds for the benefit of the ISO. After filing this application with the Commission, the ISO anticipates filing an application for issuance through a government entity conduit issuer that is an agency of the State of California. The ISO's bonds for the year 1998 were issued through the California Economic Development Financing Authority and for the years 2000, 2004, 2007, 2008, and 2009 through its successor organization, the California Infrastructure and Economic Development Bank.

In April 2013, the ISO requested financing proposals from RBC Capital Markets, Citigroup Global Markets, Bank of America Merrill Lynch, and Wells Fargo Securities. Those firms' financing proposals were reviewed by the ISO's Chief Financial Officer and independent financial advisor Sperry Capital. The ISO selected RBC Capital Markets to serve as senior manager for the

transaction, with Citigroup Global Markets serving as co-manager. The ISO is confident that the underwriting fees to be charged by these entities represent an attractive option relative to other alternatives in the market. Also, as explained above, the ISO intends to use traditional fixed-rate bonds.

The ISO notes that the Commission exempted the ISO's six previous bond offerings from the requirements of Section 34.2(a).

Should the Commission find that the above exemption does not apply to this bond issuance, the ISO respectfully requests a waiver of the competitive bid and negotiated placement requirements of Section 34.2(a), which the ISO believes should be granted because the ISO's use of a governmental entity to issue the bonds, prominent underwriters, and an independent pricing agent, as described above, eliminate any need for those requirements to be applied to the proposed bond issuance.

III. SERVICE OF DOCUMENTS

The ISO has served copies of this transmittal letter and all exhibits on the California Public Utilities Commission and the California Energy Commission. In addition, the ISO is making the transmittal letter and the exhibits available to all ISO market participants by posting them on the ISO Website, www.caiso.com.

IV. SUPPORTING DOCUMENTS

In addition to this transmittal letter, this filing contains the exhibits described above in Section II and the executed verification of Ryan Seghesio, Chief Financial Officer and Treasurer for the ISO.

V. CONCLUSION

WHEREFORE, the ISO respectfully requests that the Commission take the following actions with respect to this application:

- authorize the ISO's proposed bond issuance in an amount not to exceed \$210 million;
- grant the appropriate exemption from or, in the alternative, waiver of the requirements of 18 C.F.R. § 34.2(a), concerning the methods by which securities are to be issued; and
- issue its order authorizing the above requests by no later than August 2, 2013.

Respectfully submitted,

/s/ Ryan Seghesio
Ryan Seghesio

Chief Financial Officer and Treasurer
for the California Independent
System Operator Corporation

/s/ Daniel J. Shonkwiler
Daniel J. Shonkwiler

Senior Counsel for the California
Independent System Operator
Corporation

/s/ Bradley R. Miliauskas
Michael Kunselman
Bradley R. Miliauskas
Alston & Bird LLP

Counsel for the California
Independent System Operator
Corporation

Dated: June 13, 2013

CALIFORNIA JURAT WITH AFFIANT STATEMENT

State of California }
County of Sacramento } ss.

See Attached Document (Notary to cross out lines 1-8 below)
 See Statement Below (Lines 1-7 to be completed only by document signer[s], *not* Notary
RYAN SEGHEISIO, being duly sworn, on oath, says that he is the

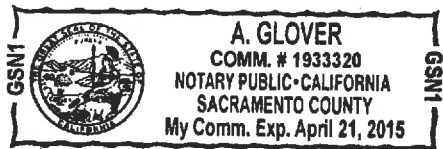
1
2 RYAN SEGHEISIO identified in the foregoing application submitted pursuant
3 to Section 204 of the Federal Power Act; that he caused such application
4 to be prepared; and that the information provided therein is true to the
5 best of his knowledge and belief.
6
7
8

Signature of Document Signer No. 1

Signature of Document Signer No. 2

Subscribed and sworn to (or affirmed) before
me this _____ day of _____,
_____, by

- (1) _____
- (2) _____



Place Notary Seal above

proved to me on the basis of satisfactory
evidence to be the person(s) who appear
before me.

Signature of Notary Public

OPTIONAL

*Though the information below is not required by law, it may prove valuable
to persons relying on the document and could prevent fraudulent removal
and reattachment of this form to another document.*

Further Description of Any Attached Document

Title or Type of Document: _____
Document Date: _____ Number of Pages: _____
Signer[s] Other than above: _____

RIGHT THUMBPRINT
OF SIGNER #1
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RIGHT THUMBPRINT
OF SIGNER #2
Top of thumb here

ACKNOWLEDGMENT

State of California
County of Sacramento)

On June 11, 2013 before me, A. Glover, Notary Public
(insert name and title of the officer)

personally appeared Ryan Seghesio
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are
subscribed to the within instrument and acknowledged to me that he/she/they executed the same in
his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the
person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing
paragraph is true and correct.

WITNESS my hand and official seal.

Signature A. Glover (Seal)

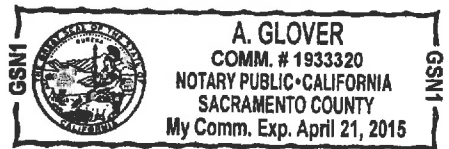


EXHIBIT A

State of California



Exhibit A

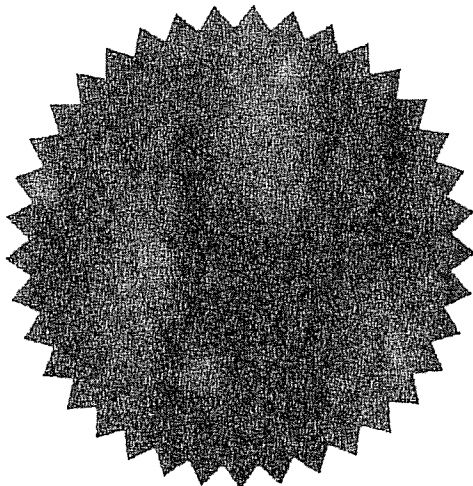
SECRETARY OF STATE

I, *BILL JONES*, Secretary of State of the State of California, hereby certify:

That the attached transcript has been compared with the record on file in this office, of which it purports to be a copy, and that it is full, true and correct.

IN WITNESS WHEREOF, I execute this certificate and affix the Great Seal of the State of California this

MAY - 6 1997



Bill Jones

Secretary of State

2009677

ENDORSED
FILED

In the office of the Secretary of State
of the State of California

MAY - 5 1997

Bill Jones
BILL JONES, Secretary of State

ARTICLES OF INCORPORATION
OF
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

I.

The name of this corporation is "California Independent System Operator Corporation."

II.

A. This corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law for the charitable purposes set forth in Chapter 2.3, Part 1, Division 1 of the Public Utilities Code of the State of California (the "Statute").

B. The specific purpose of this corporation is to ensure efficient use and reliable operation of the electric transmission grid pursuant to the Statute.

III.

The name and address in the State of California of this corporation's initial agent for service of process is:

Gary C. Heath
1516 Ninth Street
Sacramento, CA 95814

IV.

A. Pursuant to the Statute, this corporation is organized exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code (or the corresponding section of any future federal tax code).

B. Notwithstanding any other provision of these articles, this corporation shall not carry on any activities not permitted to be carried on (i) by a corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (or the corresponding section of any future federal tax code) or (ii) by a corporation contributions to which are deductible under Section 170(c)(2) of the Internal Revenue Code (or the corresponding section of any future federal tax code).

C. No substantial part of the activities of this corporation shall consist of carrying on propaganda, or otherwise attempting to influence legislation, and this corporation shall not participate or intervene in any political campaign (including the publishing or distribution of statements) on behalf of or in opposition to any candidate for public office.

V.

Prior to dissolving or liquidating, this corporation shall take such actions as are necessary and reasonable to ensure the continued reliable operation of the electrical system in the State of California and such other affected states or regions, including the possible sale of its assets to transmission owners, investor-owned utilities, publicly-owned utilities or other appropriate entities. Such actions and the terms of any such sale shall be approved by the appropriate governmental regulatory entities, including the Oversight Board described in Sections 335 to 340 of the California Public Utilities Code (or any successor provisions) ("Oversight Board"). The proceeds of any such sale shall then be distributed as provided herein along with any other remaining assets.

VI.

A. The property of this corporation is irrevocably dedicated to charitable purposes and no part of the net income or assets of this corporation shall ever inure to the benefit of any director, officer or member thereof or to the benefit of any private person.

B. Upon the dissolution or winding up of this corporation, its assets remaining after payment, or provision for payment, of all debts and liabilities of this corporation shall be distributed (i) for one or more exempt purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code (or the corresponding

section of any future federal tax code), or (ii) to a state or local government, for a public purpose.

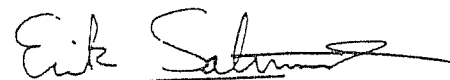
VII.

Any bylaws of this corporation shall be adopted, and amended as necessary, so as to conform to requirements of the Statute and to written decisions of the Oversight Board made pursuant to the Statute.

VIII.

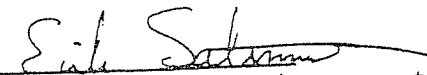
These articles of incorporation may be amended by the vote of at least two-thirds of all of the members of the corporation's Governing Board then in office, provided that the Oversight Board has approved such amendment. In addition, if and to the extent required by applicable law, the effectiveness of any amendment to these articles of incorporation shall be subject to acceptance for filing by the Federal Energy Regulatory Commission (or any successor entity).

Dated: May 5, 1997



Erik N. Saltmarsh, Incorporator

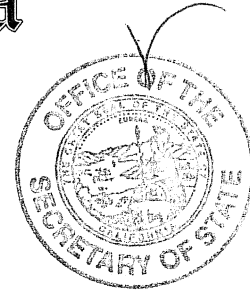
I hereby declare that I am the person who executed the foregoing Articles of Incorporation, and that this instrument is my act and deed.



Erik N. Saltmarsh, Incorporator



State of California



SECRETARY OF STATE

I, *BILL JONES*, Secretary of State of the State of California, hereby certify:

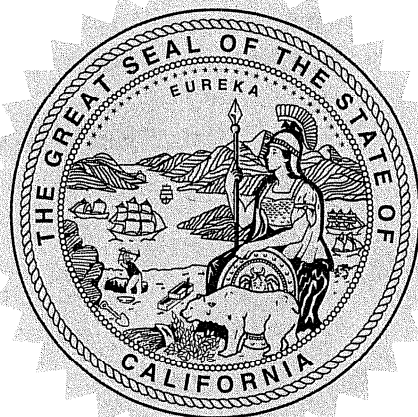
That the attached transcript of 1 page(s) has been compared with the record on file in this office, of which it purports to be a copy, and that it is full, true and correct.

IN WITNESS WHEREOF, I execute this certificate and affix the Great Seal of the State of California this day of

JAN 23 2001



Secretary of State



JAN 22 2001

BILL JONES, Secretary of State

CERTIFICATE OF AMENDMENT
TO
ARTICLES OF INCORPORATION
OF
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

Terry Winter and Charles Robinson certify that:

1. They are the President and the Secretary, respectively, of California Independent System Operator Corporation, a California nonprofit public benefit corporation.

2. The ~~Sixth~~ Article of the articles of incorporation is amended to read in its entirety as follows:

"VI.

A. The property of this corporation is irrevocably dedicated to charitable purposes and no part of the net income or assets of this corporation shall ever inure to the benefit of any director, officer or member thereof or to the benefit of any private person.

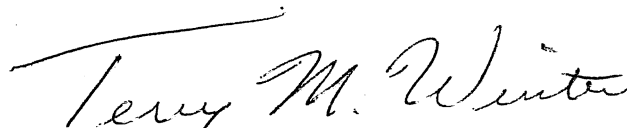
B. Upon the dissolution or winding up of this corporation, its assets remaining after payment, or provision for payment, of all debts and liabilities of this corporation shall be distributed to (i) a nonprofit fund, foundation, or corporation which is organized and operated exclusively for charitable purposes (and which has established its tax exempt status under section 501(c)(3) of the Internal Revenue Code or the corresponding section of any future federal tax code), or (ii) a state or local government, for a public purpose."

3. The foregoing amendment to the Articles of Incorporation has been duly approved by the Board of Governors/Directors and approved by the Oversight Board.

4. The corporation has no members.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Dated: January 9, 2001


Terry Winter, President

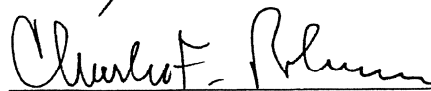

Charles Robinson, Secretary



EXHIBIT B

[To be provided subsequently as discussed in
the FPA Section 204 application]

EXHIBIT C

Exhibit C
California Independent System Operator Corporation
Balance Sheet (Unaudited)
March 31, 2013

Line No.	Title of Account (FERC Account)	Balance March 31, 2013	Pro Forma Adjustments For Issuance of New Bonds	Pro Forma Adjustments For Repayment of Bonds	Pro Forma Adjustments For Bond Amortization	03/31/2013 Balance After Pro Forma Adjustments
1	ASSETS AND OTHER DEBITS					
2	Utility Plant					
3	Utility Plant (101-106,114)	\$ 575,418,672				\$ 575,418,672
4	Construction Work in Progress (107)	7,218,494				7,218,494
5	Total Utility Plant	<u>582,637,166</u>				<u>582,637,166</u>
6	(Less) Accum. Prov. For Depr. Amor. Depl. (108,110,111,115)	345,048,400				345,048,400
7	Net Utility Plant	<u>237,588,766</u>				<u>237,588,766</u>
8						
9	Other Property and Investments					
10	Nonutility Property (121)	200,050				200,050
11	Other Investments (124)	90,738,839				90,738,839
12	Other Special Funds (128)	324,591,993	-	15,440,187	117,818	340,149,998
13	Total Other Property and Investments	<u>415,530,882</u>	-	<u>15,440,187</u>	<u>117,818</u>	<u>431,088,887</u>
14						
15	Current and Accrued Assets					
16	Cash (131)	8,150,752	191,714,999	(191,714,999)	4,001,296	12,152,048
17	Special Deposits (132-134)	36,928,431	12,195,001	(16,715,188)	-	32,408,244
18	Working Fund (135)	2,512				2,512
19	Customer Accounts Receivable (142)	2,111,551				2,111,551
20	Other Accounts Receivable (143)	413,690				413,690
21	Prepayments (165)	5,283,972				5,283,972
22	Interest and Dividends Receivable (171)	650,983				650,983
23	Accrued Utility Revenues (173)	7,184,365				7,184,365
24	Total Current and Accrued Assets	<u>60,726,256</u>	<u>203,910,000</u>	<u>(208,430,187)</u>	<u>4,001,296</u>	<u>60,207,365</u>
25						
26	Deferred Debits					
27	Unamortized Debt Expense/Loss on Refunding (181)	1,725,232	1,043,611	(1,671,260)	62,179	1,159,762
28	Clearing Accounts (184)	768,027				768,027
29	Miscellaneous Deferred Debits (186)	4,106,170				4,106,170
30	Total Deferred Debits	<u>6,599,429</u>	<u>1,043,611</u>	<u>(1,671,260)</u>	<u>62,179</u>	<u>6,033,959</u>
31						
32	TOTAL ASSETS	<u>\$ 720,445,333</u>	<u>\$ 204,953,611</u>	<u>\$ (194,661,260)</u>	<u>\$ 4,181,293</u>	<u>\$ 734,918,977</u>
33						
34	See notes to Balance Sheet					

Exhibit C
California Independent System Operator Corporation
Balance Sheet (Unaudited)
March 31, 2013

Line No.	Title of Account (FERC Account)	Balance March 31, 2013	Pro Forma Adjustments For Issuance of New Bonds	Pro Forma Adjustments For Retirement of 2009 Bonds	Pro Forma Adjustments For Bond Amortization	03/31/2013 Balance After Pro Forma Adjustments
35	LIABILITIES AND OTHER CREDITS					
36	Proprietary Capital					
37	Retained Earnings (215, 215.1,216)	\$ 149,731,171	\$ -	\$ (48,460)	\$ 4,970,527	\$ 154,653,238
38	Accumulated Other Comprehensive Income (219)	3,319,834				3,319,834
39	Total Proprietary Capital	<u>153,051,005</u>	-	(48,460)	4,970,527	<u>157,973,072</u>
40						
41	Long-Term Debt					
42	Bonds (221)	216,455,000	182,700,000	(192,990,000)		206,165,000
43	Unamortized Bond Premium (225)	1,930,712	22,253,611	(1,622,800)	(789,234)	21,772,289
44	Total Long-Term Debt	<u>218,385,712</u>	204,953,611	(194,612,800)	(789,234)	<u>227,937,289</u>
45						
46	Other NonCurrent Liabilities					
47	Accumulated Provision for Pensions and Benefits (228.3)	14,745,144				14,745,144
48	Total Other NonCurrent Liabilities	<u>14,745,144</u>	-	-	-	<u>14,745,144</u>
49						
50	Current and Accrued Liabilities					
51	Accounts Payable (232)	19,670,975				19,670,975
52	Customer Deposits (235)	309,484,868				309,484,868
53	Taxes Accrued (236)	22,405			-	22,405
54	Interest Accrued (237)	2,060,803				2,060,803
55	Total Current and Accrued Liabilities	<u>331,239,051</u>	-	-	-	<u>331,239,051</u>
56						
57	Deferred Credits					
58	Other Deferred Credits (253)	3,024,421			-	3,024,421
59	Total Deferred Credits	<u>3,024,421</u>	-	-	-	<u>3,024,421</u>
60						
61	TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	<u>\$ 720,445,333</u>	\$ 204,953,611	\$ (194,661,260)	\$ 4,181,293	<u>\$ 734,918,977</u>
62						
63	See notes to Balance Sheet					

Exhibit C
California Independent System Operator Corporation
Notes to Balance Sheet (Unaudited)
March 31, 2013

Line No.	Description	Pro Forma Adjustments
1	Issuance of Bonds	
2	The Proforma adjustments reflecting the issuance of bonds have the following components:	
3		
4	<u>Source and Use of Bond Proceeds</u>	
5	Bond Proceeds - Par Amount	\$ 182,700,000
6	Bond Proceeds - Net Premium	22,253,611
7	2009 Debt Service	14,775,000
8	DSRFDA Termination Gain	1,500,000
9	Bond Proceeds	<u>\$ 221,228,611</u>
10		
11	Use of Proceeds	
12	Special Funds - Series A 2009 Construction Fund	\$ 15,000,000
13	Refunding of Series A Bonds - Principal	192,990,000
14	Refunding of Series A Bonds - Interest Fund	12,195,001
15	Unamortized Debt Expense - Costs of issuance	650,000
16	Unamortized Debt Expense - Underwriter's discount, Letter of credit fees	388,768
17	Additional Proceeds	4,842
18	Bonds issued	<u>\$ 221,228,611</u>
19	No construction costs funded during period	
20		
21	Refunding of Series A 2009 Bonds	
22	The Proforma adjustments reflecting the retirement of the bonds have the following components:	
23		
24	Series A 2009 Bonds Outstanding Balance	\$ 192,990,000
25	Unamortized Premium	1,622,800
26	Unamortized Debt Expense	1,671,260
27	Debt Service Fund transfer	16,715,188
28	Interest Expense	11,195,175
29	Amortization of Premium	100,910
30	Amortization of Debt Expense	103,923
31	Series A 2009 Bonds Construction Fund	15,090,666
32		
33	Bond Amortization and Earnings On Construction Fund	
34	The Proforma adjustments reflecting the amortization of bonds have the following components:	
35		
36	Issuance date - April 1, 2012 (Actual issuance will be in August 2013-- 4/1/2012 is assumed for purposes	
37	of this pro-forma statement.	
38	Amortization date - March 31, 2013	
39	Interest rate - all in	3.9375361%
40	Interest cost - Year 1 (line 13 x line 6); paid from cash account	<u>\$ 7,193,879</u>
41	Principal reduction:	
42	Year 1	\$ -
43	Year 2	4,010,000
44	Year 3	4,125,000
45	Year 4	4,290,000
46	Year 5	4,460,000
47	Years 6 - 25	165,815,000
48	Total	<u>\$ 182,700,000</u>
49	Unamortized Debt Expense (Method - ratably over 25 years)	
50	Expense - Year 1 ((line 15 + line 16 + line 17) / 25)	<u>\$ 41,744</u>
51	Bond Premium Amortization (Method - ratably over 25 years)	
52	Amortization - Year 1 (line 6 / 25)	<u>\$ 890,144</u>
53	Loss of Refunding of Series A 2009 Bonds (Immediate Recognition)	
54	Expense - Year 1 only (line 26 - line 25)	<u>\$ 48,460</u>
55	<u>Revenues</u>	
56	Interest rate earned on Money Market funds	0.78545%
57	Interest Income ((line 12) * line 44)	<u>\$ 117,818</u>
58	No adjustment was made to increase GMC revenues to cover the proforma debt service	

EXHIBIT D

Exhibit D
California Independent System Operator Corporation
Statement of Income (Unaudited)
For the 12-Month Period Ended March 31, 2013

Line No.	Title of Account (FERC Account)	12-Month Period Ended March 31, 2013	Pro Forma Adjustments For Bond Amortization	03/31/2013 Balance After Pro Forma Adjustments
1	Utility Operating Income			
2	Operating Revenues (400)	\$ 210,657,954	\$ -	\$ 210,657,954
3				
4	Operating Expenses			
5	Operating Expenses (401)	120,980,001	-	120,980,001
6	Maintenance Expenses (402)	34,904,464	-	34,904,464
7	Depreciation Expense (403)	72,899,063	-	72,899,063
8	Taxes Other Than Income Taxes (408.1)	48,267	-	48,267
9	Losses from Disposition of Utility Plant (411)	(289,031)	-	(289,031)
10	Total Utility Operating Expenses	<u>228,542,764</u>	-	<u>228,542,764</u>
11				
12	Net Utility Operating Loss	<u>(17,884,810)</u>	-	<u>(17,884,810)</u>
13				
14	Other Income			
15				
16	Interest and Dividend Income (419)	1,667,590	117,818	1,785,408
17	Miscellaneous Non-operating Income (421)	98,244	-	98,244
18	Other Deductions (426)	(199,631)	-	(199,631)
19	Total Other Income	<u>1,566,203</u>	<u>117,818</u>	<u>1,684,021</u>
20				
21	Interest Charges			
22	Interest on Long-term Debt (427)	13,924,169	(4,001,296)	9,922,873
23	Amortization of Debt Expense/Loss of Refunding (428)	360,122	(13,719)	346,403
24	Amortization of Bond Premium (429)	(943,131)	(789,234)	(1,732,365)
25	Other Interest Expense (431)	1,690,477	-	1,690,477
26	Net Interest Charges	<u>15,031,637</u>	<u>(4,804,249)</u>	<u>10,227,388</u>
27				
28	Net Loss	<u>\$ (31,350,244)</u>	<u>\$ 4,922,067</u>	<u>\$ (26,428,177)</u>
29				
30	See notes to Statement of Income			

Exhibit D
California Independent System Operator Corporation
Notes to Statement of Income (Unaudited)
March 31, 2013

Line No.	Description	Pro Forma Adjustments
1	Issuance of Bonds	
2	The Proforma adjustments reflecting the issuance of bonds have the following components:	
3		
4	<u>Source and Use of Bond Proceeds</u>	
5	Bond Proceeds - Par Amount	\$ 182,700,000
6	Bond Proceeds - Net Premium	22,253,611
7	2009 Debt Service	14,775,000
8	DSRFDA Termination Gain	1,500,000
9	Bond Proceeds	<u>\$ 221,228,611</u>
10		
11	Use of Proceeds	
12	Special Funds - Series A 2009 Construction Fund	\$ 15,000,000
13	Refunding of Series A Bonds - Principal	192,990,000
14	Refunding of Series A Bonds - Interest Fund	12,195,001
15	Unamortized Debt Expense - Costs of issuance	650,000
16	Unamortized Debt Expense - Underwriter's discount, Letter of credit fees	388,768
17	Additional Proceeds	4,842
18	Bonds issued	<u>\$ 221,228,611</u>
19	No construction costs funded during period	
20		
21	Refunding of Series A 2009 Bonds	
22	The Proforma adjustments reflecting the retirement of the bonds have the following components:	
23		
24	Series A 2009 Bonds Outstanding Balance	\$ 192,990,000
25	Unamortized Premium	1,622,800
26	Unamortized Debt Expense	1,671,260
27	Debt Service Fund transfer	16,715,188
28	Interest Expense	11,195,175
29	Amortization of Premium	100,910
30	Amortization of Debt Expense	103,923
31	Series A 2009 Bonds Construction Fund	15,090,666
32		
33	Bond Amortization and Earnings On Construction Fund	
34	The Proforma adjustments reflecting the amortization of bonds have the following components:	
35		
36	Issuance date - April 1, 2012 (Actual issuance will be in August 2013-- 4/1/2012 is assumed for purposes	
37	of this pro-forma statement.	
38	Amortization date - March 31, 2013	
39	Interest rate - all in	3.9375361%
40	Interest cost - Year 1 (line 13 x line 6); paid from cash account	<u>\$ 7,193,879</u>
41	Principal reduction:	
42	Year 1	\$ -
43	Year 2	4,010,000
44	Year 3	4,125,000
45	Year 4	4,290,000
46	Year 5	4,460,000
47	Years 6 - 25	165,815,000
48	Total	<u>\$ 182,700,000</u>
49	Unamortized Debt Expense (Method - ratably over 25 years)	
50	Expense - Year 1 ((line 15 + line 16 + line 17) / 25)	<u>\$ 41,744</u>
51	Bond Premium Amortization (Method - ratably over 25 years)	
52	Amortization - Year 1 (line 6 / 25)	<u>\$ 890,144</u>
53	Loss of Refunding of Series A 2009 Bonds (Immediate Recognition)	
54	Expense - Year 1 only (line 26 - line 25)	<u>\$ 48,460</u>
55	<u>Revenues</u>	
56	Interest rate earned on Money Market funds	0.78545%
57	Interest Income ((line 12) * line 44)	<u>\$ 117,818</u>
58	No adjustment was made to increase GMC revenues to cover the proforma debt service	

EXHIBIT E

Exhibit E
California Independent System Operator Corporation
Statement of Cash Flows (Unaudited)
For the 12-Month Period Ended March 31, 2013

Line No.	Account Description	12-Month Period Ended March 31, 2013	Pro Forma Adjustments For Issuance of Bonds	Pro Forma Adjustments For Retirement of 2009 Bonds	Pro Forma Adjustments For Bond Amortization	3/31/2013 Balance After Pro Forma Adjustments
1	Net Cash Flow from Operating Activities					
2	Net Loss	\$ (31,350,244)	\$ -	\$ (48,460)	\$ 4,970,527	\$ (26,428,177)
3	Noncash Charges (Credits) to Income:					
4	Depreciation and Depletion	72,899,063				72,899,063
5	Amortization of Debt Expense/Loss on Refunding	360,122		48,460	(62,179)	346,403
6	Amortization of Bond Premium	(943,131)			(789,234)	(1,732,365)
7	Allowance for Funds Used During Construction	(341,651)				(341,651)
8	Net Increase in Receivables and Other Assets	(3,127,634)				(3,127,634)
9	Net Increase in Payables and Accrued Expenses	6,727,146				6,727,146
10	Net Increase in Other Deferred Credits	1,971,130				1,971,130
11	Net Cash Provided by Operating Activities	<u>46,194,801</u>	-	-	4,119,114	<u>50,313,915</u>
12						
13	Cash Flows From Investment Activities					
14	Gross Additions to Common Utility Plant	(30,091,153)				(30,091,153)
15	Net Proceeds from Purchases of Investments	(16,737,250)				(16,737,250)
16	Net Cash Used In Investing Activities	<u>(46,828,403)</u>	-	-	-	<u>(46,828,403)</u>
17						
18	Cash Flows from Financing Activities					
19	Net Proceeds from Issuance of Long-Term Debt	-	203,910,000	(192,990,000)	-	10,920,000
20	Increase in Customer Deposits	28,623,376				28,623,376
21	Payments for Retirement of Long-Term Debt	(39,580,000)	-	-	-	(39,580,000)
22	Decrease (Increase) in Special Deposits	561,305	(12,195,001)	16,715,188	-	5,081,492
23	Increase Other Special Funds	(15,615,830)	-	(15,440,187)	(117,818)	(31,173,835)
24	Net Cash Used In Financing Activities	<u>(26,011,149)</u>	191,714,999	(191,714,999)	(117,818)	<u>(26,128,967)</u>
25						
26	Net Decrease in Cash and Cash Equivalents	(26,644,751)	191,714,999	(191,714,999)	4,001,296	(22,643,455)
27						
28	Cash and Cash Equivalents at Beginning of Period	<u>34,795,503</u>	-	-	-	<u>34,795,503</u>
29						
30	Cash and Cash Equivalents at End of Period	<u>\$ 8,150,752</u>	<u>\$ 191,714,999</u>	<u>\$ (191,714,999)</u>	<u>\$ 4,001,296</u>	<u>\$ 12,152,048</u>
31						
32	See notes to Statement of Cash Flows					

Exhibit E
California Independent System Operator Corporation
Notes to Statement of Cash Flows (Unaudited)
March 31, 2013

Line No.	Description	Pro Forma Adjustments
1	Issuance of Bonds	
2	The Proforma adjustments reflecting the issuance of bonds have the following components:	
3		
4	<u>Source and Use of Bond Proceeds</u>	
5	Bond Proceeds - Par Amount	\$ 182,700,000
6	Bond Proceeds - Net Premium	22,253,611
7	2009 Debt Service	14,775,000
8	DSRFDA Termination Gain	1,500,000
9	Bond Proceeds	<u>\$ 221,228,611</u>
10		
11	Use of Proceeds	
12	Special Funds - Series A 2009 Construction Fund	\$ 15,000,000
13	Refunding of Series A Bonds - Principal	192,990,000
14	Refunding of Series A Bonds - Interest Fund	12,195,001
15	Unamortized Debt Expense - Costs of issuance	650,000
16	Unamortized Debt Expense - Underwriter's discount, Letter of credit fees	388,768
17	Additional Proceeds	4,842
18	Bonds issued	<u>\$ 221,228,611</u>
19	No construction costs funded during period	
20		
21	Refunding of Series A 2009 Bonds	
22	The Proforma adjustments reflecting the retirement of the bonds have the following components:	
23		
24	Series A 2009 Bonds Outstanding Balance	\$ 192,990,000
25	Unamortized Premium	1,622,800
26	Unamortized Debt Expense	1,671,260
27	Debt Service Fund transfer	16,715,188
28	Interest Expense	11,195,175
29	Amortization of Premium	100,910
30	Amortization of Debt Expense	103,923
31	Series A 2009 Bonds Construction Fund	15,090,666
32		
33	Bond Amortization and Earnings On Construction Fund	
34	The Proforma adjustments reflecting the amortization of bonds have the following components:	
35		
36	Issuance date - April 1, 2012 (Actual issuance will be in August 2013-- 4/1/2012 is assumed for purposes	
37	of this pro-forma statement.	
38	Amortization date - March 31, 2013	
39	Interest rate - all in	3.9375361%
40	Interest cost - Year 1 (line 13 x line 6); paid from cash account	<u>\$ 7,193,879</u>
41	Principal reduction:	
42	Year 1	\$ -
43	Year 2	4,010,000
44	Year 3	4,125,000
45	Year 4	4,290,000
46	Year 5	4,460,000
47	Years 6 - 25	165,815,000
48	Total	<u>\$ 182,700,000</u>
49	Unamortized Debt Expense (Method - ratably over 25 years)	
50	Expense - Year 1 ((line 15 + line 16 + line 17) / 25)	<u>\$ 41,744</u>
51	Bond Premium Amortization (Method - ratably over 25 years)	
52	Amortization - Year 1 (line 6 / 25)	<u>\$ 890,144</u>
53	Loss of Refunding of Series A 2009 Bonds (Immediate Recognition)	
54	Expense - Year 1 only (line 26 - line 25)	<u>\$ 48,460</u>
55	<u>Revenues</u>	
56	Interest rate earned on Money Market funds	0.78545%
57	Interest Income ((line 12) * line 44)	<u>\$ 117,818</u>
58	No adjustment was made to increase GMC revenues to cover the proforma debt service	

Exhibit E
California Independent System Operator Corporation
Schedule of Interest Coverage
For the 12-Month Period Ended March 31, 2013

Line No.	Description	12-Month Period Ended March 31, 2013	Pro Forma Adjustments For Bond Amortization	3/31/2013 Balance After Pro Forma Adjustments
1	Net Loss	\$ (31,350,244)	\$ 4,922,067	\$ (26,428,177)
2				
3	Add Back:			
4	Depreciation	\$ 72,899,063	\$ -	72,899,063
5	Interest on Long-Term Debt	13,924,169	(4,001,296)	9,922,873
6	Other Interest Expense	1,690,477	-	1,690,477
7	Total Interest Expense	<u>88,513,709</u>	<u>(4,001,296)</u>	<u>84,512,413</u>
8				
9	Income before Interest and Depreciation	<u>\$ 57,163,465</u>	<u>\$ 920,771</u>	<u>\$ 58,084,236</u>
10				
11	Total Interest Expense (line 5 and 6)	\$ 15,614,646	\$ (4,001,296)	\$ 11,613,350
12	Interest capitalized to Utility Plant	341,651	-	341,651
13	Total Interest Incurred	<u>\$ 15,956,297</u>	<u>\$ (4,001,296)</u>	<u>\$ 11,955,001</u>
14				
15	Computation of Interest Coverage			
16	Interest coverage (line 9 / line 13)	<u>3.58</u>		<u>4.86</u>

Exhibit E
California Independent System Operator Corporation
Notes to Schedule of Interest Coverage
March 31, 2013

Line No.	Description	Pro Forma Adjustments
1	Issuance of Bonds	
2	The Proforma adjustments reflecting the issuance of bonds have the following components:	
3		
4	<u>Source and Use of Bond Proceeds</u>	
5	Bond Proceeds - Par Amount	\$ 182,700,000
6	Bond Proceeds - Net Premium	22,253,611
7	2009 Debt Service	14,775,000
8	DSRFDA Termination Gain	1,500,000
9	Bond Proceeds	<u>\$ 221,228,611</u>
10		
11	Use of Proceeds	
12	Special Funds - Series A 2009 Construction Fund	\$ 15,000,000
13	Refunding of Series A Bonds - Principal	192,990,000
14	Refunding of Series A Bonds - Interest Fund	12,195,001
15	Unamortized Debt Expense - Costs of issuance	650,000
16	Unamortized Debt Expense - Underwriter's discount, Letter of credit fees	388,768
17	Additional Proceeds	4,842
18	Bonds issued	<u>\$ 221,228,611</u>
19	No construction costs funded during period	
20		
21	Refunding of Series A 2009 Bonds	
22	The Proforma adjustments reflecting the retirement of the bonds have the following components:	
23		
24	Series A 2009 Bonds Outstanding Balance	\$ 192,990,000
25	Unamortized Premium	1,622,800
26	Unamortized Debt Expense	1,671,260
27	Debt Service Fund transfer	16,715,188
28	Interest Expense	11,195,175
29	Amortization of Premium	100,910
30	Amortization of Debt Expense	103,923
31	Series A 2009 Bonds Construction Fund	15,090,666
32		
33	Bond Amortization and Earnings On Construction Fund	
34	The Proforma adjustments reflecting the amortization of bonds have the following components:	
35		
36	Issuance date - April 1, 2012 (Actual issuance will be in August 2013-- 4/1/2012 is assumed for purposes	
37	of this pro-forma statement.	
38	Amortization date - March 31, 2013	
39	Interest rate - all in	3.9375361%
40	Interest cost - Year 1 (line 13 x line 6); paid from cash account	<u>\$ 7,193,879</u>
41	Principal reduction:	
42	Year 1	\$ -
43	Year 2	4,010,000
44	Year 3	4,125,000
45	Year 4	4,290,000
46	Year 5	4,460,000
47	Years 6 - 25	165,815,000
48	Total	<u>\$ 182,700,000</u>
49	Unamortized Debt Expense (Method - ratably over 25 years)	
50	Expense - Year 1 ((line 15 + line 16 + line 17) / 25)	<u>\$ 41,744</u>
51	Bond Premium Amortization (Method - ratably over 25 years)	
52	Amortization - Year 1 (line 6 / 25)	<u>\$ 890,144</u>
53	Loss of Refunding of Series A 2009 Bonds (Immediate Recognition)	
54	Expense - Year 1 only (line 26 - line 25)	<u>\$ 48,460</u>
55	<u>Revenues</u>	
56	Interest rate earned on Money Market funds	0.78545%
57	Interest Income ((line 12) * line 44)	<u>\$ 117,818</u>
58	No adjustment was made to increase GMC revenues to cover the proforma debt service	

EXHIBIT F

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2009A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2009A Bonds is exempt from State of California personal income tax. See “TAX MATTERS” herein with respect to other tax consequences with respect to the 2009A Bonds.

\$200,000,000
California Infrastructure and Economic Development Bank
Revenue Bonds
(California Independent System Operator Corporation Project)
2009 Series A

Dated: Date of Delivery

Due: February 1, as shown on inside cover

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 \$200,000,000 aggregate principal amount of Revenue Bonds (California Independent System Operator Corporation Project) 2009 Series A (the “2009A 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) the design and construction of a new headquarters building for the California Independent System Operator Corporation (the “Corporation”), and (b) the acquisition or development of computer hardware and software systems and the acquisition of office equipment (collectively, the “2009A Project”); (ii) fund capitalized interest; (iii) fund the 2009A Debt Service Reserve Account (defined herein); and (iv) pay costs of issuance of the 2009A Bonds. See “THE 2009A PROJECT” herein. The 2009A Bonds are being issued pursuant to an Indenture of Trust (the “2009A Indenture”), dated as of July 1, 2009, between the Infrastructure Bank and Deutsche Bank National Trust Company, as trustee (the “Trustee”).

In order to finance the 2009A Project, the Infrastructure Bank will loan the proceeds of the 2009A Bonds to the Corporation pursuant to a Loan Agreement, dated as of July 1, 2009 (the “2009A Loan Agreement”), by and between the Infrastructure Bank and the Corporation. Pursuant to the 2009A Loan Agreement, the Corporation has pledged its Net Operating Revenues and has granted a deed of trust (the “Deed of Trust”) as described herein (see “SECURITY FOR THE 2009A BONDS – Limitations Relating to Remedies under the Deed of Trust – Value upon Foreclosure” herein) to secure its obligation under the 2009A Loan Agreement to make payments equal to principal of and interest on the 2009A Bonds. The Corporation’s Net Operating Revenue pledge is on a parity with the pledge of such Net Operating Revenues securing certain Parity Obligations, including the Corporation’s obligations to make repayment installments (the “2008 Repayment Installments”) under that certain Loan Agreement, dated as of June 1, 2008, by and between the Infrastructure Bank and the Corporation, entered into in connection with the issuance of the Infrastructure Bank’s Revenue Bonds (California Independent System Operator Corporation Project) 2008 Series A, as described herein. See “SECURITY FOR THE 2009A BONDS—Outstanding Parity Obligations” herein. The 2009A Loan Agreement permits the Corporation to enter into additional Parity Obligations, subject to the conditions set forth therein.



The 2009A Bonds will be issuable as fully registered bonds initially in authorized denominations of \$5,000 or any integral multiple thereof. The 2009A 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 2009A Bonds. See APPENDIX D – “DTC AND THE BOOK-ENTRY ONLY SYSTEM” herein. Interest on the 2009A Bonds will be payable semiannually on February 1 and August 1 each year, commencing on February 1, 2010. Principal, premium, if any, and interest on the 2009A Bonds are payable by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the 2009A Bonds, as described herein.

The 2009A Bonds are subject to optional and mandatory redemption prior to maturity as described herein.

NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2009A BONDS. THE 2009A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE LIMITED OBLIGATION OF THE INFRASTRUCTURE BANK, PAYABLE SOLELY FROM 2009A REVENUES AND THE OTHER FUNDS PROVIDED THEREFOR PURSUANT TO THE 2009A INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR ANY POLITICAL SUBDIVISION THEREOF IS IN ANY MANNER OBLIGATED TO MAKE ANY APPROPRIATION FOR SUCH PAYMENTS. THE INFRASTRUCTURE BANK HAS NO TAXING POWERS.

The 2009A 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 Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel to the Infrastructure Bank. Certain legal matters will be passed upon for the Infrastructure Bank by its General Counsel, for the Corporation by its General Counsel and by its special counsel, Orrick, Herrington & Sutcliffe LLP, and for the Underwriters by their counsel, Nixon Peabody LLP. The 2009A Bonds are expected to be available for delivery through the facilities of DTC in New York, New York, on or about July 22, 2009.

RBC Capital Markets

J.P. Morgan

Merrill Lynch & Co.

\$200,000,000
California Infrastructure and Economic Development Bank
Revenue Bonds
(California Independent System Operator Corporation Project)
2009 Series A

MATURITY SCHEDULE

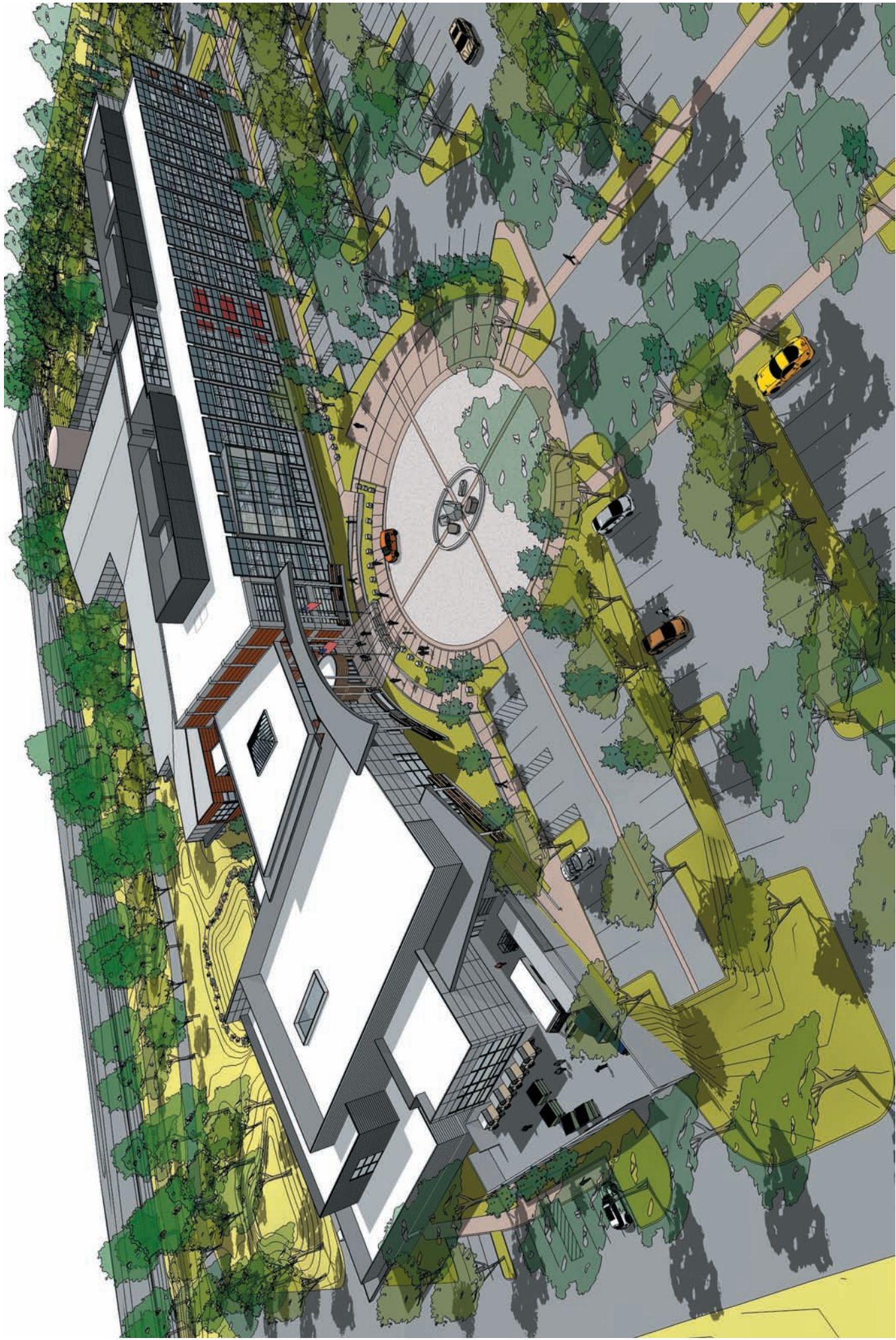
\$57,885,000 Serial Bonds

Maturity Date (February 1)	Principal Amount	Interest Rate	Yield	CUSIP[†] (13033)	Maturity Date (February 1)	Principal Amount	Interest Rate	Yield	CUSIP[†] (13033)
2012	\$3,455,000	3.00%	2.43%	W2F9	2020	\$3,195,000	5.25%	4.82%*	W2W2
2013	3,555,000	3.50	2.92	W2G7	2021	5,005,000	5.25	4.97*	W2Q5
2014	3,680,000	4.00	3.38	W2H5	2022	1,625,000	5.00	5.10	W2R3
2015	3,830,000	4.00	3.68	W2J1	2022	3,645,000	5.25	5.10*	W2X0
2016	3,980,000	4.00	3.97*	W2K8	2023	3,990,000	5.00	5.20	W2Y8
2017	4,140,000	4.25	4.29	W2L6	2023	1,550,000	5.125	5.20	W2S1
2018	4,315,000	5.00	4.45*	W2M4	2024	1,485,000	5.00	5.29	W2Z5
2019	4,535,000	5.00	4.62*	W2N2	2024	4,335,000	5.25	5.29	W2T9
2020	1,565,000	5.00	4.82*	W2P7					

\$10,000,000	5.50%	Term Bonds due February 1, 2030	Price 97.951%	CUSIP [†] 13033W3A9
\$7,240,000	5.625%	Term Bonds due February 1, 2030	Price 99.456%	CUSIP [†] 13033W2U6
\$25,255,000	6.00%	Term Bonds due February 1, 2030	Price 101.544%*	CUSIP [†] 13033W3B7
\$9,500,000	5.75%	Term Bonds due February 1, 2039	Price 98.186%	CUSIP [†] 13033W2V4
\$90,120,000	6.25%	Term Bonds due February 1, 2039	Price 101.721%*	CUSIP [†] 13033W3C5

[†] A registered trademark of The American Bankers Association. CUSIP is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers are provided for convenience of reference only. Neither the Infrastructure Bank, the Corporation, the Financial Advisor nor the Underwriters assume any responsibility for the accuracy of such numbers.

* Priced to February 1, 2015 par call.



Artist's Rendition of the Proposed California Independent System Operator Corporation Headquarters Facility

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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 2009A 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 2009A 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 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 2009A 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.

In connection with the offering of the 2009A Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the 2009A 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 2009A 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 INDEPENDENT SYSTEM OPERATOR

Officers

Yakout Mansour, *President and Chief Executive Officer*
Steve B. Berberich, *Vice President of Corporate Services/Interim Chief Financial Officer and Treasurer*
James W. Detmers, *Vice President of Operations*
Karen Edson, *Vice President of External Affairs*
Nancy Saracino, *General Counsel and Corporate Secretary*
Laura Manz, *Vice President Market and Infrastructure Development*

SPECIAL SERVICES

Issuer

California Infrastructure and Economic Development Bank

Bond Counsel

Stradling, Yocca Carlson & Rauth, a Professional Corporation

Special Counsel to the California Independent System Operator

Orrick, Herrington & Sutcliffe LLP

Financial Advisor

Sperry Capital Inc.

Agent of Sale

Treasurer of the State of California

Trustee

Deutsche Bank National Trust Company

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OFFICIAL STATEMENT
relating to
\$200,000,000
California Infrastructure and Economic Development Bank
Revenue Bonds
(California Independent System Operator Corporation Project)
2009 Series A

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 2009A 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 C – “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 Revenue Bonds (California Independent System Operator Corporation Project) 2009 Series A in the principal amount of \$200,000,000 (the “2009A Bonds”).

The 2009A Bonds are being issued by the Infrastructure Bank under and pursuant to an Indenture of Trust, dated as of July 1, 2009 (the “2009A 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) the design and construction of a new headquarters building for the California Independent System Operator Corporation (the “Corporation”), and (b) the acquisition or development of computer hardware and software systems and the acquisition of office equipment (collectively, the “2009A Project”); (ii) fund capitalized interest; (iii) fund a reserve account (the “2009A Debt Service Reserve Account”); and (iv) pay costs of issuance of the 2009A Bonds. See “THE 2009A PROJECT” 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 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” and APPENDIX A – “INFORMATION

CONCERNING THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION” herein.

Security and Sources of Payment for the 2009A Bonds

2009A Bonds. In connection with the loan of the proceeds of the 2009A Bonds to the Corporation, the Infrastructure Bank and the Corporation will enter into a Loan Agreement, dated as of July 1, 2009 (the “2009A Loan Agreement”). Pursuant to the 2009A Loan Agreement, the Corporation will be obligated to make certain payments (the “2009A 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 2009A Bonds. Subject to the terms and conditions of the 2009A Loan Agreement permitting application thereof for the purposes and on the conditions set forth in the 2009A Loan Agreement (including the payment of Operating Costs), the Corporation has pledged pursuant to the 2009A Loan Agreement its Net Operating Revenues to secure its obligation to make payments of 2009A Repayment Installments, which in turn secure the payment of principal of and interest on the 2009A Bonds. The pledge of Net Operating Revenues is on a parity with the pledge of such Net Operating Revenues securing certain Parity Obligations, including the Corporation’s obligations to make repayment installments (the “2008 Loan Repayments”) under that certain Loan Agreement, dated as of June 1, 2008 (the “2008 Loan Agreement”), by and between the Infrastructure Bank and the Corporation, entered into in connection with the issuance of the Infrastructure Bank’s Revenue Bonds (California Independent System Operator Corporation Project) 2008 Series A (the “2008 Bonds”). See “SECURITY FOR THE 2009A BONDS—Outstanding Parity Obligations” herein. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.” See APPENDIX A – “INFORMATION CONCERNING THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION – Risk Factors – *ISO Charges and GMC*.” The Corporation has granted a deed of trust (the “Deed of Trust”) with respect to the Headquarters Facility (as described herein). See “SECURITY FOR THE 2009A BONDS – Limitations Relating to Remedies under the Deed of Trust – Value Upon Foreclosure.”

A 2009A Debt Service Reserve Account is established pursuant to the 2009A Indenture in an amount equal to the 2009A Debt Service Reserve Account Requirement (as defined in the 2009A Indenture). The 2009A Debt Service Reserve Account Requirement for the 2009A Bonds shall be \$14,775,187.50 upon the issuance of the 2009A Bonds. See “SECURITY FOR THE 2009A BONDS—2009A Debt Service Reserve Account” herein. Amounts on deposit in the 2009A Debt Service Reserve Account shall be applied to the payment of the principal or redemption price of, or interest on, the 2009A Bonds in the event that amounts on deposit in the 2009A Bond Fund are insufficient therefor. The 2009A Debt Service Reserve Account does not secure and is not available to make payments with respect to the 2008 Bonds or any other Parity Obligations.

NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2009A BONDS. THE 2009A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE LIMITED OBLIGATION OF THE INFRASTRUCTURE BANK, PAYABLE SOLELY FROM 2009A REVENUES AND THE OTHER FUNDS PROVIDED THEREFOR PURSUANT TO THE INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR ANY POLITICAL SUBDIVISION THEREOF IS IN ANY MANNER OBLIGATED TO MAKE ANY APPROPRIATION FOR SUCH PAYMENTS. THE INFRASTRUCTURE BANK HAS NO TAXING POWER.

Other Matters

Brief descriptions of the Infrastructure Bank and the Projects, as well as certain provisions of the 2009A Bonds, the 2009A Loan Agreement, the 2009A Indenture and certain other documents relating to the 2009A 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 2009A 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 C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—Definitions” or if not defined therein, in the Indenture.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 2009A Bonds are expected to be applied in the estimated amounts as follows:

Estimated Sources:	<u>Total</u>
Principal Amount of 2009A Bonds.....	\$200,000,000
Plus: Net Original Issue Premium.....	1,998,064
Total Sources	<u>\$201,998,064</u>
 Estimated Uses:	
Construction Fund	\$160,984,613
Debt Service Reserve Account	14,775,187
Capitalized Interest ⁽¹⁾	24,108,178
Costs of Issuance ⁽²⁾	2,130,086
Total Uses	<u>\$201,998,064</u>

⁽¹⁾ Represents interest on a portion of the 2009A Bonds through November 1, 2011.

⁽²⁾ Includes legal, financing, consulting fees, rating agency fees, underwriters' discount, trustee 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 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 2009A 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 Corporation is a not-for-profit public benefit corporation incorporated in May 1997 and which assumed operational control of the transmission facilities (also called the transmission lines or

transmission systems) of the three largest investor-owned electric utilities in California on March 31, 1998. The Corporation has subsequently assumed operational control of transmission assets of six municipal utilities, two private transmission owning corporations, and a federal power agency. Under its tariff on file with and approved by the Federal Energy Regulatory Commission (the “Tariff”), the Corporation provides transmission service over, and procures electric energy and capacity necessary to ensure the reliable operation of, the transmission systems that the Corporation operates.

For additional information concerning the Corporation, see APPENDIX A – “INFORMATION CONCERNING THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION” herein.

THE 2009A BONDS

The following is a summary of certain provisions of the 2009A Bonds. Reference is made to the 2009A Bonds for the complete text thereof and to the 2009A Indenture for a more detailed description of such provisions. The discussion herein is qualified by such reference. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” herein.

General

The 2009A Bonds will be issued in the aggregate principal amount set forth on the cover of this Official Statement. The 2009A Bonds will be dated their date of delivery and will bear interest at the rates and mature on the dates and in the amounts set forth on the cover page of this Official Statement. Ownership interests in the 2009A Bonds will be in denominations of \$5,000 or any integral multiple thereof. Interest on the 2009A Bonds is payable on February 1, 2010, and semiannually thereafter on February 1 and August 1 of each year.

The 2009A 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 2009A Bonds. So long as the 2009A Bonds are held in the book-entry system, DTC or its nominee will be the registered owner of the 2009A Bonds for all purposes of the 2009A Indenture, the 2009A 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 2009A 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 2009A Bonds will be made pursuant to DTC’s rules and procedures. See APPENDIX D – “DTC AND THE BOOK-ENTRY ONLY SYSTEM” herein.

Redemption of the 2009A Bonds

Optional Redemption. The 2009A Bonds maturing on or after February 1, 2016, are subject to redemption prior to their respective stated maturities, as a whole or in part on any date on or after February 1, 2015, at the principal amount of the 2009A Bonds to be redeemed, without premium, plus unpaid accrued interest, if any, to the date of redemption, from any moneys received by the Trustee from the Corporation pursuant to the 2009A Loan Agreement and deposited in the Optional Redemption Account, provided in each case that the maturities and the principal amount of 2009A Bonds of each maturity to be redeemed from the amount so prepaid and the redemption date shall be as specified in the Request of the Corporation given pursuant to the 2009A Loan Agreement.

Mandatory Redemption from Sinking Fund Installments. The 2009A Bonds maturing on February 1, 2030 with an interest rate of 5.50% are subject to redemption, in part, by lot, from Mandatory

Sinking Fund Installments deposited in the Bond Fund on each February 1, from and after February 1, 2025 at the principal amount of the 2009A Bonds to be redeemed, without premium. Sinking Fund Installments for the 2009A Bonds maturing on February 1, 2030 with an interest rate of 5.50% shall be due on the following dates and in the following amounts:

<i>Sinking Fund Installment Due Date February 1</i>	<i>Sinking Fund Installment</i>
2025	\$1,620,000
2026	1,635,000
2027	1,650,000
2028	1,675,000
2029	1,695,000
2030*	1,725,000

* Maturity.

In the event that 2009A Bonds maturing on February 1, 2030 with an interest rate of 5.50%, have been redeemed pursuant to the provisions of the Indenture described under “Optional Redemption” above, the remaining sinking fund Installments shall be reduced, in an aggregate amount equal to the principal amount of such 2009A Bonds so redeemed, as directed in writing by an Authorized Corporation Representative, and in the absence of such direction, as proportionately as possible in integral multiples of the applicable Authorized Denominations.

The 2009A Bonds maturing on February 1, 2030 with an interest rate of 5.625% are subject to redemption, in part, by lot, from Mandatory Sinking Fund Installments deposited in the Bond Fund on each February 1, from and after February 1, 2025 at the principal amount of the 2009A Bonds to be redeemed, without premium. Sinking Fund Installments for the 2009A Bonds maturing on February 1, 2030 with an interest rate of 5.625% shall be due on the following dates and in the following amounts:

<i>Sinking Fund Installment Due Date February 1</i>	<i>Sinking Fund Installment</i>
2025	\$1,055,000
2026	1,115,000
2027	1,160,000
2028	1,230,000
2029	1,300,000
2030*	1,380,000

* Maturity.

In the event that 2009A Bonds maturing on February 1, 2030 with an interest rate of 5.625%, have been redeemed pursuant to the provisions of the Indenture described under “Optional Redemption” above, the remaining sinking fund Installments shall be reduced, in an aggregate amount equal to the principal amount of such 2009A Bonds so redeemed, as directed in writing by an Authorized Corporation Representative, and in the absence of such direction, as proportionately as possible in integral multiples of the applicable Authorized Denominations.

The 2009A Bonds maturing on February 1, 2030 with an interest rate of 6.00% are subject to redemption, in part, by lot, from Mandatory Sinking Fund Installments deposited in the Bond Fund on each February 1, from and after February 1, 2025 at the principal amount of the 2009A Bonds to be

redeemed, without premium. Sinking Fund Installments for the 2009A Bonds maturing on February 1, 2030 with an interest rate of 6.00% shall be due on the following dates and in the following amounts:

<i>Sinking Fund Installment</i>		<i>Sinking Fund Installment</i>
<i>Due Date February 1</i>		
2025		\$3,445,000
2026		3,725,000
2027		4,045,000
2028		4,345,000
2029		4,680,000
2030*		5,015,000

* Maturity.

In the event that 2009A Bonds maturing on February 1, 2030 with an interest rate of 6.00%, have been redeemed pursuant to the provisions of the Indenture described under “Optional Redemption” above, the remaining sinking fund Installments shall be reduced, in an aggregate amount equal to the principal amount of such 2009A Bonds so redeemed, as directed in writing by an Authorized Corporation Representative, and in the absence of such direction, as proportionately as possible in integral multiples of the applicable Authorized Denominations.

The 2009A Bonds maturing on February 1, 2039 with an interest rate of 5.75% are subject to redemption, in part, by lot, from Mandatory Sinking Fund Installments deposited in the Bond Fund on each February 1, from and after February 1, 2031 at the principal amount of the 2009A Bonds to be redeemed, without premium. Sinking Fund Installments for the 2009A Bonds maturing on February 1, 2039 with an interest rate of 5.75% shall be due on the following dates and in the following amounts:

<i>Sinking Fund Installment</i>		<i>Sinking Fund Installment</i>
<i>Due Date February 1</i>		
2031		\$ 435,000
2032		565,000
2033		710,000
2034		865,000
2035		1,030,000
2036		1,185,000
2037		1,375,000
2038		1,565,000
2039*		1,770,000

* Maturity.

In the event that 2009A Bonds maturing on February 1, 2039 with an interest rate of 5.75%, have been redeemed pursuant to the provisions of the Indenture described under “Optional Redemption” above, the remaining sinking fund Installments shall be reduced, in an aggregate amount equal to the principal amount of such 2009A Bonds so redeemed, as directed in writing by an Authorized Corporation Representative, and in the absence of such direction, as proportionately as possible in integral multiples of the applicable Authorized Denominations.

The 2009A Bonds maturing on February 1, 2039 with an interest rate of 6.25% are subject to redemption, in part, by lot, from Mandatory Sinking Fund Installments deposited in the Bond Fund on each February 1, from and after February 1, 2031 at the principal amount of the 2009A Bonds to be

redeemed, without premium. Sinking Fund Installments for the 2009A Bonds maturing on February 1, 2039 with an interest rate of 6.25% shall be due on the following dates and in the following amounts:

<i>Sinking Fund Installment</i>		<i>Sinking Fund Installment</i>
<i>Due Date February 1</i>		
2031		\$ 8,160,000
2032		8,565,000
2033		8,985,000
2034		9,435,000
2035		9,910,000
2036		10,430,000
2037		10,960,000
2038		11,535,000
2039*		12,140,000

* Maturity.

In the event that 2009A Bonds maturing on February 1, 2039 with an interest rate of 6.25%, have been redeemed pursuant to the provisions of the Indenture described under “Optional Redemption” above, the remaining sinking fund Installments shall be reduced, in an aggregate amount equal to the principal amount of such 2009A Bonds so redeemed, as directed in writing by an Authorized Corporation Representative, and in the absence of such direction, as proportionately as possible in integral multiples of the applicable Authorized Denominations.

Special Redemption. The 2009A Bonds are subject to redemption prior to their respective stated maturities at the option of the Corporation in whole or in part (in such amounts and such maturities as may be directed in writing by the Corporation or, in the absence of such direction, in inverse order of maturity, and by lot within a maturity) on any date, from casualty insurance or condemnation proceeds with respect to the 2009A Facilities or the Property received from the Corporation pursuant to the 2009A Loan Agreement, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium.

Notice of Redemption. The Trustee will give notice of any redemption of 2009A Bonds, by first-class mail, postage prepaid, to the Owners of all 2009A Bonds to be redeemed, at the addresses appearing on the 2009A Bond Register, and other entities specified in the 2009A Indenture, not less than thirty (30) days nor more than sixty (60) days prior to the redemption date. Each notice of redemption of 2009A Bonds will identify the 2009A Bonds to be redeemed and will state the date of such notice, the date of issue of the 2009A Bonds to be redeemed, the redemption date, the redemption price, the place of redemption, the principal amount, the CUSIP numbers (if any), and, if less than all of the 2009A Bonds are to be redeemed, the distinctive certificate numbers of the 2009A Bonds to be redeemed and, in the case of 2009A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. So long as DTC or its nominee is the sole registered owner of the 2009A Bonds under the book-entry system, redemption notices are to be sent to Cede & Co. Notices of redemption are also to be sent to certain information services that disseminate redemption notices and to the Municipal Securities Rulemaking Board.

With respect to any notice of optional redemption of 2009A Bonds pursuant to the provisions of the Indenture described under “Optional Redemption” above, unless upon the giving of such notice such 2009A Bonds shall be deemed to have been paid within the meaning of the Indenture, such notice shall state that such redemption shall be conditioned upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the redemption price of the 2009A Bonds to be

redeemed, and that if such amounts shall not have been so received said notice shall be of no force and effect and the Infrastructure Bank shall not be required to redeem such 2009A Bonds. In the event that such notice of redemption contains such a condition and such amounts are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, to the Persons and in the manner in which the notice of redemption was given, that such amounts were not so received.

If upon the expiration of 60 days succeeding any redemption date, any 2009A Bonds called for redemption shall not have been presented to the Trustee for payment, the Trustee shall no later than 90 days following such redemption date send Notice by Mail to the Owner of each 2009A Bond not so presented. Failure to mail the notices required by this paragraph to any Owner, or any defect in any notice so mailed, shall not affect the validity of the proceedings for redemption of any 2009A Bonds nor impose any liability on the Trustee.

Effect of Redemption; Partial Redemption. Notice of redemption having been duly given and amounts for payment of the redemption price being held by the Trustee, the 2009A Bonds 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 2009A Bonds to be redeemed will cease to accrue, said 2009A Bonds will cease to be entitled to any lien, benefit or security under the 2009A Indenture, and the Owners thereof will have no rights except to receive payment, but only from the funds provided in connection with such redemption, of the redemption price of and interest, if any, accrued on such 2009A Bonds to the redemption date.

Upon surrender of any 2009A Bond redeemed in part only, the Trustee will exchange the 2009A Bond redeemed for a new 2009A Bond of like tenor and in an Authorized Denomination without charge to the Owner in the principal amount of the portion of the 2009A Bond not redeemed. In the event of any partial redemption of a 2009A Bond which is registered in the name of the Nominee, DTC may elect to make a notation on the 2009A Bond certificate which reflects the date and amount of the reduction in principal amount of said 2009A Bond in lieu of surrendering the 2009A Bond certificate to the Trustee for exchange. The Infrastructure Bank, the Corporation and the Trustee will be fully released and discharged from all liability upon, and to the extent of, payment of the redemption price for any partial redemption and upon the taking of all other actions required under the 2009A Indenture in connection with such redemption.

Selection of 2009A Bonds to be Redeemed. The principal amount of 2009A Bonds and maturities to be redeemed with prepayments by the Corporation pursuant to the 2009A Loan Agreement shall be as specified by the Corporation. If less than all the 2009A Bonds of any maturity are called for redemption, the Trustee will select the 2009A Bonds of such maturities or any portion thereof to be redeemed by lot in such manner as it may determine. For the purpose of any such selection the Trustee will assign a separate number for each minimum Authorized Denomination of each 2009A Bond of a denomination of more than such minimum; provided that following any such selection, both the portion of such 2009A Bond to be redeemed and the portion remaining will be in Authorized Denominations. The Trustee will promptly notify the Infrastructure Bank and the Corporation in writing of the numbers of the 2009A Bonds or portions thereof so selected for redemption. Notwithstanding the foregoing, so long as the 2009A Bonds are in book-entry form, if less than all of the 2009A Bonds of any maturity are to be redeemed, the selection of the 2009A Bonds to be redeemed will be made in accordance with customary practices of DTC or the applicable successor depository, as the case may be.

SECURITY FOR THE 2009A BONDS

Payments by the Corporation Under the 2009A Loan Agreement

Payment of the principal of, and premium, if any, and interest on the 2009A Bonds will be secured by an assignment by the Infrastructure Bank to the Trustee of all of the 2009A Revenues, all amounts and securities held by the Trustee under the 2009A Indenture (other than the Rebate Fund), and any and all of the Infrastructure Bank's rights and privileges under the 2009A Loan Agreement, including all 2009A Repayment Installments to be made by the Corporation to the Infrastructure Bank under the 2009A 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). "2009A Revenues" is defined under the 2009A Indenture to mean (i) all receipts, installment payments and other income or payments derived by the Infrastructure Bank or the Trustee under the 2009A Loan Agreement and the Deed of Trust, (ii) all proceeds with respect to, arising from, or relating to the Property to the extent set forth in the Deed of Trust, (iii) any income or revenue derived from the investment of any money in any fund or account established pursuant to the Indenture (other than the Rebate Fund and any account therein), including all 2009A Repayment Installments and (iv) any other payments made by the Corporation as contemplated by the 2009A Loan Agreement; provided, however, that such term shall not include Additional Payments.

Pursuant to the 2009A Loan Agreement, subject to the provision of the 2009A Loan Agreement permitting the application thereof (including, but not limited to, the payment of Operating Costs), the Corporation has pledged its Net Operating Revenues, the Operating Fund, each Account, all money, instruments, investment property, and other property on deposit in or credited to the Operating Fund or any Account, and the proceeds of the foregoing (collectively, the "Collateral"), to secure its obligation to make payments of principal of and interest on the 2009A Bonds, which pledge is on a parity with the pledge of such Net Operating Revenues securing certain other obligations. Obligations of the Corporation secured by a lien of Net Operating Revenues on a parity with the lien securing the 2009A Loan Agreement constitute "Parity Obligations." See "Outstanding Parity Obligations" below. "Net Operating Revenues" means, for any period, an amount equal to the Operating Revenues for that period less Operating Costs for that period. "Operating Revenues" means all revenues received by the Corporation for the account of the Corporation, including, but not limited to the Grid Management Charge (described under "Rate Covenant" below), but excluding any moneys received by the Corporation in trust for third parties. Pursuant to the 2009A Loan Agreement, the Corporation consents and agrees to and shall cause to be filed Uniform Commercial Code financing statements, and shall execute and cause to be sent to and executed by each Depository Bank an account control agreement that perfects the security interest in the deposit accounts or securities accounts of the Corporation constituting the Operating Fund and shall execute and deliver such other documents (including, but not limited to, other control agreements or continuation statements) as may be necessary or reasonably requested by the Infrastructure Bank or the Trustee, in order to perfect or maintain as perfected such security interest or give public notice thereof. The 2009A Loan Agreement further provides that during any period that the Operating Fund is held in the name and to the credit of the Trustee pursuant to any control agreement, the Corporation shall be entitled to use or withdraw any amounts held in the Operating Fund for the payment of Operating Costs, or which otherwise do not constitute Net Operating Revenues. Further, the 2009A Loan Agreement provides that the Trustee shall provide immediate access to funds through written authorization to the respective bank or transfer funds required by the Corporation held in Trustee's accounts that do not constitute Net Operating Revenues. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS."

Financial and operational information of the Corporation, including a discussion of factors that could affect the 2009A Bonds and the future financial condition of the Corporation, is included in

APPENDIX A – “INFORMATION CONCERNING THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION.” Each prospective investor of the 2009A Bonds should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision.

NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2009A BONDS. THE 2009A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE LIMITED OBLIGATION OF THE INFRASTRUCTURE BANK, PAYABLE SOLELY FROM 2009A REVENUES AND THE OTHER FUNDS PROVIDED THEREFOR PURSUANT TO THE 2009A INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR ANY POLITICAL SUBDIVISION THEREOF IS IN ANY MANNER OBLIGATED TO MAKE ANY APPROPRIATION FOR SUCH PAYMENTS. THE INFRASTRUCTURE BANK HAS NO TAXING POWER.

Deed of Trust

To secure the payment of 2009A Repayment Installments, Additional Payments, the performance by the Corporation of its other obligations under the 2009A Loan Agreement, the Corporation has entered into a Deed of Trust with Absolute Assignments of Leases and Rents, Security Agreement and Fixture Filing (the “Deed of Trust”). The Property includes the Headquarters Facility (as defined below) of the Corporation to be located on Iron Point Road in Folsom, California. See “The 2009A Project below” for information about the Property to be encumbered by the Deed of Trust. For a discussion of certain risks associated with the Deed of Trust, see “Limitations Relating to Remedies under the Deed of Trust” herein.

The Deed of Trust provides that the Corporation as trustor under the Deed of Trust is permitted to release portions of the Property from the lien on the Deed of the Trustee, provided that the Corporation (i) substitutes other real property for the portion of the Property released, or (ii) pays the net proceeds of the sale or other disposition of the portion of the Property released to the Trustee. See “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – CERTAIN PROVISIONS OF THE 2009A DEED OF TRUST” for a description of these release provisions.

The Deed of Trust also provides that the Corporation may release specific portions of the Property (free and clear of the lien of the Deed of Trust, whether or not upon the sale, refinancing or other disposition of such part of the Property) without compliance with the requirements set forth in the paragraph above. Such portions of the Property subject to release consist of (i) approximately 0.38 acres of land which the Corporation is required to sell to the Sacramento Municipal Utility District (“SMUD”) for construction of a substation; (ii) approximately 1.42 acres of land which the Corporation is required to sell to the City of Folsom for a public roadway; and (iii) a small residual Corporation parcel. Alternatively, under the Deed of Trust, the Corporation may grant an easement with respect to any part of the Property substantially corresponding to the part of the Property described in the Deed of Trust and the Deed of Trust shall be subordinate to any such easement so granted (as such subordination is provided for in the 2009A Loan Agreement). In addition, the Deed of Trust provides that the Corporation may convey, free and clear of the lien of the Deed of Trust, to the public utility providing electric service to the Property, electric conduit and wiring installed on the Property; provided, however, that prior to such conveyance, the Corporation is required to certify that such conveyance will not interfere with the Corporation’s operations. See “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – CERTAIN PROVISIONS OF THE 2009A DEED OF TRUST” for a description of these provisions. The Corporation believes that neither the release of the foregoing

portions Property nor the granting of the above referenced easements will have a material impact of the operation of the Headquarters Facility or the value of the Property subsequent to release.

Rate Covenant

The Corporation has covenanted in the 2009A Loan Agreement that, so long as any 2009A 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 2009A 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 2009A Owners under the 2009A Loan Agreement including, without limitation, ceasing to maintain the Reserve Account Requirement at 15% of its annual Operating Expenses for purposes of the Grid Management Charge Formula. The Coverage Requirement may be satisfied through the use of any funds of the Corporation legally available for the payment of debt service on the 2009A Bonds and other Parity Obligations. “Grid Management Charge” means the Corporation’s several separate charges for services offered by the Corporation that are 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) budgeted annual operating costs, (ii) financing costs and (iii) budgeted annual costs of pay-as-you-go capital expenditures and reasonable coverage of debt service obligations. See APPENDIX A – “INFORMATION CONCERNING THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION” for additional information concerning the Grid Management Charge.

The terms “Reserve Account Requirement” as used in the immediately preceding paragraph is separate and distinct from the “2009A Debt Service Reserve Account Requirement” described below. See “2009A Debt Service Reserve Account” below. The term “Reserve Account Requirement” in the immediately preceding paragraph is a Tariff-imposed requirement relating to the Grid Management Charges and does not relate to the establishment of the 2009A Debt Service Reserve Account to secure the 2009A Bonds.

Outstanding Parity Obligations

The obligations of the Corporation under the Loan Agreement, dated as of June 1, 2008, by and between the Infrastructure Bank and the Corporation, executed in connection with the Infrastructure Bank’s Revenue Bonds (California Independent System Operator Corporation Project) 2008 Series A (along with the 2009A Bonds) constitute all current outstanding Parity Obligations. The Corporation has no other Parity Obligations outstanding.

Additional Parity Obligations

Pursuant to the 2009A Loan Agreement, the Corporation shall not 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 2009A 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 2009A Bonds, the outstanding Parity Obligations and the Parity Obligations to be created, incurred or issued, of not less than 25%.

2009A Debt Service Reserve Account

Upon the issuance of the 2009A Bonds, there will be deposited from the proceeds of the 2009A Bonds in the 2009A Debt Service Reserve Account an amount equal to the 2009A Debt Service Reserve Account Requirement. The 2009A Debt Service Reserve Account Requirement is defined under the 2009A Indenture to mean, as of any date of calculation, an amount which is equal to the least of (i) 10% of the proceeds of the 2009A Bonds, (ii) maximum annual debt service with respect to the 2009A Bonds Outstanding or (iii) 125% of average annual debt service with respect to the 2009A Bonds. All amounts in the 2009A Debt Service Reserve Account will be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the 2009A Bond Fund, or (together with any other funds available) for the payment or redemption of all Outstanding 2009A Bonds. Amounts on deposit in the 2009A Debt Service Reserve Account will be valued by the Trustee at their market value on or before each Principal Installment Date, and the Trustee will notify the Corporation of the results of such valuation. If the amount on deposit in the 2009A Debt Service Reserve Account on any day following such valuation is less than 90% of the 2009A Debt Service Reserve Account Requirement, pursuant to the terms of the 2009A Loan Agreement, the Corporation has agreed to make the deposits to the 2009A Debt Service Reserve Account necessary to cause the amount on deposit therein to equal the 2009A Debt Service Reserve Account Requirement. If the amount on deposit in the 2009A Debt Service Reserve Account on any day following such valuation is greater than the 2009A Debt Service Reserve Account Requirement, the excess will be withdrawn from the 2009A Debt Service Reserve Account and transferred to the 2009A Bond Fund.

In lieu of deposits and transfers to the 2009A Debt Service Reserve Account, the Corporation may deposit with the Trustee a letter of credit, subject to the requirements of the 2009A Indenture. Any such letter of credit will permit the Trustee to draw amounts thereunder for deposit in the 2009A Debt Service Reserve Account which, together with any moneys on deposit in, or surety bond policy available to fund, the 2009A Debt Service Reserve Account, are not less than the 2009A Debt Service Reserve Account Requirement and which may be applied to any purpose for which moneys in the 2009A Debt Service Reserve Account may be applied. The Trustee will make a drawing on such letter of credit (i) whenever moneys are required for the purposes for which 2009A Debt Service Reserve Account moneys may be applied, and (ii) prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys or an irrevocable surety bond are available in the 2009A Debt Service Reserve Account in the amount of the 2009A Debt Service Reserve Account Requirement.

In lieu of deposits and transfers to the 2009A Debt Service Reserve Account, the Corporation also may maintain in effect an irrevocable surety bond policy, subject to the requirements of the 2009A Indenture. Any such surety bond policy will permit the Trustee to obtain amounts thereunder for deposit in the 2009A Debt Service Reserve Account which, together with any moneys on deposit in, or letter of credit available to fund, the 2009A Debt Service Reserve Account, are not less than the 2009A Debt Service Reserve Account Requirement and which may be applied to any purpose for which moneys in the 2009A Debt Service Reserve Account may be applied. The Trustee will make a drawing on such surety bond policy (i) whenever moneys are required for the purposes for which 2009A Debt Service Reserve Account moneys may be applied, and (ii) prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys or a letter of credit are available in the 2009A Debt Service Reserve Account in the amount of the 2009A Debt Service Reserve Account Requirement.

The right of the Corporation to utilize a letter of credit or surety bond is subject to the condition that, at the time of the deposit of the letter of credit or surety bond, the unsecured obligations of the issuer of the letter of credit or provider of the surety bonds are rated not lower than Aa/AA by Moody's and S&P and that prior to the deposit of such letter of credit or surety bond, each of the rating agencies then

rating the 2009A Bonds at the request of the Corporation is notified of such proposed withdrawal and the deposit of such letter of credit or surety bond will not result in a withdrawal or downgrading of the 2009A Bonds.

Amendment of 2009A Indenture and 2009A Loan Agreement

The 2009A Indenture and the 2009A Loan Agreement may be amended with consent of the Trustee and without consent of any Owners to the extent set forth in the 2009A Indenture. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

General Limitations on Remedies

The rights of the Owners of the 2009A Bonds are subject to the limitations on legal remedies against public agencies in the State. Additionally, enforceability of the rights and remedies of the Owners of the 2009A 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 Owners of the 2009A 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.

Limitations Relating to Remedies under the Deed of Trust

Foreclosure. There are two methods of foreclosing on a deed of trust under California law, by non-judicial trustee’s sale and by judicial sale. Foreclosure of a deed of trust may be accomplished by a non-judicial trustee’s sale under the power of sale provision in the deed of trust. Prior to such sale, the trustee under the deed of trust, at the request of the holder of the beneficial interest, must record a notice of default and election to sell and send a copy to the trustor, to any person who has recorded a request for a copy of the notice of default and notice of sale, to any successor in interest of the trustor, to the beneficiary of any junior deed of trust, and to certain other parties discernable from the real property records. The trustee then must wait for the lapse of at least three months after the recording of the notice of default and election to sell before establishing the proposed sale date and giving a notice of sale (in a form mandated by California statutes). The notice of sale must be posted in a public place and published once a week for three consecutive calendar weeks, with the first such publication preceding the trustee’s sale by at least 20 days. Such notice of sale must be posted on the property and sent, at least 20 days prior to the trustee’s sale, to the trustor, to each person who has requested a copy, to any successor in interest of the trustor, to the beneficiary of any junior deed of trust and to certain other parties discernable from the real property records. In addition, the notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. The trustor, any successor in interest of the trustor in the trust property, or any person having a junior lien or encumbrance of record may, during the statutory reinstatement period ending 5 business days prior to the noticed sale date, cure any monetary default and reinstate the secured indebtedness by paying all amounts then due under the terms of the deed of trust and the obligations secured thereby (exclusive of principal due by virtue of acceleration upon default) plus costs and expenses actually incurred in enforcing the obligation and certain statutorily limited attorneys’ and trustee’s fees. Following a non-judicial sale, neither the trustor nor any junior lienholder has any right of

redemption, and the beneficiary may not ordinarily obtain a deficiency judgment against the trustor. See “Antideficiency Legislation and Certain Other Limitations on Lenders” below.

By contrast to non-judicial foreclosure sale, judicial foreclosure sale is generally subject to most of the delays and expenses characteristic of other lawsuits, and may require several years to complete. The primary advantage of a judicial foreclosure sale is that the beneficiary may be entitled, subject to other limitations, to obtain a deficiency judgment against the trustor to the extent that the amount of the debt is in excess of the fair market value of the property. Following a judicial foreclosure sale, the trustor or its successors in interest may redeem the property for a period of one year (three months if the proceeds of sale are sufficient to satisfy the debt, plus interest and costs or if a deficiency has been waived or is otherwise unavailable). In addition, in connection with either a judicial or non-judicial foreclosure sale, a receiver for the encumbered Property may be appointed by a court to collect rents and/or operate the property.

Value Upon Foreclosure. The Headquarters Facility Property is being specifically designed and built for the Corporation’s continued specialized purpose of operating and managing a majority of California’s electrical grid, and will include state of the art technology to enhance the operation of the Grid, various “green” elements, back-up energy sources and extensive security features. As a result, the Headquarters Facility Property may not be readily suitable for other uses by other entities, and it is therefore likely that, for a significant period of time after the completion of Headquarters Facility Property that the Headquarters Facility Property could not be sold for a price equal to the amount of proceeds of the 2009A Bonds being used to finance its construction or the amount of 2009A Bonds then outstanding. The Corporation has received a Self Contained Appraisal Report (the “Appraisal”) on the Headquarters Facility Property from CB Richard Ellis (the “Appraiser”), which contains various values for the facility depending on the method of analysis. According to the Appraisal, the prospective value upon completion based on an open market sale (“Market Value”) of the Headquarters Facility Property is approximately \$60,000,000, and the prospective value upon completion to the Corporation based on value to the Corporation of its use of the facility (“In Use Value”) in its day to day activities is approximately \$149,000,000.

The Appraisal (which is incorporated herein by reference) can be accessed at www.royceprinting.com/CAISOheadquarterapp.pdf, and should be read in its entirety in order to understand the meaning and basis of these numbers and related information. The Appraisal is included for informational purposes only, and is subject to numerous qualifications and exceptions. The estimates of current and future value presented in the Appraisal are no indication of the appraised property’s actual market value or of what may be realized upon foreclosure under the Deed of Trust. See “SECURITY FOR THE 2009A BONDS – Limitations Relating to Remedies under the Deed of Trust.” Investors should not assume that the disposition of the Headquarters Facility Property in the event of default would provide sufficient funds to pay the principal of 2009A Bonds outstanding at that time.

Antideficiency Legislation and Certain Other Limitations on Lenders. California has four principal statutory prohibitions limiting the remedies of a beneficiary under a deed of trust. Two such prohibitions limit the beneficiary’s right to obtain a deficiency judgment, one being based on the method of foreclosure and the other on the type of debt secured. Under the former, a deficiency judgment is ordinarily barred when the foreclosure is accomplished by means of a non-judicial trustee’s sale, except for limited exceptions not applicable to the Deed of Trust. Under the latter (not applicable in this situation), a deficiency judgment is barred when a foreclosed deed of trust secures certain purchase money obligations.

Another California statute, commonly known as the “one form of action” rule, requires the beneficiary to exhaust its real property security by foreclosure before bringing a personal action against

the trustor on the indebtedness. Thus, if the Trustee, the trustee under the Deed of Trust or the Owners of the 2009A Bonds were to file suit or take certain other actions (including set off) to collect the debt secured by the Deed of Trust without first seeking to foreclose the Deed of Trust, they might be precluded from thereafter proceeding under the Deed of Trust, or they may be compelled to first seek to enforce their remedies under the Deed of Trust.

Another statutory provision (commonly known as the “fair value” rule) limits any deficiency judgment obtained by a beneficiary following a judicial sale to the excess of the outstanding debt over the fair market value of the property at the time of sale. This prevents a beneficiary from obtaining a large deficiency judgment against the debtor as the result of low bids at a judicial sale.

Other statutory provisions (such as the federal bankruptcy laws) may have the effect of delaying enforcement of the lien of the Deed of Trust in the event of a default by the Corporation. See “Bankruptcy and Other Factors that Could Affect Security for the 2009A Bonds” below.

Bankruptcy and Other Factors that Could Affect Security for the 2009A Bonds

The ability of the Trustee to enforce the obligations of the Corporation under the 2009A Loan Agreement may be limited by laws relating to bankruptcy, insolvency, reorganization or moratorium and by other similar laws affecting creditors rights, including equitable principles. In addition, the Trustee’s ability to enforce such agreements will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion, delay and substantial costs or that otherwise may not be readily available or may be limited.

The various legal opinions to be delivered concurrently with the delivery of the 2009A Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors’ rights, including equitable principles.

In the event of bankruptcy of the Corporation, the rights and remedies of the 2009A Bond Holders are subject to various provisions of the federal Bankruptcy Code. If the Corporation were to file a petition in bankruptcy, or if creditors were to file a petition in bankruptcy against the Corporation, payments made by the Corporation during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of the Corporation’s liquidation. Security interests and other liens granted to the Trustee and perfected during such preference period may also be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation, and its property, and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of the Trustee. If the bankruptcy court so ordered, the property of the Corporation could be used for the financial rehabilitation of the Corporation, despite any security interest of the Trustee therein. The rights of the Trustee to enforce its security interest could be delayed during the pendency of the rehabilitation proceeding.

The Corporation could file a plan for the adjustment of its debts in any such proceeding which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are

that the plan is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

The Trustee's security interest in the 2009A Revenues under the 2009A Indenture may be subordinated to the interest and claims of others in several instances. Some examples of cases of subordination of prior claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or state bankruptcy or insolvency laws that may affect the enforceability of the 2009A Loan Agreement or pledge of 2009A Revenues, (vi) rights of third parties in 2009A Revenues converted to cash and not in the possession of the Trustee or a depository bank, (vii) commingling of proceeds of 2009A Revenues with other moneys of the Corporation not subject to the security interest in the 2009A Revenues; and (viii) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the California Uniform Commercial Code as from time to time in effect. In addition, certain accounts of the Corporation are not covered by control agreements, and the Trustee's security interest in such accounts may be subordinated to the interests of others.

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DEBT SERVICE SCHEDULES

The following table sets forth the schedule of debt service to for the 2008 Bonds and the 2009A Bonds.

Bond Year (February 1)	2009A Bonds			2008 Bonds ⁽¹⁾			Total Debt Service ⁽²⁾
	Principal	Interest	Total ⁽²⁾	Principal	Interest	Total ⁽²⁾	
2010	-	\$ 5,942,770	\$ 5,942,770	\$ 39,100,000	\$ 8,298,500	\$ 47,398,500	\$53,341,270
2011	-	11,319,563	11,319,563	42,250,000	6,343,500	48,593,500	59,913,063
2012	\$ 3,455,000	11,319,563	14,774,563	25,130,000	4,231,000	29,361,000	44,135,563
2013	3,555,000	11,215,913	14,770,913	36,025,000	2,974,500	38,999,500	53,770,413
2014	3,680,000	11,091,488	14,771,488	23,465,000	1,173,250	24,638,250	39,409,738
2015	3,830,000	10,944,288	14,774,288				14,774,288
2016	3,980,000	10,791,088	14,771,088				14,771,088
2017	4,140,000	10,631,888	14,771,888				14,771,888
2018	4,315,000	10,455,938	14,770,938				14,770,938
2019	4,535,000	10,240,188	14,775,188				14,775,188
2020	4,760,000	10,013,438	14,773,438				14,773,438
2021	5,005,000	9,767,450	14,772,450				14,772,450
2022	5,270,000	9,504,688	14,774,688				14,774,688
2023	5,540,000	9,232,075	14,772,075				14,772,075
2024	5,820,000	8,953,138	14,773,138				14,773,138
2025	6,120,000	8,651,300	14,771,300				14,771,300
2026	6,475,000	8,296,156	14,771,156				14,771,156
2027	6,855,000	7,920,013	14,775,013				14,775,013
2028	7,250,000	7,521,313	14,771,313				14,771,313
2029	7,675,000	7,099,300	14,774,300				14,774,300
2030	8,120,000	6,652,150	14,772,150				14,772,150
2031	8,595,000	6,178,750	14,773,750				14,773,750
2032	9,130,000	5,643,738	14,773,738				14,773,738
2033	9,695,000	5,075,938	14,770,938				14,770,938
2034	10,300,000	4,473,550	14,773,550				14,773,550
2035	10,940,000	3,834,125	14,774,125				14,774,125
2036	11,615,000	3,155,525	14,770,525				14,770,525
2037	12,335,000	2,435,513	14,770,513				14,770,513
2038	13,100,000	1,671,450	14,771,450				14,771,450
2039	13,910,000	860,525	14,770,525				14,770,525
Total⁽²⁾	\$200,000,000	\$230,892,814	\$430,892,814	\$165,970,000	\$23,020,750	\$188,990,750	\$619,883,564

⁽¹⁾ The Deed of Trust does not secure the 2008 Bonds.

⁽²⁾ Totals may not add due to rounding.

THE 2009A PROJECT

A portion of the proceeds of the 2009A Bonds in the amount of approximately \$161 million will be applied to: (i) finance the design and construction of a new headquarters facility (the “Headquarters Facility”) for the Corporation; and (ii) other planned capital projects, including, but not limited to, the acquisition and development of computer hardware and software systems and the acquisition of office equipment (collectively, the “2009A Project”).

The Headquarters Facility Project

The Headquarters Facility will be located on a 28.91 acre parcel (excluding 1.42 acres excess land area and a 0.38 acre area to be sold to Sacramento Municipal Utility District (the “Adjacent Property”)) of land that the Corporation currently owns on Iron Point Road in Folsom, California. The land (excluding the Adjacent Property) and Headquarters Facility are collectively referred to herein as the “Property.”

The Headquarter Facility will be an approximately 278,000 square foot office headquarters complex composed of three wings, and will include office space, conference rooms, training rooms, a cafeteria, fitness room, shipping/receiving area, a control center, data center and a mechanical/equipment room. The Headquarters Facility is designed to accommodate 750 employees, allowing for more employees and greater security.

The Corporation has completed California Environmental Quality Act (CEQA) compliance procedures and all other significant regulatory approvals related to the Property.

APPRAISAL

The Appraisal of the Property is incorporated by referenced herein and can be accessed at www.royceprinting.com/CAISOheadquarterapp.pdf. The Appraisal was prepared by CB Richard Ellis (the “Appraiser”). The Appraisal is included for informational purposes only, and is subject to numerous qualifications and exceptions. The estimates of current and future value presented in the Appraisal are no indication of the appraised property’s actual market value or of what may be realized upon foreclosure under the Deed of Trust. See “SECURITY FOR THE 2009A BONDS – Limitations Relating to Remedies under the Deed of Trust.”

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 2009A Bonds, the 2009A Indenture or the 2009A 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 2009A

Bonds, or the 2009A Loan Agreement. The Corporation is involved in litigation in relation to its normal business activities as described in APPENDIX A to this Official Statement.

FINANCIAL ADVISOR

The Corporation has retained Sperry Capital Inc., Sausalito, California, as Financial Advisor to the Corporation in connection with the issuance of the 2009A Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

INDEPENDENT ACCOUNTANTS

The financial statements of the Corporation as of December 31, 2008 and 2007 and for the years then ended, included in APPENDIX B to this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing therein.

RATINGS

Standard & Poor's ("S&P"), Fitch Ratings ("Fitch"), and Moody's Investors Service ("Moody's") have assigned the 2009A Bonds the ratings of "A," "AA-," and "A2," respectively. Such ratings express only the views of the rating agencies and an explanation of the significance of such ratings and any ratings on any of the Corporation's outstanding obligations may be obtained only from such rating agencies as follows: Standard & Poor's Ratings Services, 55 Water Street, 38th Floor, New York, New York 10041; Fitch Ratings Services, One State Street Plaza, New York New York 10004; and Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. There is no assurance that such ratings will continue for any given period of time or that they will not be revised, either downward or upward, or withdrawn entirely by the rating agencies, or either of them, if in their, or its, 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 Owner 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 2009A Bonds.

UNDERWRITING

The Underwriters named on the cover page hereof (the "Underwriters") are expected to agree, subject to certain conditions, to purchase the 2009A Bonds from the Infrastructure Bank at a price of \$200,867,978.35 (representing an aggregate principal amount of \$200,000,000.00, plus a net original issue premium of \$1,998,064.35, less \$1,130,086.00 of Underwriters' discount). The Bond Purchase Contract provides that the Underwriters are obligated to purchase all of the 2009A Bonds if any are purchased. The 2009A 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.

J.P. Morgan Securities Inc., one of the underwriters of the 2009A Bonds, has entered into an agreement (the “Distribution Agreement”) with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings, including the 2009A Bonds, at the original issue prices. Pursuant to the Distribution Agreement, J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the 2009A Bonds with UBS Financial Services Inc.

CONTINUING DISCLOSURE

The Corporation will covenant for the benefit of the Owners of the 2009A Bonds to provide certain financial information and operating data relating to the Corporation (the “Annual Report”) as provided in the Continuing Disclosure Agreement. The Annual Report will be filed by the Corporation the Municipal Securities Rulemaking Board (the “MSRB”). The notices of material events will be filed by the Corporation with the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of material events by the Corporation is set forth in APPENDIX F – “PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT.” The Corporation has never failed to comply in any material respect with any continuing disclosure undertaking under Rule 15c2-12 promulgated under the Securities and Exchange Act of 1934, as amended. The Infrastructure Bank has not undertaken any responsibility regarding continuing disclosure with respect to the 2009A Bonds.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2009A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the 2009A Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2009A Bonds is not included as an adjustment in the calculation of alternative minimum taxable income.

The difference between the issue price of a 2009A Bond (the first price at which a substantial amount of the 2009A Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2009A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2009A Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the 2009A Bond Owner will increase the 2009A Bond Owner’s basis in the 2009A Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the 2009A Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel’s opinion as to the exclusion from gross income of interest (and original issue discount) on the 2009A Bonds is based upon certain representations of fact and certifications made by the Corporation, and others, assumes that the Corporation is an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”) and is subject to the condition that the Infrastructure Bank and the Corporation comply with all requirements of the Code, that must be satisfied subsequent to the issuance of the 2009A Bonds to assure that interest (and original issue discount) on the 2009A Bonds will not become includable in gross income for federal income tax

purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the 2009A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2009A Bonds. The Infrastructure Bank and the Corporation have covenanted to comply with all such requirements.

The amount by which a 2009A Bond Owner's original basis for determining loss on sale or exchange in the applicable 2009A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2009A Bond premium, which must be amortized under Section 171 of the Code; such amortizable 2009A Bond premium reduces the 2009A Bond Owner's basis in the applicable 2009A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2009A Bond premium may result in a 2009A Bond Owner realizing a taxable gain when a 2009A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2009A Bond to the Owner. Purchasers of the 2009A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 2009A Bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2009A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2009A Bonds might be affected as a result of such an audit of the 2009A Bonds (or by an audit of similar bonds).

It is possible that subsequent to the date of issuance of the 2009A Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the 2009A Bonds or the market value of the 2009A Bonds. No assurance can be given that subsequent to the issuance of the 2009A Bonds such changes or interpretations will not occur.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the 2009A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) on the 2009A Bonds for federal income tax purposes with respect to any 2009A Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2009A Bonds is excluded from gross income for federal income tax purposes provided that the Infrastructure Bank continues to comply with certain requirements of the Code, the ownership of the 2009A Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2009A Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2009A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2009A Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX E.

OTHER LEGAL MATTERS

Legal matters incident to the authorization and issuance of the 2009A Bonds are subject to the approving opinion of Stradling, Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel. Certain legal matters will be passed upon for the Infrastructure Bank by its General Counsel, Molly Arnold, Esq.; for the Corporation by its General Counsel and by its special counsel, Orrick, Herrington & Sutcliffe LLP; and for the Underwriters by their counsel, Nixon Peabody 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
Executive Director

Approved by:

**CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION**

By: /s/ Steve Berberich
Interim Chief Financial Officer and Treasurer

APPENDIX A

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

Capitalized terms not defined herein shall have the meanings ascribed to such terms in the forepart of this Official Statement.

Introduction

General. California Independent System Operator Corporation (the “ISO”) is a nonprofit public benefit corporation which was incorporated in May 1997 and which assumed operational control of the transmission facilities (also called the transmission lines or transmission systems) of the three largest investor-owned electric utilities in California on March 31, 1998. The ISO has subsequently assumed operational control of transmission systems owned by six municipal utilities, two private transmission-owning corporations, and a federal power agency. Under its tariff (the “Tariff” or the “ISO Tariff”) on file with and approved by the Federal Energy Regulatory Commission (“FERC”), the ISO provides transmission scheduling services and administers wholesale markets to procure electric energy and capacity necessary to ensure the reliable operation of the transmission systems that it operates.

The ISO is responsible for the reliable operation of the long-distance, high-voltage power lines under its operational control (the “ISO Grid”). The ISO manages the flow of electricity across approximately 25,000 miles of power lines that encompass the ISO Grid. The ISO also has reliability responsibilities pursuant to North American Electric Reliability Corporation (“NERC”) and Western Electricity Coordinating Council (“WECC”) requirements for a broader area known as the ISO balancing authority area (the “ISO Balancing Area”). This involves the delivery of electricity between the ISO Balancing Area and neighboring balancing authority areas, neighboring states, Canada and Mexico. Every five minutes, the ISO forecasts the electricity load within the ISO Balancing Area and dispatches the lowest cost power units to meet demand. The ISO monitors or oversees the dispatch of an estimated 55,000 megawatts of generating capacity associated with approximately 1,300 generating units.

The ISO Balancing Area includes approximately 82% of California’s total electrical load and approximately 30 million residents. Nearly ninety companies participate in the ISO markets.

The ISO administers wholesale markets comprised of day-ahead and real time markets for energy, and ancillary services as well as an hour-ahead scheduling process which procures energy at the interties. The ISO also performs a settlement and clearing function, receiving payments from buyers in these markets in a trust account then forwarding payments to the sellers.

In addition, the ISO administers reliability must-run (“RMR”) contracts. These RMR contracts give the ISO access to power at contractually agreed-upon prices from generation units that, because of their location and other factors, must be operated at certain times to ensure the reliability of local transmission. The ISO also has authority to dispatch certain other generating units as necessary to maintain system reliability.

On March 31, 2009, the ISO implemented its market redesign and technology upgrade (the “ISO New Market”) project, previously referred to as the MRTU project. The ISO New Market significantly enhances the market rules and related computer systems. This upgrade facilitated the opening of a day-ahead energy market and an enhanced model of the ISO Grid. These new features make the economic activities of the market more transparent by revealing the operating constraints of the ISO Grid. For a description of the new market design, see “ISO New Market.”

The ISO conducts a wide range of other activities in connection with the ISO Balancing Area. See “Other ISO Activities.”

In 2000 and 2001, the California energy markets, including those managed by the ISO, experienced severe supply and transmission capacity strains that resulted in high prices, rolling blackouts and liquidity problems for many market participants. See “California Energy Crisis and Related Issues.”

The ISO’s ability to meet its obligations to pay debt service under the 2009A Loan Agreement is dependent on the collection of charges under its Tariff. The ability to collect such charges may be influenced by various factors, many of which are outside the ISO’s control. See “Risk Factors.”

Operations, Assets and Tariff

Pursuant to Chapter 2.3 of the California Public Utilities Code, orders of the California Public Utilities Commission, (“CPUC”) and the TCA (defined below) with owners of transmissions systems, the ISO exercises operational control over the electricity transmission systems of the three largest investor-owned electric utilities in California, which are Pacific Gas and Electric Company (“PG&E”), Southern California Edison Company (“SCE”), and San Diego Gas & Electric Company (“SDG&E”). Also, municipal utilities and other private entities may elect to place their transmission under ISO control. At present, the ISO controls the transmission systems of these three investor-owned utilities, as well as those by the California cities of Vernon, Pasadena, Anaheim, Azusa, Banning, and Riverside, Atlantic Path 15, LLC and Startrans IO, LLC, and the portion of Path 15 transmission lines owned by the Western Area Power Administration–Sierra Nevada Region.

Transmission Control Agreement. The ISO does not own any transmissions assets. All transmission assets it operates are owned by participating owners who remain responsible for upgrades and improvements to the lines as well as constructing new transmission lines and supporting facilities needed to serve their respective service territories. FERC has formally approved the Transmission Control Agreement (the “TCA”) among the ISO and the above-referenced partners and others (the “PTOs”) and has accepted the presently applicable Tariff. The TCA establishes the terms and conditions under which PTOs place certain transmission facilities and entitlements under ISO operational control. FERC approved amendments are periodically made to the TCA to add new transmission owners and for other purposes. A copy of the current TCA is available at: <http://www.caiso.com/docs/2005/10/08/2005100817510214319.html>.

Any PTO may withdraw from the TCA without penalty upon two years' prior written notice to certain designated parties and by obtaining any necessary FERC approval. Any transmission owner may also sell or otherwise dispose of lines or associated facilities forming part of the ISO Grid subject to the ISO's prior written consent and the transferee assuming all of the transmission owner's obligations under the TCA. Under the TCA, the PTOs are responsible for the maintenance of their assets.

If a PTO withdraws from the ISO, such withdrawal would pose a significant risk to the company's ability to secure revenues. In order to minimize such risk, the ISO continuously improves its operations to ensure that a PTO would not find it advantageous to leave the ISO market. Examples of these continuous efforts are evidenced by two recent achievements. First, annual RMR costs charged to PTOs have decreased by approximately \$570 million since 2004. Secondly, the successful launch of the ISO New Market improves the ISO's credibility in the region, and will likely provide increasing incentive to remain and increase participation in the ISO's markets. In addition, the ISO has emphasized customer focus throughout the organization with significantly improved stakeholder processes and commitment to the timeliness and quality of customer issue resolution. See "ISO New Market" and "Risk Factors – Contractual Rights and Withdrawal" herein.

Tariff. The ISO operates pursuant to a FERC approved Tariff. The Tariff contains detailed provisions governing all aspects of the ISO's operations, including access to the ISO Grid, roles and responsibilities of market participants, scheduling coordinators and participating transmission owners, system operations, ancillary services, settlements and billing, transmission service and expansion, interconnection of generating facilities to the ISO Grid, transmission rates and charges, market operations, trades between scheduling coordinators, day-ahead, hour ahead and real-time markets, firm transmission rights, enforcement protocols, market monitoring, market power mitigation and resource adequacy.

A copy of the ISO's current Tariff is available at <http://www.caiso.com/238a/238acd24167f0.html>.

Overview of the ISO Transmission System

The ISO Grid is a long-distance, high-voltage transmission system. The ISO Grid delivers wholesale electricity to local utilities for distribution to approximately 30 million Californians and is one of the largest wholesale electric grids in the world, encompassing three quarters of the state of California and transmitting approximately 200-billion kilowatt hours of electricity each year.

State of California Balancing Authority Areas including Major Transmission Lines Under the Control of the California ISO

Pink Shaded Area Represents the California ISO Balancing Authority Area with 230 kV/500 kV High Voltage Network and Major Substations



The ISO Charges

ISO Charges – General. The ISO has authority to recover its costs through the assessment of various charges, collectively known as the Grid Management Charge (“GMC”). The ISO also receives revenues through contractual payments or other direct reimbursements.

In addition to the GMC, the ISO also administers a settlement system for the wholesale markets that it operates. Market settlement charges (the “Market Settlement Charges”) are assessed to buyers of capacity, energy, transmission and other related services and products, with equal credits to the suppliers. On a monthly basis, net buyers remit payment for net Market Settlement Charges into a trust account, to be forwarded to the net sellers. Except for the GMC, and subject to certain exceptions described herein, the foregoing payments are “market-related receipts” (the “Market-Related Receipts”) and are remitted by the ISO to the appropriate market participants.

The ISO also serves as the financial clearing agent for buyers and sellers in its markets. The ISO does not take title to energy or associated products, but collects funds from buyers and distributes those funds to sellers. In the event of a payment default by buyers, the ISO is not financially obligated to pay sellers; rather sellers bear the shortfall on a pro-rata basis. As a result, energy market transactions are accounted for separately and do not directly affect the ISO’s financial results. However, under the Tariff the ISO does have a priority claim against any Market-Related Receipts in the event of a payment default by a party billed for the GMC. If such a default occurs, the ISO is entitled to collect the GMC from Market-Related Receipts, and the resulting shortfall would be borne by net suppliers of energy during the month of the default. Since the inception of the ISO, all GMC invoices have been paid in full either directly or through market funds. All creditors in the ISO markets have been paid in full, and all trade months have been cleared since the energy crisis of 2000-2001. See “California Energy Crisis and Related Issues.”

Total market settlement collections (“Market Settlement Collections”) from market participants (including Market-Related Receipts and GMC) have far exceeded the GMC collections, as illustrated in the table below. GMC collections include only revenues resulting from assessment of the GMC. Other revenues that may accrue through contractual agreements and direct reimbursements are not included in the figures. The annual coverage ratios shown below are indicative — each “trade month” is financially cleared separately and as a result, coverage varies by month. See “Funds and Accounts” below.

Coverage of GMC by Total Market Settlement Collections.

Unaudited, \$ in millions	2008	2007	2006	2005	2004
GMC collections*	\$ 195	\$194	\$183	\$192	\$ 227
Market-Related Receipts**	<u>811</u>	<u>628</u>	<u>646</u>	<u>854</u>	<u>913</u>
Total Market Settlement Collections (MSC)	<u>\$1,006</u>	<u>\$822</u>	<u>\$829</u>	<u>\$1,046</u>	<u>\$1,140</u>
Coverage (MSC/GMC)	5.2	4.2	4.5	5.4	5.0

* GMC collections are included in Operating Revenues (as defined in the 2009A Loan Agreement); only Net Operating Revenues are subject to the lien of the 2009A Loan Agreement. Amounts presented reflect only cash activity from the monthly clearing of invoices and do not include any adjustments to reflect the accrual basis of accounting.

** Includes all invoices other than GMC invoices that are issued to market participants and are payable through the Market Clearing Account. These include invoices for market charges, transmission charges, and FERC fees. Although the collections on these invoices are not subject to the lien of the 2009A Loan Agreement, they are available to pay GMC invoices. See “Funds and Accounts” below.

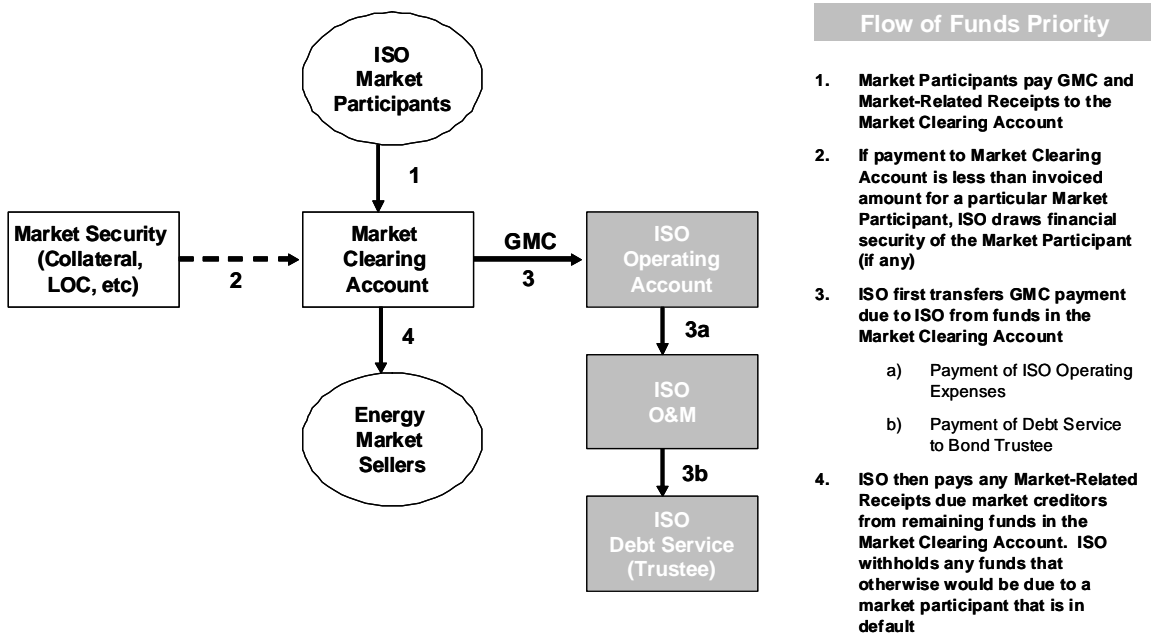
Funds and Accounts. All GMC and Market-Related Receipts are required to be initially deposited in certain trust accounts established by the ISO with a commercial bank, including a Market Clearing Account (the “Market Clearing Account”), as well as a facility trust Account for each RMR contract (the “Facility Trust Accounts”). Amounts in these accounts are generally not subject to the lien granted under the 2009A Loan Agreement. Payments of GMC and Market-Related Receipts by market participants are initially deposited into the Market Clearing Account. If a market participant defaults on its GMC obligation, the ISO can nevertheless collect the full amount of the GMC billed for that month because the ISO has a priority claim against any funds in the Market Clearing Account, including Market-Related Receipts and any financial security posted by the defaulting market participant. The historical annual coverage ratios of total Market Collections to GMC collections available are shown in the table above. The ISO transfers the GMC funds from the Market Clearing Account to an Operating Account held with the same commercial bank (the “ISO Operating Account”). The ISO also invests excess funds with brokerage firms, subject to the investment policy described under “Investment Policy.”

The ISO Operating Account maintained with the commercial bank and the accounts maintained with the brokerage firms contain Operating Revenues.* Only Net Operating Revenues in the ISO Operating Account are subject to the lien granted under the 2009A Loan Agreement.

The Tariff provides the ISO with the right to recoup, set-off or recover past-due GMC amounts owed from any amounts that would otherwise currently be paid to a market participant.

* The concepts of the ISO Operating Account and the ISO Operating Reserves are distinguishable from the 2009A Debt Service Reserve Account described in the forepart of this Official Statement. The 2009A Debt Service Reserve Account is established under the 2009A Indenture and secures and is available to make payments with respect to the 2009A Bonds. Neither the ISO Operating Account nor the ISO Operating Reserves are directly pledged to or are directly available to secure the 2009A Bonds.

The following flow of funds demonstrates the sequence and accounts involved in the payment of the GMC obligation.



A separate payment process governs payment of RMR charges and associated Facility Trust Accounts. The ISO administers such accounts strictly on a “pay when paid” basis, transmitting funds to suppliers of RMR services only upon receipt of funds from the responsible entity. The ISO does not assess or collect GMC charges specifically for this activity, and GMC charges do not have a priority claim on RMR related receipts or payments.

Market Participant Credit Standards. The ISO’s credit standards for market participants are specified in the Tariff. The Tariff provides that each market participant must secure its financial obligations to the ISO by maintaining an unsecured credit limit (“Unsecured Credit Limit”) and/or by posting financial security. The total of a market participant’s Unsecured Credit Limit and its posted financial security must equal or exceed the market participant’s Estimated Aggregate Liability (“EAL”) at all times. A particular market participant’s Congestion Revenue Right holdings (“CRRs”) can have an impact such participant’s EAL calculations and therefore, whether a market participant have additional collateral posting requirements. CRRs are financial instruments that allow market participants to hedge against congestion costs under the ISO New Market based on locational marginal pricing. CRRs are acquired primarily, although not solely, for the purpose of offsetting congestion costs associated with scheduling that occurs in the day-ahead market. A market participant holding a portfolio of CRRs that has a negative revenue stream (meaning that the portfolio is incurring charges rather than earning revenues) will result in an increase to the market participant’s EAL if there is insufficient revenue to offset the negative revenue stream. The resulting increase to a market participant’s EAL could result in a collateral call if the market participant does not have a sufficient amount of collateral posted. To date, any CRR-related collateral posting requirements have been satisfied.

Unsecured Credit Limits may be granted to market participants who apply for unsecured credit and supply the ISO with their latest financial statements and other information necessary for it to conduct an evaluation. The amount of Unsecured Credit Limit is based on a percentage of a market participant's tangible net worth or net assets depending on whether such participant is a corporate or governmental entity, respectively. The approach used to grant Unsecured Credit Limits differs depending on whether the market participant is a rated or unrated public or private corporation or a rated or unrated governmental entity. In general, the ISO uses a formula that considers available credit ratings and credit ratings published by Moody's KMV based on their proprietary Estimated Default Frequency. Each market participant that requests an Unsecured Credit Limit is subject to a potential reduction of its calculated Unsecured Credit Limit by as much as 100% based on the ISO's assessment of qualitative factors relating to the market participant, material changes to the market participant's financial condition and other factors described in the Tariff. A market participant's Unsecured Credit Limit undergoes reevaluation as new financial information becomes available, and reductions may occur at any time. Currently, the maximum Unsecured Credit Limit that an entity could receive is \$150 million, which was reduced from \$250 million in March 2009. As of June 2009, six entities qualify for the maximum Unsecured Credit Limit and, since March 2009 when that limitation was imposed, only one of those entities has reached 90% of that limit. That entity proceeded to post sufficient financial security. The ISO monitors market participants' ongoing obligations to wholesale markets through a weekly evaluation of their estimated aggregate liability. Should the liability reach 90% of the Unsecured Credit Limit and any other deposited financial security, the ISO notifies the market participant that additional collateral must be posted within three business days of the notification. See "Risk Factors – Market Participant Concentration" and the customer concentration tables in "FERC Process for Revisions to GMC Rates."

Limitations on Liability. The Tariff provides that the ISO shall not be liable for damages to any market participant for any losses, damages, claims, liability, costs or expenses (including legal expenses) arising from the performance or non-performance of its obligations under the Tariff, except to the extent they result from gross negligence or intentional wrongdoing on the part of the ISO. Moreover, the Tariff provides that the ISO shall not be liable to any market participant under any circumstances for any consequential or indirect financial loss including but not limited to loss of profit, loss of earnings or revenue, loss of use, loss of contract, or loss of goodwill except to the extent that it results from gross negligence or intentional wrongdoing on the part of the ISO.

The ISO maintains broad-form insurance coverage for errors and omissions, general liability and professional liability related to its services as an independent system operator.

Grid Management Charge

Development of the ISO Revenue Requirement. GMC revenues fund substantially all of the costs of the ISO's operations, which are established in the annual revenue requirement. The forecasted Tariff contains procedures for the ISO to follow in developing the revenue requirement, which includes an annual budgeting process and culminates in approval by the Governing Board (also referred to herein as the "ISO Board of Governors", the "ISO Board" or the "Board") for the subsequent fiscal year. The revenue requirement consists of Operating Expenses, Debt Service (including coverage), Cash Funded Capital Expenditures, Other

Miscellaneous Expense Recoveries and any ISO Operating Reserve (as defined below under “ISO Operating Reserve”) funding or transfer amount. Debt service includes principal and interest on all outstanding indebtedness of the ISO, including the ISO’s obligation to make payments of principal and interest with respect to the Series 2008 and Series 2009A Bonds. The budgeting process includes stakeholder meetings which provide input on ISO costs, potential capital budget projects and ISO priorities in the coming year. Once the Board approves the budget, the ISO posts the annual revenue requirement (including operating and capital budgets) on its website. The ISO also posts the billing determinant volumes used to develop the rate for each GMC component.

Development of the GMC Rates and Rate Structure. The ISO annual revenue requirement serves as the basis for determining GMC rates. Once the revenue requirement is determined, it is allocated among the seven components: (1) Core Reliability Services (“CRS”); (2) Energy Transmission Services (“ETS”); (3) Core Reliability Services/Energy Transmission Services - Transmission Ownership Rights; (4) Forward Scheduling Charge; (5) Market Usage Charge; (6) Market Usage – Forward Energy; and (7) Settlements Metering and Customer Relations Charge. The allocation of the revenue requirement to each service category includes a component reflecting 125% of the allocated debt service. See “Debt Service Coverage” below. GMC rates for the different services are assessed through various billing determinants, including peak energy demand and volumetric, transactional or fixed amounts.

GMC rates are revised at least annually to reflect changes in the revenue requirement and changes in the forecasted billing determinant volumes. See “FERC Process for Revisions to GMC Rates” below. Any under or over-collections of GMC as opposed to actual costs during a fiscal year are reflected in the subsequent year’s revenue requirement. Additionally, GMC rates may be adjusted not more than once per quarter if that projected annual billing determinant volumes differ by more than 5% from volumes used to set rates. FERC approval is not required for the ISO to implement these quarterly changes.

The structure of GMC rates is revised periodically to reflect changes in the ISO service offerings and in response to customer requests for more discrete charges for the various services. As described in “FERC Process for Revisions to GMC Rates,” federal regulators must approve these changes prior to implementation.

ISO Operating Reserve. The ISO maintains an operating reserve (the “ISO Operating Reserve”) to absorb the financial impact of monthly variances between forecasted and actual revenues and expenses. The ISO Operating Reserve is a component of the ISO’s cash and investment balances. For purposes of establishing the GMC rates, the ISO Operating Reserve requirement is calculated separately for each service category. The ISO Operating Reserve is annually funded using excess debt service collections (the ISO collects in the revenue requirement 125% of required annual debt service — see “Debt Service Coverage” below), and accumulates the excess until the ISO Operating Reserve becomes fully funded at 15% of budgeted annual operating expenses for each service category. As of December 31, 2008, the ISO Operating Reserve for each service category was fully funded. In accordance with the Tariff, any surplus ISO Operating Reserve balance exceeding 15% of budgeted annual operating costs for each rate service category is applied as a reduction in the revenue requirement for each service category in the following year. If the ISO Operating Reserve balance fails to meet the

15% reserve requirement, the ISO will increase the revenue requirement to make up any shortfall, which may be spread out over two years.

The ISO Operating Reserve is not a segregated account, but is a component of the ISO Operating Account and is included in the net assets of the ISO.

FERC Process for Revisions to GMC Rates. The Federal Power Act (the “FPA”) requires the ISO to establish its rates pursuant to FERC-approved Tariffs. In the absence of further action from FERC, GMC rates continue in effect pursuant to the existing Tariff. Changing the currently effective revenue requirement or the rate structure set forth in the Tariff requires the ISO to first file with FERC a proposed revenue requirement and changes to the rate structure, if any. FERC may accept changes proposed by the ISO or opt to conduct a hearing to examine whether the proposed rates are “just and reasonable.” Interested parties may intervene or protest the ISO’s proposal. If FERC schedules a hearing, it can conditionally accept the rates “subject to refund.” If FERC makes a finding that the proposed Tariff and new rates are not “just and reasonable,” it can order modifications to the rate structure or a return to the previously existing rate structure, which may require the ISO to pay refunds to customers. This action may result in reapportionment of the reserve requirement among customers with no net reduction in collections by the ISO or may result in a reduction of the ISO Operating Reserve requirement by the ISO to be used by the ISO in setting its rates. As a nonprofit entity with no shareholders or equity, the ISO has not and does not expect to experience a traditional sanction of regulators — the disallowance of costs deemed to have been imprudently incurred. Any refunds are paid from the ISO Operating Reserve, which will result in higher rates charged to customers in the subsequent year.

Under the FPA, FERC may approve a “formula rate” which considers updated costs in recalibrating the GMC without the need for the ISO to make a new rate filing. In 2004, the ISO received FERC approval for a Tariff that contained both a formula GMC rate and a revenue requirement “cap.” The combination of the GMC formula rate and revenue cap allows GMC rates to remain in effect for specified periods of time so long as the cap is not exceeded. In approving the formula rate and revenue requirement cap, FERC added provisions requiring the ISO to post on its website specific documentation in support of its revenue requirement in lieu of a regulatory filing. The Tariff requires publishing certain budget related information and holding stakeholder meetings to discuss proposed changes in the revenue requirement and GMC rates. See “Development of the GMC Rates and Rate Structure” above. This Tariff mechanism has reduced the need for annual rate filing submissions to FERC and has reduced the likelihood of litigation over the level of the revenue requirement and the GMC rate structure. Since 2004, the ISO has received additional FERC approval to continue to operate under the formula rate and revenue requirement cap mechanisms, without the need for annual rate adjustments, and the ISO intends to seek further approval of these mechanisms upon the expiration of the current time period.

In December 2008, FERC approved the current GMC rate service components that were modified to reflect the costs associated with design of the ISO New Market, with a revenue requirement cap of \$197 million. These rates will remain in effect through the end of 2009.

From an accounting standpoint, GMC revenues are realized when the related energy transactions take place. The GMC is billed and collected approximately 65 days after each month-end. GMC and other market service billings are dependent upon accurate generation, load and other information, much of which is gathered using meter data, some of which are not available to the ISO for up to 65 days. When meter data is not submitted timely, it is subject to estimation by the ISO. Adjustments are made to the estimates when actual meter data subsequently becomes available under specific circumstances. When adjustments result in revisions to GMC billings after invoices have been issued to participants the adjustments are reflected on subsequent invoices. See “ISO New Market” below.

The ISO’s largest customers are responsible for a significant portion of GMC revenues. Since it commenced operation, the ISO’s two largest customers have been PG&E and SCE. For the three Fiscal Years ended December 31, 2008, GMC collections were as follows:

	2008	2007	2006
2 largest market participants	54%	53%	56%
10 largest market participants	78%	77%	78%
25 largest market participants	93%	90%	92%

Debt Service Coverage. The Tariff permits the GMC revenue requirement to include an amount equal to 125% of debt service on 2009A Bonds and Parity Obligations. Consistent with the Tariff, Section 5.8 of 2009A Loan Agreement requires, as long as the 2009A Bonds are outstanding, that GMC rates and budgeted revenue requirement are set annually to cover 125% of required debt service payments. This coverage is a part of the funding of the ISO Operating Reserve as discussed above.

The following presentation of budgeted revenues and expenses for the Fiscal Years ended 2004-2008 shows the revenue requirement included debt service and required coverage for the outstanding debt. In addition, for each year indicated, the ISO Operating Reserve, set at 15% of operating expenses, was over funded, with the ISO Operating Reserve excess used to reduce the GMC revenue requirement in the subsequent year. See “ISO Operating Reserve”, above.

Condensed Statement of Budgeted Revenues, Expenses and Debt Service Coverage*

Unaudited, \$ in millions	2008	2007	2006	2005	2004
GMC revenues	\$191.6	\$189.9	\$180.5	\$208.2	\$218.2
Other revenues	<u>5.6</u>	<u>5.4</u>	<u>3.7</u>	<u>3.4</u>	<u>1.4</u>
Operating revenues	197.2	195.3	184.2	211.6	219.6
Interest revenues	<u>2.2</u>	<u>2.2</u>	<u>1.5</u>	<u>1.1</u>	<u>0.8</u>
Total revenues	199.4	197.5	185.7	212.7	220.4
Operations & maintenance expenses (which excludes depreciation and amortization)	(152.7)	(143.8)	(133.9)	(146.8)	(151.7)
Cash funded capital project expenses	(8.5)	(7.5)	(0.0)	(0.0)	(32.0)
ISO Operating Reserve transfer	<u>21.2</u>	<u>25.2</u>	<u>30.3</u>	<u>18.7</u>	<u>17.8</u>
Net operating revenues plus ISO Operating Reserve transfer available for debt service	<u>\$59.4</u>	<u>\$71.4</u>	<u>\$82.1</u>	<u>\$84.6</u>	<u>\$54.5</u>
Debt service (principal and interest)	<u>\$47.6</u>	<u>\$57.2</u>	<u>\$65.6</u>	<u>\$67.7</u>	<u>\$43.7</u>
Debt service coverage (times) **	1.25	1.25	1.25	1.25	1.25

Source: The ISO approved budgets and rate filings or postings.

* Totals are adjusted for rounding.

** Actual debt service coverage differs based on variances between actual and budgeted revenues and expenses. Because the Tariff requires that any balance in the ISO Operating Reserve in excess of the ISO Operating Reserve requirement be used to reduce budgeted GMC charges, actual debt service coverage by any current year's revenues may be substantially below the 1.25x budgeted amount. The above referenced table shows coverage of Net Operating Revenues plus ISO Operating Reserve transfers to the ISO's debt service. In turn the coverage of total Market Settlement Collections to GMC collections (which is the most significant component of Operating Revenues and therefore Net Operating Revenue) is shown in the table entitled "Coverage of GMC by Total Market Settlement Collection" above.

Claims and Disputes. Since commencement of operations in 1998, the ISO's GMC has been challenged by various market participants in proceedings before FERC. Market participants have at times protested the allocation of the ISO's revenue requirement among GMC service categories and the billing determinants used to establish the rates for each of the GMC service categories. Currently (as of May 4, 2009), all past GMC rates are final and are not subject to further refund, except for the January 1, 2001– December 31, 2003 period (the "2001 Rate Filing").

In January 2004, FERC ruled on the 2001 Rate Filing. The ruling required a refund to 2001 ratepayers of \$1.8 million plus interest, and reallocation of one category of charges among customers for the years 2001-2003. At December 31, 2008 and 2007, accrued interest payable related to the refund totaled \$0.9 million and \$0.8 million, respectively, which is included in the accounts payable and accrued expenses liability amount. The potential reallocation of GMC charges among customers for years 2001-2003 continued to be contested by certain parties through 2008, through the United States Court of Appeals (District of Columbia Circuit), which in May 2008 affirmed (in No. 04-1090) an earlier FERC decision on this matter. The issue was remanded to FERC and, on January 21, 2009 FERC instructed the ISO to file a refund report by June 30, 2009 or, alternatively, a status report explaining when the refund report will be made.

Market Billing Disputes and Other Claims. As specified in its Tariff, the ISO is not a principal to transactions in the organized market it operates; it is merely an agent on behalf of the scheduling coordinators and other market participants. Nevertheless, market participants, must-run unit owners and transmission owners occasionally bring claims against the ISO to register disagreements as to information in the settlement statements or billing amounts for market and RMR activity. The ISO Tariff and applicable contracts specify a dispute resolution process for such claims. Once good faith negotiations have failed to resolve disputes, written claims may be submitted either to mediation or arbitration. As of December 31, 2008, there are four material disputes related to financial settlement of market transactions and related Tariff interpretations currently undergoing negotiations representing approximately \$9.8 million. Other disputes, some of which are material in amount, have also been filed with the ISO. ISO management believes that any settlements or market adjustments relating to these disputes and the matters in negotiations will be assessed against the market participants with no liability to the ISO.

There is one material unresolved market-related dispute outstanding for which it is possible that the claim might not be fully settled against market participants and which could result in material liability to the ISO. The ISO has an obligation to procure ancillary services necessary to maintain the reliability of transmission service in the ISO Balancing Area. PG&E filed a claim against the ISO concerning charges for ancillary services procured by the ISO in connection with transactions scheduled on a transmission line called the California Oregon Transmission Project. PG&E is seeking reimbursement from the ISO for amounts paid for ancillary services and related costs during the period April 1998 to April 1999 totaling \$14.3 million plus interest. In December 2001, an arbitrator issued an award in favor of PG&E and, after motions for rehearing and clarifications, FERC affirmed this award. The ISO has appealed FERC's orders, but that appeal is stayed pending implementation of the award. The ISO expects to invoice market participants with corresponding charges or credits during the periods being disputed, with no net liability to the ISO. Management believes that this matter will not ultimately result in a material liability to the ISO.

Financial Information

The selected financial information set forth below has been obtained from the ISO's audited financial statements prepared under Generally Accepted Accounting Principles. The ISO's rates are set annually using a modified basis of accounting, with the primary difference being the recovery of debt service costs in the annual revenue requirement and cash funded capital project expenses instead of depreciation and amortization. Accordingly, the ISO establishes rates to collect 125% of scheduled annual debt service instead of depreciation and amortization (See "Grid Management Charge- Debt Service Coverage" above). All of the financial data is as of December 31 or for the fiscal year ended December 31, as applicable.

Condensed Balance Sheets (in millions)	2008	2007	2006	2005	2004
Assets					
Current assets					
Cash and cash equivalents	\$298.3	\$220.8	\$153.8	\$222.5	\$324.2
Other current assets	<u>80.2</u>	<u>110.9</u>	<u>134.9</u>	<u>151.2</u>	<u>78.4</u>
Total current assets	378.5	331.7	288.7	373.7	402.6
Fixed assets, net	257.3	212.9	165.9	117.1	88.5
Other noncurrent assets	<u>70.7</u>	<u>77.3</u>	<u>34.9</u>	<u>20.5</u>	<u>30.5</u>
Total assets	<u>\$706.5</u>	<u>\$621.9</u>	<u>\$489.5</u>	<u>\$511.3</u>	<u>\$521.6</u>
Liabilities and Net Assets					
Liabilities					
Current liabilities	\$279.8	\$276.2	\$202.1	\$213.6	\$195.6
Long term debt, net	173.4	125.1	116.7	169.6	247.2
Other noncurrent liabilities	<u>12.5</u>	<u>13.1</u>	<u>9.4</u>	<u>8.1</u>	<u>9.8</u>
Total liabilities	465.7	414.4	328.2	391.3	452.6
Net assets	<u>240.8</u>	<u>207.5</u>	<u>161.3</u>	<u>120.0</u>	<u>69.0</u>
Total liabilities and net assets	<u>\$706.5</u>	<u>\$621.9</u>	<u>\$489.5</u>	<u>\$511.3</u>	<u>\$521.6</u>
Condensed Statements of Revenues, Expenses and Changes in Net Assets (in millions)					
	2008	2007	2006	2005	2004
Operating revenues	\$200.7	\$200.6	\$189.9	\$214.5	\$225.3
Operating expenses	<u>161.8</u>	<u>153.8</u>	<u>148.4</u>	<u>162.4</u>	<u>160.2</u>
Operating income	38.9	46.8	41.5	52.1	65.1
Other income (expense)	<u>(5.6)</u>	<u>(0.6)</u>	<u>(0.2)</u>	<u>(0.2)</u>	<u>(4.7)</u>
Increase in net assets	33.3	46.2	41.3	51.9	60.4
Net Assets (deficit), beginning of year	<u>207.5</u>	<u>161.3</u>	<u>120.0</u>	<u>69.0</u>	<u>8.6</u>
Cumulative effect of change in accounting principle	<u>-</u>	<u>-</u>	<u>-</u>	<u>(0.9)</u>	<u>-</u>
Net Assets, end of year	<u>\$240.8</u>	<u>\$207.5</u>	<u>\$161.3</u>	<u>\$120.0</u>	<u>\$69.0</u>
Operating Expenses (in millions)					
	2008	2007	2006	2005	2004
Salaries and related benefits	\$ 91.6	\$ 83.5	\$ 73.4	\$ 77.1	\$77.3
Communications and technology costs	23.9	21.5	23.7	29.9	28.6
Legal and consulting costs	15.7	16.6	17.0	20.9	20.6
Other: leases, facilities and administrative	17.8	17.2	17.6	16.5	18.0
Depreciation and amortization	<u>12.8</u>	<u>15.0</u>	<u>16.7</u>	<u>18.0</u>	<u>15.7</u>
Total operating expenses	<u>\$161.8</u>	<u>\$153.8</u>	<u>\$148.4</u>	<u>\$162.4</u>	<u>\$160.2</u>

Source: Audited financial statements.

Long-term Obligations. All of the ISO's outstanding long-term borrowings have been through the California Infrastructure and Economic Development Bank ("CIEDB"). The ISO is obligated under a loan agreement with CIEDB with respect to bonds outstanding in the aggregate principal amount of \$165,970,000 as of February 28, 2009 representing the current outstanding

principal amount of CIEDB's Revenue Bonds (California Independent System Operator Corporation) 2008 Series A (the "2008 Bonds").

The 2008 Bonds were issued as fixed rate revenue bonds issued in June 2008, bearing interest at rates between four percent and five percent maturing through 2014. The proceeds of the 2008 Bonds were used to refund all of the ISO's variable rate demand bond obligations outstanding at the time of issuance, fund a debt service reserve fund related and pay certain 2008 Bond issuance costs. The remaining proceeds will fund computer hardware and software systems upgrades, facilities, equipment and other planned capital expenditures.

The ISO Capital Plan. The ISO's current capital plan provides for expending approximately \$270 million over the next five years. Approximately \$110 million is earmarked for computer hardware and software system and other miscellaneous capital projects, of which approximately \$45 million will be funded from prior bond offerings, approximately \$27 million from the internally generated funds and approximately \$38 million from future bond issuances. Approximately \$161 million of proceeds from the 2009A Bonds will be applied towards capital costs of the new headquarters facility. See "THE 2009A PROJECT" in the forepart of this Official Statement.

Other Planned 2009 and 2010 capital expenditures. Capital expenditures planned for Fiscal Year 2010 include ISO New Market enhancements, upgrades to essential computer system infrastructure and other strategic initiatives. Future enhancements include: convergence bidding, scarcity pricing, seasonal competitive path assessment, generation and run time constraints, dispatchable demand response, revised decremental bidding activity rule on final day-ahead schedules and resolving the effect on real-time prices of constrained output generators. Strategic initiatives include implementing the payment acceleration program to reduce the length of time between an energy trade date and the financial clearing date, which will reduce credit risk and increase resource availability from out-of-state resources.

Pension Benefits and Other Post Employment Benefits. The ISO sponsors a defined contribution retirement plan, the ISO Retirement Savings Benefits Plan (the "Retirement Plan"), which is subject to the provisions of the Employee Retirement Income Security Act of 1974 and covers substantially all ISO employees. The Retirement Plan is self-administered and utilizes a third party to assist in its administration.

The ISO also sponsors the Executive Pension Restoration Plan, a non-qualified defined contribution plan, which allows certain ISO officers to contribute in excess of the 401(k) limits set forth in IRS regulations.

In addition, the ISO sponsors the ISO Retirees Medical Plan, a defined benefit plan that provides postretirement health care benefits to all ISO employees who retire on or after attaining age 60 with at least five years of service and to their spouses, domestic partners and eligible dependents. In 2007, the ISO implemented Statement of Governmental Accounting Standards (SGAS) No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension (OPEB)" related to its accounting for postemployment benefits associated with the Retiree Medical Plan. For the years ended December 31, 2008 and 2007, the annual required contributions were \$3,099,000 and \$2,490,000 respectively. The net post

employment benefit obligation at December 31, 2008 and 2007 was \$10,970,000 and \$10,206,000, respectively. At January 1, 2009 and 2008, the unfunded actuarial accrued liability for benefits was \$15,358,000 and \$12,225,000 respectively. The ISO currently funds an amount equal to the actuarially determined liability attributable to those eligible to receive benefits pursuant to a tax-exempt voluntary employees' beneficiary association trust. Trust assets amounted to \$1.8 million as of December 31, 2008.

Investment Policy. The ISO's investment policy, which has been approved by its Board, restricts investments to certain obligations: those which are unconditionally guaranteed by the United States Government or its agencies or instrumentalities; municipal and state obligations or tax-exempt obligations; bankers' acceptances; certificates of deposit; repurchase agreements; corporate notes; commercial paper; and guaranteed investment contracts. The ISO's investment policy includes restrictions relating to maximum amounts per asset class as a percentage of the total portfolio, maturities not to exceed five years, and minimum credit ratings (A-/A3). The ISO's investment of bond related proceeds are also subject to the restrictions established in the Indenture of Trust and other bond related documents.

Other ISO Activities

The ISO also performs other important electric industry functions in addition to managing the ISO Balancing Area. The ISO fosters industry collaboration to ensure that California's electricity infrastructure continues to support reliable grid operations and efficient wholesale markets. Each year the ISO also produces a long-range plan to quantify load growth and system changes and to identify new projects needed for economic and reliability reasons. This broad perspective on transmission planning helps improve customer access to clean, efficient generation and increases overall system reliability. At the request of developers, the ISO also conducts generator interconnection studies to determine the feasibility of connecting generating plants to the ISO Grid.

The ISO reduces barriers to renewable energy sources, such as wind and solar power, by ensuring its rules and procedures fairly treat those resources in their efforts to interconnect to the ISO Grid. This is instrumental in assisting the State of California in reaching its renewable portfolio standard goal of 20 percent by 2010, as well as achieving future goals now under consideration by state and federal legislators.

The ISO uses demand side management programs during peak hours on high-demand days to balance supply and demand on the power system.

Timely and accurate information is essential for an effective and competitive marketplace. The ISO provides transparent information about the electric transmission system and prices. Economists within the ISO's Department of Market Monitoring observe and audit market activity by reviewing prices and investigating potential instances of market power abuse.

Other initiatives are further described in the "Financial Information – The ISO Capital Plan: Planned 2008/2009 Capital Expenditures."

ISO New Market

On March 31, 2009, the ISO implemented the ISO New Market. FERC approved the ISO New Market in Docket No. ER06-615-000 and associated dockets. FERC also directed the ISO to develop and implement certain enhancements after the launch of the ISO New Market. The ISO New Market was funded from previous bond issuances and directly from ISO rate collections. The ISO New Market replaces outdated computer systems and offers new tools to match electrical supply with demand and resolve transmission constraints. The ISO New Market is anticipated to increase grid reliability and reduce costs for electricity users. A summary of the ISO New Market major elements are below.

a. The Integrated Forward Market will combine the three main services used to operate the ISO Grid: energy, ancillary services and congestion management. Beginning in the day-ahead market, the forward market system determines the optimal and least cost use of resources available to meet scheduled energy requirements and to provide necessary reserves in a manner that avoids the creation of congestion. Further, the ISO New Market makes adjustments to day-ahead schedules to address transmission congestion that subsequently occurs in real time. The bankruptcy of the California Power Exchange (“CalPX”) in 2001 left California without a centrally organized day-ahead energy market. The integrated forward market is designed to result in less reliance on the hour-ahead and real-time markets from the old design, which tended to be more volatile.

b. The Full Network Model is a computer system that more precisely models the entire ISO Grid and takes into account all known grid limitations in predicting how power will actually flow. This in turn allows the ISO to resolve potential congestion a day ahead of time. This is designed to reduce costs to market participants as well as improve reliability.

c. The Locational Marginal Pricing paradigm uses over 3,000 points or “nodes,” instead of the old system’s three “zones” to calculate the price of producing power at a given location and delivering it to another location. Distinct nodal prices help determine the most cost-effective use of resources to resolve transmission congestion by providing more information about the real cost of delivering power to customers than was previously possible under the zonal pricing system. This enables buyers and sellers to make informed decisions about energy pricing based on the ability to produce and deliver power to where it is needed and, over time, will help identify the best areas to build new generation.

d. The ISO New Market systems use an open architecture that offers greater flexibility and allows for more cost-effective technology upgrades in the future. The ISO anticipates that the systems comprising the ISO New Market will be more reliable than the prior ones, thereby improving overall grid reliability.

In addition, subject to FERC approval, the ISO plans to implement a program to accelerate the timelines for payment of GMC and Market-Related Receipts, commencing in the last quarter of 2009. When implemented, the program will provide for invoicing of each trade month in two installments. The first 15 days would be invoiced and settled by the end of the trade month and the last 15 days would be invoiced and settled by the third week of the following month. This program is expected to reduce the current outstanding credit risk

obligations by two-thirds and the average days outstanding from 80 days to 25. Suppliers would receive payments close to the due dates for their fuel costs.

Estimated data for April 2009 and May 2009 (the first two months the ISO New Market has been in effect) indicate that there are significant increases to both GMC revenues and total Market Settlement Collections. Final Market Settlement Collection and GMC revenue collection data for April 2009 are not yet available. However, the ISO does have actual data for the invoiced amounts of Market Settlement Charges and GMC revenues. Total Market Settlement Charge invoices for April 2009 were approximately \$122 million as compared to approximately \$63.7 million in actual Market Settlement Collection for April 2008, which would indicate a 92% increase if the invoiced amounts of the Market Settlement Charges matched the final Market Settlement Collections for April 2009. Similarly, invoiced amounts of GMC revenues for April 2009 were approximately \$16.7 million as compared to approximately \$14.6 million of actual collection of GMC revenues for April 2008, which would indicate a 14% increase if the invoiced amounts of the GMC revenues matched GMC revenue collections for April 2009. The estimated coverage of total Market Settlement Collections to GMC based on the above referenced assumptions for April 2009 would be approximately 7.3.

Neither final Market Settlement Collection and GMC revenue collection data nor final invoiced amount of Market Settlement Charges and GMC revenues data are available for May 2009. However, total estimated invoiced amounts of Market Settlement Charges for May 2009 are approximately \$142.7 million, as compared to approximately \$89 million in actual Market Settlement Collection for May 2008, which would indicate an approximately 60% increase if estimated invoiced amounts of the Market Settlement Charges matched the final Market Settlement Collections for May 2009. Similarly, estimated invoiced amounts of GMC revenues for May 2009 are approximately \$18.6 million, as compared to approximately \$16.9 million of actual collection of GMC revenues for May 2008, which would indicate an approximately 10% increase if the invoiced amounts of the GMC revenues matched the final GMC revenue collections for May 2009. The estimated coverage of total Market Settlements Collections to GMC based on the above referenced assumptions for May 2009 would be 7.7.

While the ISO believes that invoiced amounts of Market Collection Charges and GMC revenues would approximate actual Market Settlement Collections and collections of GMC revenue collections, respectively, for the periods referenced above, there is no assurance that such invoiced amounts will match the actual collection amounts.

ISO Facilities

The ISO currently operates two control centers on a year round 24 hour, seven day a week basis. The main control center is located in an approximately 158,200 square foot facility in Folsom, California with the data center and control room space of approximately 23,350 square feet. A second approximately 31,000 square feet fully functioning control center is in Southern California and is ready to assume control of the ISO Grid if needed.

During 2010-2011, the ISO intends to transition into a new headquarters facility under construction on Iron Point Road (between Outcropping Way and Oak Avenue) in Folsom. A portion of the proceeds of the 2009A Bonds will fund the construction of the new facility. In

addition, the ISO has granted a deed of trust on the facility to secure the 2009A Repayment Installments under the 2009A Loan Agreement with respect to the 2009A Bonds. See “Financial Information – The ISO Capital Plan” above and “THE 2009A PROJECT” in the forepart of the Official Statement.

Board of Governors and Executive Officers.

Board of Governors. The Board of Governors oversees the ISO. The Board of Governors is composed of five members appointed by the Governor of the State of California and confirmed by the California State Senate. Board members serve for staggered three-year terms. Additional information on governance matters are available at www.caiso.com.

Mason Willrich joined the Board in March 2005 and was reappointed in January 2008 to a term that expires December 2010. Mr. Willrich was elected Chair of the Board in June 2006. From 1989 until 1994, he served as Chief Executive Officer of PG&E Enterprises, the unregulated subsidiary of PG&E, which he started and grew to profitable operations with assets of \$3 billion. From 1979 until 1989, he served as Executive Vice President responsible for strategic planning, budget, controller and information systems, and in various other executive positions at PG&E. After retiring from PG&E Enterprises, Mr. Willrich participated in various startup and venture capital efforts in the energy sector prior to joining the Board. He is the author or co-author of numerous books and articles on energy policy and international security issues. Mr. Willrich received a Bachelor of Arts degree from Yale University and a Juris Doctor (J.D.) degree from the University of California, Berkeley.

Dr. Linda Capuano was appointed to the Board in February 2007 to a term that expires December 2009. Dr. Capuano is currently a member of the Alternative Dispute Resolution/Audit Committee. She is Vice President, Emerging Technologies, for Marathon Oil. Previously, she was Senior Vice President of Design and Engineering at Solectron Corporation, a leading provider of complete product life cycle services, and Executive Vice President and Chief Technology Officer for Advanced Energy Industries, a global leader in the development and support of technologies critical to high-technology manufacturing processes, where she was Executive Vice President responsible for leading corporate marketing and global sales and services. Dr. Capuano also served as Corporate Vice President, Technology Strategy at Honeywell where she led its worldwide engineering strategy. Dr. Capuano has served on the National Academies Committee for Review of the U.S. Climate Change Science Program Strategic Plan, the Department of Energy Task Force on Alternative Futures for the National Laboratories and the Advisory Board for the NASA Technology Transfer Center. She holds a Bachelor of Science degree in chemistry from the State University of New York at Stony Brook, a Bachelor of Science degree in chemical engineering and a Master of Science in chemistry from the University of Colorado, and a Master of Science degree in engineering management and Ph.D. in materials science from Stanford University.

Laura Doll was appointed to the Board by Governor Arnold Schwarzenegger in January 2008 to a term ending December 2010. As an independent energy consultant, Ms. Doll assists companies and municipalities navigate the complexities of an evolving industry using her experience advancing clean energy technologies and infrastructure planning. Previously she was Vice President of Governmental and Public Affairs for Santa Monica-based Woodside Natural

Gas Inc. From 2004 to 2007, Ms. Doll served as the Deputy Executive Director for Policy at the CPUC where she was involved in regulatory policy issues for the state's energy, telecommunications, and water and rail transportation industries. Her duties at the CPUC included sitting on a three-member executive management team that provided overall support for internal agency operations for a staff of 850 and overseeing an annual operating budget of \$10 million.

Prior to that, Ms. Doll served as Chief Executive Officer for the California Consumer Power and Conservation Authority (better known as the California Power Authority) from 2001 to the time it ceased operations in 2004. The state agency provided backstop municipal revenue bond financing for electric power reserves, energy efficiency and conservation investments, and renewable energy resources in the wake of the California energy crisis. During her 14 years at Texas-based Austin Energy, MS. Doll ultimately became Chief Administrative Officer. Her duties included long-range planning, customer service, governmental relations and administrative functions for one of the largest public power agencies in the country and designed Austin's award-winning "Conservation Power Plant," which included a variety of energy efficiency and renewable energy initiatives. Ms. Doll's career also includes time as Director of Customer Service for Grande Communications, Director at Navigant Consulting Inc., and as Senior Vice President at Planergy, Inc., all based in Austin, Texas. She is a former member of the American Public Power Association and a former board member of the Utility Photovoltaic Group.

Ms. Doll holds a master's degree from the University of Texas LBJ School of Public Affairs and a bachelor of arts degree from Virginia Polytechnic Institute. She has been active in professional and community organizations throughout her career, and currently is entering her 15th consecutive year as a student mentor.

Thomas A. Page was appointed to the Board in February 2007 for a term ending December 2009. Mr. Page is currently chair of the Alternative Resolution Dispute/Audit Committee. He is the former chairman of the board of Enova Corp. and SDG&E. Prior to the formation of Enova in 1996, he was SDG&E's Chairman, President and CEO. Both of these companies are now part of Sempra Energy Corporation, formed following the Enova's strategic 1998 merger with Pacific Enterprises Corporation (Southern California Gas Co.). Prior to joining SDG&E in 1978, Mr. Page held positions in executive management at Gulf States Utilities in Beaumont, Texas, and at Wisconsin Power and Light in Madison, Wisconsin. He earned a Bachelor of Science degree in civil engineering and a Masters degree in industrial administration from Purdue University, where he was also awarded a Doctorate degree in management. He also held licenses as a Professional Engineer and as a Certified Public Accountant. Mr. Page is currently a member of the SYS Technologies Board of Directors, a member of the American Innotek Board of Directors, and an Advisory Director of Sorrento Ventures. He has been Chairman of San Diego Regional Economic Development Corporation, a Director of California Chamber of Commerce, a member of the California Business Roundtable and Chairman of Cuyamaca Bank.

There is one Board seat open pending an appointment by the Governor.

Management and Employees. As of December 31, 2008, ISO had 583 full-time employees who are organized into five divisions: Operations, External Affairs, Corporate Services, General Counsel & Corporate Secretary, and Market & Infrastructure Development. ISO employees are not represented by any unions or other collective bargaining units.

Yakout Mansour brought more than 30 years of power system experience to the ISO in March 2005 when he became its President and Chief Executive Officer. Previously, he served as the Senior Vice President of System Operations and Asset Management for British Columbia Transmission Corporation (“BCTC”) beginning with its inception in 2003. Mr. Mansour helped chart the course of BCTC as an independent entity and was a major contributor to the development of the transmission business in British Columbia and the Northwest. Previously at BC Hydro, Mr. Mansour served as Vice President Grid Operations and Inter-Utility Affairs, a functionally separate division responsible for the system operation as well as the development of policies and practices related to inter-utility transmission access and wheeling services in British Columbia. A registered Professional Engineer in the provinces of British Columbia and Alberta, Mr. Mansour is a Fellow of the Institute of Electrical and Electronics Engineers. He has authored or co-authored over 100 papers and special publications for professional institutions. He is internationally recognized for his groundbreaking developments in electric power system dynamics and holds related patents in the United States and Canada. The North American Electric Reliability Council named Mr. Mansour to the panel that steered the investigation of the August 14, 2003, blackout that affected much of Northeastern North America. Mr. Mansour received his Bachelor of Science degree in electrical engineering at the University of Alexandria and a Master of Science degree in electrical engineering at the University of Calgary.

Jim Detmers assumed the position of Vice President of Operations in 2001, and is responsible for the reliable operation of the transmission system. Mr. Detmers first joined the ISO in 1997 and played an instrumental role in the start-up of the ISO including overseeing system installations, process development and determining initial staffing requirements. He served in various leadership positions prior to assuming his current position. Before joining the ISO, Mr. Detmers worked for PG&E in a variety of engineering leadership roles. He received his Bachelor of Science degree in electrical engineering from the California Polytechnic State University, San Luis Obispo. He is an alumnus of the Haas School of Business Executive Development Program and is a licensed Professional Electrical Engineer in the State of California. Mr. Detmers is a member of the Institute of Electrical and Electronics Engineers and a former board member of the Western Electricity Coordinating Council.

Karen Edson became the Vice President External Affairs when she joined the ISO in December 2005. Ms. Edson manages Customer Service & Industry Affairs, Communications & Public Relations and Government Affairs. She and her staff play a key role in building and maintaining strategic partnerships for the organization. Reaching out to a diverse body of stakeholders, regulators and policy makers as well as providing first-rate customer service are her top objectives. Prior to joining the ISO, Ms. Edson served in a number of senior roles within state government, including Commissioner on the California Energy Commission from 1981 to 1984. Her other roles within state government include Assistant Director of the California Research Bureau in 2004-2005 and Legislative Director for the Governor’s Office of Planning and Research from 1977 to 1978. From 1985-2000 she headed a small consulting firm that specialized in energy policy and power plant permitting issues. Ms. Edson earned a Bachelor of

Arts degree from the University of California, Berkeley, and completed graduate work at the Haas School of Business. She has served as a board member for environmental and public service organizations and remains active in the Sacramento community.

Nancy Saracino joined the ISO in June 2007 as Vice President, General Counsel and Corporate Secretary. Ms. Saracino serves as the Chief Compliance Officer and oversees the internal audit and mandatory standards compliance departments. She advises the Board of Governors on the application of federal and state law, is responsible for providing guidance and advice on governance and corporate issues, and also oversees the Legal and Regulatory Department. Prior to joining the ISO, Ms. Saracino was Chief Counsel and subsequently Chief Deputy Director of the California Department of Water Resources, positions to which she was appointed by Governor Arnold Schwarzenegger. As Chief Deputy, Ms. Saracino assisted the Director in overseeing the supervision and management of the Department and for developing and implementing policy for the protection, conservation and management of the state water supply. In 2006, Ms. Saracino participated in the National Leadership Summits for a Sustainable America, which reviewed the nation's sustainable development goals in light of the effects of climate change and developed a five-year action plan. She also served as a steering committee member for the California Sustainability Alliance. Ms. Saracino earned her Juris Doctor degree from King Hall School of Law at the University of California, Davis, and has a Bachelor of Arts degree in economics from the University of California, Davis.

Steve Berberich is currently the Vice President of Corporate Services/Interim Chief Financial Officer and Treasurer. He joined the organization as Vice President Information Technology in 2005, and was promoted to his current position in April 2008. In addition to leading development and implementation of the ISO's information technology strategy, and oversight of information system operations, Mr. Berberich's responsibilities have been expanded to include leadership for additional corporate services including finance and accounting, procurement and vendor management, program management and facilities. Mr. Berberich has more than twenty years of technology and financial experience, most recently as Vice President of Business Development at CapGemini — one of the largest global firms specializing in management consulting, technology services and outsourcing services. Previously, he held various management positions with TXU Energy, most recently as Vice President of Information Technology, where he was significantly involved with implementing the deregulated electricity market in Texas. Mr. Berberich, who holds a Bachelor of Science degree in finance and a Master of Business Administration degree from the University of Tulsa, serves on the Executive Committee of the Center for MIS Studies for the University of Oklahoma.

Laura Manz joined the ISO in August 2008 as Vice President Market and Infrastructure Development. This newly created division blends two previously separate divisions with the goal of achieving more effective infrastructure planning through the use of efficient markets. Most recently, Ms. Manz was Director of Regulatory Affairs for SDG&E and Southern California Gas Company. She began her electricity career in the early 1980s at Public Service Enterprise Group that includes New Jersey's oldest and largest combined gas and electric utility. Ms. Manz was an active participant in the transformation of PJM Interconnection to an Independent System Operator. She represents the nation's independent grid operators on the North American Electric Reliability Corporation Member Representative Committee, advising its Board of Trustees on policies and rules affecting the nation's power industry. Ms. Manz received a Bachelor of

Science degree in electrical engineering at Lafayette College and a Master in Business Administration degree from Drexel University. She is a senior member of the Institute of Electrical and Electronics Engineers, is listed in *Who's Who of International Professionals* and is a recipient of the *Tribute to Women in Industry* award. Her work has appeared in *The Electricity Journal* and the working papers of the *Harvard Electricity Policy Group*. She is an active community service volunteer with organizations such as the Coastal Cleanup Committee, I Love a Clean San Diego and the Girl and Boy Scouts organizations.

California Energy Crisis and Related Issues

In 2000 and 2001, the California energy markets, including those managed by the ISO, experienced severe strains that resulted in high prices, shortages of energy and reserves, rolling blackouts and liquidity problems for many market participants. A confluence of factors created the California energy crisis: a retail customer rate freeze under which the state's largest utilities were required to procure power at a price that exceeded their collections from customers; lack of forward contracting by the utilities; regulatory and political inaction; a flawed initial market structure; abuses of market rules by certain market participants; significant energy demand growth; tight energy supplies due to a poor hydroelectric water season; and energy demand growth in neighboring states leaving less power available for import into California.

In early 2000, months before the energy crisis began, the ISO had been assigned above investment-grade credit ratings from two nationally recognized statistical rating organizations. Those ratings were downgraded to below investment grade in January 2001 because of concerns about the energy crisis and the subsequent credit rating downgrades of the ISO's two largest market participants, SCE and PG&E. SCE and PG&E defaulted on obligations to CalPX, which at the time was the scheduling coordinator for most of their activity through the ISO markets. In turn, CalPX defaulted on its obligations, and this resulted in short-payments to energy market suppliers. In March and April 2001, respectively, CalPX and PG&E filed for bankruptcy reorganization (PG&E subsequently emerged from bankruptcy in 2004, but CalPX ceased operations except to complete market settlements and wind up). Since August 2000, all creditors in the ISO market have been paid in full.

Throughout the energy crisis, the ISO funded its operations through GMC billings. Although PG&E, SCE and certain other customers did not pay their GMC bills in full, the ISO continued to collect its GMC in full each month because GMC billings have a priority claim under the Tariff on any funds received from market participants. Accordingly, the ISO continued to meet its payment obligations for debt service and its other corporate obligations on a timely basis and in full. Certain other energy market obligations have not yet been satisfied and cleared, and remain subject to ongoing litigation at FERC and in the courts. The coverage factor afforded by the Market Settlement Collections above the GMC in recent years is discussed under "Grid Management Charge - Debt Service Coverage."

Since the energy crisis, several steps have been taken and measures implemented to address the factors that led to the energy crisis. The regulatory environment supports utility cost recovery and market stability through using longer-term contracts and relying less on the spot power markets. These approaches enabled SCE and PG&E to improve their credit ratings substantially. FERC has undertaken several reforms to enable it to respond more quickly and

effectively to potential market abuses. In addition, the ISO put in place several market structure enhancements and measures designed to prevent market abuses. Finally, new investments in transmission and generation infrastructure have reduced the likelihood of a significant mismatch in energy supply and demand. No major market participant has defaulted in its obligation to the ISO since the 2000-2001 energy crisis. While market participants such as Mirant, Enron, PG&E Energy Trading, Lehman Brothers and Calpine have filed for bankruptcy reorganization, such actions have not had a material adverse effect on the ISO, its operations or its revenues.

Refund Proceedings before FERC and the U.S. Court of Appeals. The 2000-2001 energy crisis created substantial litigation and claims regarding the prices then charged by suppliers (the "Refund Proceeding"). Proceedings continue at FERC and at the U.S. Court of Appeals on issues concerning the Refund Proceeding. As of the present date, settlements concerning amounts to be refunded have been concluded and filed with FERC between the California parties (a coalition of several California governmental entities and the major investor-owned electric utilities in California) and over a dozen energy suppliers in the ISO and CalPX markets. To date, FERC has approved all of these settlements. Except for effects on generator noncompliance fines described under "Generator Noncompliance Fines" below, the ISO believes the outcome of these refund proceedings will not impact its finances because the refunded amounts will be resettled among market participants, with the ISO not being responsible for paying any refunded amounts.

Generator Noncompliance Fines. In 2000 and 2001, the ISO billed generator noncompliance fines to market participants totaling \$122.1 million. The ISO recognized as revenue the portion of such the fines that it believed it would retain after the settlement of various disputes. Through December 31, 2008, the ISO collected approximately \$60.7 million of these fines. Generally, these fines were assessed at twice the highest price paid in the ISO markets for energy and were applied against the amount of energy the participating generator failed to supply as directed by the ISO during specific emergency conditions as defined in the Tariff. These fines will be retroactively adjusted because of the Refund Proceeding.

Based on estimates of the mitigated energy prices in the Refund Proceeding, the ISO recognized fine revenues totaling \$29.5 million through 2004. This results in a refund liability of \$31.2 million (versus the \$60.7 million collected). The ISO has recorded such likely refundable amount as a liability on its balance sheet. The settlement of fines are expected to come after the conclusion of the Refund Proceeding and the ultimate financial settlement of proceedings involving CalPX. While there are significant uncertainties associated with this process, ISO management believes it is unlikely there will be any other future generator fine reductions that will ultimately be borne by the ISO.

In accordance with FERC rulings (except as noted below), the ISO accrues interest on the portion of fines collected in excess of the estimated realizable amount which are to be refunded to market participants when the amounts are ultimately settled. Such interest expense amounted to \$4.7 million and \$6.2 million in 2008 and 2007, respectively. At December 31, 2008 and 2007, accrued interest payable related to these fines totaled \$25.5 million and \$20.8 million, respectively.

The correction of base level transactions included in the preparatory rerun resulted in an upward adjustment to fines amounting to \$20.5 million. The current treatment of interest excludes the calculation of interest on the preparatory rerun corrections, based on the position that interest would only accrue upon the preparatory rerun being invoiced. The ISO believes that preparatory rerun corrections should be eligible for interest from the due date of the original trade month being corrected in the same manner as interest on corrections for mitigated market-clearing prices in the refund rerun. The ISO stated this position in a status report filed with FERC in March 2007, and in November 2008 the ISO requested a ruling on the issue, which is still pending. If approved, the effect would be to reduce interest payable by \$12.2 and \$10.2 million at December 31, 2008 and 2007, respectively. The ISO has not recorded any interest income or receivable relating to this matter because there has been no ruling on this issue by FERC, and the realization is not assured.

At December 31, 2008 and 2007, the estimated net realizable amount of fines was \$29.5 million for both years. Included in the current liabilities component of the ISO balance sheet at December 31, 2008 and 2007, is an estimated refund liability to market participants of \$56.7 million and \$52.0 million, respectively. These amounts represent the difference between the \$60.7 million in collections and the estimated fines to be retained, plus accrued interest.

On May 27, 2009, FERC issued a ruling that preparatory rerun corrections in the Refund Proceedings are eligible for interest in the same manner as interest on corrections for mitigated market-clearing prices in the refund rerun. As described above, the ISO had not been accruing interest on these amounts due from market participants pending FERC's ruling on the matter. Such interest amounts to \$12.7 million at the date of FERC's ruling, of which \$12.2 million relates to amounts accrued at December 31, 2008. In May 2009, the ISO recognized \$12.7 million as a reduction of interest expense with a corresponding adjustment to the estimated generator noncompliance fines refund liability.

Legislation and Regulations

From time to time energy legislation is proposed or enacted by the state of California legislature or the U.S. Congress, and regulations or orders are promulgated by FERC or the California Public Utilities Commission (the "CPUC") that may affect the ISO, its operations or its revenues or the market participants, transmission owners or scheduling coordinators. The ISO actively monitors all such legislative and regulatory developments.

Risk Factors

ISO Charges and GMC. The ISO's ability to meet its obligation to pay debt service under the 2009A Loan Agreement is dependent on the collection of charges imposed by the ISO under its Tariff (primarily the GMC) for various services provided by the ISO to market participants. The GMC rates are designed to provide recovery of operating expenses and debt service, including principal of and interest on the Bonds. Under the 2009A Loan Agreement the ISO has granted a first lien on the Net Operating Revenues to secure the payment of the principal of and interest on the Bonds. Net Operating Revenues exclude Operating Expenses as defined in the 2009A Loan Agreement. Operating Revenues exclude moneys, in particular Market-Related Receipts, derived from a variety of other market ISO charges for a variety of services and

activities that are held in certain accounts established pursuant to the Tariff. Accordingly, the lien of the 2009A Loan Agreement on Net Operating Revenues is effectively limited to the debt service and coverage components of the GMC. While the ISO is permitted under the Tariff to access market funds through a priority claim on such amounts in the event the GMC is not paid in full on a monthly basis, such market amounts are not pledged to bondholders or subject to the lien and security interest of the 2009A Loan Agreement and the ISO is not contractually obligated to apply such amounts to pay debt service on the Bonds. Consequently, the trustee's or a bondholder's ability to realize on Net Operating Revenues and other the ISO funds upon an ISO event of default may be limited.

Market Participant Concentration. For the years ended December 31, 2008, 2007 and 2006, approximately 54%, 53% and 56%, respectively, of GMC revenues were from two market participants. Further, 10 market participants accounted for approximately 78% of GMC collections and 25 market participants accounted for approximately 93% of GMC collections in 2008. Nonpayment of GMC by one of these market participants could result in a significant shortfall of the GMC revenue requirement. See "California Energy Crisis and Related Issues." The ISO's unperfected priority claim on any Market-Related Receipts with the associated coverage that such revenues have historically provided serves to mitigate, to a degree, the risk that non-payment of GMC obligations by one or more market participants would result in a shortfall of GMC collections by the ISO. See table of coverage in "The ISO Charges – General."

Disputes with Market Participants. The ISO has from time to time been involved in disputes with market participants about market transactions. Some of these disputes involve the application of GMC to the market participants. These disputes are pursued in the managed dispute processes and in proceedings before FERC. While the ISO management does not believe that existing disputes will have an adverse impact on the ISO, no assurance can be given regarding any future disputes or the effect of any such disputes on the ISO's operations or revenues.

Contractual Risks and Withdrawal. The TCA sets forth PTO rights and obligations, including their obligations to transfer to the ISO operational control of their transmission assets, to maintain the assets and to comply with policies and directives of the ISO. To a degree, the TCA contractually restricts the ability of a PTO to withdraw from the ISO. If any one of California's three major investor-owned electric utilities, PG&E, SCE, or SDG&E were to withdraw from the TCA, the impact would be material to the ISO. The ISO has no reason to believe that any load-serving entity is planning to withdraw from the TCA. However, if a load-serving entity that is a PTO such as PG&E, SCE, or SDG&E did decide to withdraw, it would have to satisfy the withdrawal requirements of the TCA. The TCA ordinarily requires a PTO to give the ISO two years' advance notice before withdrawing, and obtain FERC approval. The only exception to the two-year notice requirement would be if an event occurs that threatens the tax-exempt status or tax-exempt financing of a PTO, in which case the PTO may withdraw immediately. No assurance can be given that the withdrawal of a PTO representing a significant portion of the transmission facilities transferred to ISO operational control would not occur or would not adversely affect the ISO's ability to operate effectively as a system operator or the ISO's ability to meet its Bond obligations.

Dependence on Key Personnel. The ISO is managed by a small group of key executive officers and other management personnel whose loss could have a material adverse effect on the ISO. In addition, the success of the ISO will depend in large part on its ability to attract and retain highly skilled and qualified operations, technical and other personnel. The ISO is committed to be an “Employer of Choice” by offering a variety of incentives including training, benefits and career development opportunities to attract and retain talent.

Credit Rating. The credit ratings of the ISO and of the Bonds are dependent in a significant part on the credit ratings of the ISO’s major market participants who pay the GMC. A substantial downgrade in the credit rating of such customers, particularly the ISO’s largest customers representing a material portion of the load participation in the ISO, may have a material adverse effect on the credit rating of the ISO, which in turn could materially and adversely affect the ISO’s business and financial condition and the market value of the Bonds. See “California Energy Crisis and Related Issues” above. The ISO maintains appropriate customer credit standards in order to protect the GMC revenue stream security and ultimately, the ISO's ability to make full and timely payments in respect of the Bonds. Customers who do not meet ISO Unsecured Credit Limit standards are required to post collateral to cover their net ISO obligations.

Access to Capital. As a nonprofit entity, the ISO is financed entirely by debt and retained Net Operating Revenues. The ISO does not raise equity capital through the issuance of stock or cash contributions from members. In order to assure sufficient resources, the ISO must use available cash on hand, collect capital funding through its GMC revenue requirement or access debt capital from outside sources on acceptable terms. The ISO can give no assurances that its current and future capital structure, operating performance or financial condition will permit it to access the capital markets or obtain other debt capital at the times, in the amounts and on the terms necessary for the ISO to carry out its business plan successfully.

FERC Approval Process. The ISO’s rates, service offerings, and terms and conditions of service are specified in the Tariff. The ISO periodically determines that changes to the Tariff are necessary to respond to its needs as well as the needs of market participants. Such Tariff amendments require FERC authorization and are subject to a regulatory process that may result in outcomes that are not favorable to the ISO.

Other Regulatory Risk. While the ISO’s rates and charges are not subject to review or approval by state agencies or regulatory bodies, such as the CPUC or the California Energy Commission, various undertakings by the PTOs are subject to regulations by these and other state agencies. No assurance can be given that a future adverse regulatory action applicable to PTOs will not have an adverse effect on the ISO’s operations or revenues.

Risks Associated with the Operation of Transmission Assets. The ISO is required to operate the transmission system in accordance with standards promulgated by the NERC, the nation's designated Electric Reliability Organization. Noncompliance with such standards may subject the ISO to monetary penalties in amounts ranging up to \$1 million per violation per day. FERC has not granted independent system operators blanket authority to recover from their market participants monetary penalties assessed by NERC. However, FERC has stated that it will entertain filings submitted by independent system operators pursuant to Section 205 of the

FPA requesting authority to recover such monetary penalties. At this time, the ISO has not submitted such a filing. If the ISO were to submit a filing requesting authority to recover assessed monetary penalties, and if FERC were to rule that the penalties should be recovered through the GMC rather than assigned to the entities responsible for causing the penalties, this could result in GMC rates that are viewed by market participants as excessive.

The transmission assets under the ISO's control are subject to damage from fires and to outages from similar unforeseen events. They are also subject to capacity limitations, security breaches, computer viruses, sabotage, break-ins, or operational error. Any of these occurrences may cause system failures, interruptions in service or reduced capacity. The ISO could incur liability related to these events if found grossly negligent.

California relies on energy imports from out-of-state entities to meet electricity demand at various times during the year, particularly the summer. Such entities may not have spare capacity or may be unwilling to provide such capacity to California. Each load-serving entity using the ISO Balancing Area is responsible for ensuring that it has arranged sufficient energy to meet its customer demand ahead of the operating day. In the event actual demand exceeds expectations, the ISO will attempt to procure available supply to meet such additional actual demand. At times, system-wide or local shortages can require the ISO-directed curtailment of energy use (load shedding) to ensure transmission system stability. The ISO directed load shedding on several occasions during the California electricity crisis (discussed above) and at other times, but has never incurred any associated liability.

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CORPORATION

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California Independent System Operator Corporation

Financial Statements

December 31, 2008 and 2007

California Independent System Operator Corporation
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December 31, 2008 and 2007

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Report of Independent Auditors

To the Members of the Board of Governors
California Independent System Operator Corporation

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses and changes in net assets and of cash flows present fairly, in all material respects, the financial position of the California Independent System Operator Corporation (the "Company") at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis on pages 2 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

Sacramento, California
April 3, 2009

California Independent System Operator Corporation

Management's Discussion and Analysis

The following discussion and analysis of the California Independent System Operator Corporation (the Company) provides an overview of the Company's financial activities for the years ended December 31, 2008 and 2007. This discussion and analysis should be read in conjunction with the Company's financial statements and accompanying notes, which follow this section.

BACKGROUND

The Company is a nonprofit public benefit corporation incorporated in May 1997, and is responsible for the operation of the long-distance, high-voltage power lines that deliver electricity throughout most of California (the California grid) and to neighboring control areas and states, as well as with Canada and Mexico.

The Company operates day-ahead and hour-ahead markets for transmission congestion and ancillary services, operates a real-time market for balancing energy, and administers reliability-must-run (RMR) contracts. RMR contracts allow the Company access to power at contractually agreed-upon prices from generation units which, due to their location and other factors, must be operated at certain times to ensure the local transmission reliability. The Company also performs a settlement and clearing function by collecting payments from users of these services and making pass-through payments to providers of such services. Any market defaults are proportionately allocated to market participants based on net amounts due them for the month of default.

The Company's principal objective is to ensure the reliability of the California Grid, while fostering a competitive wholesale marketplace for electrical generation and related services in California. The Company operates pursuant to tariffs filed with the Federal Energy Regulatory Commission (FERC).

The Board of Governors (Board) of the Company is composed of five members appointed by the California Governor and confirmed by the California State Senate.

Financial Reporting

The Company's accounting records are maintained in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB) and, where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board (FASB). The Company's accounting records generally conform to the Uniform System of Accounts prescribed by the FERC.

Cash held by the Company on behalf of market participants is recorded in a restricted asset account with a corresponding liability due to market participants on the balance sheet. Market transactions are maintained in financial records separate from the Company, and accordingly, the financial results of these market transactions are not included in the financial statements of the Company.

Setting of Rates

The Company charges a Grid Management Charge (GMC) to market participants to recover the Company's operating costs, capital expenditures and debt service costs, and to provide for an operating reserve. GMC revenues are recognized when the related energy transactions take place. All of the Company's receivables are due from entities in the energy industry, including utilities, generation owners, financial institutions and other electricity market participants. For the years ended December 31, 2008 and 2007, approximately 54 percent and 53 percent, respectively, of GMC revenues were from two market participants. In the event of a payment default by a market participant, GMC revenues have a priority claim against any market-related receipts, which means that even if an entity defaults on a GMC invoice, the Company receives the full GMC so long as sufficient funds were received on market invoices.

The 2008 and 2007 unbundled GMC rates were comprised of the following six service categories: core reliability services; energy transmission services; forward scheduling; congestion management; market usage; and settlements, metering and client relations.

California Independent System Operator Corporation

Management's Discussion and Analysis

The operating reserve is calculated separately for each GMC service category and accumulates until the reserve becomes fully funded (at 15 percent of budgeted annual operating costs for each rate service category). In accordance with the tariff, any surplus operating reserve balance is applied as a reduction in the revenue requirement for the following year. These operating reserve amounts are included in the net assets of the Company. The tariff requires GMC rates to be adjusted not more than once per quarter in the event that projected annual billing determinant volumes differ by more than five percent from those projections used to set rates. During 2008 and 2007, adjustments were made to certain GMC rates pursuant to these provisions. The Company believes these provisions provide it sufficient access to resources to meet its financial obligations to debt holders and other creditors.

The following table summarizes the pro forma bundled GMC rate based on the budgeted revenue requirement divided by the estimated control area transmission volume.

	2008	2007	2006
Pro forma GMC rate per MWh	\$ 0.755	\$ 0.760	\$ 0.724
Estimated volume in millions of MWh	253.70	250.00	249.20

2008 Compared to 2007 – The pro forma bundled GMC rate per MWh was \$0.005 lower in 2008 due to the budgeted revenue requirement being spread over a larger transmission volume. The budgeted revenue requirement increased in 2008 as compared to 2007 primarily due to an \$8.9 million increase in budgeted costs for increased overtime and consulting costs, a \$1.0 million increase in project funding and a \$4.0 million increase in the revenue requirement due to a lower amount transferred from the operating reserve in 2008 as compared to 2007, partially offset by a \$12.0 million reduction in debt service requirements.

2007 Compared to 2006 – The pro forma bundled GMC rate per MWh was \$0.036 higher in 2007 due to an increase in the budgeted revenue requirement which was partially mitigated by an increase in transmission volume. The budgeted revenue requirement increased in 2007 as compared to 2006 primarily due to a \$9.9 million increase in budgeted operating costs for increases in overtime and staffing, a \$1.0 million increase in project funding and a \$5.0 million increase in the revenue requirement due to a lower amount transferred from the operating reserve in 2007 as compared to 2006, partially offset by a \$3.0 million reduction in debt service requirements and a \$2.5 million increase in other revenues.

Liquidity

The Company's rate structure provides for operating reserves which for 2008 and 2007 were fully funded for each service category. The Company issued \$197.0 million of fixed rate revenue bonds (the 2008 Series Bonds) in June 2008. The proceeds of the issuance were used to refund all variable rate demand bonds outstanding at the time of issuance, fund debt service reserves related to the issued debt, and pay certain debt issuance costs. The remaining proceeds will be used to fund computer hardware and software systems, other facilities and equipment, and other planned capital projects. In connection with the issuance of the 2008 Series Bonds, the Company retired the related interest rate swaps and associated bond insurance. There is sufficient unrestricted and restricted cash to conduct the Company's operations and fund the Company's current estimated capital and debt service requirements.

California Independent System Operator Corporation

Management's Discussion and Analysis

To mitigate the risk that an issuer of an investment will not fulfill its repayment obligation, the Company limits investments to those rated by a nationally recognized rating agency of A-1 (or equivalent) or better for commercial paper and A- (or equivalent) or better for medium-term notes. The Company typically holds investments to maturity. New funds available for investment were placed in money market accounts during 2008, thereby reducing investments to \$87.2 million at December 31, 2008, compared to \$128.9 million at December 31, 2007. The Company recorded a mark-to-market loss of \$4.1 million on the Company's investment portfolio for the year ended December 31, 2008, as a result of declines in value of corporate bonds.

Market Redesign and Technology Upgrade (MRTU) Project

The MRTU Project is a significant effort to improve the reliability and market operations of the California grid and the information systems that support it. It is a multi-year project that became operational March 31, 2009. It includes major system components including:

- Day-Ahead Market - A series of integrated pricing runs to account for hourly self-schedules and bids, reliability needs and market power mitigation in the 24-hour period before electricity flows in real time.
- Congestion Revenue Rights - Financial instruments that allow market participants to obtain risk protection from congestion charges in the day-ahead market.
- Scheduling Infrastructure Business Rules - A system that validates and publishes bids for information and use in other applications.
- Real-Time Market - A system that simultaneously optimizes energy and ancillary services based on locational marginal pricing (LMP), so that congestion is managed efficiently and reliably.
- Settlements and Market Clearing - An integrated set of systems that process settlement statements, billing, invoicing, cash clearing and credit business functions for the markets.
- State Estimator with a Full Network Model - A computer software program that provides a near real-time assessment of system conditions within the California grid.

The main benefits associated with the MRTU Project are:

- Enhanced Reliability - MRTU provides transparent rules for buyers and sellers in California's wholesale electricity markets where prices will reflect actual costs based on the physical flow of electricity on transmission lines. By creating a day-ahead market and scheduling process, the power flows over the next 24 hours can be modeled according to the actual physical constraints so that risks of shortages and congestion on transmission lines can be assessed and minimized.
- Improved Information - By providing transparent nodal marginal prices that reflect the true cost of energy and transmission, MRTU reveals areas with congested transmission lines so that qualified entities can build new lines or generation resources, with the Company's coordination, to improve efficiency and reliability.
- Improved Cost Management - The alignment of costs with market participant behavior is expected to lead to increased confidence in the Company-managed markets. The operating signals from LMP and the anticipated more efficient mix of resources identified by the day-ahead market will be important cost management improvements.
- New Robust Technology - Replacing the dated computer infrastructure with new hardware, architecture and systems will provide the Company with greater functionality and flexibility. A new suite of systems provides more effective and reliable support for grid and market operations.

California Independent System Operator Corporation

Management's Discussion and Analysis

New Headquarters Facility

The Company intends to construct and occupy, with a targeted completion date of 2011, a new headquarters and operations facility on land the Company owns in Folsom, California. The Company is currently planning a bond issuance in Summer 2009 to fund the facility costs. Expenditures on the facility prior to the availability of such bond proceeds are being funded from general Company funds and funds from the 2008 bond offering.

Commitments and Contingencies

As part of the tariffs and applicable contracts, the Company has a dispute resolution process for market participants, RMR owners and transmission owners to register disagreements about information in the settlement statements or billing amounts for market and RMR activity. Once good faith efforts, known as good faith negotiations (GFN), have been made to negotiate and resolve disputes, written claims may be submitted either to mediation or arbitration. Several disputes and other claims, some of which are material in amount, have been filed with the Company and are in the process of being resolved. To date, all prior settlements, market adjustments and matters in GFN have been resettled against the market and the Company believes that any settlements or market adjustments relating to current disputes and the matters in GFN would be resettled against the market as permitted by the tariff.

FINANCIAL HIGHLIGHTS

Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets

The financial statements provide both short-term and long-term information about the Company's financial status. The balance sheets include all of the Company's assets and liabilities, using the accrual method of accounting, and identify any assets which are restricted as a result of bond covenants or external commitments. The balance sheets provide information about the nature and amount of resources and obligations at specific points in time. The statements of revenues, expenses and changes in net assets report all of the Company's revenues and expenses during the year. The statements of cash flows report the cash provided and used during the year by operating activities, as well as other cash sources such as investment income and debt financing, and other cash uses such as payments for bond principal and capital additions.

Condensed Balance Sheets (in millions):

	2008	2007	2006
<u>Assets</u>			
Current assets	\$ 378.5	\$ 331.7	\$ 288.7
Fixed assets, net	257.3	212.9	165.9
Other noncurrent assets	70.7	77.3	34.9
Total	<u>\$ 706.5</u>	<u>\$ 621.9</u>	<u>\$ 489.5</u>
<u>Liabilities and Net Assets</u>			
Current liabilities	\$ 279.8	\$ 276.2	\$ 202.1
Long-term debt	173.4	125.1	116.7
Other Noncurrent liabilities	12.5	13.1	9.3
Net assets	240.8	207.5	161.4
Total	<u>\$ 706.5</u>	<u>\$ 621.9</u>	<u>\$ 489.5</u>

California Independent System Operator Corporation

Management's Discussion and Analysis

Assets

Current Assets (in millions):

	2008	2007	2006
Cash and cash equivalents	\$ 298.3	\$ 220.8	\$ 153.8
Investments	21.5	58.5	90.5
Accounts receivable and other assets	58.7	52.4	44.4
Total	<u>\$ 378.5</u>	<u>\$ 331.7</u>	<u>\$ 288.7</u>

2008 Compared to 2007 - Current assets amounted to \$378.5 million at December 31, 2008, an increase of \$48.8 million during the year, which make up about 53 percent of the Company's assets. The increase in cash, cash equivalents, and investments of \$40.5 primarily related to an increase of \$24.0 million of bond proceeds restricted for capital expenditures, an increase of \$32.9 million in amounts restricted for market participants and cash provided by operations of \$81.1 million. The increases were partially offset by decreases in cash, cash equivalents and investments primarily related to decrease in debt service funds of \$45.9 million arising from the refinancing of the bonds and \$52.8 million used for fixed assets. Accounts receivable and other assets increased by \$7.3 million due primarily to higher GMC receivables at the end of 2008 as compared to 2007 and increases in other current assets from prepaid amounts.

2007 Compared to 2006 - Current assets amounted to \$331.7 million at December 31, 2007, an increase of \$43.0 million during the year, which make up about 53 percent of the Company's assets. Cash and cash equivalents increased by \$67.0 million in 2007 while short term investments decreased by \$32.0 million. Increases in cash, cash equivalents and investments primarily related to proceeds from the issuance of bonds of \$59.2 million and increases in pass-through fees due to others and market funds pending settlement of \$17.9 million, market participant security deposits of \$44.6 million and generator interconnection study deposits of \$8.6 million. Decreases in cash, cash equivalents and investments primarily related to draws from the bond construction fund for capital expenditures of \$58.0 million and a transfer to long term investments of \$39.9 million. Accounts receivable and other assets increased by \$8.0 million due primarily to a supplemental increase in certain GMC rates for the fourth quarter of 2007 to offset lower volumes during the year.

Fixed Assets, net (in millions):

	2008	2007	2006
Net assets in service	\$ 34.1	\$ 33.1	\$ 28.5
MRTU work-in-progress	192.9	155.9	123.1
Land and other work-in-progress	30.3	23.9	14.3
Total	<u>\$ 257.3</u>	<u>\$ 212.9</u>	<u>\$ 165.9</u>

2008 Compared to 2007 - The Company has invested approximately \$257.3 million in fixed assets and work-in-progress, net of accumulated depreciation, at December 31, 2008. Net fixed assets were about 36 percent of the Company's assets, approximately two percent more than the previous year. During 2008, the Company capitalized approximately \$56.7 million of additions to fixed assets, including additions to work-in-progress. The largest component of the additions were related to the 2008 costs of approximately \$37.0 million for the MRTU Project described above. The internally developed software related to MRTU was substantially complete and capitalization ceased on December 1, 2008. The MRTU assets were placed in service on March 31, 2009.

California Independent System Operator Corporation

Management's Discussion and Analysis

2007 Compared to 2006 - The Company has invested approximately \$212.9 million in fixed assets and work-in-progress, net of accumulated depreciation, at December 31, 2007. Net fixed assets were about 34 percent of the Company's assets, the same percentage as the previous year. During 2007, the Company capitalized approximately \$62.1 million of additions to fixed assets, including additions to work-in-progress. The largest component of the additions were related to the 2007 costs of approximately \$54.2 million for the MRTU Project described above.

Other Noncurrent Assets (in millions):

	2008	2007	2006
Investments	\$ 65.7	\$ 70.4	\$ 30.5
Other assets	5.0	6.9	4.4
Total	<u>\$ 70.7</u>	<u>\$ 77.3</u>	<u>\$ 34.9</u>

2008 Compared to 2007 - Other noncurrent assets amounted to \$70.7 million at December 31, 2008, a decrease of \$6.6 million during the year, principally related to a decrease in the value of corporate notes.

2007 Compared to 2006 - Other noncurrent assets amounted to \$77.3 million at December 31, 2007, an increase of \$42.4 million during the year. The largest component is long-term investments which increased by \$39.9 million primarily due to increased investment in U.S. governmental agency securities, which were funded by the liquidation of investments in corporate bonds that were carried in current assets.

Liabilities

Current Liabilities (in millions):

	2008	2007	2006
Accounts payable and accrued expenses	\$ 12.2	\$ 15.0	\$ 13.1
Accrued salaries and compensated absences	22.3	19.9	17.8
Current portion of long-term debt	31.0	64.6	71.7
Due to market participants	155.8	122.9	51.9
Generator non-compliance fines refund obligation	56.7	52.0	45.8
GMC refund obligation	1.8	1.8	1.8
Total	<u>\$ 279.8</u>	<u>\$ 276.2</u>	<u>\$ 202.1</u>

2008 Compared to 2007 - Current liabilities amounted to \$279.8 million at December 31, 2008, an increase of \$3.6 million during the year. Amounts due to market participants increased by \$32.9 million primarily related to increases in generator interconnection study deposits of \$45.0 million offset by decreases in other restricted market participant funds of \$12.1 million. Generator noncompliance fines refund obligation increased \$4.7 million due to additional accrued interest on the related refund.

California Independent System Operator Corporation Management's Discussion and Analysis

2007 Compared to 2006 - Current liabilities amounted to \$276.2 million at December 31, 2007, an increase of \$74.1 million during the year. Amounts due to market participants increased by \$71.0 million primarily related to increases in market participant security deposits of \$44.5 million, other restricted market participant funds of \$17.9 million and generator interconnection study deposits of \$8.6 million. Generator noncompliance fines refund obligation increased \$6.2 million due to additional accrued interest on the related refund.

Long-Term Debt (in millions):

	Principal	Interest	Total
<u>Debt Service Requirements</u>			
2009	\$ 31.0	\$ 8.4	\$ 39.4
2010	39.1	6.4	45.5
2011	42.3	4.3	46.6
2012	25.1	3.1	28.2
2013	36.0	1.3	37.3
2014	23.5	0.1	23.6
Total	<u>\$ 197.0</u>	<u>\$ 23.6</u>	<u>\$ 220.6</u>

Debt service requirements above reflect scheduled maturities of long-term debt at December 31, 2008. Interest is calculated using the stated fixed rate of the bonds.

As of December 31, 2008, the Company had an underlying rating of A- (with stable outlook) from S&P and A2 (with stable outlook) by Moody's.

2008 Compared to 2007 - At December 31, 2008, the Company had \$197.0 million of outstanding bonds issued through the California Infrastructure and Economic Development Bank (CIEDB). Proceeds of the bonds were used to refund all variable rate demand bonds outstanding at the time of issuance, fund debt service reserves related to the issued debt, and pay certain debt issuance costs. The remaining proceeds will be used to fund computer hardware and software systems, other facilities and equipment, and other planned capital projects. Included in the balance is an unamortized premium on the 2008 bonds of \$7.4 million. Long-term debt (net of current portion) makes up about 24 percent of the Company's liabilities and net assets, approximately 4 percent more than the previous year. The increase in long-term debt was primarily attributable to the issuance of new bonds which included additional debt to finance capital projects.

2007 Compared to 2006 - At December 31, 2007, the Company had \$189.7 million of outstanding variable rate demand revenue bonds issued through the CIEDB. Proceeds of the bonds were utilized to finance a portion of the costs of the Company's MRTU Project, other capital projects and operating systems, a portion of the Company's start-up costs, working capital needs and facility expansion. Long-term debt (net of current portion) makes up about 20 percent of the Company's liabilities and net assets, approximately 4 percent less than the previous year. The increase in long-term debt was primarily attributable to the issuance of new bonds less scheduled payments and less the portion of the principal amount becoming a current liability.

California Independent System Operator Corporation

Management's Discussion and Analysis

Other Noncurrent Liabilities (in millions):

	2008	2007	2006
Derivative liability	\$ -	\$ 1.4	\$ -
Employee retirement plan obligations	12.5	11.7	9.3
Total	<u>\$ 12.5</u>	<u>\$ 13.1</u>	<u>\$ 9.3</u>

2008 Compared to 2007 - Other noncurrent liabilities amounted to \$12.5 million at December 31, 2008, a decrease of \$0.6 million during the year. The overall decrease was the result of the termination of the interest rate swap (the derivative liability) of \$1.4 million during 2008 in connection with the bond refunding, partially offset by an increase in employee retirement plan obligations of \$0.8 million which was attributable to the excess of plan costs over current year funding.

2007 Compared to 2006 - Other noncurrent liabilities amounted to \$13.1 million at December 31, 2007, an increase of \$3.8 million during the year. The increase in employee retirement plan obligations of \$2.4 million was primarily attributable to an increase in the post-employment medical benefit plan obligation, caused by higher annual cost of the plan, offset by a \$0.9 million increase in the 2006 liability due to a retroactive change in accounting principle. The increase in the derivative liability of \$1.4 million reflected the decrease in value of the interest rate swap (which was terminated in 2008, as discussed above) from increasing interest rates.

Net Assets (in millions):

	2008	2007	2006
Invested in capital assets, net of related debt	\$ 136.2	\$ 81.5	\$ 32.4
Restricted	1.6	43.5	51.1
Unrestricted	103.0	82.5	77.8
Total	<u>\$ 240.8</u>	<u>\$ 207.5</u>	<u>\$ 161.3</u>

2008 Compared to 2007 – Net assets invested in capital assets, net of related debt, amounted to \$136.2 million at December 31, 2008, an increase of \$54.7 million during the year. The increase was attributable primarily to the capitalized costs funded from unrestricted funds. Restricted net assets amounted to \$1.6 million at December 31, 2008, a decrease of \$41.9 million from the year prior, which was primarily attributable to lower bond sinking requirements of the 2008 revenue bonds as compared to the requirements for the bonds that were refunded. Unrestricted net assets amounted to \$103.0 million at December 31, 2008, an increase of \$20.5 million during the year, due primarily to a surplus of revenues over expenses in 2008, partially offset by the net changes reflected in the other two categories.

2007 Compared to 2006 – Net assets invested in capital assets, net of related debt, amounted to \$81.5 million at December 31, 2007, an increase of \$49.1 million during the year. The increase was attributable primarily to the capitalized costs funded from unrestricted funds. Restricted net assets amounted to \$43.5 million at December 31, 2007, a decrease of \$7.6 million from the year prior, which was primarily attributable to lower bond sinking requirements. Unrestricted net assets amounted to \$82.5 million at December 31, 2007, an increase of \$4.7 million during the year, due primarily to a surplus of revenues over expenses in 2007, partially offset by the net changes reflected in the other two categories.

California Independent System Operator Corporation

Management's Discussion and Analysis

Changes in Net Assets

Condensed Statement of Revenues, Expenses and Changes in Net Assets (millions):

	2008	2007	2006
Operating revenues	\$ 200.7	\$ 200.6	\$ 189.9
Operating expenses	161.8	153.8	148.4
Operating income	<u>38.9</u>	<u>46.8</u>	<u>41.5</u>
Other income (expenses)	(5.6)	(0.6)	(0.2)
Total	<u>\$ 33.3</u>	<u>\$ 46.2</u>	<u>\$ 41.3</u>

Operating Revenues

2008 Compared to 2007 - Total operating revenues in 2008 were substantially the same as in 2007. In 2008, GMC from regular operations for the year was \$194.8 million. GMC from regular operations in 2008 was higher than in 2007 due primarily to higher volumes of activity related to certain billing determinants. In 2007, GMC from regular operations was \$187.7 million. The 2007 GMC revenue also included \$7.1 million of GMC amounts from San Diego Gas and Electric Company (SDG&E), as described below, and which did not recur in 2008.

2007 Compared to 2006 - Operating revenues were \$200.6 million in 2007, an increase from 2006 of \$10.7 million which was primarily attributable to certain GMC rate categories being higher in 2007 and collection of \$7.1 million of GMC amounts from SDG&E in prior years. In 2007, a settlement was reached with SDG&E relating to GMC charges associated with transactions on certain shared ownership facilities which SDG&E previously disputed as a result of a FERC order, which limited their ability to pass the charges through to certain parties.

Operating Expenses and Percentages (dollars in millions):

	2008	2007	2006
Salaries and related benefits	\$ 91.6	\$ 83.5	\$ 73.4
Communication and technology costs	23.9	21.5	23.7
Legal and consulting costs	15.7	16.6	17.0
Other: leases, facilities and administrative	17.8	17.2	17.6
Depreciation and amortization	12.8	15.0	16.7
Total	<u>\$ 161.8</u>	<u>\$ 153.8</u>	<u>\$ 148.4</u>
Salaries and related benefits	56.6 %	54.3 %	49.4 %
Communication and technology costs	14.8	14.0	16.0
Legal and consulting costs	9.7	10.7	11.5
Other: leases, facilities and administrative	11.0	11.2	11.9
Depreciation and amortization	7.9	9.8	11.2
Total	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

2008 Compared to 2007 - Operating expenses were \$161.8 million in 2008, \$8.0 million higher than in 2007. The increase in 2008 as compared to 2007 is primarily attributable to higher total salaries and related benefits resulting from an increase in the number of employees.

California Independent System Operator Corporation

Management's Discussion and Analysis

2007 Compared to 2006 - Operating expenses were \$153.8 million in 2007, \$5.5 million higher than 2006. The increase in 2007 as compared to 2006 is primarily attributable to higher total salaries and related benefits resulting from an increase in the number of employees.

Other Income (Expense) (in millions):

	2008	2007	2006
Interest income	\$ 3.7	\$ 13.1	\$ 10.1
Interest expense	(8.9)	(11.9)	(11.1)
Change in derivative valuation	(0.4)	(1.8)	0.8
Total	<u>\$ (5.6)</u>	<u>\$ (0.6)</u>	<u>\$ (0.2)</u>

2008 Compared to 2007 - Interest income was \$9.4 million lower in 2008 compared to 2007 due primarily to lower interest earnings caused by lower interest rates of \$3.4 million, a loss of \$4.1 million from the mark-to-market of investments and \$1.9 million of interest income recorded in 2007 related to the SDG&E settlement that did not recur in 2008. Interest expense was \$3.0 million lower in 2008 versus 2007. The decreased expense was primarily due to 2008 bond premium amortization of \$2.4 million which did not exist in 2007, \$1.8 million decrease in interest on generator fines driven primarily from lower FERC interest rates and \$1.2 million increase in capitalized interest on work in progress. The change in derivative valuation in 2008 is due to the lower mark to market on the swaps during the period they were outstanding in 2008 as compared to 2007.

2007 Compared to 2006 - Interest income was \$3.0 million higher in 2007 compared to 2006 due primarily to an increase in the investment portfolio, as cash, cash equivalents, and investments increased to \$349.7 million as of December 31, 2007 from \$274.8 million as of December 31, 2006. Interest expense was \$0.8 million higher in 2007 versus 2006 due to higher debt balances. The change in the derivative liability in 2007 is due to higher interest rates at year end compared to 2006.

California Independent System Operator Corporation

Balance Sheets

December 31, 2008 and 2007

(\$ in thousands)

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents, including restricted amounts	\$ 298,312	\$ 220,775
Accounts receivable	51,582	49,327
Short-term investments, including restricted amounts	21,496	58,516
Other current assets	7,117	3,067
Total current assets	<u>378,507</u>	<u>331,685</u>
Noncurrent assets:		
Long-term investments, unrestricted	65,715	70,396
Fixed assets, net	257,253	212,927
Other assets	5,023	6,898
Total noncurrent assets	<u>327,991</u>	<u>290,221</u>
Total assets	<u>\$ 706,498</u>	<u>\$ 621,906</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 12,190	\$ 14,959
Accrued salaries and compensated absences	22,345	19,946
Current portion of long-term debt	31,000	64,600
Due to market participants	155,767	122,919
Generator noncompliance fines refund obligation	56,685	52,003
GMC refund obligation	1,800	1,800
Total current liabilities	<u>279,787</u>	<u>276,227</u>
Noncurrent liabilities:		
Long-term debt, net of current portion	173,372	125,100
Derivative liability	-	1,378
Employee retirement plan obligations	12,495	11,718
Total noncurrent liabilities	<u>185,867</u>	<u>138,196</u>
Total liabilities	<u>465,654</u>	<u>414,423</u>
Commitments and contingencies		
Net assets		
Invested in capital assets, net of related debt	136,189	81,429
Restricted	1,616	43,545
Unrestricted	103,039	82,509
Total net assets	<u>240,844</u>	<u>207,483</u>
Total liabilities and net assets	<u>\$ 706,498</u>	<u>\$ 621,906</u>

The accompanying notes are an integral part of these financial statements.

California Independent System Operator Corporation
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2008 and 2007

(\$ in thousands)

	2008	2007
Operating revenues:		
GMC revenue	\$ 194,841	\$ 194,831
Other revenues	5,903	5,795
Total operating revenues	<u>200,744</u>	<u>200,626</u>
Operating expenses:		
Salaries and related benefits	91,638	83,508
Equipment leases and facility costs	9,615	9,433
Communications, technology and temporary staffing contracts	23,912	21,475
Legal and consulting services	15,678	16,573
Training, travel and professional dues	3,585	3,752
Insurance, administrative and other expenses	4,503	4,143
Depreciation and amortization	12,822	14,978
Total operating expenses	<u>161,753</u>	<u>153,862</u>
Income from operations	<u>38,991</u>	<u>46,764</u>
Other income (expense):		
Interest income	3,729	13,144
Interest expense	<u>(9,359)</u>	<u>(13,733)</u>
Total other income (expense)	<u>(5,630)</u>	<u>(589)</u>
Change in net assets	33,361	46,175
Net assets, beginning of year	<u>207,483</u>	<u>161,308</u>
Net assets, end of year	<u>\$ 240,844</u>	<u>\$ 207,483</u>

The accompanying notes are an integral part of these financial statements.

California Independent System Operator Corporation

Statements of Cash Flows

Years Ended December 31, 2008 and 2007

(\$ in thousands)

	2008	2007
Cash flows from operating activities:		
Receipts from scheduling coordinators	\$ 192,586	\$ 186,867
Other receipts	5,903	5,795
Payments to employees	(88,589)	(79,099)
Payments to vendors/others	(63,576)	(56,487)
Receipts from market participants	168,496	163,222
Payments to market participants	(135,648)	(92,163)
Net cash provided by operating activities	<u>79,172</u>	<u>128,135</u>
Cash flows from noncapital financing activities:		
Repayment of bonds	(16,352)	(14,000)
Interest on debt	(142)	(1,328)
Net cash used in noncapital financing activities	<u>(16,494)</u>	<u>(15,328)</u>
Cash flows from capital and related financing activities:		
Purchases and development of fixed assets	(57,750)	(59,747)
Proceeds from issuance of bonds	202,722	59,168
Repayment of bonds	(173,348)	(44,700)
Interest on debt	(2,614)	(6,117)
Net cash used in capital financing activities	<u>(30,990)</u>	<u>(51,396)</u>
Cash flows from investing activities:		
Purchases of investments	(209,648)	(161,021)
Sales and maturities of investments	251,349	153,154
Interest received	4,148	13,428
Net cash provided by investing activities	<u>45,849</u>	<u>5,561</u>
Net increase in cash and cash equivalents, restricted and unrestricted	77,537	66,972
Cash and cash equivalents, restricted and unrestricted, beginning of year	220,775	153,803
Cash and cash equivalents, restricted and unrestricted, end of year	<u>\$ 298,312</u>	<u>\$ 220,775</u>

The accompanying notes are an integral part of these financial statements.

California Independent System Operator Corporation
Statements of Cash Flows
Years Ended December 31, 2008 and 2007

(\$ in thousands)

(continued)	2008	2007
Supplemental information:		
Cash paid for interest	\$ 5,502	\$ 7,057
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	\$ 38,991	\$ 46,764
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	12,822	14,978
Changes in operating assets and liabilities:		
Accounts receivable and other assets	(3,934)	(10,854)
Accounts payable and other accrued expenses	(1,555)	6,188
Due from/(to) market participants	32,848	71,059
Net cash provided by operating activities	<u>\$ 79,172</u>	<u>\$ 128,135</u>
Supplemental disclosure of noncash financing and investing activities		
Amortization of bond premium	\$ 1,786	\$ -
Amortization of bond issuance costs and loss of refunding	(844)	(505)
Change of valuation of derivative financial instruments	(400)	(1,750)
Generator fines interest included in interest expense	(4,682)	(6,155)
Purchases and development of fixed assets included in accounts payable and accrued expenses	2,249	4,420

The accompanying notes are an integral part of these financial statements.

California Independent System Operator Corporation

Notes to Financial Statements

1. Organization and Operations

The Company, a nonprofit public benefit corporation incorporated in May 1997, is responsible for the operation of the long-distance, high-voltage power lines that deliver electricity throughout the California grid and to neighboring control areas and states, as well as with Canada and Mexico. The Company charges a GMC to market participants to recover the Company's costs and to provide an operating reserve. The Company's principal objective is to ensure the reliability of the California grid, while fostering a low-cost wholesale marketplace for electrical generation and related services in California. The Company operates pursuant to tariffs filed with the FERC.

The Company operates day-ahead and hour-ahead markets for transmission congestion and ancillary services, operates a real-time market for balancing energy, and administers RMR contracts. RMR contracts allow the Company access to power at contractually agreed-upon prices from generation units which, due to their location and other factors, must be operated at certain times to ensure the reliability of local transmission. The Company also performs a settlement and clearing function by collecting payments from users of these services and making pass-through payments to providers of such services. Cash held by the Company on behalf of market participants is recorded in a restricted asset account with a corresponding liability due market participants on the balance sheet. Except as noted above, market transactions are maintained in financial records separate from the Company, and accordingly, the financial results of these market transactions are not included in the financial statements of the Company. Any market defaults are proportionately allocated to market participants based on net amounts due them for the month of default.

The Board of the Company is composed of five members appointed by the California Governor and confirmed by the California State Senate.

2. Summary of Significant Accounting Policies

Method of accounting

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with accounting principles for proprietary funds as prescribed by the GASB, and where not in conflict with GASB pronouncements, accounting principles prescribed by the FASB. The Company uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. In particular, the Company's results of operations and financial position are materially affected by the management estimates associated with generator noncompliance fines, as discussed in Note 6. Actual results could materially differ from these, and other, estimates.

Cash and cash equivalents

Cash and cash equivalents, restricted and unrestricted, include cash on hand, governmental securities, commercial paper, money market investments, mutual funds and certificates of deposit and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents are unrestricted unless specifically restricted as described below. Cash and cash equivalents restricted by bond indenture agreements for capital expenditures include amounts held for expenditures related to capital projects. Cash and cash equivalents restricted by the tariff for market participants include amounts held in escrow, funds pending settlement, amounts due to

California Independent System Operator Corporation

Notes to Financial Statements

others, and deposits. Cash and cash equivalents restricted for debt service include amounts held by a bond trustee under an indenture agreement for scheduled repayments of bond principal and for a debt service reserve fund.

Accounts receivable and revenue recognition

The GMC, which is based on rates filed with FERC, is designed to recover the Company's operating costs, capital expenditures and debt service costs, and to provide for an operating reserve. GMC revenues are recognized when the related energy transactions take place. Since the GMC is billed and collected approximately 65 days after each month-end, GMC revenues are recognized based on estimates of the underlying volumes of energy transactions and are true-up upon final billing. GMC and other market service billings are dependent upon accurate generation, load and other information, much of which is accumulated through meter data, and some of which are not available to the Company for up to 65 days. Meter data is subject to estimation by the Company when data is not submitted timely, and is subject to delayed adjustment when meter data previously submitted is subsequently adjusted under specific circumstances. On occasion, such adjustments may result in adjustments to true-up GMC billings after the final invoices have been issued.

The 2008 and 2007 GMC rates were comprised of the following six service categories: core reliability services; energy transmission services; forward scheduling; congestion management; market usage; and settlements, metering and client relations.

The operating reserve is calculated separately for each GMC service category and accumulates until the reserve becomes fully funded (at 15 percent of budgeted annual operating costs for each rate service category). At December 31, 2008, the operating reserve for each service category was fully funded. In accordance with the tariff, any surplus operating reserve balance is applied as a reduction in revenue requirements in the following year. These operating reserve amounts are included in the net assets of the Company and are not included in the GMC refund obligations described below. The tariff requires GMC rates to be adjusted not more than once per quarter in the event that billing determinant volumes differ by more than five percent from those projections used to set rates. During 2008 and 2007, adjustments were made to certain GMC rates pursuant to these provisions.

Generator interconnection studies

The Company is responsible for conducting generator interconnection studies. The project sponsors, which are the owners of the generating plants that are planned to be connected to the California grid, request the Company to conduct these studies and are required to make a deposit before any studies are performed. At any time, the project sponsors may withdraw from the studies and have the right to any remaining unapplied deposits.

In accordance with the tariff, the Company charges the project sponsors the actual costs of the studies. Related study costs include both internal costs and external costs and are recorded, when incurred as operating expenses. As costs are incurred, the Company recognizes revenue for the same amount, which is recorded as a component of other revenues. The Company applies the deposits against the related receivable once the studies are completed.

Generator noncompliance fines

From December 8, 2000 through June 30, 2001, the Company assessed noncompliance fines on participating generators that failed to fully comply with dispatch instructions when the Company was seeking to prevent an imminent or threatened system emergency. In accordance with the tariff, these fines are retained by the Company. The Company recorded the net realizable amount of such fines as revenue when the underlying noncompliance event occurred, and adjusts such amounts in recognition of evolving factors affecting the ultimate recognition of the fines charged. During 2008 and 2007, there were no adjustments to generator fine revenues.

California Independent System Operator Corporation

Notes to Financial Statements

Investments

Investments include government and federal agency securities, corporate bonds, guaranteed investment contracts and forward delivery agreements with maturities of more than three months. Investments are carried at fair value except for guaranteed investment contracts (GICs) and forward delivery agreements. The GICs and forward delivery agreements are nonparticipating investment contracts that cannot be negotiated or transferred and their redemption terms do not consider market rates. As a result, these investments are carried at cost. Income on investments and the gain or loss from the mark-to-market on investments is recorded as a component of interest income.

Fixed assets

Fixed assets are recorded at cost. Depreciation is computed on the straight-line method over the assets' estimated useful lives. Most of the Company's investment in fixed assets consists of information systems, which are being depreciated over useful lives of three to five years. The cost of improvements to or replacement of fixed assets is capitalized. Interest incurred during development is capitalized. When assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts and any resulting gain or loss is reflected in the Company's statement of changes in revenues, expenses and changes in net assets for the period. Repairs and maintenance costs are charged to expense when incurred. The Company capitalizes direct costs of salaries and certain indirect costs incurred to develop or obtain software for internal use. Costs incurred related to software development during the preliminary project stage and training and maintenance costs are expensed as incurred. Costs of software development related to abandoned projects are expensed when the decision to abandon is made.

Other assets

Other assets consist primarily of debt issuance costs, which are amortized over the life of the bonds using the bonds outstanding method (which approximates the effective interest method), a loan to an officer (see Note 5) and certain employee retirement plan trust accounts.

Compensated absences

The Company accrues vacation leave when the employee earns the right to the benefit. The Company does not record sick leave or other leave as a liability until it is taken by the employee, since there are no cash payments for sick leave or other leave made when employees terminate or retire. At December 31, 2008 and 2007, the total accrued liability for vacation was \$5.9 million and \$5.5 million, respectively.

GMC refund obligation

GMC refund obligation consists of previously collected GMC revenue to be refunded to market participants, generally as a result of GMC settlement agreements as described in Note 12.

Income taxes

The Company is exempt from federal income tax under Section 501(c) (3) of the U.S. Internal Revenue Service (IRS) Code and is exempt from California State franchise income taxes.

Interest rate swap agreements

The Company enters into interest rate swap agreements to modify the effective rate of interest on outstanding variable-rate debt. Interest expense is reported net of the swap payments received or paid as a component of interest expense in the statements of revenues, expenses and changes in net assets. The Company's interest rate swaps are accounted for as derivative instruments and are recorded on the balance sheet at fair value at December 31, 2007. At December 31, 2008, the Company did not have any interest rate swap agreements.

California Independent System Operator Corporation

Notes to Financial Statements

Net Assets

The Company classifies its net assets into three components:

- **Invested in capital assets, net of related debt** – This component of net assets consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances, net of unamortized debt expenses.
- **Restricted** – This component consists of net assets with constraints placed on their use. Constraints include those imposed by debt covenants (excluding amounts considered in net capital, above), by the Company's tariff and by agreements with external parties.
- **Unrestricted** – This component of net assets consists of net assets that do not meet the definition of "invested in capital, net of related debt" or "restricted".

Concentration of credit risk

Financial instruments that subject the Company to credit risk consist primarily of accounts receivable relating to GMC billings due from market participants and cash and cash equivalents and investments.

All of the Company's receivables are due from entities in the energy industry, including utilities, generation owners and other electricity market participants. For the years ended December 31, 2008 and 2007, approximately 54 percent and 53 percent, respectively, of GMC revenues were from two market participants. GMC revenues have a priority claim against any market-related receipts.

The Company's concentration of credit risk related to cash and cash equivalents, and investments is described in Note 3.

Implementation of FASB Statement No. 157

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS 157 applies under other existing accounting pronouncements that require or permit fair value measurements, as the FASB previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. For the year ending December 31, 2008, the Company adopted SFAS 157 as it relates to financial assets and liabilities, except where the new standard conflicts with GASB pronouncements. The adoption of SFAS 157 did not impact the Company's financial position or results of operations.

3. Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments

The Company's investment policy, which has been approved by its Board, restricts investments to obligations that are unconditionally guaranteed by the United States (U.S.) government or its agencies or instrumentalities; municipal and state obligations or tax-exempt obligations; bankers' acceptances; certificates of deposit; repurchase agreements; general obligation bonds of corporations; commercial paper and GICs. Additionally, bond sinking and reserve fund portfolios are dictated by bond agreements as contained in the indenture of trust. The Company's investment policy includes restrictions for investments relating to maximum amounts invested as a percentage of the total portfolio and maximum maturities and minimum credit ratings.

California Independent System Operator Corporation

Notes to Financial Statements

Credit risk

To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, the Company limits purchases of investments to those rated by a nationally recognized rating agency of A-1 (or equivalent) or better for commercial paper and A1/A3 (or equivalent) or better for medium-term notes.

Interest rate risk

It is the policy of the Company to diversify its overall investment portfolio. Portfolio diversification is employed as a way to control interest rate risk, by limiting investment maturities as a means of managing exposure to fair value losses arising from increases in interest rates. Investments are diversified as to maturities and as to kind of investment to reduce the risk of loss, which might result from over concentration of assets in a specific maturity, in a specific kind of investment, or from a specific issuer. Of the Company's total portfolio at December 31, 2008 and 2007, all of the Company's cash and cash equivalents have maturities of 90 days or less. The investments have a maximum maturity of five years.

Concentration of credit risk

This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Company's investment policy limits investments by asset class. In 2008 and 2007, investments with issuers comprising more than five percent of the Company's total investment portfolio are noted below:

	2008	2007
Morgan Stanley	23%	10%
Federal Home Loan Mortgage Corporation (FHLMC)	16%	8%
Federal National Mortgage Association (FNMA)	9%	12%
Wells Fargo	-	27%
JPMorgan	-	6%
Federal Farm Credit Bank (FFCB)	-	6%
Federal Home Loan Bank (FHLB)	-	6%

Custodial credit risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Company will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party. As of December 31, 2008, the Company had adopted a formal policy for custodial credit risk, but it had not yet been implemented.

The Company has bank deposits in the amounts of \$1.9 million and \$2.5 million at December 31, 2008 and 2007, respectively, that are uninsured and uncollateralized. All of the Company's investments are uninsured and held by a custodian. None of the investments are registered in the Company's name, except for the GICs and forward delivery agreements.

California Independent System Operator Corporation

Notes to Financial Statements

Summary of Balances

At December 31, 2008, the Company's cash, cash equivalents and investments consist of the following (in thousands):

Description	Credit Rating*	Remaining Maturities (in Years)			Total Fair Value
		Less than 1	1 - 5	More than 5	
Cash and cash equivalents					
Unrestricted					
Deposit overdrafts		\$ (1,162)	\$ -	\$ -	\$ (1,162)
Money market funds					
	AAA	18,703	-	-	18,703
	AAA _m	61,923	-	-	61,923
		<u>79,464</u>	<u>-</u>	<u>-</u>	<u>79,464</u>
Restricted					
Deposits		300	-	-	300
Money market funds	AAA _m	218,548	-	-	218,548
		<u>218,848</u>	<u>-</u>	<u>-</u>	<u>218,848</u>
Total cash and cash equivalents		<u>298,312</u>	<u>-</u>	<u>-</u>	<u>298,312</u>
Investments					
Short-term investments					
Unrestricted					
FHLMC	AAA	14,042	-	-	14,042
Restricted					
FNMA	AAA	7,454	-	-	7,454
Total short-term investments		<u>21,496</u>	<u>-</u>	<u>-</u>	<u>21,496</u>
Long-term investments					
Unrestricted					
Preferred and common stock	N/A	-	-	37	37
FFCB	AAA	-	3,064	-	3,064
Corporate notes					
	AA	-	12,362	-	12,362
	A+	-	11,506	-	11,506
	AA-	-	7,662	-	7,662
	A	-	4,269	-	4,269
	AAA	-	3,372	-	3,372
	BBB+	-	2,529	-	2,529
	BBB	-	1,217	-	1,217
		<u>-</u>	<u>45,981</u>	<u>37</u>	<u>46,018</u>
Restricted					
GIC	Not Rated	-	19,697	-	19,697
Total long-term investments		<u>-</u>	<u>65,678</u>	<u>37</u>	<u>65,715</u>
Total investments		<u>21,496</u>	<u>65,678</u>	<u>37</u>	<u>87,211</u>
Total cash, cash equivalents and investments		<u>\$ 319,808</u>	<u>\$ 65,678</u>	<u>\$ 37</u>	<u>\$ 385,523</u>

* S&P Rating, if available, or Fitch

California Independent System Operator Corporation

Notes to Financial Statements

At December 31, 2007, the Company's cash, cash equivalents and investments consist of the following (in thousands):

Description	Credit Rating*	Remaining Maturities (in Years)			Total Fair Value
		Less than 1	1 - 5	More than 5	
Cash and cash equivalents					
Unrestricted					
Deposit overdrafts		\$ (451)	\$ -	\$ -	\$ (451)
Money market funds	<i>Unrated</i>	77	-	-	77
Money market funds	<i>AAAm</i>	60,342	-	-	60,342
		<u>59,968</u>	<u>-</u>	<u>-</u>	<u>59,968</u>
Restricted					
Deposits		220	-	-	220
Money market funds	<i>AAAm</i>	160,588	-	-	160,588
		<u>160,808</u>	<u>-</u>	<u>-</u>	<u>160,808</u>
Total cash and cash equivalents		<u>220,776</u>	<u>-</u>	<u>-</u>	<u>220,776</u>
Investments					
Short-term investments					
Unrestricted					
FNMA	<i>AAA</i>	3,502	-	-	3,502
GIC	<i>Not Rated</i>	418	-	-	418
		<u>3,920</u>	<u>-</u>	<u>-</u>	<u>3,920</u>
Restricted					
Forward delivery agreements	<i>AAA</i>	20,160	-	-	20,160
GIC	<i>Not Rated</i>	34,435	-	-	34,435
		<u>54,595</u>	<u>-</u>	<u>-</u>	<u>54,595</u>
Total short-term investments		<u>58,515</u>	<u>-</u>	<u>-</u>	<u>58,515</u>
Long-term investments					
Unrestricted					
Preferred and common stock	<i>N/A</i>	-	-	37	37
FFCB	<i>AAA</i>	-	8,029	-	8,029
FNMA	<i>AAA</i>	-	15,560	-	15,560
FHLMC	<i>AAA</i>	-	10,050	-	10,050
FHLB	<i>AAA</i>	-	9,554	-	9,554
Corporate notes	<i>A- or better</i>	-	21,165	-	21,165
		-	<u>64,358</u>	<u>37</u>	<u>64,395</u>
Restricted					
GIC	<i>Not Rated</i>	-	6,000	-	6,000
Total long-term investments		<u>-</u>	<u>70,358</u>	<u>37</u>	<u>70,395</u>
Total investments		<u>58,515</u>	<u>70,358</u>	<u>37</u>	<u>128,910</u>
Total cash, cash equivalents and investments		<u>\$ 279,291</u>	<u>\$ 70,358</u>	<u>\$ 37</u>	<u>\$ 349,686</u>

*S&P Rating, if available, or Fitch

California Independent System Operator Corporation

Notes to Financial Statements

The Company's cash, cash equivalents and investments at December 31 consist of unrestricted and restricted funds as follows (in thousands):

	2008	2007
Unrestricted funds, operating account	\$ 139,525	\$ 128,284
Restricted funds:		
Market participants	155,767	122,919
Debt service	29,778	61,954
Capital expenditures	60,454	36,530
Total	<u>\$ 385,524</u>	<u>\$ 349,687</u>

Cash and cash equivalents restricted for market participants consist of the following at December 31 (in thousands):

	2008	2007
Security deposits	\$ 46,931	\$ 52,939
Market funds pending settlement	27,239	36,428
Pass-through fees due to others	26,058	22,937
Generator interconnection study deposits	55,539	10,615
Total amounts restricted for market participants	<u>\$ 155,767</u>	<u>\$ 122,919</u>

Cash and cash equivalents restricted for market participants consist of amounts held by the Company to be remitted to market participants or others on their behalf. Security deposits are amounts received from those market participants required to post security deposits for their transactions in the Company's markets. Market funds pending settlement consist of amounts collected during the settlement and clearing function that will pass through to market participants in subsequent periods. A portion of the market funds pending settlement (\$18.2 million and \$26.5 million at December 31, 2008 and 2007, respectively) are being held pending resolution of the FERC Refund Case (Note 12). Pass-through fees due to others consist of amounts collected from market participants that will be paid to market participants for summer reliability, startup costs and emission costs. Generator interconnection study deposits consist of amounts collected for future studies.

California Independent System Operator Corporation

Notes to Financial Statements

4. Fixed Assets

Changes in the Company's fixed assets for the year ended December 31, 2008, are as follows (in thousands):

	2007	Additions and Transfers In	Deletions and Transfers Out	2008
Nondepreciable fixed assets:				
Land	\$ 9,380	\$ -	\$ -	\$ 9,380
Work-in-progress, MRTU	155,924	36,980	-	192,904
Work-in-progress, other	14,563	20,316	(13,982)	20,897
	<u>179,867</u>	<u>57,296</u>	<u>(13,982)</u>	<u>223,181</u>
Depreciable fixed assets:				
Information systems:				
Scheduling infrastructure, scheduling applications, balance of business systems and other systems	143,603	3,468	(50)	147,021
Metering and data acquisition and other systems	75,361	6,447	(10,232)	71,576
Energy management system	16,680	1,995	(1,711)	16,964
Leasehold improvements	15,259	1,666	-	16,925
Furniture and fixtures	10,726	406	(700)	10,432
	<u>261,629</u>	<u>13,982</u>	<u>(12,693)</u>	<u>262,918</u>
Less: accumulated depreciation	<u>(228,569)</u>	<u>(12,822)</u>	<u>12,545</u>	<u>(228,846)</u>
	<u>33,060</u>	<u>1,160</u>	<u>(148)</u>	<u>34,072</u>
Total fixed assets, net	<u>\$ 212,927</u>	<u>\$ 58,456</u>	<u>\$ (14,130)</u>	<u>\$ 257,253</u>

California Independent System Operator Corporation

Notes to Financial Statements

Changes in the Company's fixed assets for the year ended December 31, 2007, are as follows (in thousands):

	2006	Additions and Transfers In	Deletions and Transfers Out	2007
Nondepreciable fixed assets:				
Land	\$ 9,380	\$ -	\$ -	\$ 9,380
Work-in-progress, MRTU	107,283	54,165	(5,524)	155,924
Work-in-progress, other	20,702	7,899	(14,038)	14,563
	<u>137,365</u>	<u>62,064</u>	<u>(19,562)</u>	<u>179,867</u>
Depreciable fixed assets:				
Information systems:				
Scheduling infrastructure, scheduling applications, balance of business systems and other systems	135,751	8,558	(706)	143,603
Metering and data acquisition and other systems	76,393	6,020	(7,052)	75,361
Energy management system	16,490	1,771	(1,581)	16,680
Leasehold improvements	13,405	1,854	-	15,259
Furniture and fixtures	9,433	1,293	-	10,726
	<u>251,472</u>	<u>19,496</u>	<u>(9,339)</u>	<u>261,629</u>
Less: accumulated depreciation	<u>(222,930)</u>	<u>(14,978)</u>	<u>9,339</u>	<u>(228,569)</u>
	<u>28,542</u>	<u>4,518</u>	<u>-</u>	<u>33,060</u>
Total fixed assets, net	<u>\$ 165,907</u>	<u>\$ 66,582</u>	<u>\$ (19,562)</u>	<u>\$ 212,927</u>

Work-in-progress includes capitalized interest of \$9.7 million and \$5.2 million at December 31, 2008 and 2007, respectively. The MRTU assets are composed of several components, which are transferred to depreciable fixed assets as they are put into production. The internally developed software related to MRTU was substantially complete and capitalization ceased on December 1, 2008.

5. Employee Note Receivable

The Company has provided \$500,000 in financing to an officer of the Company in connection with the purchase of his primary residence. The loan is collateralized by a subordinated deed of trust on the property, accrues interest at 6.5 percent per annum, compounded annually, and requires annual payments of \$68,000 per year. Portions of the note may be forgiven by the Company based on the officer's continuing employment as set forth in the employment agreement. The balance due at December 31, 2008 and 2007 of \$473,909 and \$511,839, respectively, including accrued interest, is included in other assets in the accompanying balance sheets.

California Independent System Operator Corporation

Notes to Financial Statements

6. Generator Noncompliance Fines

In 2000 and 2001, the Company billed generator noncompliance fines to market participants totaling \$122.1 million. Through December 31, 2008, collection of these fines totaled \$60.7 million. Generally, these fines were assessed at twice the highest price paid in the Company's markets for energy and were applied against the amount of energy the participating generator failed to supply as directed by the Company during specific emergency conditions as defined in the tariff. These fines will be retroactively adjusted as a result of the FERC Refund Case, as described in Note 12, in which the prices used to calculate the fines are subject to adjustment, with any surplus collections being refunded to market participants with interest.

Based on estimates of the mitigated energy prices in the FERC Refund Case, the Company recorded fine revenues totaling \$29.5 million through 2004 which results in a refund liability of \$31.2 million. The ultimate settlement of fines is expected after the conclusion of the proceedings in the FERC Refund Case and the ultimate financial settlement of the California Power Exchange (Cal PX). While there are significant uncertainties associated with this process, management believes it is unlikely that there will be any future reduction in generator fines that will ultimately be realized by the Company.

In accordance with FERC rulings, the Company accrues interest on the portion of fines collected in excess of the estimated realizable amount (except as noted below) which are to be refunded to market participants when the amounts are ultimately settled. Such interest expense amounted to \$4.7 million and \$6.2 million in 2008 and 2007, respectively. At December 31, 2008 and 2007, accrued interest payable related to these fines totaled \$25.5 million and \$20.8 million, respectively.

The correction of base level transactions included in the preparatory rerun resulted in an upward adjustment to fines amounting to \$20.5 million. The current treatment of interest accrued by the Company excludes the calculation of interest on the preparatory rerun corrections, based on the position that interest would only accrue upon the preparatory rerun being invoiced. The Company believes that preparatory rerun corrections should be eligible for interest from the due date of the original trade month being corrected in the same manner as interest on corrections for mitigated market-clearing prices in the refund rerun. The Company included this position in a status report that was filed at FERC in March 2007, and in November 2008, requested a FERC ruling on this issue. FERC has yet to rule on this issue. If approved, the effect would be to reduce interest payable by \$12.2 and \$10.2 million at December 31, 2008 and 2007, respectively. The Company has not recorded any interest income or receivable relating to this matter since the realization is not assured and there has been no ruling on the issue from FERC.

At December 31, 2008 and 2007, the estimated net realizable amount of fines is \$29.5 million. Included in current liabilities at December 31, 2008 and 2007, is an estimated refund liability to market participants of \$56.7 million and \$52.0 million representing the difference between the \$60.7 million in collections and the estimated fines to be retained, plus accrued interest.

California Independent System Operator Corporation

Notes to Financial Statements

7. Long-term Debt and Related Agreements

Long-term debt consists of the following at December 31, (in thousands):

	2008	2007
CIEDB Revenue Bonds, Series 2008 Fixed interest rates of 4.00% - 5.00% with maturities through 2014	\$ 196,970	\$ -
CIEDB Variable Rate Demand Revenue Bonds (VRDBs) refunded with Series 2008 bonds	-	189,700
Unamortized net premium on Series 2008 bonds	7,402	-
Total long-term debt	<u>204,372</u>	<u>189,700</u>
Less: current portion	<u>(31,000)</u>	<u>(64,600)</u>
Total long-term debt, less current portion	<u>\$ 173,372</u>	<u>\$ 125,100</u>

Summarized activity of long-term debt for the year ended December 31, 2008, is as follows (in thousands):

	Beginning of Year	Issuance/ (Payments)	End of Year
CIEDB Revenue Bonds, Series 2008	\$ -	\$ 196,970	\$ 196,970
CIEDB VRDBs			
Series 2007	60,000	(60,000)	-
Series 2004	84,400	(84,400)	-
Series 2000	45,300	(45,300)	-
Total long-term debt	<u>\$ 189,700</u>	<u>\$ 7,270</u>	<u>\$ 196,970</u>

Summarized activity of long-term debt for the year ended December 31, 2007, is as follows (in thousands):

	Beginning of Year	Issuance/ (Payments)	End of Year
CIEDB VRDBs			
Series 2007	\$ -	\$ 60,000	\$ 60,000
Series 2004	103,400	(19,000)	84,400
Series 2000	85,000	(39,700)	45,300
Total long-term debt	<u>\$ 188,400</u>	<u>\$ 1,300</u>	<u>\$ 189,700</u>

California Independent System Operator Corporation

Notes to Financial Statements

Scheduled future debt service payments as of December 31, 2008 are as follows (in thousands):

	Principal	Interest	Total
2009	\$ 31,000	\$ 8,399	\$ 39,399
2010	39,100	6,444	45,544
2011	42,250	4,331	46,581
2012	25,130	3,075	28,205
2013	36,025	1,273	37,298
2014	23,465	88	23,553
	<u>\$ 196,970</u>	<u>\$ 23,610</u>	<u>\$ 220,580</u>

Long-term debt and related agreements

In June 2008, the Company issued \$197.0 million of fixed rate revenue bonds (the Series 2008 Bonds) through the CIEDB, at a premium of \$9.2 million. The proceeds of the issuance were used to refund all variable rate demand bonds outstanding at the time of issuance, fund debt service reserves related to the issued debt, and pay certain debt issuance costs. The remaining proceeds will be used to fund computer hardware and software systems, other facilities and equipment, and other planned capital projects.

The Series 2008 Bonds are supported by a pledge of the Company's revenues and operating reserves. The premium on the bonds is being amortized over the life of the Series 2008 Bonds.

All of the Company's VRDBs were refunded during 2008 with a portion of the proceeds from the Series 2008 Bonds. In connection with this refunding, the related stand by bond purchase agreement and bond insurance were terminated. The Company recognized a loss on refunding related to these bonds of \$1.0 million. The loss is being amortized over the remaining life of the original bonds, which were scheduled to mature at various dates through 2013.

Interest Rate Swaps

Concurrent with the issuance of the VRDBs, the Company entered into variable-to-fixed rate interest swaps. The swaps were used to reduce interest rate risk on the Company's debt obligations. The swaps were terminated in connection with the refunding of the bonds in 2008, at an amount that approximated the fair value on the date of termination.

The swaps had a total notional amount of \$137.6 million at December 31, 2007. The fair value of the swaps at December 31, 2007, was a net payable of approximately \$1.4 million and is recorded on the balance sheet as a derivative liability. The change in the fair value of the swaps of \$1.8 million for the year ended December 31, 2007, is included as reductions to interest expense on the statements of revenues, expenses, and changes in net assets.

Interest expense

Overall interest expense recorded by the Company related to long-term debt includes interest paid on the bonds, payments and receipts under the swaps, bond remarketing costs, bond insurance and liquidity costs and amortization of bond issuance costs, bond premium and loss on refunding.

California Independent System Operator Corporation

Notes to Financial Statements

8. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate the value:

Investments

The fair values of investments, including cash equivalents, except as noted below, are based upon quoted market prices. Fair values for GICs and forward delivery agreements are based on discounted cash flows using prevailing interest rates for similar instruments.

Long-term debt

The fair value of fixed rate long-term debt, which includes the short-term portion, was calculated using a present value method and was based on current market rates. The fair value of variable rate long-term debt, which includes the short-term portion, approximates its cost because the interest rates adjusted on a weekly basis.

Interest rate swap agreements

The fair values of interest rate swap agreements are based on quoted market prices.

The fair values of the Company's financial instruments as of December 31, 2008, are presented below (in thousands):

	Recorded Value	Fair Value
Investments, including cash and cash equivalents	\$ 385,523	\$ 386,424
Long-term debt	(203,772)	(207,554)

The fair values of the Company's financial instruments as of December 31, 2007, are presented below (in thousands):

	Recorded Value	Fair Value
Investments, including cash and cash equivalents	\$ 349,686	\$ 350,487
Long-term debt	(189,700)	(189,700)
Interest rate swap	(1,378)	(1,378)

The carrying values reported on the balance sheet for current assets and liabilities, excluding the short term portion of long-term debt as discussed above, approximate fair value.

California Independent System Operator Corporation

Notes to Financial Statements

9. Employee Benefit Plans

The Company maintains a number of plans for the benefit of its employees. The description of the plans and their key provisions is included below. Obligations included in the Company's balance sheets related to these plans consist of the following at December 31 (in thousands):

	2008	2007
Executive pension restoration plan	\$ 666	\$ 722
Post-employment medical benefit plan	10,970	10,206
Supplemental executive retirement plan	509	369
Executive savings plan	350	421
Total employee retirement plan obligations	<u>\$ 12,495</u>	<u>\$ 11,718</u>

Retirement savings benefits plan

The Company sponsors a defined contribution retirement plan, the California ISO Retirement Savings Benefits Plan (the Retirement Plan), which is subject to the provisions of the Employee Retirement Income Security Act of 1974 and covers substantially all Company employees. The Retirement Plan is administered by the Company with the assistance of a third party. The assets of the plan are held separately from Company assets and are not combined with the assets on the balance sheet.

Employees may elect to contribute up to 50 percent of their eligible compensation to the Retirement Plan, subject to statutory limitations. The Company makes matching contributions up to the first six percent of employees' eligible compensation and an additional contribution equal to five percent of eligible compensation for employees with less than five years of service, or seven percent for employees who have at least five years but not more than ten years of service. An additional contribution of one percent of eligible compensation is also made by the Company for each increment of five years of service after the employees' ten year anniversary. All matching contributions are subject to statutory limitations.

Employees' contributions to the Retirement Plan for 2008 and 2007 were \$6.3 million and \$6.5 million, respectively. The Company's contributions to the Retirement Plan for 2008 and 2007 were \$7.1 million and \$6.5 million, respectively.

Executive pension restoration plan

The Company sponsors the Executive Pension Restoration Plan, a non-qualified defined contribution plan, which allows certain officers of the Company to make contributions in excess of the 401(k) contribution limits set forth by IRS regulations. As defined in the plan document, the Company makes matching contributions up to six percent of the officers' eligible compensation, as well as retirement contributions of five percent of the officers' eligible compensation for officers with less than five years of service, or seven percent for officers who have at least five years but not more than ten years of service. An additional contribution of one percent of eligible compensation is also made by the Company for each increment of five years of service after the officer's ten year anniversary.

The contributions and earnings thereon are held in a trust and the balances as of December 31, 2008 and 2007, were \$666,000 and \$722,000, respectively and are included in Other Assets with a corresponding liability in Employee Retirement Plan Obligations. The Company recognized expenses for contributions of \$259,000 and \$244,000 in 2008 and 2007, respectively.

California Independent System Operator Corporation

Notes to Financial Statements

Post-employment medical benefit plan

Plan description

The Company sponsors the California ISO Retiree Medical Plan, a defined benefit plan, to provide post-employment health care benefits to all employees who retire from the Company on or after attaining age 60 with at least five years of service and to their spouses, domestic partners and eligible dependents. Employees, spouses, domestic partners and eligible dependents who meet these requirements will be entitled to coverage, as provided for under the terms of the plan. Depending on the retirement age and coverage elections made by the beneficiaries, the Company pays a portion (ranging from 60 to 100 percent) of the premiums. There are 20 employees and 8 retirees eligible to receive benefits pursuant to the plan as of December 31, 2008.

Funding policy

The Company has established a trust for the purposes of funding the plan. The trust was established as a tax-exempt voluntary employees' beneficiary association. All assets of the trust are to be used for the exclusive benefit of the participants and beneficiaries of the plan. During 2008, the Company began making contributions to the trust. Although the Company has fiscal accountability for these assets and holds them in a fiduciary capacity, the assets are not considered assets of the Company and are therefore not included on the balance sheets of the Company. As of December 31, 2008, the trust assets were \$1.8 million.

The Company's current funding policy is to annually contribute an amount such that the total amount in the trust approximates the actuarially determined liability attributable to those eligible to receive benefits (the accumulated postretirement benefit obligation). Prior to 2008, the Company's policy was to fund only the current cost of medical premiums for those receiving benefits.

Annual Other Post-employment Benefits (OPEB) Cost and Net OPEB Obligation

The Company's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 15 years (using the level dollar open method). The ARC is adjusted for the amortized amount of the discounted present value (ordinary annuity) of the balance of the net OPEB at the beginning of the year.

The Company's annual OPEB cost at December 31, is as follows (in thousands):

	2008	2007
Annual required contribution	\$ 3,099	\$ 2,490
Interest on net OPEB obligation	536	447
Adjustment to annual required contribution	(1,000)	(809)
Annual OPEB cost	<u>2,635</u>	<u>2,128</u>
Contributions made	(1,871)	(38)
Increase in net OPEB obligation	<u>764</u>	<u>2,090</u>
Net OPEB obligation, beginning of year	10,206	8,116
Net OPEB obligation, end of year	<u>\$ 10,970</u>	<u>\$ 10,206</u>

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The Company's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation for the year ended December 31 (in thousands):

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2006	\$ 1,396	2%	\$ 8,116
2007	2,128	2%	10,206
2008	2,635	71%	10,970

Actuarial methods and assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following significant actuarial methods and assumptions were used in the calculation of annual pension cost for the year ending December 31, 2008.

Valuation date	January 1, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, open
Remaining amortization period	15 years
Asset valuation method	Market
Investment rate of return	5.25%
Healthcare cost trend rate	9% initial, 5% ultimate

Funding status and funding progress

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The below schedule of funding progress is the

California Independent System Operator Corporation

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multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities and is required supplemental information.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)
1/1/2007	\$ -	\$ 9,463	\$ 9,463	0%
1/1/2008	-	12,225	12,225	0%
1/1/2009	1,813	17,171	15,358	11%

The actuarial valuation as of January 1, 2009, was based on actuarial methods and assumptions that were generally consistent with those used in the calculation of the annual pension cost for the year ending December 31, 2008, except for the discount rate (which changed from 5.25 percent to 4.75 percent) and the health care cost year of ultimate trend (which changed from 2012 to 2016). The changes in these assumptions increased the AAL by approximately \$3.2 million.

Supplemental executive retirement plan

The Company sponsors the California ISO Supplemental Executive Retirement Plan (SERP Plan), a non-qualified defined benefit plan intended to provide selected executives of the Company with target retirement benefits based upon an executive's average earnings for the three consecutive years in the last five years of service that compensation was the highest and total number of years of service with the Company. The target benefit is to be offset by other retirement benefits, including those provided by the Company, and by any distributions from this plan made to pay the beneficiary's share of federal, state and local taxes.

The activity and related obligations associated with the plan during 2008 and 2007 is as follows (in thousands):

	2008	2007
Obligation, beginning of year	\$ 369	\$ 225
Current period actuarially determined cost	140	144
Obligation, end of year	<u>\$ 509</u>	<u>\$ 369</u>

The Company recognized expenses of \$140,000 and \$144,000 in 2008 and 2007, respectively in connection with this plan. The plan is unfunded.

Executive savings plan

The Company sponsors the Executive Savings Plan, a non-qualified defined contribution plan under section 457(b) of the IRS Code. The Company contributes a percentage of each officer's annual base compensation to the plan. Officers may elect to make voluntary contributions, subject to statutory limitations. The contributions and earnings thereon are held in a trust and the balance as of December 31, 2008 and 2007 was \$350,000 and \$421,000, respectively and is included in Other Assets, with a corresponding liability in Employee Retirement Plan Obligations. The Company recognized expenses of \$92,000 and \$98,000 in 2008 and 2007, respectively, in connection with this plan.

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10. Insurance Programs and Claims

The Company is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Company participates in various commercial and mutual insurance plans that provide coverage for most claims in excess of specific dollar thresholds, which range from \$10,000 to \$1.0 million per claim. Primary insurance policies have coverage limits set based on the Company's assessment of reasonable exposure within that risk category, with consideration of insurance types and coverage limits for comparable entities. Additionally, the Company maintains excess liability coverage that provides umbrella coverage for certain exposures to a limit of \$135.0 million. Miscellaneous losses below insurance deductibles are expensed as incurred. In 2008 and 2007, the Company did not incur any claims in excess of the coverages described above.

The Company is a participant in a group captive insurance company for workers compensation insurance coverage. The Company's annual net insurance costs for such coverage vary based on claims incurred at the Company, and to a lesser extent, claims experience at other members of the captive insurance company. The Company's annual insurance expense is also limited through reinsurance and risk sharing arrangements of the captive to an additional percentage of the initial base premium paid.

11. Lease and Contract Commitments

The Company has long-term operating leases and service contracts expiring at various dates through 2013, providing telecommunication equipment and services, information system equipment and services, systems infrastructure and office facilities.

The following are the future minimum payments under these agreements as of December 31, 2008 (in thousands):

2009	\$	12,197
2010		12,101
2011		11,840
2012		10,827
2013		5,181
	\$	<u>52,146</u>

Lease and service contract costs of approximately \$12.8 million and \$12.7 million were charged to operating expense in 2008 and 2007, respectively.

12. Contingencies and Settlements

GMC

The Company's GMC rates are subject to FERC regulation. Since commencement of operations in 1998, the rates and methodologies have been the subject of challenge by various market participants in proceedings before FERC. Each year FERC has accepted the GMC rates subject to potential refunds that may be determined through subsequent FERC proceedings. As of December 31, 2008, all of the Company's GMC rates are final and are not subject to further refund for any period except 2001, as described below.

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In 2001, the Company's GMC was unbundled into three service categories, with separate billing determinants based on load, congestion and market-related activity. In January 2004, FERC ruled on the 2001 rate filing. The ruling provided a refund to 2001 ratepayers of \$1.8 million, plus interest. At December 31, 2008 and 2007, accrued interest payable related to the refund totaled \$0.9 million and \$0.8 million, respectively. FERC further ruled that certain transactions for 2001 through 2003 be afforded limited exemptions from parts of the GMC. In response, the Company filed a method to reallocate approximately \$5.9 million plus interest among ratepayers. This reallocation will have no financial impact on the Company. In November 2005, FERC affirmed its previous decisions, but ordered the Company to file revised data. In February 2007, the Company filed revised data. FERC approved the revised filing in October 2008. In response to a subsequent request for clarification, FERC has directed the Company to submit an informational status report on June 30, 2009, if it has not filed its refund report by that date. At December 31, 2008 and 2007, total GMC refunds, including interest, of \$2.7 million and \$2.6 million, respectively, are included in accounts payable and accrued expenses in the accompanying balance sheets.

In connection with a settlement with SDG&E regarding GMC transactions on certain shared ownership facilities between 2001 through 2004, SDG&E paid the Company \$7.1 million including interest, through GMC adjustments to regular invoices in March and April 2007. The amounts are included in GMC Revenue on the statement of revenues, expenses, and changes in net assets for 2007.

The FERC Refund Case

In 2000 and 2001, the California energy markets, including those managed by the Company, experienced high prices, shortages of energy and reserves, rolling blackouts and liquidity problems for many market participants. Several of them, including the Cal PX, filed for bankruptcy.

In 2003, FERC ordered mitigation of the market clearing prices in the markets administered by the Company and Cal PX for the period from October 2, 2000 through June 20, 2001 (the FERC Refund Case). In 2004, the Company completed a preparatory rerun to correct baseline data and applied mitigated prices to the revised baseline information to arrive at further adjustments to financial transactions settled in 2000 and 2001. In 2007, the Company completed calculations that applied claims by suppliers to certain FERC approved offsets against the refunds for the costs of natural gas, emissions permits and overall entity revenue shortfalls. The Company and Cal PX will calculate interest and then make compliance filings to reflect all of the calculations as well as the separate settlements reached by several of the Company's market participants that have been filed, approved by FERC, and funded. Proceedings continue at FERC and at the U.S. Court of Appeals about the details of these and other calculations.

Except for any effects on generator noncompliance fines described in Note 6, the Company believes the outcome of these refund proceedings will not have an impact on the Company as the refunded amounts will be resettled among market participants.

Market billing disputes in good faith negotiations

As part of the tariff and applicable contracts, the Company has a dispute resolution process for market participants, RMR owners and transmission owners to register disagreements as to information in the settlement statements or billing amounts for market and RMR activity. In accordance with the provisions of the tariff, once good faith efforts, known as a GFN, have been made to negotiate and resolve disputes, written claims may be submitted either to mediation or arbitration. At December 31, 2008, there are four disputes in GFN that total approximately \$9.8 million which represents disagreements with the Company's financial settlement of market transactions and related tariff interpretations.

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Notes to Financial Statements

Other disputes, some of which are material in amount, have been filed with the Company. Management believes that any settlements or market adjustments relating to these disputes and the matters in GFN would be resettled against the market with no liability to the Company. There is one material unresolved market-related dispute outstanding at December 31, 2008, for which it is possible that the claim might not be fully resettled against market participants and, as such, could result in material liability to the Company as described below.

The Company has an obligation to procure ancillary services necessary to maintain the reliability of the California grid consistent with applicable reliability criteria and to fulfill its responsibilities as a balancing authority. Following GFN, Pacific Gas and Electric Company (PG&E) filed a claim against the Company concerning charges for ancillary services procured by the Company in connection with transactions scheduled on the California Oregon Transmission Project. PG&E is seeking reimbursement from the Company for amounts paid for ancillary services and related costs during the period from April 1998 to April 1999 totaling \$14.3 million plus interest. In December 2001, an arbitrator issued a ruling in favor of PG&E and after motions for rehearing and clarifications, FERC affirmed this decision. Although the Company has appealed FERC's decision, that appeal is stayed pending efforts to implement the award. In discussions with PG&E about how to bill the award, PG&E has objected to the charges that the Company intends to use. The Company and PG&E are continuing to discuss these issues. Once resolved, the Company intends to invoice market participants with corresponding charges or credits during the periods being disputed with no liability to the Company.

Indemnifications

The Company's by-laws require its annual financial statements to include disclosures about certain payments made by the Company, related to indemnifications, to or on behalf of officers and Board members. There were no such payments in 2008 and 2007.

Other matters

The Company, during the ordinary course of its operations, has been involved in various lawsuits and claims, several of which are still pending. Management and legal counsel are of the opinion that there are no other material loss contingencies that would have a material adverse impact on the financial position of the Company, except as disclosed within the notes to these financial statements.

13. Subsequent Event on May 27, 2009 (unaudited)

On May 27, 2009, FERC issued a ruling that preparatory rerun corrections in the FERC Refund Case are eligible for interest in the same manner as interest on corrections for mitigated market-clearing prices in the refund rerun. As described in Note 6, the Company had not been accruing interest on these amounts due from market participants pending FERC's ruling on the matter. Such interest amounts to \$12.7 million at the date of FERC's ruling, of which \$12.2 million relates to amounts that accumulated through December 31, 2008. In May 2009, the Company recognized \$12.7 million as a reduction of interest expense with a corresponding adjustment to the estimated generator noncompliance fines refund liability.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the 2009A Indenture, the 2009A Loan Agreement and the Deed of Trust. This summary does not purport to be comprehensive, and reference should be made to the 2009A Indenture, the 2009A Loan Agreement and the Deed of Trust for a full and complete statement of their provisions.

DEFINITIONS

Definitions. Unless the context otherwise requires, the terms defined below, for all purposes of the 2009A Indenture and of the 2009A Loan Agreement and of any indenture supplemental to the 2009A Indenture or agreement supplemental thereto, have the meanings specified below, as follows:

“Account” means any of the accounts in which the Operating Fund is held, as specified in the 2009A Loan Agreement, and respect to which the Corporation has entered into control agreements, as such accounts may be amended from time to time.

“Accountant’s Report” means a written report or certificate signed by an independent certified public accountant of recognized national standing, or a firm of independent certified public accountants of recognized national standing, selected by the Corporation.

“Act” means the Bergeson-Peace Infrastructure and Economic Development Bank Act, constituting Division I of Title 6.7 of the Government Code of the State, commencing with Section 63000.

“Additional Payments” means the amounts payable to the Infrastructure Bank, the Trustee or other Persons, as more particularly set forth in the 2009A Loan Agreement.

“Agreement” or “2009A Loan Agreement” means the 2009A Loan Agreement, of even date herewith, between the Infrastructure Bank and the Corporation relating to the loan of the proceeds of the 2009A Bonds, as originally executed or as it may from time to time be supplemented or amended.

“Amendment” means any amendment or modification of the Agreement.

“Approved Operating Budget” means each annual operating budget of the Corporation approved by its board of governors.

“Authorized Denomination” means \$5,000 or any integral multiple of \$5,000 thereof.

“Authorized Corporation Representative” means any person who at the time and from time to time may be designated, by written certificate furnished to the Infrastructure Bank and the Trustee, as a person authorized to act on behalf of the Corporation. Such certificate will contain the specimen signature of such person, will be signed on behalf of the Corporation by any officer of the Corporation and may designate an alternate or alternates.

“Authorized Infrastructure Bank Representative” means the Chair of the Infrastructure Bank, the Executive Director of the Infrastructure Bank, or any person who at the time and from time to

time may be designated by the Chair of the Infrastructure Bank by written certificate furnished to the Trustee and the Corporation, as a person authorized to act on behalf of the Infrastructure Bank.

“Bankruptcy Code” means Title 11 of the United States Code, as amended.

“Beneficial Owner” means, with respect to any Book-Entry Bond, the beneficial owner of such 2009A Bond as determined in accordance with the applicable rules of DTC or any successor securities depository for Book-Entry Bonds.

“Bond Counsel” means any attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the validity of, and exclusion from gross income for federal tax purposes of interest on, bonds issued by states and political subdivisions and duly admitted to practice law before the highest court of any state of the United States and acceptable to the Infrastructure Bank.

“Bond Debt Service” means, for any period of time, the sum of (i) the interest payable during such period on all Outstanding Bonds, assuming that all Outstanding 2009A Bonds which are Serial Bonds are retired as scheduled and that all Outstanding 2009A Bonds which are Term Bonds are redeemed or paid from mandatory Sinking Fund Installments as scheduled, (ii) that portion of the principal amount of all Outstanding 2009A Bonds which are Serial Bonds maturing on each principal payment date during such period, and (iii) that portion of the principal amount of all Outstanding 2009A Bonds which are Term Bonds required to be redeemed or paid from mandatory Sinking Fund Installments during such period.

“Bond Fund” means the Bond Fund established pursuant to the 2009A Indenture.

“Bond Register” means the registration books for the ownership of 2009A Bonds maintained by the Trustee pursuant to the 2009A Indenture.

“Book-Entry Bonds” means any 2009A Bonds which are then held in book-entry form as provided in the 2009A Indenture.

“Business Day” means a day which is not a Saturday, a Sunday, a day on which banks located in the city in which the Principal Corporate Trust Office of the Trustee is required or authorized to be closed or a day on which the New York Stock Exchange is closed.

“Capitalized Interest Account” means the account by that name established within the Bond Fund pursuant to the 2009A Indenture.

“Certificate of the Corporation” means a certificate signed by an Authorized Corporation Representative. If and to the extent required by the provisions of the 2009A Indenture, each Certificate of the Corporation will include the statements provided for in the 2009A Indenture.

“Certificate of the Infrastructure Bank” means a certificate signed by an Authorized Infrastructure Bank Representative. If and to the extent required by the provisions of the 2009A Indenture, each Certificate of the Infrastructure Bank will include the statements provided for therein.

“Certified Resolution” means a copy of a resolution of the Infrastructure Bank certified by the Secretary of the Infrastructure Bank to have been duly adopted by the Infrastructure Bank and to be in full force and effect on the date of such certification.

“Closing Date” means the date of issuance and delivery of the 2009A Bonds.

“Code” means the Internal Revenue Code of 1986, as amended.

“Collateral” means all of the right, title, and interest, whether now owned or hereafter acquired, in, to, and under, the Net Operating Revenues, the Operating Fund, each Account, all money, instruments, investment property, and other property on deposit in or credited to the Operating Fund or any Account, and the proceeds of the foregoing.

“Completion Date” means the date of completion of the 2009A Project as that date will be certified as provided in the 2009A Loan Agreement.

“Construction Fund” means the fund which is established pursuant to the 2009A Indenture.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated as of July 1, 2009, between the Corporation and the Trustee, as originally executed or as it may from time to time be supplemented or amended.

“Corporation” means (i) California Independent System Operator Corporation, a California nonprofit public benefit corporation, and its successors and assigns and (ii) any surviving, resulting or transferee corporation as provided in the 2009A Loan Agreement.

“Costs” means, with respect to the 2009A Project, the sum of the items, or any such item, of the cost of the 2009A Project to the extent permitted by the Act and the Certified Resolution authorizing the issuance of the 2009A Bonds, including reimbursement of the Corporation for amounts expended for such costs, but will not include any Costs of Issuance which, together with amounts expended on Costs of Issuance from the Costs of Issuance Fund, exceed the maximum amount set forth in the Tax Certificate.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Infrastructure Bank or the Corporation and related to the authorization, issuance, sale and delivery of the 2009A Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution and safekeeping of the 2009A Bonds and any other cost, charge or fee in connection with the original issuance of the 2009A Bonds which constitutes a “cost of issuance” within the meaning of Section 147(g) of the Code.

“Costs of Issuance Fund” means the fund which is established pursuant to the 2009A Indenture.

“Coverage Requirement” means the coverage of the Corporation’s debt service obligations that is required to be included in the Grid Management Charge pursuant to the Grid Management Charge Formula as described in the 2009A Loan Agreement . For debt service obligations which bear interest at a variable rate, the Corporation will reasonably estimate the amount thereof, thereof, taking into account any swap or other financial agreements which the Corporation may enter into from time to time.

“Deed of Trust” means that certain Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated as of the date hereof, executed by the

Corporation, as trustor, in favor of Chicago Title Company, as trustee thereunder, creating a lien on the Property for the benefit of the Trustee, as trustee for the Owners of the 2009A Bonds.

“Deed of Trust Default” means any event of default under the Deed of Trust.

“Documents” means, collectively, the 2009A Indenture and the 2009A Loan Agreement.

“DTC” means The Depository Trust Company and its successors and assigns.

“DTC Participants” means those broker-dealers, banks and other financial institutions from time to time for which DTC holds Bonds as securities depository.

“Electronic Notice” means notice given through means of telecopy, telegraph, telegram, telex, facsimile transmission, e-mail or other similar electronic means of communication confirmed by writing or written transmission.

“EMMA” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>.

“Environmental Regulation” means any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating to dangerous, toxic or hazardous pollutants, Hazardous Substances, chemical waste, materials or substances.

“Event of Default” as used with respect to the 2009A Indenture has the meaning specified in the 2009A Indenture, and as used with respect to the 2009A Loan Agreement has the meaning specified therein.

“Existing Parity Obligations” means the 2008 Loan Agreement.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official Fiscal Year of the Corporation.

“Fitch” means Fitch Ratings Inc., and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a nationally-recognized statistical rating organization, then the term “Fitch” will be deemed to refer to any other nationally-recognized statistical rating organization selected by the Infrastructure Bank following consultation with the Corporation.

“Government Obligations” means any of the following:

- (i) Cash (insured at all times by the Federal Deposit Insurance Corporation); and
- (ii) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:
 - U.S. treasury obligations;
 - All direct or fully guaranteed obligations;

- Farmers Home Administration;
- General Services Administration;
- Guaranteed Title XI financing;
- Government National Mortgage Association (GNMA); and
- State and Local Government Series.

“Grid Management Charge” means the Corporation’s several separate charges for services offered by the Corporation that are 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) budgeted annual operating costs, (ii) financing costs and (iii) budgeted annual costs of pay-as-you-go capital expenditures and reasonable coverage of debt service obligations.

“Hazardous Substances” means (i) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (A) pose a hazard to the Property or to persons on or about the Property or (B) cause the Property to be in violation of any Environmental Regulation, (ii) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas, (iii) any chemical, material or substance defined as or included in the definition of “waste,” “hazardous substances,” “hazardous wastes,” “hazardous materials,” “extremely hazardous waste,” “restricted hazardous waste,” or “toxic substances” or words of similar import under any Environmental Regulation including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), 42 USC §§ 9601 et seq.; the Resource Conservation and Recovery Act (“RCRA”), 42 USC §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 USC §§ 1801 et seq.; the Federal Water Pollution Control Act, 33 USC §§ 1251 et seq.; the California Hazardous Waste Control Law (“HWCL”), Cal. Health & Safety §§ 25100 et seq.; the Hazardous Substance Account Act (“HSAA”), Cal. Health & Safety Code §§ 25300 et seq.; the Underground Storage of Hazardous Substances Act, Cal. Health & Safety §§ 25280 et seq.; the Porter-Cologne Water Quality Control Act (the “Porter-Cologne Act”), Cal. Water Code §§ 13000 et seq., the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30, (iv) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Property or the owners and/or occupants of property adjacent to or surrounding the Property, or any other person coming upon the Property or adjacent property or (v) any other chemical, materials or substance which may or could pose a hazard to the environment.

“Information Services” means Financial Information, Incorporated’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Municipal News Report; and Kenny S&P, 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing

information with respect to called bonds, or no such services, as the Corporation may designate in a Certificate of the Corporation delivered to the Trustee and the Infrastructure Bank.

“Infrastructure Bank” means the California Infrastructure and Economic Development Bank, and its successors and assigns.

“Interest Payment Date” means each February 1 and August 1, commencing February 1, 2010.

“Investment Securities” means Government Obligations and any of the following:

(1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

Export-Import Bank;
Rural Economic Community Development Administration;
U.S. Maritime Administration;
Small Business Administration;
U.S. Department of Housing & Urban Development (PHAs);
Federal Housing Administration; and
Federal Financing Bank.

(2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).

Obligations of the Resolution Funding Corporation (REFCORP)

Senior debt obligations of the Federal Home Loan Bank System

(3) U.S. dollar denominated deposit accounts, federal funds and bankers’ acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “P-1” by Moody’s and “A-1” or “A-1+” by Standard & Poor’s and maturing not more than five years after the date of purchase (ratings on holding companies are not considered as the rating of the bank); provided, however, that such rating requirements will not be applicable to the extent such deposit accounts are insured by the Federal Deposit Insurance Corporation;

(4) Commercial paper which is rated at the time of purchase in the single highest classification, “P-1” by Moody’s and “A-1+” by Standard & Poor’s and which matures not more than 270 calendar days after the date of purchase;

(5) Investments in a money market fund rated “AAAm” or “AAAm-G” or better by Standard & Poor’s;

(6) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to

maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of Moody’s or Standard & Poor’s or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in subsection (2) of the definition of Government Obligations above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(7) Municipal Obligations rated “Aaa/AAA” or general obligations of States with a rating of “A2/A” or higher by both Moody’s and Standard & Poor’s.

(8) Investment Agreements with any bank, insurance company, broker-dealer or corporation if:

(a) at the time of such investment, (i) such bank has an unsecured, uninsured and unguaranteed obligation rated Aa2 or better by Moody’s and AA or better by Standard & Poor’s, or (ii) such insurance company or corporation has an unsecured, uninsured and unguaranteed rating or claims paying ability rated AAA by Moody’s and AAA by Standard & Poor’s, or (iii) such bank or broker-dealer has an unsecured, uninsured and unguaranteed obligation rated A2 or better by Moody’s and A or better by Standard & Poor’s provided that such broker-dealer or bank also collateralizes the obligation under the investment agreement with U.S. Treasuries, GNMA’s, FNMA’s or FHLMC’s; and

(b) the Investment Agreement includes a provision to the effect that if any rating of such bank, insurance company, broker-dealer or corporation is downgraded below a minimum rating to be established at the time the Investment Agreement is executed, the Corporation will have the right to require the provider to either collateralize its obligation or terminate such investment agreement.

(9) Repurchase agreements: with (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least 'A-' by S&P and 'A3' Moody's; or (2) any broker-dealer with 'retail customers' or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, longterm debt rated at least 'A-' by S&P and 'A3' by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated at least 'A-' by S&P and 'A3' Moody's (each an 'Eligible Provider'), provided that:

a) (i) permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers), and (ii) collateral levels must be at least 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is

GNMA's and 104% of the total principal when the collateral type is FNMA and FHLMC ("Eligible Collateral");

b) the trustee or a third party acting solely as agent therefore or for the issuer (the "Custodian") has possession of the collateral or the collateral has been transferred to the Custodian in accordance with applicable state and federal laws (other than by means of entries on the transferor's books) and such collateral shall be marked to market;

c) the collateral shall be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the trustee and the issuer setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;

d) the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof;

e) the repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, notify the issuer and the trustee within five (5) days of receipt of such notice. Within ten (10) days of receipt of such notice, the provider shall either: (i) post Eligible Collateral, or (ii) assign the agreement to an Eligible Provider. If the provider does not perform a remedy within ten (10) business days, the provider shall, at the direction of the trustee repurchase all collateral and terminate the repurchase agreement, with no penalty or premium to the issuer or the trustee.

"Issue Date" means July 22, 2009.

"Loan Agreement" means the 2009A Loan Agreement, of even date herewith, between the Infrastructure Bank and the Corporation and relating to the loan of the proceeds of the 2009A Bonds, as originally executed or as it may from time to time be supplemented or amended.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a nationally-recognized statistical rating organization, then the term "Moody's" will be deemed to refer to any other nationally recognized statistical rating organization selected by the Infrastructure Bank following consultation with the Corporation.

"Net Operating Revenues" means, for any period, an amount equal to the Operating Revenues for that period less Operating Costs for that period.

"Net Proceeds" means the proceeds from insurance or from actual or threatened condemnation or eminent domain actions with respect to the 2009A Facilities or the Property or any part of either of them, less any costs reasonably expended by the Corporation to receive such proceeds.

"Nominee" has the meaning specified in the 2009A Indenture.

“Notice by Mail” or “notice” of any action or condition “by Mail” means a written notice meeting the requirements of the 2009A Indenture mailed by first class mail, postage prepaid, to the Owners of specified Bonds, at the addresses shown on the Bond Register.

“Operating Costs” means the Corporation's budgeted annual operating costs, which will include all staffing costs including the remuneration of contractor and consultants, salaries, benefits and any incentive programs for employees, costs of operating, replacing and maintaining the Corporation's systems, lease payments on facilities and equipment necessary for the Corporation to carry out its business, and annual costs of financing the Corporation's working capital and other operating costs.

“Operating Fund” means the bank and brokerage accounts of the Corporation specified in the 2009A Loan Agreement. The Corporation will be permitted to amend the definition of Operating Fund to add different bank and brokerage accounts therein.

“Operating Revenues” means all revenues received by the Corporation for the account of the Corporation from all sources, including but not limited to the Grid Management Charge, interest on all Corporation operating accounts and operating and capital reserve accounts, communication fees, Western Electricity Coordinating Council security fees, Large Generator Interconnection Program fees, application fees, training reimbursements, and any other revenues from ancillary services, but excluding any moneys received by the Corporation in trust for third parties i.e., (i) moneys in the accounts established pursuant to the Tariff in the 2009A Indenture, other than those moneys payable as the Grid Management Charge, (ii) moneys in the accounts established pursuant to the Tariff in Appendix N, Part J, Section 2 and (iii) moneys in any like account established by the Corporation pursuant to the Tariff.

“Opinion of Bond Counsel” means an Opinion of Counsel from a Bond Counsel addressed to the Infrastructure Bank and the Trustee.

“Opinion of Counsel” means a written opinion of counsel acceptable to the Infrastructure Bank and the Corporation. If and to the extent required by the provisions of the 2009A Indenture, each Opinion of Counsel will include the statements provided for in the 2009A Indenture.

“Outstanding” when used as of any particular time with reference to the 2009A Bonds (subject to the provisions of the 2009A Indenture), means all such 2009A Bonds theretofore authenticated and delivered by the Trustee under the 2009A Indenture except:

- (i) 2009A Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (ii) 2009A Bonds in lieu of or in substitution for which other 2009A Bonds will have been authenticated and delivered by the Trustee pursuant to the 2009A Indenture; and
- (iii) 2009A Bonds with respect to which the liability of the Infrastructure Bank and the Corporation have been discharged to the extent provided in, and pursuant to the requirements of the 2009A Indenture.

“Owner” means, as of any time, the registered owner of any 2009A Bond as set forth in the Bond Register.

“Parity Obligations” means, collectively, (i) the Existing Parity Obligations, (ii) the 2009A Loan Agreement, and (iii) any obligation of the Corporation secured by a lien on Net Operating Revenues on par with the pledge of Net Operating Revenues set forth in the 2009A Loan Agreement.

“Permitted Encumbrances” means, as of any particular time, (i) liens, charges and encumbrances, if any, on the Property as of the date of issuance of the 2009A Bonds, (ii) liens for ad valorem taxes and special assessments not then delinquent, (iii) the 2009A Loan Agreement, the 2009A Indenture, and the Deed of Trust or other collateral, security or other agreements then outstanding, and any financing statements naming the Infrastructure Bank or the Corporation as the debtor and naming the Infrastructure Bank or the Trustee as the secured party filed to perfect the security interest granted or to be granted in connection with the 2009A Loan Agreement, the 2009A Indenture or the Deed of Trust, (iv) utility, access and other easements and rights of way, restrictions and exceptions that will not materially interfere with or impair the operations being conducted in connection with any of the Property (or, if no operations are being conducted therein, the operations for which such facility was designed or last modified), (v) such minor defects, irregularities, encumbrances, easements, rights of way and clouds on title as normally exist with respect to properties similar in character to the Property and as do not in the aggregate materially impair the property affected thereby for the purpose for which it was acquired or is held, (vi) liens arising in connection with worker’s compensation, unemployment insurance, taxes, assessments, statutory obligations or liens, social security legislation, undetermined liens and charges incidental to construction, or other similar charges arising in the ordinary course of operation and not overdue or, if overdue, being contested in good faith and such other liens and charges at the time required by law as a condition precedent to the transactions or the activities of the Corporation or the exercise of any privileges or licenses necessary to the Corporation, (vii) any lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Corporation to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker’s compensation, unemployment insurance, pension or profit-sharing plans or other social security, or to share in the privileges or benefits required for entities such as the Corporation participating in such arrangements, (viii) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any property, (ix) any liens on the Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with the Property, which in each such case are not due and payable or are not delinquent, or the amount or validity of which in each such case is being contested and execution thereon is stayed or, with respect to liens of materialmen, laborers, suppliers or vendors have been due less than 120 days or the payment of which has been provided for by the posting of a bond, (x) any lien on property (other than the 2009A Facilities) acquired after the delivery date of the 2009A Bonds; (xi) liens on property received by the Corporation through gifts, grants or bequests such liens being due to restrictions on such gifts, grants or bequests of property or the income thereon, (xii) liens consisting of purchase money security interests and lessors’ interest in capitalized leases, (xiii) present or future valid zoning laws and ordinances, and (xiv) liens securing indebtedness for which money or evidences of indebtedness in the necessary amount for the payment, redemption or satisfaction of which has been deposited in a trust with a trustee for the sole purpose of satisfying the indebtedness. “Permitted Encumbrances” will also include any loan agreements, indentures, or other agreements executed for the purpose of or in connection with providing funds to complete the 2009A Headquarters Facility, or other collateral, security or other agreements related thereto, and

any financing statements filed to perfect the security interest granted or to be granted in connection with the foregoing.

“Person” means an individual, a corporation, a partnership, a limited liability company, a trust, an unincorporated organization or a government or any agency or political subdivision thereof.

“Principal Corporate Trust Office” means the corporate trust office of the Trustee as designated in the 2009A Indenture or such other office designated by the Trustee from time to time; provided, however, that for transfer, registration, exchange, payment and surrender of 2009A Bonds such term means the corporate trust office or agency of the Trustee at which, at any particular time, its corporate trust agency business will be conducted, or such other office designated by the Trustee from time to time.

“Principal Installment” means, with respect to any Principal Installment Date, the sum of (i) the aggregate amount of principal due with respect to 2009A Bonds that mature on such Principal Installment Date plus (ii) the aggregate amount of Sinking Fund Installments due on such Principal Installment Date.

“Principal Installment Date” means any date on which any 2009A Bonds mature or any date on which any of the 2009A Bonds are subject to redemption from mandatory Sinking Fund Installments.

“Property” means the “Subject Property” as defined in the Deed of Trust, whether now existing or thereafter acquired or constructed.

“Purchase Contract” means the Bond Purchase Contract among the Infrastructure Bank, the Treasurer of the State, the Corporation and the underwriter of the 2009A Bonds, relating to the sales of the 2009A Bonds from the Infrastructure Bank to the underwriter.

“Rating Agency” means, with respect to the 2009A Bonds, Fitch, Moody’s or Standard & Poor’s to the extent it is then providing or maintaining a rating on such 2009A Bonds at the request of the Corporation, or in the event that Fitch, Moody’s or Standard & Poor’s no longer maintains a rating on such 2009A Bonds, any other nationally recognized rating agency then providing or maintaining a rating on such 2009A Bonds approved by the Infrastructure Bank following consultation with the Corporation.

“Rating Category” means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

“Rebate Fund” means the Rebate Fund which is established in accordance with the 2009A Indenture.

“Rebate Requirement” means the amounts required to be rebated to the United States Treasury determined in accordance with the Tax Certificate.

“Record Date” means, with respect to each Interest Payment Date, the fifteenth day (whether or not a Business Day) of the month preceding such Interest Payment Date.

“Repayment Installment” means any amount that the Corporation is required to pay to the Trustee pursuant to the 2009A Loan Agreement as a repayment of the loan of the Bond proceeds made by the Infrastructure Bank under the 2009A Loan Agreement.

“Representation Letter” has the meaning specified in the 2009A Indenture.

“Reserve Requirement” has the meaning provided in Appendix F, Schedule 1, Part C to the Tariff.

“Reserved Rights” means the Infrastructure Bank’s rights to Additional Payments and to notices, indemnities, consultations, approvals, consents and opinions.

“Responsible Officer” of the Trustee means and includes the chairman of the board of directors, the president, every vice president, every assistant vice president, every trust officer, and every officer and assistant officer of the Trustee other than those specifically above mentioned, to whom any corporate trust matter is referred because of his or her knowledge of, and familiarity with, a particular subject.

“Rule 15c2-12” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041-0099, Attn. Call Notification Department, Fax (212) 855-7232, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories, or no such depositories, as the Infrastructure Bank may designate in a Certificate of the Infrastructure Bank delivered to the Trustee.

“Serial Bonds” means 2009A Bonds for which no Sinking Fund Installments are established.

“Sinking Fund Installments” means, with respect to the 2009A Bonds, the amounts set forth in the 2009A Indenture, subject to the credits provided in such Section.

“Standard & Poor’s” means Standard & Poor’s Ratings Service, a Division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a nationally-recognized statistical rating organization, then the term “Standard & Poor’s” will be deemed to refer to any other nationally-recognized statistical rating organization selected by the Infrastructure Bank following consultation with the Corporation.

“State” means the State of California.

“Supplemental Indenture” means any indenture amendatory of the 2009A Indenture or supplemental to the 2009A Indenture duly authorized and entered into between the Infrastructure Bank and the Trustee in accordance with the provisions of the 2009A Indenture.

“Tariff” means the Corporation Tariff and Pro Forma Agreements as posted from time to time pursuant to an order of the Federal Energy Regulatory Commission. References to specific sections of the Tariff will mean the Tariff as posted on June 26, 2009.

“Tax Certificate” means the Tax Certificate related to the 2009A Bonds, dated as of the Issue Date, by and between the Infrastructure Bank and the Corporation, as the same may be amended from time to time.

“Tax-Exempt” means, with respect to interest on any obligations of a state or local government, including the 2009A Bonds, that such interest is excluded from the gross income of the holders thereof.

“Term Bonds” means Bonds which are payable on or before their specified maturity dates from Sinking Fund Installments.

“Trustee” means Deutsche Bank National Trust Company, a national banking association organized under the laws of the United States of America, and its successors and assigns or any successor Trustee appointed pursuant to the 2009A Indenture.

“2008 Loan Agreement” means that certain Loan Agreement, dated as of June 1, 2008, by and between the Infrastructure Bank and the Corporation, executed in connection with the issuance of the Infrastructure Bank’s Revenue Bonds (California Independent System Operator Corporation Project) Series 2008A.

“2009A Bonds” means the bonds authorized and issued pursuant to the 2009A Indenture and any bonds issued in exchange or replacement thereof in accordance with the 2009A Indenture.

“2009A Construction Fund” means the 2009A Construction Fund established pursuant to 2009A Indenture.

“2009A Facilities” means the real property improvements designed and constructed, the computer hardware and software systems acquired or developed, and the office equipment acquired as a result of the 2009A Project.

“2009A Headquarters Facilities” means the real property improvements designed and constructed as a result of the 2009A Project.

“2009A Project” has the meaning set forth in the 2009A Loan Agreement.

“2009A Debt Service Reserve Account” means the account by that name in the Bond Fund established pursuant to the 2009A Indenture.

“2009A Debt Service Reserve Account Requirement” means as of any date of calculation, an amount which will be equal to the least of (i) 10% of the proceeds of the 2009A Bonds, (ii) maximum annual debt service with respect to the 2009A Bonds Outstanding or (iii) 125% of average annual debt service with respect to the 2009A Bonds. Annual debt service and average annual debt service, for purposes of this definition, will be calculated on the basis of 12 month periods ending on February 1 of any year in which the 2009A Bonds are Outstanding.

“2009A Revenues” means (i) all receipts, installment payments and other income or payments derived by the Infrastructure Bank or the Trustee under the 2009A Loan Agreement and the Deed of Trust, (ii) all proceeds with respect to, arising from, or relating to the Property or the 2009A Facilities, to the extent and as set forth in the Deed of Trust; (iii) any income or revenue derived from the investment of any money in any fund or account established pursuant to the 2009A

Indenture (other than the Rebate Fund and any account therein), including all Repayment Installments and (iv) any other payments made by the Corporation as contemplated by the 2009A Loan Agreement; provided, however, that such term will not include Additional Payments.

“Written Order of the Corporation” and “Written Request of the Corporation” mean, respectively, a written order or request signed by or on behalf of the Corporation by an Authorized Corporation Representative.

“Written Order of the Infrastructure Bank” and “Written Request of the Infrastructure Bank” mean, respectively, a written order or request signed by or on behalf of the Infrastructure Bank by an Authorized Infrastructure Bank Representative.

“Yield” will have the meaning ascribed to such term by Section 148(h) of the Code.

CERTAIN PROVISIONS OF THE 2009A INDENTURE OF TRUST

Construction Fund; Costs of Issuance Fund

Construction Fund.

(a) The Trustee will establish the “2009A California Independent System Operator Corporation Construction Fund” (the “2009A Construction Fund”). The Trustee will establish within the 2009A Construction Fund such accounts and subaccounts as are specified upon written direction from an Authorized Corporation Representative as may be necessary or convenient to carry out the purposes of the Tax Certificate.

(b) Before each payment is made from the 2009A Construction Fund (including any account established therein) by the Trustee, there will be filed with the Trustee a requisition conforming with the requirements of the Agreement, and in the form attached to the 2009A Indenture as Exhibit B.

(c) Upon the receipt by the Trustee of a certificate conforming with the requirements of the Agreement, and after payment of Costs payable from the 2009A Construction Fund, or provision having been made for payment of such Costs not yet due by retaining sufficient amounts to pay such Costs in the 2009A Construction Fund or otherwise as directed in such certificate, the Trustee will transfer any remaining balance in the Construction Fund (together, in the case of the delivery of a certificate pursuant to the Agreement, with any remaining amounts on deposit in the Capitalized Interest Account in the Bond Fund) into the Bond Fund. Upon such transfer the 2009A Construction Fund will be closed.

(d) In the event of redemption of all the 2009A Bonds pursuant to the 2009A Indenture or an Event of Default which causes acceleration of the 2009A Bonds, any moneys then remaining in the 2009A Construction Fund will be transferred to the Surplus Account within the Bond Fund, and all moneys in the Bond Fund will be used to pay or redeem Bonds.

Costs of Issuance Fund. The Trustee will establish the Costs of Issuance Fund (the “Costs of Issuance Fund”). The moneys in the Costs of Issuance Fund will be held by the Trustee in trust and applied to the payment of Costs of Issuance, upon a requisition filed with the Trustee in the form attached to the Indenture as Exhibit C, signed by an Authorized Corporation Representative. Any amounts remaining in the Costs of Issuance Fund six months following the Issue Date of the 2009A

Bonds will be transferred to the 2009 Series A Construction Fund and applied as provided in the 2009A Indenture.

Pledge and Assignment; Establishment of Funds

Pledge and Assignment.

(a) Subject to the application thereof for the purposes and on the terms and conditions set forth in the 2009A Indenture, all of the 2009A Revenues, and all amounts and securities in the funds held by the Trustee under the 2009A Indenture (other than the Rebate Fund), are irrevocably pledged to the punctual payment of the principal of and interest on the 2009A Bonds. Said pledge will constitute a first lien on the 2009A Revenues and the other assets pledged therefor pursuant to the 2009A Indenture for the payment of the 2009A Bonds in accordance with the terms hereof; provided, however, that notwithstanding the foregoing provision, the Corporation may create, assume or suffer to exist Permitted Encumbrances. All 2009A Revenues and the other assets pledged under the 2009A Indenture will be held in trust for the benefit of the Owners from time to time of the 2009A Bonds but will nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the 2009A Indenture.

(b) Pursuant to the 2009A Indenture, the Infrastructure Bank transfers, assigns and sets over to the Trustee all of the 2009A Revenues and any and all rights and privileges, other than the Reserved Rights, it has under the 2009A Loan Agreement, including, without limitation, the right to collect and receive directly all of the 2009A Revenues and the right to hold and enforce any security interest; and any 2009A Revenues collected or received by the Infrastructure Bank will be deemed to be held, and to have been collected or received by the Infrastructure Bank as the agent of the Trustee and will forthwith be paid by the Infrastructure Bank to the Trustee. The Trustee also will be entitled to take all steps, actions and proceedings reasonably necessary in its judgment (i) to enforce the terms, covenants and conditions of, and preserve and protect the priority of its interest in and under, the 2009A Loan Agreement and any security agreement with respect to the 2009A Loan Agreement, the 2009A Facilities, the Property, or the 2009A Bonds, other than the Tax Certificate and (ii) to assure compliance with all covenants, agreements and conditions on the part of the Infrastructure Bank contained in the 2009A Indenture with respect to the 2009A Revenues.

As additional security for the benefit of the Owners from time to time of the 2009A Bonds, the Corporation has executed the Deed of Trust for the benefit of the Trustee as Trustee for the Owners, and the Trustee will take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of its rights (as Trustee for the owners) and all of the obligations of the Corporation under the Deed of Trust.

Bond Fund. Upon the receipt thereof, the Trustee will deposit all 2009A Revenues in California Independent System Operator Corporation 2009 Series A Bond Fund” (the “Bond Fund”), which the Trustee will establish and maintain and hold in trust, and which will be disbursed and applied only as thereafter authorized. Except as provided in the 2009A Indenture, moneys in the Bond Fund will be used solely for the payment of the principal of and interest on the 2009A Bonds as the same will become due whether at maturity or upon redemption or acceleration.

The Trustee will deposit in the Bond Fund from time to time, upon receipt thereof, all Repayment Installments received by the Trustee from or on behalf of the Corporation for deposit in the Bond Fund, any income received from the investment of moneys on deposit in the Bond Fund

and any other 2009A Revenues, including any prepayment amounts received under the 2009A Loan Agreement from or for the account of the Corporation.

In making payments of principal of and interest on the 2009A Bonds, the Trustee will use any 2009A Revenues received by the Trustee.

Except to the extent such moneys are required to be held for the payment of principal of or interest on the 2009A Bonds then due and payable or to effect the defeasance of 2009A Bonds pursuant to the 2009A Indenture, so long as no Event of Default (or any event which would be an Event of Default under the 2009A Indenture with the passage of time or the giving of notice or both) exists thereunder, on the fifth day after each Interest Payment Date, the Trustee, unless otherwise instructed by the Corporation, will return to the Corporation (free and clear of the pledge and lien of the 2009A Indenture) any moneys then on deposit in the Bond Fund or will deposit such funds in the Rebate Fund if so instructed by the Corporation.

The Trustee will establish and maintain a separate account in the Bond Fund to be known as the “2009A Debt Service Reserve Account” for the purposes set forth in the 2009A Indenture.

The Trustee will establish and maintain a separate account in the Bond Fund to be known as the “Capitalized Interest Account” for the purposes set forth below. The Trustee will transfer moneys from the Capitalized Interest Account in the amounts set forth below to the Bond Fund for payment of interest on the 2009A Bonds due on the dates set forth below:

<i>Payment Date</i>	<i>Amount</i>
February 1, 2010	\$5,942,770.31
August 1, 2010	5,659,781.25
February 1, 2011	5,659,781.25
August 1, 2011	5,659,781.25
February 1, 2012	1,186,063.46 (plus any interest earnings on deposit in the Capitalized Interest Account)

Any surplus moneys in the Capitalized Interest Account will be transferred by the Trustee to the Bond Fund upon the Written Request of the Corporation.

Investment of Moneys. Subject to the 2009A Indenture, any moneys in any of the funds and accounts established pursuant to the 2009A Indenture will be invested upon the written direction of the Corporation signed by an Authorized Corporation Representative (such direction to specify the particular investment to be made and that such investment is permitted by law), by the Trustee, in Investment Securities. In the absence of such written direction, the Trustee will invest solely in units of a money-market fund or portfolio restricted to Government Obligations. Moneys in any fund or account established pursuant to the 2009A Indenture will be invested in Investment Securities with respect to which payments of principal thereof and interest thereon are scheduled to be paid or are otherwise payable (including Investment Securities payable at the option of the Owner) not later than the date on which such moneys will be required by the Trustee. Moneys in the 2009A Debt Service Reserve Account will be invested in Investment Securities with a maturity of not to exceed five years from the date of investment (excluding any investments that can be liquidated at any time at par).

Investments in any of the funds or accounts established under the 2009A Indenture will be valued at least once each Fiscal Year at the market value thereof.

Any interest, profit or loss on any investments of moneys in any fund or account established under the 2009A Indenture will be credited or charged to the respective fund or account from which such investments are made. The Trustee may sell or present for redemption any obligations so purchased whenever it will be necessary in order to provide moneys to meet any payment, and the Trustee will not be liable or responsible for any loss, fee, tax or other charge resulting from any investment, reinvestment or liquidation under the 2009A Indenture. Unless otherwise directed by the Corporation, the Trustee may make any investment permitted under the 2009A Indenture through or with its own commercial banking or investment departments.

Amounts Remaining in Funds. The 2009A Indenture provides that the Trustee, unless otherwise instructed by the Corporation, will transfer to the Corporation (free and clear of the pledge and lien of the 2009A Indenture) all amounts remaining in any fund held by the Trustee under the 2009A Indenture after payment in full of (a) the 2009A Bonds, or after provision for such payment will have been made as provided in the 2009A Indenture, (b) the fees, charges and expenses of the Trustee due and owing in accordance with the 2009A Loan Agreement and the 2009A Indenture and (c) all other amounts required to be paid under the 2009A Loan Agreement and the 2009A Indenture, including the Rebate Requirement.

Application of 2009A Debt Service Reserve Account.

(a) All amounts in the 2009A Debt Service Reserve Account will be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Bond Fund, or (together with any other funds available) for the payment or redemption of all Outstanding Bonds.

(b) Amounts on deposit in the 2009A Debt Service Reserve Account will be valued by the Trustee at their market value on or before each Principal Installment Date, and the Trustee will notify the Corporation of the results of such valuation. If the amount on deposit in the 2009A Debt Service Reserve Account on any day following such valuation is less than 90% of the 2009A Debt Service Reserve Account Requirement, the Corporation has agreed in the 2009A Loan Agreement to make the deposits to the 2009A Debt Service Reserve Account necessary to cause the amount on deposit therein to equal the 2009A Debt Service Reserve Account Requirement. If the amount on deposit in the 2009A Debt Service Reserve Account on any day following such valuation is greater than the 2009A Debt Service Reserve Account Requirement, the excess will be withdrawn from the 2009A Debt Service Reserve Account and transferred to the Bond Fund.

(c) In lieu of maintaining and depositing moneys in the 2009A Debt Service Reserve Account, the Corporation may deposit with the Trustee a letter of credit, subject to the requirements of the 2009A Indenture. Any such letter of credit will permit the Trustee to draw amounts thereunder for deposit in the 2009A Debt Service Reserve Account which, together with any moneys on deposit in, or surety bond policy available to fund, the 2009A Debt Service Reserve Account, are not less than the 2009A Debt Service Reserve Account Requirement and which may be applied to any purpose for which moneys in the 2009A Debt Service Reserve Account may be applied. The Trustee will make a drawing on such letter of credit (i) whenever moneys are required for the purposes for which 2009A Debt Service Reserve Account moneys may be applied, and (ii) prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys or an

irrevocable surety bond are available in the 2009A Debt Service Reserve Account in the amount of the 2009A Debt Service Reserve Account Requirement.

(d) In lieu of maintaining and depositing moneys in the 2009A Debt Service Reserve Account, the Corporation also may maintain in effect an irrevocable surety bond policy, subject to the requirements of the 2009A Indenture. Any such surety bond policy will permit the Trustee to obtain amounts thereunder for deposit in the 2009A Debt Service Reserve Account which, together with any moneys on deposit in, or letter of credit available to fund, the 2009A Debt Service Reserve Account, are not less than the 2009A Debt Service Reserve Account Requirement and which may be applied to any purpose for which moneys in the 2009A Debt Service Reserve Account may be applied. The Trustee will make a drawing on such surety bond policy (i) whenever moneys are required for the purposes for which 2009A Debt Service Reserve Account moneys may be applied, and (ii) prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys or a letter of credit are available in the 2009A Debt Service Reserve Account in the amount of the 2009A Debt Service Reserve Account Requirement.

(e) The right of the Corporation to utilize a letter of credit or surety bond pursuant to the 2009A Indenture is subject to the condition that, at the time of the deposit of the letter of credit or surety bond, the unsecured obligations of the issuer of the letter of credit or provider of the surety bonds are rated not lower than Aa/AA by Moody's and S&P and that prior to the deposit of such letter of credit or surety bond, each of the rating agencies then rating the 2009A Bonds at the request of the Corporation is notified of such proposed withdrawal and the deposit of such letter of credit or surety bond will not result in a withdrawal or downgrading of the 2009A Bonds.

Covenants of the Issuer

Payment of Principal and Interest. The Infrastructure Bank will punctually pay, but only out of 2009A Revenues and the other assets pledged therefor pursuant to the 2009A Indenture, the principal of and interest on every 2009A Bond issued under the 2009A Indenture at the times and places and in the manner provided in the 2009A Indenture and in the 2009A Bonds according to the true intent and meaning thereof. All such payments will be made by the Trustee as provided in the 2009A Indenture.

Preservation of 2009A Revenues. The Infrastructure Bank will not waive any provision of the 2009A Loan Agreement or take any action to interfere with or impair the pledge and assignment under the 2009A Indenture of 2009A Revenues and the assignment to the Trustee of rights under the 2009A Loan Agreement assigned to the Trustee under the 2009A Indenture, or the Trustee's enforcement of any such rights thereunder, without the prior written consent of the Trustee. The Trustee may give such written consent, and may itself take any such action, or consent to any Amendment, only in accordance with the provisions of the 2009A Indenture.

Compliance with Indenture. The Infrastructure Bank will not issue, or permit to be issued, any 2009A Bonds secured or payable in any manner out of 2009A Revenues or the other assets pledged under the 2009A Indenture in any manner other than in accordance with the provisions of the 2009A Indenture, and will not suffer or permit any default to occur under the 2009A Indenture, but will faithfully observe and perform all the covenants, conditions and requirements thereof.

Other Liens. So long as any 2009A Bonds are Outstanding, the Infrastructure Bank will not create any pledge, lien or charge of any type whatsoever upon all or any part of the 2009A Revenues or the other assets pledged under the 2009A Indenture, other than the lien of the 2009A Indenture.

Further Assurances. Whenever and so often as requested so to do by the Trustee, the Infrastructure Bank will promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all of the rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by the 2009A Indenture and by the Deed of Trust and to perfect and maintain as perfected such rights, interests, powers, benefits, privileges and advantages.

Deed of Trust Covenant. Subject to the provisions of the 2009A Indenture, the Trustee will promptly collect all amounts due from the Corporation pursuant to the 2009A Loan Agreement and will exercise the rights given to it by the Deed of Trust and assigned to it pursuant to the 2009A Loan Agreement and further will enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the Infrastructure Bank, the Owners and all of the obligations of the Corporation.

Default

Events of Default; Acceleration; Waiver of Default.

(a) Each of the following events will constitute an “Event of Default” under the 2009A Indenture:

(i) Failure to make payment of any installment of interest upon any 2009A Bond when such payment will have become due and payable;

(ii) Failure to make due and punctual payment of the principal of any Outstanding 2009A Bond when such payment will have become due and payable, whether at the stated maturity thereof, or upon proceedings for the mandatory redemption thereof from Sinking Fund Installments or upon the maturity thereof by declaration;

(iii) The occurrence of an “Event of Default” under the 2009A Loan Agreement, as specified therein;

(iv) The occurrence of a Deed of Trust Default; or

(v) Default by the Infrastructure Bank in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the 2009A Indenture or in the 2009A Bonds, and the continuance of such default for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, will have been given to the Infrastructure Bank and the Corporation by the Trustee, or to the Infrastructure Bank, the Corporation and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the 2009A Bonds at the time Outstanding;

No default specified in (iv) above will constitute an Event of Default unless the Infrastructure Bank will have failed to correct such default within the applicable 30-day period;

provided, however, that if the default will be such that it can be corrected, but cannot be corrected within such period, it will not constitute an Event of Default if corrective action is instituted by the Infrastructure Bank within the applicable 30-day period and diligently pursued until the default is corrected.

(b) Upon the occurrence and continuation of an Event of Default the Trustee, may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of 2009A Bonds then Outstanding, will, by notice in writing delivered to the Corporation, with copies of such notice being sent to the Infrastructure Bank, declare the principal of all 2009A Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest will thereupon become and be immediately due and payable. Notwithstanding the foregoing, the Trustee will not be required to take any action upon the occurrence and continuation of an Event of Default under paragraph (a)(iii), (a)(iv) or (a)(v) above until a Responsible Officer of the Trustee has actual knowledge of such Event of Default. After any declaration of acceleration of the 2009A Bonds under the 2009A Indenture the Trustee will immediately declare all indebtedness payable under the 2009A Loan Agreement with respect to the 2009A Bonds to be immediately due and payable in accordance with the 2009A Loan Agreement and may exercise and enforce such rights as exist under the 2009A Loan Agreement. As set forth in the 2009A Loan Agreement, during any period that the Operating Fund is held in the name and to the credit of the Trustee pursuant to any control agreement, the Corporation will be entitled to use or withdraw any amounts held by the Trustee on deposit therein for the payment of Operating Costs, or which otherwise do not constitute Net Operating Revenues (as such terms are defined in the 2009A Loan Agreement). The Trustee shall provide immediate access to funds through written authorization to the respective bank or transfer funds required by the Corporation held in Trustee's accounts that do not constitute Net Operating Revenues.

The preceding paragraph, however, is subject to the condition that if, at any time after the principal of the 2009A Bonds will have been so declared due and payable, and before any judgment or decree for the payment of the moneys due will have been obtained or entered as thereafter provided, there will have been deposited with the Trustee a sum which, together with any other amounts then held in the Bond Fund, is sufficient to pay all the principal of such 2009A Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the 2009A Bonds, and the reasonable expenses (including reasonable attorneys' fees) of the Trustee, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on such 2009A Bonds due and payable solely by reason of such declaration) will have been made good or cured to the satisfaction of the Trustee in its sole discretion or provision deemed by the Trustee to be adequate will have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the 2009A Bonds then Outstanding (by written notice to the Infrastructure Bank and to the Trustee) may, on behalf of the Owners of all Bonds, rescind and annul such declaration with respect to the 2009A Bonds and its consequences and waive such default; provided that no such rescission and annulment will extend to or will affect any subsequent default, or will impair or exhaust any right or power consequent thereon.

Institution of Legal Proceedings by Trustee. If one or more of the Events of Default under the 2009A Indenture will happen and be continuing, the Trustee in its sole discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the 2009A Bonds then Outstanding, and upon being indemnified to its satisfaction in its sole discretion therefor (including with respect to any expenses or liability the Trustee may incur) will, proceed to protect or enforce its rights or the rights of the Owners under the Act or under the 2009A Indenture or the Deed

of Trust, by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the 2009A Indenture, or in aid of the execution of any power in the 2009A Indenture granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee will deem most effectual in support of any of its rights or duties under the 2009A Indenture.

Application of Moneys Collected by Trustee. Any moneys collected by the Trustee from the Corporation, and any moneys in the Bond Fund, on or after the occurrence of an Event of Default will be applied in the order following, at the date or dates fixed by the Trustee and, in the case of distribution of such moneys on account of principal or interest, upon presentation of the 2009A Bonds, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

First: To the payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the 2009A Indenture.

Second: In case none of the principal of the Outstanding 2009A Bonds will have become due and remains unpaid, to the payment of interest in default on the Outstanding 2009A Bonds in the order of the maturity thereof, such payments to be made ratably and proportionately to the Persons entitled thereto without discrimination or preference, except as specified in the 2009A Indenture.

Third: In case the principal of any of the Outstanding 2009A Bonds will have become due by declaration or otherwise and remains unpaid, first to the payment of interest in default in the order of maturity thereof; and then to the payment of principal of all Outstanding 2009A Bonds then due and unpaid; in every instance such payment to be made ratably to the Persons entitled thereto without discrimination or preference, except as specified in the 2009A Indenture.

Fourth: To the payment of fees and costs due and owing to the Infrastructure Bank.

Effect of Delay or Omission to Pursue Remedy. No delay or omission of the Trustee or of any Owner of 2009A Bonds to exercise any right or power arising from any default will impair any such right or power or will be construed to be a waiver of any such default or acquiescence therein, and every power and remedy given by the 2009A Indenture to the Trustee or to the Owners may be exercised from time to time and as often as will be deemed expedient. In case the Trustee will have proceeded to enforce any right under the 2009A Indenture, and such proceedings will have been discontinued or abandoned because of waiver or for any other reason, or will have been determined adversely to the Trustee, then and in every such case the Infrastructure Bank, the Trustee, and the Owners of the 2009A Bonds, severally and respectively, will be restored to their former positions and rights under the 2009A Indenture; and all remedies, rights and powers of the Infrastructure Bank, the Trustee, and the Owners of the 2009A Bonds will continue as though no such proceedings had been taken.

Remedies Cumulative. No remedy conferred in the 2009A Indenture upon or reserved to the Trustee or to any Owner of the 2009A Bonds is intended to be exclusive of any other remedy, but each and every such remedy will be cumulative and will be in addition to every other remedy given under the 2009A Indenture or now or thereafter existing at law or in equity.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, will have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the 2009A Indenture, whether upon its own discretion or upon the request of Owners of the 2009A Bonds, it will have full power, in the exercise of its discretion for the best interests of the Owners of the 2009A Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee will not, unless there no longer continues an Event of Default under the 2009A Indenture, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of at least a majority in principal amount of the 2009A Bonds Outstanding under the 2009A Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

All rights of action under the 2009A Indenture or under any of the 2009A Bonds secured by the 2009A Indenture which are enforceable by the Trustee may be enforced by it without the possession of any of the 2009A Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in its name as Trustee of an express trust for the equal and ratable benefit of the Owners, subject to the provisions of the 2009A Indenture.

Limitation on Owners' Right to Sue. No Owner will have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the 2009A Indenture, unless (a) such Owner will have previously given to the Trustee written notice of the occurrence of an Event of Default under the 2009A Indenture, (b) the Owners of at least a majority in aggregate principal amount of all the 2009A Bonds then Outstanding will have made written request upon the Trustee to exercise the powers thereinbefore granted or to institute such action, suit or proceeding in its own name, (c) said Owners will have tendered to the Trustee indemnity satisfactory to it against the costs, expenses (including reasonable attorneys' fees) and liabilities to be incurred in compliance with such request and (d) the Trustee will have refused or omitted to comply with such request for a period of thirty (30) days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the 2009A Indenture; it being understood and intended that no one or more Owners will have any right in any manner whatever by his or her or their action to enforce any right under the 2009A Indenture, except in the manner provided in the 2009A Indenture, and that all proceedings at law or in equity to enforce any provision of the 2009A Indenture will be instituted, had and maintained in the manner provided in the 2009A Indenture and for the equal benefit of all Owners of the Outstanding 2009A Bonds, subject to the provisions of the 2009A Indenture.

The right of any Owner to receive payment of the principal of and interest on such 2009A Bond out of 2009A Revenues, as provided in the 2009A Indenture and such Bond, on and after the respective due dates expressed in such 2009A Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, will not be impaired or affected without the consent of such Owner, notwithstanding the foregoing provisions of the 2009A Indenture.

Modification of Indenture, Documents

Modification without Consent of Owners. The Infrastructure Bank and the Trustee, without the consent of or notice to any Owners, from time to time and at any time, but subject to the conditions and restrictions contained in the 2009A Indenture, may enter into a Supplemental Indenture or Indentures, which Supplemental Indenture or Indentures thereafter will form a part of the 2009A Indenture; and the Trustee, without the consent of or notice to any Owners, from time to time and at any time, may consent to any Amendment to any Document; in each case for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Infrastructure Bank contained in the 2009A Indenture, or of the Corporation contained in any Document, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for any of the 2009A Bonds, or to surrender any right or power in the 2009A Indenture or therein reserved to or conferred upon the Infrastructure Bank or the Corporation;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision contained in the 2009A Indenture or any Document, or in regard to matters or questions arising under the 2009A Indenture or any Document, as the Infrastructure Bank may deem necessary or desirable;

(c) to modify, amend or supplement the 2009A Indenture in such manner as to permit the qualification of the 2009A Indenture or thereof under the Trust Indenture Act of 1939 or any similar federal statute thereafter in effect, and, if they so determine, to add to the 2009A Indenture as therefore supplemented and amended such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute;

(d) to provide for any additional procedures, covenants or agreements necessary to maintain the Tax-Exempt status of interest on the 2009A Bonds;

(e) to modify or eliminate the book-entry registration system for any of the 2009A Bonds;

(f) to provide for the procedures required to permit any Owner to separate the right to receive interest on the 2009A Bonds from the right to receive principal thereof and to sell or dispose of such rights, as contemplated by Section 1286 of the Code;

(g) to provide for the appointment of a co-Trustee or the succession of a new Trustee;

(h) to comply with requirements of any Rating Agency in order to obtain or maintain a rating on any 2009A Bonds; or

(i) in connection with any other change which will not adversely affect the security for the 2009A Bonds or the Tax-Exempt status of interest thereon or otherwise materially adversely affect the interests of the Owners of the 2009A Bonds, such determination to be based upon an Opinion of Bond Counsel.

Before the Infrastructure Bank or the Trustee enters into a Supplemental Indenture, and before the Trustee consents to any Amendment, pursuant to the provisions of the 2009A Indenture, the Infrastructure Bank or the Trustee will cause notice of the proposed execution of the

Supplemental Indenture or Amendment to be given by mail to the Corporation and each Rating Agency. A copy of the proposed Supplemental Indenture or Amendment will accompany such notice. Not less than one week after the date of the first mailing of such notice, the Infrastructure Bank and/or the Trustee may execute and deliver such Supplemental Indenture or Amendment, but only after there will have been delivered to the Trustee and the Infrastructure Bank an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment (i) is authorized or permitted by the 2009A Indenture, the Act and other applicable law, (ii) complies with the applicable terms of the Indenture, (iii) will, upon the execution and delivery thereof be a valid and binding agreement of the Infrastructure Bank, (iv) will not adversely affect the Tax-Exempt status of interest on the 2009A Bonds and (v) will not materially adversely affect the interests of the Owners of the 2009A Bonds.

Notwithstanding the foregoing provisions of the Indenture described under this caption “Modification without Consent of Bondholders,” the Trustee will not be obligated to enter into any such Supplemental Indenture which affects the Trustee’s own rights, duties or immunities under the 2009A Indenture or otherwise, in which case the Trustee may in its discretion, but will not be obligated to, enter into such Supplemental Indenture, and the Trustee will not enter into any Supplemental Indenture or consent to any Amendment without first obtaining the written consent of the Corporation. Any Supplemental Indenture or Amendment permitted pursuant to the provisions of the 2009A Indenture described under this caption “Modification without Consent of Bondholders,” may be approved by an Authorized Infrastructure Bank Representative and need not be approved by resolution or other action of the Board of Directors of the Infrastructure Bank.

Modification with Consent of Owners. With the consent of the Owners of not less than a majority in aggregate principal amount of the 2009A Bonds at the time Outstanding, evidenced as provided in the 2009A Indenture, (i) the Infrastructure Bank and the Trustee may from time to time and at any time enter into a Supplemental Indenture or Indentures for the purpose of adding any provisions to or changing in any manner or, eliminating any of the provisions of the 2009A Indenture as theretofore supplemented and amended, (ii) the Infrastructure Bank and the Corporation may enter into any Amendment and (iii) the Trustee may consent to any Amendment to any Document and any other matters for which its consent is required pursuant to the 2009A Indenture; provided, however, that no such Supplemental Indenture or Amendment will have the effect of extending the time for payment or reducing any amount due and payable by the Corporation pursuant to the 2009A Loan Agreement without the consent of the Owners of all Bonds then Outstanding; and that no such Supplemental Indenture will (1) extend the fixed maturity of any 2009A Bond or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, without the consent of the Owner of each Bond so affected or (2) reduce the aforesaid percentage of Owners whose consent is required for the execution of such Supplemental Indentures or Amendments, or permit the creation of any lien on the 2009A Revenues and the other assets pledged as security for Bonds under the 2009A Indenture prior to or on a parity with the lien of the 2009A Indenture, except as permitted in the 2009A Indenture described above under this caption “Modification without Consent of Bondholders,” or permit the creation of any preference of any Owner over any other Owner, except as permitted in the 2009A Indenture, or deprive the Owners of the 2009A Bonds of the lien created by the 2009A Indenture upon the 2009A Revenues and the other assets pledged to the payment of the 2009A Bonds under the 2009A Indenture, without the consent of the Owners of all Bonds then Outstanding. Nothing in this paragraph will be construed as making necessary the approval of any Owner of any Supplemental Indenture or Amendment permitted by the provisions described above under the caption “Modification without Consent of Bondholders.”

Upon receipt by the Trustee of (A) a Certified Resolution authorizing the execution of any such Supplemental Indenture or Amendment, (B) an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is (aa) authorized or permitted by the 2009A Indenture, the Act and other applicable law, (bb) complies with the applicable terms of the 2009A Indenture, (cc) in the case of a Supplemental Indenture, will, upon the execution and delivery thereof, be a valid and binding agreement of the Infrastructure Bank, (dd) will not adversely affect the Tax-Exempt status of interest on the 2009A Bonds and (ee) will not materially adversely affect the interests of the Owners of the 2009A Bonds; and (C) evidence of the consent of, as required by the 2009A Indenture, the Owners, as aforesaid, the Trustee will join with the Infrastructure Bank in the execution of such Supplemental Indenture or will consent to such Amendment; provided, however, that (aa) the Trustee will not be obligated to enter into any such Supplemental Indenture which affects the Trustee's own rights, duties or immunities under the 2009A Indenture or otherwise, in which case the Trustee may in its sole discretion, but will not be obligated to, enter into such Supplemental Indenture and (bb) the Trustee will not enter into such Supplemental Indenture or consent to any Amendment of any Document without first obtaining the Corporation's written consent thereto.

It will not be necessary for the consent of the Owners under the foregoing provisions to approve the particular form of any proposed Supplemental Indenture or Amendment, but it will be sufficient if such consent will approve the substance thereof.

Promptly after the execution by the parties thereto of any Supplemental Indenture or Amendment as provided in the 2009A Indenture, the Trustee will mail a notice (prepared by the Corporation) setting forth in general terms the substance of such Supplemental Indenture or such Amendment to the Rating Agencies and each Owner at the address contained in the Bond Register. Any failure of the Trustee to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture or such Amendment.

Effect of Supplemental Indenture or Amendment. Upon the execution of any Supplemental Indenture or any Amendment to the 2009A Loan Agreement pursuant to the provisions of the 2009A Indenture or the 2009A Loan Agreement, as the case may be, will be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the 2009A Indenture and the 2009A Loan Agreement of the Infrastructure Bank, the Trustee, the Corporation and all Owners of Outstanding 2009A Bonds will thereafter be determined, exercised and enforced under the 2009A Indenture and under the 2009A Loan Agreement subject in all respects to such Supplemental Indentures and Amendments, and all the terms and conditions of any such Supplemental Indenture or Amendment will be part of the terms and conditions of the 2009A Indenture or the 2009A Loan Agreement, as the case may be, for any and all purposes.

Required and Permitted Opinions of Counsel. Subject to the provisions of the 2009A Indenture, the Trustee is entitled to receive an Opinion of Bond Counsel and rely on such Opinion of Bond Counsel as conclusive evidence that any Supplemental Indenture or Amendment executed pursuant to the provisions of the 2009A Indenture complies with the applicable requirements of the 2009A Indenture, that the appropriate consents have been obtained and that such Supplemental Indenture or Amendment has been duly authorized by the Infrastructure Bank.

Defeasance

Discharge of Indenture. If all Bonds will be paid and discharged in any one or more of the following ways:

(a) by the payment of the principal of and interest on all 2009A Bonds as and when the same become due and payable; or

(b) by providing for the payment of the principal of and interest on all 2009A Bonds as provided in the 2009A Indenture; or

(c) by the delivery to the Trustee, for cancellation by it, of all 2009A Bonds; and if all other sums payable the 2009A Indenture by the Corporation and the Infrastructure Bank will be paid and discharged, then thereupon the 2009A Indenture will be satisfied and discharged and will cease, terminate and become null and void, and thereupon the Trustee will, upon Written Request of the Infrastructure Bank, and upon receipt by the Trustee and the Infrastructure Bank of an Opinion of Bond Counsel to the effect that all conditions precedent to the satisfaction and discharge of the 2009A Indenture have been complied with, forthwith execute proper instruments acknowledging the satisfaction and discharge of the 2009A Indenture. The Trustee will mail written notice of such payment and discharge to the Infrastructure Bank, the Corporation and each Rating Agency. The satisfaction and discharge of the 2009A Indenture will be without prejudice to the rights of the Trustee and the Infrastructure Bank to charge and be reimbursed by the Corporation for any expenditures which it may thereafter incur in connection with the 2009A Indenture.

The Infrastructure Bank and the Corporation will surrender to the Trustee for cancellation by it any 2009A Bonds previously authenticated and delivered which the Infrastructure Bank or the Corporation lawfully may have acquired in any manner whatsoever, and such 2009A Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Discharge of Liability on Particular Bonds.

(a) Any Bond or a portion thereof will be deemed to be paid within the meaning of the 2009A Indenture when payment of the principal of such 2009A Bond or a portion thereof plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption or by declaration as provided in the 2009A Indenture) will have been provided for by (i) irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment money and/or nonprepayable, noncallable Government Obligations as provided in the 2009A Indenture and (ii) if such 2009A Bond or portion thereof is to be redeemed prior to the maturity thereof, notice of such redemption will have been given as in the 2009A Indenture provided or provision satisfactory to the Trustee will have been made for giving such notice.

(b) In the event of the provision of the payment of less than the full principal amount of a 2009A Bond in accordance with subsection (a) of this Section, the principal amount of the Bond as to which such payment is not provided for will be in an Authorized Denomination and, unless that portion of the Bond as to which payment is provided for in accordance with subsection (a) of this Section is to be paid or redeemed within sixty days of the deposit with the Trustee, such portion will also be in an Authorized Denomination.

(c) Upon the deposit with the Trustee, in trust, at or before maturity or the redemption date, as applicable, of money and/or nonprepayable, noncallable Government Obligations as provided in the 2009A Indenture to pay or redeem a 2009A Bond or a portion thereof and the satisfaction of the other conditions specified in subsection (a) of this Section, such 2009A Bond, or the applicable portion thereof, will be deemed to be paid under the 2009A Indenture, will no longer be secured by or entitled to the benefits of the 2009A Indenture, except for the purposes of any such payment from such money and/or Government Obligations deposited with the Trustee for such purpose, and all liability of the Infrastructure Bank and the Corporation in respect of such 2009A Bond, or the applicable portion thereof, will cease, terminate and be completely discharged, except that the Infrastructure Bank and the Corporation will remain liable for the payment of the principal of and interest on such 2009A Bond, or the applicable portion thereof, but only from, and the Owners will thereafter be entitled only to payment (without interest accrued thereon after such redemption date or maturity date) out of, the money and/or Government Obligations deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the 2009A Indenture.

Deposit of Money or Securities with Trustee. Whenever in the 2009A Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or Government Obligations in the necessary amount to pay or redeem any 2009A Bonds, the money or securities so to be deposited or held may include money or nonprepayable, noncallable Government Obligations held by the Trustee in the funds and accounts established pursuant to the 2009A Indenture and will be:

(a) An amount of money equal to the principal amount of such 2009A Bonds and all unpaid interest thereon to maturity, except that, in the case of 2009A Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption will have been given as provided in the 2009A Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice, the amount of money to be deposited or held will be the principal amount or redemption price of such 2009A Bonds and all unpaid interest thereon to the redemption date; or

(b) nonprepayable, noncallable Government Obligations, the principal of and the interest on which when due will provide money at the times and in the amounts sufficient, together with the other moneys held by the Trustee for such purpose (as evidenced by an Accountant's Report) to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the 2009A Bonds to be paid or redeemed, as such principal or redemption price and interest become due; provided that, in the case of 2009A Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as provided in the 2009A Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice; provided, in each case, that the Trustee will have been irrevocably instructed (by the terms of the 2009A Indenture or by Written Request of the Infrastructure Bank) to apply such money and the payments on such Government Obligations to the payment of such principal or redemption price and interest with respect to such 2009A Bonds. The Trustee will not be responsible for verifying the sufficiency of money and Government Obligation deposited with the Trustee to provide for the payment of the principal of and interest on Bonds pursuant to this the 2009A Indenture but may conclusively rely for all purposes of the 2009A Indenture on an Accountant's Report as to such sufficiency.

CERTAIN PROVISIONS OF THE 2009A LOAN AGREEMENT

Issuance of the 2009A Bonds; Application of Proceeds; The 2009A Project

Agreement to Issue Bonds; Application of Proceeds of the 2009A Bonds. To provide funds to finance a portion of the Costs of the 2009A Project, the Infrastructure Bank agrees that it will issue the 2009A Bonds pursuant to the 2009A Indenture and sell and deliver the 2009A Bonds (or cause the 2009A Bonds to be sold and delivered) to the underwriters thereof pursuant to the Purchase Contract. The Infrastructure Bank will thereupon apply the proceeds received from the sale of the 2009A Bonds as provided in the 2009A Indenture.

Investment of Moneys in Funds. Subject to the provisions of the 2009A Loan Agreement, any moneys in any fund held by the Trustee will, to the extent permitted under the 2009A Indenture, at the written request of an Authorized Corporation Representative, be invested or reinvested by the Trustee as provided in the 2009A Indenture. Such investments will be deemed at all times a part of the fund from which such investments were made, and the interest accruing thereon and any profit or loss realized therefrom will, except as otherwise provided in the 2009A Indenture, be credited or charged to such fund.

Agreement to Acquire 2009A Project. The Corporation agrees that it will undertake the 2009A Project, and will acquire, equip, construct, furnish and install all other facilities and real and personal property deemed necessary for the completion of the 2009A Project and the operation of the 2009A Facilities, substantially in accordance with the description of the 2009A Project attached to the 2009A Loan Agreement as Exhibit A. The Corporation further agrees to proceed with due diligence to complete the 2009A Project within three years from the date of the 2009A Loan Agreement, and to ensure that the 2009A Project is consistent with any existing local or regional comprehensive plans.

Disbursements of Proceeds of the 2009A Bonds.

(a) Subject to the provisions of the 2009A Loan Agreement, the Corporation will authorize and direct the Trustee, upon compliance with of the 2009A Indenture, to disburse the moneys in the Construction Fund to or on behalf of the Corporation only to pay the Costs of the 2009A Project (and not for Costs of Issuance).

All moneys remaining in the Construction Fund after the Completion Date of the 2009A Project, as applicable, will be used in accordance with of the 2009A Indenture.

Each of the payments referred to in the 2009A Loan Agreement will be made upon receipt by the Trustee of a written requisition in the form prescribed by the 2009A Indenture, signed by an Authorized Corporation Representative.

(b) The Corporation will authorize and direct the Trustee, upon compliance with the 2009A Indenture, to disburse the moneys in the Costs of Issuance Fund to or on behalf of the Corporation only for Costs of Issuance of the 2009A Bonds. Each of the payments referred to in the 2009A Loan Agreement will be made upon receipt by the Trustee of a written requisition in the form prescribed by the 2009A Indenture, signed by an Authorized Corporation Representative.

Establishment of Completion Date; Obligation of Corporation to Complete. As soon as the 2009A Project is completed, the Authorized Corporation Representative, on behalf of the Corporation, will evidence the Completion Date with respect to the 2009A Project by providing a certificate to that effect to the Trustee stating the Costs of the 2009A Project. Notwithstanding the foregoing, such certificate may state that it is given without prejudice to any rights of the Corporation against third parties for any claims or for the payment of any amount not then due and payable which exists at the date of such certificate or which may subsequently exist.

At the time such certificate is delivered to the Trustee, moneys remaining in the applicable Construction Fund, including any earnings resulting from the investment of such moneys, will be used as provided in the 2009A Indenture.

In the event the moneys in the applicable Construction Fund available for payment of the Costs of the 2009A Project should be insufficient to pay all Costs of the 2009A Project in full, the Corporation agrees to pay directly, or to deposit in the applicable Construction Fund moneys sufficient to pay, any costs of completing the 2009A Project in excess of the moneys available for such purpose in the Construction Fund. The Infrastructure Bank makes no express or implied warranty that the moneys deposited in the Construction Funds, and available for payment of the Costs of the 2009A Project under the provisions of the 2009A Loan Agreement, will be sufficient to pay all the amounts which may be incurred for all costs in connection with the 2009A Project. The Corporation agrees that if, after exhaustion of the moneys in the Construction Funds, the Corporation should pay, or deposit moneys in the Construction Funds for the payment of, any portion of the costs of the 2009A Project pursuant to the provisions of the 2009A Loan Agreement, it will not be entitled to any reimbursement therefor from the Infrastructure Bank, from the Trustee or from the Owners of any of the 2009A Bonds, nor will it be entitled to any diminution of the amounts payable under the 2009A Loan Agreement.

Loan to Corporation; Repayment Provisions

Loan to Corporation. The Infrastructure Bank covenants and agrees, upon the terms and conditions in the 2009A Loan Agreement, to make a loan to the Corporation for the purpose of financing a portion of the Costs of the 2009A Project, and the financing of capitalized interest, the Series 2009A Debt Service Reserve Account, and the Costs of Issuance of the 2009A Bonds. Pursuant to said covenant and agreement, the Infrastructure Bank will issue the 2009A Bonds upon the terms and conditions contained in the 2009A Loan Agreement and the 2009A Indenture. The Infrastructure Bank and the Corporation agree that the application of the proceeds of sale of the 2009A Bonds to finance a portion of the Costs of the 2009A Project, and the financing of capitalized interest, the Reserve Account and Costs of Issuance of the 2009A Bonds, will be deemed to be and treated for all purposes as a loan to the Corporation of an amount equal to the aggregate principal amount of the 2009A Bonds.

Repayment and Payment of Other Amounts Payable.

(a) With respect to the 2009A Bonds, the Corporation covenants and agrees to pay to the Trustee as a Repayment Installment, on or before each date provided in or pursuant to the 2009A Indenture for the payment of principal of (whether at maturity or upon redemption or acceleration), premium, if any, and/or interest on the 2009A Bonds, until the principal of, premium, if any, and interest on the 2009A Bonds will have been fully paid or provision for the payment thereof will have been made in accordance with the 2009A Indenture, in immediately available

funds, for deposit in the Bond Fund, a sum equal to the amount then payable as principal (whether at maturity or upon redemption or acceleration), premium, if any, and interest upon the 2009A Bonds as provided in the 2009A Indenture.

Each payment made by the Corporation pursuant to the 2009A Loan Agreement will at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon redemption or acceleration) and premium, if any, then payable on the 2009A Bonds; provided that any amount held by the Trustee in the Bond Fund (except for the Reserve Account) on any due date for a Repayment Installment under the 2009A Loan Agreement will be credited against the Repayment Installment due on such date, to the extent available for such purpose; and provided further that, subject to the provisions of this paragraph, if at any time the available amounts held by the Trustee in the Bond Fund are sufficient to pay all of the principal of and interest and premium, if any, on the Outstanding Bonds as such payments become due, the Corporation will be relieved of any obligation to make any further payments with respect to the 2009A Bonds under the provisions of this Section. Notwithstanding the foregoing, if on any date the amount held by the Trustee in the Bond Fund is insufficient to make any required payments of principal of (whether at maturity or upon redemption or acceleration) and interest and premium, if any, on the 2009A Bonds as such payments become due, the Corporation will forthwith pay such deficiency as a Repayment Installment under the 2009A Loan Agreement.

(b)

(i) The Corporation agrees that, so long as any of the 2009A Bonds remain Outstanding, all of the Operating Revenues will be deposited as soon as practicable upon receipt in a fund designated as the “Operating Fund” which the Corporation will establish and maintain, subject to the provisions of this section, in an account or accounts at such financial institution or institutions as the Corporation will from time to time designate in writing to the Trustee for such purpose.

(ii) The Corporation pledges, grants a first lien on, and grants a security interest in all of its right, title, and interest, whether now owned or hereafter acquired, in, to, and under, the Net Operating Revenues, the Operating Fund, each Account, all money, instruments, investment property, and other property on deposit in or credited to the Operating Fund or any Account, and the proceeds of the foregoing (collectively, the “Collateral”), to the Infrastructure Bank (for the benefit of the Owners from time to time of the Outstanding Bonds), to secure the payment of the principal of and interest on the 2009A Bonds and the performance by the Corporation of its other obligations under the 2009A Loan Agreement. The security interest in, pledge of, and lien on the Collateral made by the 2009A Loan Agreement will rank *pari passu* with any security interest in, pledge of, or lien on the Collateral or any part thereof securing Parity Obligations. Pursuant to the 2009A Loan Agreement, the Corporation will cause to be executed by each Depository Bank an account control agreement that perfects the security interest in the deposit accounts or securities accounts constituting the Operating Fund and will execute and deliver such other documents (including, but not limited to, other control agreements) as may be necessary or reasonably requested by the Infrastructure Bank or the Trustee, in order to perfect or maintain as perfected such security interest or give public notice thereof. The Corporation will be entitled to use or withdraw any amounts held in the Operating Fund for the payment of Operating Costs, or which otherwise do not constitute Net Operating Revenues.

(c) Without limiting the generality of the obligations of the Corporation under subsection (a) of this Section to ensure that the moneys available in the Bond Fund are sufficient to pay when due the principal of and interest on the Outstanding Bonds, but without duplication, the Corporation will make the deposits with the Trustee of the amounts described in (i), (ii) and (iii) below.

(i) Interest Deposits. The Corporation has agreed that it will deposit with the Trustee five Business Days preceding each Interest Payment Date an amount equal to the amount of the interest payable on the 2009A Bonds on such Interest Payment Date less any amounts then on deposit in the Bond Fund available to pay the interest on the 2009A Bonds payable on such Interest Payment Date.

(ii) Principal Deposits. The Corporation has agreed that it will deposit with the Trustee five Business Days preceding each Principal Installment Date an amount equal to the amount of the Principal Installment payable on the 2009A Bonds on such Principal Installment Date less any amounts then on deposit in the Bond Fund available to pay such Principal Installments on such Principal Installment Date.

(iii) 2009A Debt Service Reserve Account. In the event amounts on deposit in the 2009A Debt Service Reserve Account are valued below 90% of the Reserve Account Requirement, the Corporation will forthwith pay the amount of such deficiency to the Trustee upon written notice from the Trustee.

(d) The Corporation also agrees to pay to the Trustee until the principal of, premium, if any, and interest on the 2009A Bonds will have been fully paid or provision for the payment thereof will have been made as required by the 2009A Indenture, (i) the annual fee of the Trustee for its ordinary services rendered as trustee, and its ordinary expenses incurred under the 2009A Indenture, as and when the same become due, (ii) the reasonable fees, charges and expenses of the Trustee for the necessary extraordinary services rendered by it and extraordinary expenses (including reasonable attorneys' fees) incurred by it under the 2009A Indenture, as and when the same become due, (iii) the cost of printing any Bonds required to be furnished by the Infrastructure Bank, and (iv) any fees required to be paid to the Infrastructure Bank in connection with the issuance of the 2009A Bonds. The Corporation agrees that the provisions of this Section will survive the discharge of the 2009A Indenture and the retirement of the 2009A Bonds or the resignation or removal of the Trustee.

(e) The Corporation also agrees to pay to the Infrastructure Bank (i) its fees and reasonable expenses in connection with the loan to the Corporation under this Agreement, the Deed of Trust, the 2009A Bonds, the 2009A Indenture, the Tax Certificate or any other documents contemplated by the 2009A Loan Agreement or thereby, including without limitation reasonable expenses incurred by the Infrastructure Bank as a "taxpayer" before the Internal Revenue Service in any audit or investigation of the 2009A Bonds and reasonable expenses incurred by the Attorney General of the State or any attorneys representing the Infrastructure Bank (including attorneys that are employees of the Infrastructure Bank) in connection with any litigation, investigation or matter that may at any time be instituted or any other questions or matter involving such loan or the 2009A Bonds, the 2009A Indenture, the Deed of Trust or any other documents contemplated hereby or thereby, including the Tax Certificate, in each case payable no later than thirty (30) days after request therefor, and (ii) an annual fee of \$500, payable on September 1 of each year or portion thereof in which Bonds are Outstanding, commencing September 1, 2009. The Corporation also agrees to pay,

within twenty (20) days after receipt of request for payment thereof, all expenses required to be paid by the Corporation under the terms of the Purchase Contract, including exhibits thereto, executed by it in connection with the sale of the 2009A Bonds. The Corporation agrees that the provisions described in this paragraph (e) shall survive the discharge of the 2009A Indenture and the retirement of the 2009A Bonds or the resignation or removal of the Trustee.

(f) Any rebate or other amounts required to be paid pursuant to the Tax Certificate and to pay the cost of calculation of such rebate or other amounts payable in accordance with the terms of the Tax Certificate. The Corporation agrees that the provisions described in this (f) shall survive the discharge of the 2009A Indenture and the retirement of the 2009A Bonds.

(g) In the event the Corporation should fail to make any of the payments required by this Section, such payments will continue as obligations of the Corporation until such amounts will have been fully paid. The Corporation agrees to pay such amounts, together as to items required in subsections (a) through (e) with interest thereon until paid, to the extent permitted by law, at 10% per annum.

Unconditional Obligation. The obligations of the Corporation to make the payments required by 2009A Loan Agreement and to perform and observe the other agreements on its part contained in the 2009A Loan Agreement will be absolute and unconditional, irrespective of any defense or any rights of setoff, recoupment or counterclaim it might otherwise have against the Infrastructure Bank or any other Person, and during the period such payments are required to be paid pursuant to the 2009A Loan Agreement, the Corporation will pay absolutely the payments to be made on account of the loan as prescribed in the 2009A Loan Agreement and all other payments required under 2009A Loan Agreement, free of any deductions and without abatement, diminution or setoff. Until such time as the principal of, premium, if any, and interest on the 2009A Bonds will have been fully paid, or provision for the payment thereof will have been made as required by the 2009A Indenture, the Corporation (i) will not suspend or discontinue any payments provided for in 2009A Loan Agreement, (ii) will perform and observe all of its other covenants contained in the 2009A Loan Agreement and the Deed of Trust with respect to the 2009A Bonds and the Property and (iii) except as provided in 2009A Loan Agreement, will not terminate the 2009A Loan Agreement for any cause, including, without limitation, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to, or taking or condemnation of, all or any part of the 2009A Facilities or the Property, termination of any lease relating to the 2009A Facilities or the Property, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either of these, or any failure of the Infrastructure Bank or the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with the 2009A Loan Agreement, the Deed of Trust or the 2009A Indenture. Notwithstanding the immediately prior sentence, the Corporation shall not suspend or discontinue any payments described in paragraph (f) in the preceding section at any time such payment are required pursuant to federal tax law.

Assignment of infrastructure Bank's Rights. As security for the payment of the 2009A Bonds, the Infrastructure Bank will assign to the Trustee the Infrastructure Bank's rights, but not its obligations, under the 2009A Loan Agreement, including the right to receive payments thereunder except Reserved Rights; and the Infrastructure Bank thereby directs the Corporation to make the payments required by the 2009A Loan Agreement directly to the Trustee. The Corporation hereby assents to such assignment and agrees to make such payments directly to the Trustee without defense

or setoff by reason of any dispute between the Corporation and the Infrastructure Bank or the Trustee.

Amounts Remaining in Funds. It is agreed by the parties to 2009A Loan Agreement that any amounts remaining in any fund held by the Trustee under the 2009A Indenture after payment in full of (i) the 2009A Bonds, or after provision for such payment will have been made as provided in the 2009A Indenture, (ii) the fees, charges and expenses of the Trustee, due and owing in accordance with the 2009A Loan Agreement, the Deed of Trust and the 2009A Indenture, (iii) any rebate or other amount requirements to be paid pursuant to the Tax Certificate and (iv) all other amounts required to be paid under the 2009A Loan Agreement, the Deed of Trust, the Tax Certificate and the 2009A Indenture, will be applied as provided in the 2009A Loan Agreement of the 2009A Indenture.

Special Covenants and Agreements

Right of Access to the Property. The Corporation agrees that during the term of the 2009A Loan Agreement, and, to the extent within its control, for so long as the Corporation owns or operates the Property, the Infrastructure Bank or the Trustee, the duly authorized agents of any of them, and, at the request of the Infrastructure Bank, agents of the Internal Revenue Service will have the right (but not the duty) at all reasonable times during normal business hours to enter upon the sites of the 2009A Project or 2009A Facilities to examine and inspect the 2009A Project or 2009A Facilities; provided, however, that this right is subject to federal and State laws and regulations applicable to the sites of the 2009A Project or 2009A Facilities; and provided further that the Corporation reserves the right to restrict access to the 2009A Project or 2009A Facilities in accordance with reasonably adopted procedures relating to safety and security. The rights of access hereby reserved to the Infrastructure Bank and the Trustee and their respective authorized agents may be exercised only after the party seeking such access will have given reasonable advance notice and executed release of liability (which release will not limit any of the Corporation's obligations thereunder) and confidentiality agreements (relating to proprietary information of the Corporation) if requested by the Corporation in the form then currently used by the Corporation. Nothing contained in this Section or in any other provision of the 2009A Loan Agreement will be construed to entitle the Infrastructure Bank or the Trustee or any agent of any of such parties to any information or inspection involving the confidential know-how of the Corporation or any computer software.

Corporation's Maintenance of Its Existence; Assignments.

(a) The Corporation agrees that during the term of the 2009A Loan Agreement and so long as any Bond is Outstanding, it will maintain its corporate existence as an organization described in Section 501(c)(3) of the Code, will not dissolve or otherwise dispose of all or substantially all of its assets, and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; provided, that the Corporation may, without violating the agreements contained in 2009A Loan Agreement, consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets as an entirety and thereafter dissolve; provided, that in the event the Corporation is not the surviving, resulting or transferee corporation, as the case may be, that the surviving, resulting or transferee corporation (i) is a corporation organized under the laws of the United States or any state, district or territory thereof, (ii) is qualified to do business in the State and is an organization described in Section 501(c)(3) of the Code and (iii) assumes in writing all of the obligations of the Corporation under the 2009A Loan Agreement.

Notwithstanding the foregoing, as a condition precedent to any consolidation, merger, sale or other transfer, the Trustee and the Infrastructure Bank will receive (A) an Opinion of Bond Counsel to the effect that such merger, consolidation, sale or other transfer will not in and of itself affect the Tax-Exempt status of interest on the 2009A Bonds, (B) an Opinion of Counsel reasonably acceptable to the Infrastructure Bank to the effect that after such merger, consolidation, sale or other transfer, the 2009A Loan Agreement is a valid and binding obligation of the surviving, resulting or transferee Person, enforceable according to its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally, or by the application of equitable principles if equitable remedies are sought, and the security interest created in the 2009A Loan Agreement will not be adversely affected by such sale or other transfer, (C) evidence from each of the Rating Agencies then rating the 2009A Bonds that such merger will not result in a withdrawal or downgrading of their respective ratings on the 2009A Bonds, (D) the Deed of Trust is a valid and binding obligation of the surviving, resulting or transferee Person, which Person will duly assume in writing all of the obligations of the Corporation under the Deed of Trust and (E) the surviving, resulting or transferee Person after such transaction is not in default under any provision of the Deed of Trust.

Notwithstanding any other provision of the 2009A Loan Agreement, the Corporation need not comply with any of the provisions described in (a) above, provision for the payment of all Outstanding Bonds having been made as provided in the 2009A Indenture.

(b) The rights and obligations of the Corporation under the 2009A Loan Agreement may be assigned by the Corporation, in whole or in part; provided, however, that any assignment other than pursuant to 2009A Loan Agreement will be subject to each of the following conditions:

(i) No such assignment will relieve the Corporation from primary liability for any of its obligations under the 2009A Loan Agreement, and the Corporation will continue to remain primarily liable for the payments specified in the 2009A Loan Agreement, and for performance and observance of the other agreements on its part provided in the 2009A Loan Agreement to be performed and observed by it.

(ii) Any such assignment from the Corporation will retain for the Corporation such rights and interests as will permit it to perform its obligations under the 2009A Loan Agreement, and any assignee from the Corporation will assume the obligations of the Corporation under the 2009A Loan Agreement to the extent of the interest assigned.

(iii) The Corporation will, within thirty (30) days after delivery thereof, furnish or cause to be furnished to the Infrastructure Bank and the Trustee a true and complete copy of every such assignment together with an instrument of assumption.

If a merger, consolidation, sale or other transfer is effected, as provided in this Section, the provisions of this Section will continue in full force and effect and no further merger, consolidation, sale or transfer will be effected except in accordance with the provisions of this Section.

Maintenance and Repair; Taxes; Utility and Other Charges; Insurance.

(a) For the term of this Agreement, the Corporation will use commercially reasonable efforts to cause the 2009A Facilities to be maintained in good condition and repair, ordinary wear

and tear excepted, will maintain, operate and use the 2009A Facilities and the Property, during the useful life thereof and will not alienate, sell, convey or transfer the 2009A Facilities except (i) with respect to the Property, in compliance with the relevant provisions of the Deed of Trust and (ii) if the Corporation provides to the Trustee and the Infrastructure Bank an Opinion of Bond Counsel to the effect that such alienation, sale, conveyance or transfer will not adversely affect the tax exempt status of interest on the 2009A Bonds.

(b) The Corporation will operate the 2009A Headquarters Facilities as the headquarters for its grid management operations, maintain the 2009A Headquarters Facilities and the Property in good repair, working order and condition to achieve this function and otherwise to meet the covenants and obligations contained in the 2009A Loan Agreement and honor all valid restrictions on the uses to which the 2009A Headquarters Facilities and the Property may be subject so long as any Bonds are Outstanding.

(c) The Corporation agrees that between the Infrastructure Bank and the Corporation, the Corporation will pay or cause to be paid during the term of the 2009A Loan Agreement all taxes, governmental charges of any kind lawfully assessed or levied upon the 2009A Project or the 2009A Facilities or any part thereof, including any taxes levied against the 2009A Project or the 2009A Facilities, all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the 2009A Facilities and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the 2009A Facilities, provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Corporation, to the extent described above, will be obligated to pay only such installments as are required to be paid during the term of the 2009A Loan Agreement. The Corporation may, at the Corporation's expense and in the Corporation's name, in good faith, contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during that period of such contest and any appeal therefrom unless by such nonpayment the 2009A Facilities or any part thereof will be subject to loss or forfeiture.

(d) The Corporation covenants and agrees that it will not create, assume or suffer to exist any lien upon the Property or the 2009A Facilities, except for Permitted Encumbrances.

Qualification in California. The Corporation agrees that throughout the term of the 2009A Loan Agreement it, or any successor or assignee as permitted by the 2009A Loan Agreement, will be qualified to do business in the State.

Rate Covenant. The Corporation agrees that, so long as any Bonds remain Outstanding, for each year it will establish a Grid Management Charge in accordance with the Grid Management Charge Formula which will include in its budgeted revenue requirements a Coverage Requirement with respect to budgeted debt service on the 2009A Bonds and any Parity Obligations of not less than 25% and will not take any action to modify the Grid Management Charge Formula in any manner which would adversely affect the security afforded the Owners under the 2009A Loan Agreement including, without limitation, ceasing to maintain the Reserve Requirement at 15% of its annual Operating Costs for purposes of the Grid Management Charge Formula. The Coverage Requirement may be satisfied through the use of any funds of the Corporation legally available for the payment of debt service on the 2009A Bonds and other Parity Obligations.

Parity Obligations. The Corporation will not create, incur, or issue any Parity Obligations unless, at the time of such creation, incurrence or issuance, there will 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 2009A 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 2009A Bonds, the outstanding Parity Obligations and the Parity Obligations to be created, incurred or issued, of not less than 25%.

Insurance.

(a) So long as any Bonds remain Outstanding, the Corporation will maintain or cause to be maintained with respect to the 2009A Project, the 2009A Facilities and the Property, with insurance companies or by means of self-insurance, insurance of such type, against such risks and in such amounts as are customarily carried in relation to activities and facilities located in the State of a nature similar to the 2009A Project, the 2009A Facilities or the Property, as applicable, which insurance will include property damage, fire and extended coverage, public liability and property damage liability insurance.

(b) The Corporation will at all times also maintain worker's compensation coverage as required by the laws of the State.

Investments. The Corporation, by written request, may direct the investment by the Trustee of moneys in the funds and accounts established pursuant to the 2009A Indenture, subject to the limitations set forth in the 2009A Indenture. The Corporation covenants that it will not direct the Trustee to make any investments and itself will not make any investments of the proceeds of the 2009A Bonds, or any other funds in any way pledged to the security of or reasonably expected to be used to pay the 2009A Bonds, which would cause any of the 2009A Bonds to be "arbitrage bonds" subject to federal income taxation by reason of Section 103(b)(2) of the Code. The Corporation will not purchase any obligations of the Infrastructure Bank, pursuant to an arrangement, formal or informal, in an amount related to the amount of the loans made to the Corporation under the 2009A Loan Agreement.

Damage, Destruction and Condemnation; Continuation of Payment

Obligation to Continue Payments. So long as any Bonds are Outstanding, if (a) the 2009A Facilities or the Property or any portion thereof is destroyed (in whole or in part) or are damaged by fire or other casualty, or (b) the temporary use of the 2009A Facilities or the Property or any portion thereof will be taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority, the Corporation will nevertheless be obligated to continue to pay the amounts specified in the 2009A Loan Agreement, to the extent not prepaid in accordance with the 2009A Loan Agreement.

Damage to or Condemnation of the 2009A Facilities or the Property. In the event any portion of the 2009A Facilities or the Property is (a) taken from the Corporation by eminent domain, or (b) damaged or destroyed, the Corporation will transfer to the Trustee, and the Trustee will apply, the Net Proceeds of any condemnation award, or insurance received as a result of such taking or casualty, to the prepayment of Repayment Installments and to the redemption of Bonds as provided in of the 2009A Indenture; provided, that the Corporation need not transfer to the Trustee, and the

Trustee need not apply, the amount of any such proceeds if the Corporation delivers a Written Certificate to the Trustee to the effect that (i) the Net Proceeds of such insurance or condemnation award, together with other moneys on hand and available to the Corporation for such purpose are sufficient to repair or replace the damaged, destroyed or condemned portion of the 2009A Facilities or the Property, (ii) the Corporation will apply such moneys promptly to the replacement or repair of such portion of the 2009A Facilities or the Property and (iii) during the period prior to completion of such repair or replacement, the Corporation's ability to comply with its Repayment Installment obligations under the 2009A Loan Agreement will not be materially adversely affected.

Events of Default and Remedies

Events of Default. Any one of the following which occurs will constitute an Event of Default pursuant to the 2009A Loan Agreement:

(a) failure by the Corporation to pay or cause to be paid any amounts required to be paid under the 2009A Loan Agreement when due or to make the deposits required to be made under the 2009A Loan Agreement within three days of the day when such payment was due;

(b) failure of the Corporation to observe and perform any covenant, condition or agreement on its part required to be observed or performed under the 2009A Loan Agreement, other than making the payments referred to in (a) above, which continues for a period of thirty (30) days after written notice from the Trustee or the Infrastructure Bank, which notice will specify such failure and request that it be remedied, unless the Infrastructure Bank and the Trustee will agree in writing to an extension of such time period; provided, however, that if the failure stated in the notice cannot be corrected within such period, the Infrastructure Bank and the Trustee will not unreasonably withhold their consent to an extension of such time period if corrective action is instituted within such period and diligently pursued until the default is corrected;

(c) the Corporation's application for or consent to the appointment of a receiver, trustee, liquidator or custodian of the Corporation, or of all or a substantial part of its property, or the commencement by the Corporation of a voluntary case or other proceeding seeking liquidation, reorganization or other such relief under any bankruptcy, insolvency or other similar law; now or thereafter in effect, or the Corporation's consent to any such relief or to the taking of possession of its property by another party in any such involuntary case or other proceeding commenced against it; or

(d) the occurrence of an Event of Default under the 2009A Indenture.

The provisions of subsection (b) of the preceding paragraph are subject to the limitation that the Corporation will not be deemed in default if and so long as the Corporation is unable to carry out its agreements under the 2009A Loan Agreement, other than its agreements to make payments, by reason of strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Corporation; it being agreed that the settlement of strikes, lockouts and other industrial disturbances will be entirely within the discretion of the Corporation, and the Corporation will not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the

demands of the opposing party or parties when such course is, in the judgment of the Corporation, unfavorable to the Corporation. This limitation will not apply to any default under subsections (a), (c) or (d) of this Section, or any agreement to make payments.

Remedies on Default. Whenever any Event of Default will have occurred and will continue:

(a) The Trustee, by notice in writing delivered to the Corporation (with copies of such notice being sent to the Infrastructure Bank) may declare the unpaid balance of the loan payable under of the 2009A Loan Agreement in an amount equal to the Outstanding principal amount of the 2009A Bonds, together with the interest accrued thereon, to be immediately due and payable, but may do so only if the 2009A Bonds have been accelerated as provided in the 2009A Indenture.

(b) The Trustee may have access to and may inspect, examine and make copies of the books and records and any and all accounts, data and federal income tax and other tax returns of the Corporation.

(c) The Infrastructure Bank or the Trustee may take whatever action or institute any proceeding, at law or in equity, as may be necessary or desirable for the collection of the payments and other amounts then due including enforcing the security interest in the Net Operating Revenues granted by the Corporation pursuant to the 2009A Loan Agreement and thereafter to become due under the 2009A Loan Agreement or the enforcement of the performance and observance of any obligation, agreement or covenant of the Corporation under the 2009A Loan Agreement and the Deed of Trust, including but not limited to instituting and prosecuting to judgment or final decree and enforcing any such judgment or decree against the Corporation and collect in the manner provided by law moneys decreed to be payable.

(d) The provisions of subsection (a) above, however, are subject to the condition that if, at any time after the loan will have been so declared due and payable, and before any judgment or decree for the payment of the moneys due will have been obtained or entered as thereafter provided, there will have been deposited with the Trustee a sum sufficient to pay all the principal of the 2009A Bonds matured prior to such declaration and all matured installments of interest (if any) upon all such Bonds, with interest on such overdue installments of principal as provided in the 2009A Loan Agreement, and the reasonable fees and expenses of the Trustee, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on such Bonds due and payable solely by reason of such declaration) will have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the 2009A Bonds then Outstanding, by written notice to the Infrastructure Bank and to the Trustee, on behalf of the Owners of all the 2009A Bonds, rescind and annul such declaration and its consequences and waive such default; provided that no such rescission and annulment will extend to or will affect any subsequent default, or will impair or exhaust any right or power consequent thereon.

In case the Trustee or the Infrastructure Bank will have proceeded to enforce its rights under the 2009A Loan Agreement and such proceedings will have been discontinued or abandoned for any reason or will have been determined adversely to the Trustee or the Infrastructure Bank, then, and in every such case, the Corporation, the Trustee and the Infrastructure Bank will be restored respectively to their several positions and rights under the 2009A Loan Agreement, and all rights, remedies and powers of the Corporation, the Trustee and the Infrastructure Bank will continue as

though no such action had been taken (provided, however, that any settlement of such proceedings duly entered into by the Infrastructure Bank, the Trustee or the Corporation will not be disturbed by reason of this the 2009A Loan Agreement).

No Remedy Exclusive. No remedy conferred in the 2009A Loan Agreement upon or reserved to the Infrastructure Bank or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy will be cumulative and will be in addition to every other remedy given under the 2009A Loan Agreement and the Deed of Trust or now or thereafter existing at law or in equity or by statute.

Amendments, Changes and Modifications. Except as otherwise provided in the 2009A Loan Agreement or the 2009A Indenture, the 2009A Loan Agreement may not be effectively amended, changed, modified, altered or terminated except in accordance with the 2009A Indenture.

CERTAIN PROVISIONS OF THE 2009A DEED OF TRUST

Grant in Trust

Grant. For the purposes of and upon the terms and conditions specified in the Deed of Trust, the Corporation irrevocably grants, conveys and assigns to the Trustee, in trust for the benefit of the Infrastructure Bank, with power of sale and right of entry and possession, all of the Corporation's right, title and interest in that certain real property located in the City of Folsom, State of California, on which the Headquarters will be located (the "Subject Property"), together with all of the Corporation's right, title and interest, whether now owned or thereafter acquired, in or to the property and rights listed in paragraph (a) through (h) below; excluding, however, Operating Revenues (as defined in the 2009A Loan Agreement).

(a) All buildings, structures, fixtures, additions, enlargements, extensions, modifications, repairs, replacements and improvements now or thereafter located on the Subject Property (hereinafter referred to as the "Improvements") including, but not limited to, the existing Improvements comprised of existing buildings and to-be constructed buildings; and to the extent permitted by law, the name or names, if any, as may now or thereafter be used for each Improvement, and the goodwill associated therewith;

(b) All easements, rights-of-way, strips and gores of land, streets, ways, alleys, passages, sewer rights, water, water courses, water rights and powers, air rights and development rights, liberties, tenements, hereditaments and appurtenances of any nature whatsoever, in any way belonging, relating or pertaining to the Subject Property or the Improvements and the reversions, remainders, and all land lying in the bed of any street, road or avenue, opened or proposed, in front of or adjoining the Subject Property to the center line thereof and all the estates, rights, titles, interests, property, possession, claim and demand whatsoever, both in law and in equity, of the Corporation of, in and to the Subject Property and the Improvements and every part and parcel thereof, with the appurtenances thereto;

(c) All machinery, equipment, fixtures (including, but not limited to, all heating, air conditioning, plumbing, lighting, communications and elevator fixtures), inventory and articles of personal property and accessions thereof and renewals, replacements thereof and substitutions therefor, and other tangible property of every kind and nature whatsoever owned by the Corporation, or in which the Corporation has or will have an interest, now or thereafter located upon the Subject

Property or the Improvements, or appurtenances thereto, or used in connection with the present or future operation and occupancy of the Subject Property or the Improvements; excluding, however, (i) any machinery or equipment currently or in the future encumbered by a purchase money security interest granted in connection with the financing of such machinery or equipment, and (ii) any machinery or equipment sold or otherwise transferred by the Corporation in the normal course of business, and which is not necessary for the continuing performance by the Corporation of its grid management operations;

(d) All awards of payments, including interest thereon, which may theretofore and thereafter be made with respect to the Subject Property to the extent actually received by the Corporation, whether from the exercise of the right of eminent domain (including, but not limited to, any transfer of the Subject Property or part thereof made in lieu of or in anticipation of the exercise of said right), or for any other injury to or decrease in the value of the Subject Property;

(e) All leases and other agreements affecting the use, enjoyment or occupancy of the Subject Property now or thereafter entered into (the "Leases") and all oil and gas or other mineral royalties, bonuses and rents, revenues, security deposits, issues and profits from the Subject Property (the "Rents") and all proceeds from the sale or other disposition of the Leases and the right to receive and apply the Rents to the payment of the obligations secured by thereby;

(f) All proceeds of and any unearned premiums on any insurance policies covering the Subject Property including, without limitation, the right to receive and apply the proceeds of any insurance, judgments (including with respect to a casualty thereto or condemnation thereof), or settlements made in lieu thereof; for damage to the Subject Property;

(g) The right, in the name and on behalf of the Corporation, to appear in and defend any action or proceeding brought with respect to the Subject Property and to commence any action or proceeding to protect the interest of the Trustee in the Subject Property; and

(h) All right, title and interest of every nature of the Corporation in all receivables and other accounts of the Corporation relating to the Subject Property and in all monies deposited or to be deposited in any funds or account maintained or deposited with the Trustee, or its assigns, in connection therewith.

All of the foregoing is collectively referred thereto as the "Subject Property."

Substitution of Property. Pursuant to the Deed of Trust, the Corporation has the right from time to time to request that any part of the Subject Property be released from, and reconveyed to, the Corporation free and clear of the lien of the Deed of Trust, whether or not upon the sale, refinancing or other disposition of such part of the Subject Property, subject to the following conditions:

(a) No Event of Default has occurred and be continuing under the 2009A Loan Agreement, the 2009A Indenture or the Deed of Trust;

(b) The Corporation will either:

(i) substitute other real property (the "Substitute Mortgaged Property")

provided that:

(1) the Substitute Mortgaged Property will be used as the main headquarters facility of the Corporation;

(2) the fair market value of the Substitute Mortgaged Property, as set forth in an appraisal performed by an MM-designated appraiser, dated not earlier than one month before the date of the proposed release of the Subject Property, together with the fair market value of any Subject Property subject to the lien of the Deed of Trust after giving effect to such release and reconveyance ("Remaining Mortgaged Property"), would equal the lesser of (x) 100% of the fair market value of the Subject Property prior to giving effect to such release and (y) the outstanding principal balance of the 2009A Loan Agreement (less any amounts on deposit in the 2009A Debt Service Reserve Account established pursuant to the 2009A Indenture);

(3) the Substitute Mortgaged Property will constitute real property of one or more legal parcels in compliance with California Subdivision Map Act, with permanent legal access to public streets and with adequate parking required under local ordinances as a condition to such substitution;

(4) the Substitute Mortgaged Property will be subject to the lien of the Deed of Trust, and subject to no other lien, charge or encumbrance except Permitted Encumbrances, as that term is defined in the 2009A Loan Agreement, and title to the Substitute Mortgaged Property and the Remaining Mortgaged Property will be insured by an ALTA policy of title insurance (together with CLTA Endorsement 116.7 and with no surety required) in the amount of the sum of the outstanding principal balance of the 2009A Loan Agreement, and naming the Trustee as insured; and

(5) the completion, to the satisfaction of the Trustee, of such environmental reviews as may be reasonably requested by the Trustee in writing with respect to the Substitute Mortgaged Property; or

(ii) pay the net proceeds of the sale or other disposition of the Subject Property to the Trustee:

(1) for deposit in the Bond Fund in accordance with the 2009A Indenture to the extent necessary to discharge all obligations of the Corporation under the 2009A Loan Agreement; or

(2) for deposit in an escrow account and release to a seller of the Substitute Mortgaged Property upon compliance with the requirements set forth in the Deed of Trust.

(c) The Corporation will pay (i) all costs of drafting, executing, recording and filing and (ii) all other expenses and taxes (if any) applicable to or arising from any such release or exchange.

(d) Notwithstanding the foregoing, and without compliance with the requirements set forth in the Deed of Trust, the part of the Subject Property substantially corresponding to the part of the Subject Property described in Schedule I to the Deed of Trust may be released from, and reconveyed to, the Corporation free and clear of the lien of the Deed of Trust, whether or not upon the sale, refinancing or other disposition of such part of the Subject Property, subject to the condition that the remaining Subject Property will constitute real property of one or

more legal parcels in compliance with California Subdivision Map Act, with permanent legal access to public streets and with adequate parking required under local ordinances as a condition to such release. Alternatively, the Trustor may grant an easement with respect to any part of the Subject Property substantially corresponding to the part of the Subject Property described in Schedule I and this Deed of Trust shall be subordinate to any such easement so granted (as such subordination is provided for in the 2009A Loan Agreement). In addition, the Corporation may convey, free and clear of the lien of the Deed of Trust, to the public utility providing electric service to the Subject Property (or its designee), electric conduit and wiring installed on the Subject Property; provided, however, that prior to such conveyance, the Corporation will certify that such conveyance will not interfere with the Corporation's operations on the Subject Property.

Obligations Secured

Obligations Secured. The Deed of Trust provides that the Corporation made the grant and assignment for the purpose of securing the following obligations ("Secured Obligations"):

- (a) Payment to the Trustee of all sums at any time owing under the 2009A Loan Agreement and the performance of all covenants and obligations of the Corporation under the 2009A Loan Agreement; and
- (b) Payment and performance of all covenants and obligations of the Corporation under the Deed of Trust; and
- (c) Payment and performance of all covenants and obligations, if any, which any rider attached as an Exhibit to the Deed of Trust recites are secured by the Deed of Trust; and
- (d) All modifications, extensions and renewals of any of the obligations secured by the Deed of Trust, however evidenced, including, without limitation (i) modifications of the required principal payment dates or interest payment dates or both, as the case may be, deferring or accelerating payment dates wholly or partly or (ii) modifications of the required debt service payments.

Assignment of Leases and Rents

Covenants. Pursuant to the Deed of Trust, the Corporation covenanted and agreed at the Corporation's sole cost and expense to (a) perform the obligations of lessor contained in the Leases and enforce by all available remedies performance by the lessees of the obligations of the lessees contained in the Leases, (b) give the Trustee prompt written notice of any default which occurs with respect to any of the Leases, whether the default be that of the lessee or of the lessor, (c) exercise the Corporation's best efforts to keep all portions of the Subject Property that are currently subject to Leases leased at all times at rentals not less than the fair market rental value, (d) deliver to the Trustee fully executed, counterpart original(s) of each and every Lease if requested to do so and (e) execute and record such additional assignments of any Lease or specific subordinations of any Lease to the Deed of Trust, in form and substance acceptable to the Trustee, as the Trustee may request. The Corporation will not, without the Trustee's prior written consent or as otherwise permitted by any provision of the 2009A Loan Agreement (i) enter into any Leases after the date of such assignment, (ii) execute any other assignment relating to any of the Leases, (iii) discount any rent or other sums due under the Leases or collect the same in advance, other than to collect rent one (1) month in advance of the time when it becomes due, (iv) terminate, modify or amend any of the terms

of the Leases or in any manner release or discharge the lessees from any obligations thereunder, (v) consent to any assignment or subletting by any lessee or (vi) subordinate or agree to subordinate any of the Leases to any other deed of trust or encumbrance. Any such attempted action in violation of the provisions of the Deed of Trust will be null and void. Without in any way limiting the requirement of the Trustee's consent thereunder, any sums received by the Corporation in consideration of any termination (or the release or discharge of any lessee), modification or amendment of any Lease will be applied to reduce the outstanding Secured Obligations and any such sums received by the Corporation will be held in trust by the Corporation for such purpose.

Security Interest. Pursuant to the Deed of Trust, the Corporation thereby grants and assigns to the Trustee a security interest, in all specified personal property in which the Corporation now or at any time thereafter has any interest (collectively, the "Collateral") subject to Permitted Encumbrances and excluding, however, (i) any machinery or equipment currently or in the future encumbered by a purchase money security interest granted in connection with the financing of such machinery or equipment, (ii) any machinery or equipment sold or otherwise transferred by the Corporation in the normal course of business, and which is not necessary for the continuing performance by the Corporation of its grid management operations; and (iii) Operating Revenues (as defined in the 2009A Loan Agreement).

Rights of Trustee. The Deed of Trust provides that in addition to the Trustee's rights as a "Secured Party" under the California Uniform Commercial Code, as amended or recodified from time to time ("UCC"), the Trustee may, but will not be obligated to, at any time without notice and at the expense of the Corporation (a) give notice to any person of the Trustee's rights thereunder and enforce such rights at law or in equity, (b) insure, protect, defend and preserve the Collateral or any rights or interests of the Trustee therein, (c) inspect the Collateral and (d) endorse, collect and receive any right to payment of money owing to the Corporation under or from the Collateral. Notwithstanding the above, in no event will the Trustee be deemed to have accepted any property other than cash in satisfaction of any obligation of the Corporation to the Trustee unless the Trustee will make an express written election of said remedy under UCC Section 9505, or other applicable law.

Rights and Duties of the Parties

Liens, Encumbrances and Charges. The Deed of Trust provides that the Corporation will immediately discharge any lien not approved by the Trustee in writing that has or may attain priority over the Deed of Trust. The Corporation will pay when due all obligations secured by or reducible to liens and encumbrances which will now or thereafter encumber or appear to encumber all or any part of the Subject Property or any interest therein, whether senior or subordinate thereto.

Maintenance and Preservation of the Subject Property. Subject to provisions of the Deed of Trust, the Corporation covenanted (a) to insure the Subject Property against such risks as the Trustee may require and, at the Trustee's request, to provide evidence of such insurance to the Trustee, and to comply with the requirements of any insurance companies insuring the Subject Property (b) to keep the Subject Property in good condition and repair (c) not to remove or demolish the Subject Property or any part thereof, not to alter, restore or add to the Subject Property and not to initiate or acquiesce in any change in any zoning or other land classification which affects the Subject Property without the Trustee's prior written consent (d) to complete or restore promptly and in good and workmanlike manner the Subject Property, or any part thereof which may be damaged or destroyed, without regard to whether the Trustee elects to require that insurance proceeds be used to

reduce the Secured Obligations as provided in the Deed of Trust, (e) to comply with all laws, ordinances, regulations and standards, and all covenants, conditions, restrictions and equitable servitudes, whether public or private, of every kind and character which affect the Subject Property and pertain to acts committed or conditions existing thereon, including, without limitation, any work, alteration, improvement or demolition mandated by such laws, covenants or requirements, (f) not to commit or permit waste of the Subject Property and (g) to do all other acts which from the character or use of the Subject Property may be reasonably necessary to maintain and preserve its value.

Default Provisions

Default. Pursuant to the Deed of Trust, the term “Default” means (a) the occurrence of an “event of default” as defined in the 2009A Loan Agreement, (b) the Corporation’s failure to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Deed of Trust for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied is given to the Corporation by the Trustee or (c) any of the representations and warranties of the Corporation therein was false or incorrect in any material respect when made.

Rights and Remedies. The Deed of Trust sets forth the rights and remedies of the Trustee following an Event of Default, which include the following: at any time after Default, the Trustee and the Trustee will each have all the following rights and remedies (subject to the provisions of Article VII of the 2009A Indenture):

- (a) With or without notice, to declare all Secured Obligations immediately due and payable;
- (b) With or without notice, and without releasing the Corporation from any Secured Obligation, and without becoming a mortgagee in possession, to cure any breach or Default of the Corporation and, in connection therewith, to enter upon the Subject Property and do such acts and things as the Trustee deem necessary or desirable to protect the security thereof, including, without limitation (i) to appear in and defend any action or proceeding purporting to affect the security of the Deed of Trust or the rights or powers of the Trustee under the Deed of Trust, (ii) to pay, purchase, contest or compromise any encumbrance, charge, lien or claim of lien which, in the sole judgment of the Trustee, is or may be senior in priority to the Deed of Trust, the judgment of the Trustee being conclusive as between the parties thereto, (iii) to obtain insurance, (iv) to pay any premiums or charges with respect to insurance required to be carried under the Deed of Trust or (v) to employ counsel, accountants, contractors and other appropriate persons;
- (c) To commence and maintain an action or actions in any court of competent jurisdiction to foreclose such instrument as a mortgage or to obtain specific enforcement of the covenants of the Corporation thereunder, and the Corporation agreed that such covenants are specifically enforceable by injunction or any other appropriate equitable remedy and that for the purposes of any suit brought under the Deed of Trust, the Corporation waives the defense of laches and any applicable statute of limitations;
- (d) To apply to a court of competent jurisdiction for and obtain appointment of a receiver of the Subject Property as a matter of strict right and without regard to the adequacy of the security for the repayment of the Secured Obligations, the existence of a declaration that the Secured

Obligations are immediately due and payable, or the filing of a notice of default, and the Corporation thereby consents to such appointment;

(e) To enter upon, possess, manage and operate the Subject Property or any part thereof, to take and possess all documents, books, records, papers and accounts of the Corporation or the then owner of the Subject Property, to make, terminate, enforce or modify Leases of the Subject Property upon such terms and conditions as the Trustee deems proper, to make repairs, alterations and improvements to the Subject Property as necessary, in the Trustee's sole judgment, to protect or enhance the security thereof;

(f) To execute a written notice of such Default and of its election to cause the Subject Property to be sold to satisfy the Secured Obligations. As a condition precedent to any such sale, the Trustee will give and record such notice as the law then requires. When the minimum period of time required by law after such notice has elapsed, the Trustee, without notice to or demand upon the Corporation except as required by law, will sell the Subject Property at the time and place of sale fixed by it in the notice of sale, at one or several sales, either as a whole or in separate parcels and in such manner and order, all as the Trustee in its sole discretion may determine, at public auction to the highest bidder for cash, in lawful money of the United States, payable at time of sale. Neither the Corporation nor any other person or entity other than the Trustee has the right to direct the order in which the Subject Property is sold. Subject to requirements and limits imposed by law, the Trustee may from time to time postpone sale of all or any portion of the Subject Property by public announcement at such time and place of sale. The Trustee will deliver to the purchaser at such sale a deed conveying the Subject Property or portion thereof so sold, but without any covenant or warranty, express or implied. The recitals in the deed of any matters or facts are conclusive proof of the truthfulness thereof. Any person, including the Trustee or the Corporation may purchase at the sale;

(g) To resort to and realize upon the security thereunder and any other security now or later held by the Trustee concurrently or successively and in one or several consolidated or independent judicial actions or lawfully taken non-judicial proceedings, or both, and to apply the proceeds received upon the Secured Obligations all in such order and manner as the Trustee determines in its sole discretion; and

(h) Upon sale of the Subject Property at any judicial or non judicial foreclosure, the Trustee may credit bid (as determined by the Trustee in its sole and absolute discretion) all or any portion of the Secured Obligations. In determining such credit bid, the Trustee may, but is not obligated to, take into account all or any of the following: (i) appraisals of the Subject Property as such appraisals may be discounted or adjusted by the Trustee in its sole and absolute underwriting discretion, (ii) expenses and costs incurred by the Trustee with respect to the Subject Property prior to foreclosure, (iii) expenses and costs which the Trustee anticipates will be incurred with respect to the Subject Property after foreclosure, but prior to resale, including, without limitation, costs of structural reports and other due diligence, costs to carry the Subject Property prior to resale, costs of resale (e.g., commissions, attorneys fees, and taxes), costs of any Hazardous Materials clean-up and monitoring, costs of deferred maintenance, repair, refurbishment and retrofit, costs of defending or settling litigation affecting the Subject Property, and lost opportunity costs (if any), including the time value of money during any anticipated holding period by the Trustee, (iv) declining trends in real property values generally and with respect to properties similar to the Subject Property, (v) anticipated discounts upon resale of the Subject Property as a distressed or foreclosed property, (vi) the fact of additional collateral (if any), for the Secured Obligations and (vii) such other factors or

matters that the Trustee (in its sole and absolute discretion) deems appropriate. In regard to the above, the Corporation acknowledged and agreed that (aa) the Trustee is not required to use any or all of the foregoing factors to determine the amount of its credit bid, (bb) the Deed of Trust does not impose upon the Trustee any additional obligations that are not imposed by law at the time the credit bid is made, (cc) the amount of the Trustee's credit bid need not have any relation to any loan-to-value ratios previously discussed between the Corporation and the Trustee and (z) the Trustee's credit bid may be (at the Trustee's sole and absolute discretion) higher or lower than any appraised value of the Subject Property.

Application of Foreclosure Sale Proceeds. The Deed of Trust provides that after deducting all costs, fees and expenses of the Trustee, and of the Deed of Trust, including, without limitation, cost of evidence of title and attorneys' fees in connection with sale and costs and expenses of sale and of any judicial proceeding wherein such sale may be made, the Trustee will apply all proceeds of any foreclosure sale (a) in accordance with the provisions of Section 7.03 of the Indenture and (b) the remainder, if any, to the person or persons legally entitled thereto.

No Cure or Waiver. Pursuant to the Deed of Trust, neither the Trustee's nor any receiver's entry upon and taking possession of all or any part of the Subject Property, nor any collection of rents, issues, profits, insurance proceeds, condemnation proceeds or damages, other security or proceeds of other security, or other sums, nor the application of any collected sum to any Secured Obligation, nor the exercise or failure to exercise of any other right or remedy by the Trustee or any receiver cures or waives any breach, Default or notice of default under the Deed of Trust, or nullify the effect of any notice of default or sale (unless all Secured Obligations then due have been paid and performed and the Corporation has cured all other defaults), or impair the status of the security, or prejudice the Trustee in the exercise of any right or remedy, or be construed as an affirmation by the Trustee of any tenancy, lease or option or a subordination of the lien of the Deed of Trust.

Power to File Notices and Cure Defaults. Pursuant to the Deed of Trust, the Corporation thereby irrevocably appointed the Trustee and its successors and assigns, as its attorney-in-fact, which agency is coupled with an interest (a) to execute and/or record any notices of completion, cessation of labor, or any other notices that the Trustee deems appropriate to protect the Trustee's interest (b) upon the issuance of a deed pursuant to the foreclosure of the Deed of Trust or the delivery of a deed in Lieu of foreclosure, to execute all instruments of assignment or further assurance with respect to the Leases and Payments in favor of the grantee of any such deed, as may be necessary or desirable for such purpose (c) to prepare, execute and file or record financing statements, continuation statements, applications for registration and like papers necessary to create, perfect or preserve the Trustee's security interests and rights in or to any of the Collateral and (d) upon the occurrence of an event, act or omission which, with notice or passage of time or both, would constitute a Default, the Trustee may perform any obligation of the Corporation thereunder; provided, however, that (i) the Trustee as such attorney-in-fact will only be accountable for such funds as are actually received by the Trustee and (ii) the Trustee is not be liable to the Corporation or any other person or entity for any failure to act under the Deed of Trust.

Remedies Cumulative. The Deed of Trust provides that all rights and remedies of the Trustee thereunder are cumulative and in addition to all rights and remedies provided by law.

Miscellaneous Provisions

Loan Agreement Controls. The Deed of Trust provides that in the event of conflict between the terms of the Deed of Trust and the 2009A Loan Agreement, the terms of the 2009A Loan Agreement prevails, except that the provisions of the Deed of Trust controls with respect to rights and remedies of the Trustee thereunder.

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APPENDIX D

DTC AND THE 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 2009A Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2009A Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2009A 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 2009A Bonds. The 2009A 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 the 2009A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instrument 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 is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 2009A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2009A Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2009A 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 2009A 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 2009A Bonds, except in the event that use of the book-entry system for the 2009A Bonds is discontinued.

To facilitate subsequent transfers, all 2009A 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 2009A 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 2009A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2009A 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 2009A Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2009A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2009A Bond documents. For example, Beneficial Owners of 2009A Bonds may wish to ascertain that the nominee holding the 2009A 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 the notices be provided directly to them.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2009A 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 2009A 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 2009A 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 Corporation or the Trustee 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, the Trustee, 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 2009A 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 Trustee, 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.

DTC may discontinue providing its services as securities depository with respect to the 2009A Bonds at any time by giving reasonable notice to Corporation or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2009A Bond certificates are required to be printed and delivered.

The Infrastructure Bank may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2009A Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been provided by DTC, and none of the Corporation, the Infrastructure Bank or the Trustee take any responsibility for the accuracy thereof.

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APPENDIX E

FORM OF OPINION OF BOND COUNSEL

July 22, 2009

California Infrastructure and
Economic Development Bank
980 9th Street, Suite 900
Sacramento, California 98514

Re: California Infrastructure and Economic Development Bank Revenue Bonds (California Independent System Operator Corporation Project) 2009 Series A

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 \$200,000,000 aggregate principal amount of California Infrastructure and Economic Development Bank Revenue Bonds (California Independent System Operator Corporation Project) 2009 Series A (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 July 1, 2009 (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 July 1, 2009 (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, dated the date hereof (the "Tax Certificate"), of 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 requirements and procedures contained or referred to in the Indenture, the Agreement and the Tax Certificate may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth therein, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the exclusion of interest on the Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

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. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. 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 Certificate, 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 Certificate 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 real or personal property described in or as subject to the lien of the Indenture, the Agreement or the Deed of Trust 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.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

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 2009A 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. Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income tax. Interest on the Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; it should be noted that, with respect to corporations, such interest will not be included as an adjustment in the calculation of alternative minimum taxable income.

6. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable Bond. Original issue discount that accrues to the Bondowner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

7. The amount by which a Bondowner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bondowner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bondowner realizing a taxable gain when a Bond is sold by the Bondowner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Bondowner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium. 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.

Yours truly,

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APPENDIX F

PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated as of July 1, 2009 by and between California Independent System Operator Corporation (the “Borrower”) and Deutsche Bank National Trust Company, as Trustee (the “Trustee”) under an Indenture of Trust dated as of July 1, 2009 (the “Indenture”) between California Infrastructure and Economic Development Bank (the “Issuer”) and the Trustee, is executed and delivered in connection with the issuance of the Issuer’s \$200,000,000 principal amount Revenue Bonds (California Independent System Operator Corporation Project), 2009 Series A (the “Bonds”). The proceeds of the Bonds are being loaned by the Issuer to the Borrower pursuant to a Loan Agreement dated as of July 1, 2009 between the Issuer and the Borrower (the “Loan Agreement”). Capitalized terms used in this Agreement which are not otherwise defined in the Indenture shall have the respective meanings specified in Article IV hereof. Pursuant to Section 5.7 of the Loan Agreement, the parties agree as follows:

ARTICLE I

The Undertaking

Section 1.1. Purpose; No Issuer Responsibility or Liability. This Agreement is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule. The Borrower and the Trustee acknowledge that the Issuer has undertaken no responsibility, and shall not be required to undertake any responsibility, with respect to any reports, notices or disclosures required by or provided pursuant to this Agreement, and shall have no liability to any person, including any holder of the Bonds, with respect to any such reports, notices or disclosures.

Section 1.2. Annual Financial Information. (a) The Borrower shall provide Annual Financial Information with respect to each fiscal year of the Borrower, commencing with the fiscal year ending December 31, 2009, by no later than 150 days after the end of the respective fiscal year, to (i) the Repository (electronic format, accompanied by such identifying information as is prescribed by the Repository), (ii) the Issuer, and (iii) the Trustee.

(b) The Borrower shall provide, in a timely manner, notice of any failure of the Borrower to provide the Annual Financial Information by the date specified in subsection (a) above, in each case to (i) the Repository (electronic format, accompanied by such identifying information as is prescribed by the Repository), (ii) the Issuer and (iii) the Trustee.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof, the Borrower shall provide Audited Financial Statements, when and if available, to (i) the Repository (electronic format, accompanied by such identifying information as is prescribed by the Repository), (ii) the Issuer, and (iii) the Trustee.

Section 1.4. Material Event Notices. (a) If a Material Event occurs, the Borrower shall provide, in a timely manner, notice of such Material Event to (i) the Repository, (ii) the Issuer, and (iii) the Trustee.

(b) Any such notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) The Trustee shall promptly advise the Borrower and the Issuer whenever, in the course of performing its duties as Trustee under the Indenture, the Trustee has actual notice of an occurrence which, if material, would require the Borrower to provide notice of a Material Event hereunder; provided, however, that the failure of the Trustee so to advise the Borrower or the Issuer shall not constitute a breach by the Trustee of any of its duties and responsibilities under this Agreement or the Indenture.

(d) Each Material Event Notice relating to the Bonds shall include the CUSIP numbers of the Bonds to which such Material Event Notice relates or, if the Material Event Notice relates to all bond issues of the Issuer including the Bonds, such Material Event Notice need only include the CUSIP number of the Issuer.

Section 1.5. Additional Disclosure Obligations. The Borrower acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Borrower and that, under some circumstances, compliance with this Agreement without additional disclosures or other action may not fully discharge all duties and obligations of the Borrower under such laws.

Section 1.6. Additional Information. Nothing in this Agreement shall be deemed to prevent the Borrower from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Material Event hereunder, in addition to that which is required by this Agreement. If the Borrower chooses to do so, the Borrower shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Material Event hereunder.

ARTICLE II

Operating Rules

Section 2.1. Reference to Other Filed Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Borrower provides Annual Financial Information (but not Material Event notices) by specific reference to documents (i) filed with the SEC, or (ii) if such document is a “final official statement” as defined in paragraph (f)(3) of the Rule, available from the MSRB.

Section 2.2. Transmission of Information and Notices. Unless otherwise required by law and, in the Borrower’s sole determination, subject to technical and economic

feasibility, the Borrower shall employ such methods of information and notice transmission as shall be requested or recommended by the recipients of the Borrower's information and notices; provided, that information transmitted to the Repository pursuant to Sections 1.2 and 1.3 hereof shall be submitted in electronic format, accompanied by such identifying information as is prescribed by the Repository.

Section 2.3. Fiscal Year. (a) The Borrower's current fiscal year is January 1 - December 31, and the Borrower shall promptly notify (i) the Repository, (ii) the Issuer, and (iii) the Trustee in writing of each change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

ARTICLE III

Effective Date, Termination, Amendment and Enforcement

Section 3.1. Effective Date, Termination. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The Borrower's and the Trustee's obligations under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Bonds.

(c) If the Borrower's obligations under the Loan Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Agreement in the same manner as if it were the Borrower, and thereupon the original Borrower shall have no further responsibility hereunder.

(d) This Agreement, or any provision hereof, shall be null and void in the event that (1) the Borrower delivers to the Trustee an opinion of Counsel, addressed to the Borrower, the Issuer and the Trustee, to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) the Borrower delivers copies of such opinion to (i) the Repository, and (ii) the Issuer. The Borrower shall so deliver such opinion within one Business Day after delivery thereof to the Trustee.

Section 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Borrower or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Borrower shall have delivered to the Trustee an opinion of Counsel, addressed to the Borrower, the Issuer and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) the

Borrower shall have delivered to the Trustee an opinion of Counsel or a determination by a person, in each case unaffiliated with the Issuer or the Borrower (such as bond counsel or the Trustee) and acceptable to the Borrower, addressed to the Borrower, the Issuer and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Indenture with consent of holders of Bonds pursuant to the Indenture as in effect at the time of the amendment, and (5) the Trustee shall have delivered copies of such opinion(s) and amendment to (i) the Repository, and (ii) the Issuer. The Trustee shall so deliver such opinion(s) and amendment within one Business Day after receipt by the Trustee.

(b) In addition to subsection (a) above, this Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the Borrower shall have delivered to the Trustee an opinion of Counsel, addressed to the Borrower, the Issuer and the Trustee, to the effect that performance by the Borrower and the Trustee under this Agreement as so amended will not result in a violation of the Rule and (3) the Borrower shall have delivered copies of such opinion and amendment to (i) the Repository and (iii) the Issuer. The Borrower shall so deliver such opinion and amendment within one Business Day after receipt by the Trustee.

(c) In addition to subsections (a) and (b) above, this Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) the Borrower shall have delivered to the Trustee an opinion of Counsel, addressed to the Borrower, the Issuer and the Trustee, to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of Staff, of the SEC, and (2) the Borrower shall have delivered copies of such opinion and amendment to (i) the Repository and (ii) the Issuer. The Borrower shall so deliver such opinion and amendment within one Business Day after delivery thereof to the Trustee.

(d) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(e) If an amendment is made pursuant to Section 3.2 (a) hereof to the accounting principles to be followed by the Borrower in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that Beneficial Owners of Bonds shall be third-party beneficiaries of this Agreement and shall be entitled to enforce the rights of the Trustee under this Agreement to the extent the Trustee shall fail or refuse or shall be unable to take any enforcement action hereunder. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and in subsection (b) of this Section.

(b) The obligations of the Borrower to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding Bonds, or by the Trustee on behalf of the holders of Outstanding Bonds, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the holders of Outstanding Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, who shall have provided the Trustee with adequate security and indemnity. The holders' and Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Borrower's obligations under this Agreement. In consideration of the third-party beneficiary status of Beneficial Owners of Bonds pursuant to subsection (a) of this Section, Beneficial Owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by the Borrower or the Trustee to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Indenture, and the rights and remedies provided by the Indenture upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV

Definitions

Section 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively, (i) updated versions of the following financial information and operating data contained in Appendix A to the Official Statement, for each fiscal year of the Borrower, as follows:

(a) the financial information and operating data appearing under the caption “**The ISO Charges - Coverage of GMC by Total Market Settlement Collections**”;

(b) a description of ISO’s largest customers of the type appearing in the final paragraph under the caption “**Grid Management Charge - FERC Process for Revisions to GMC Rates**”;

(c) the financial information appearing in the table headed “**Financial Information - Condensed Balance Sheets**”;

(d) the financial information appearing in the paragraph headed “**Financial Information - Long-term Obligations**”; and

(e) a description of the annual required contribution and actuarial accrued liability for post employment benefits of the type appearing in the final paragraph under the caption “**Financial Information - Pension Benefits and Other Post Employment Benefits**”.

and (ii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(c) and (d) of this Agreement. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in Section 4.1(1)(i) hereof of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided. As and to the extent that the financial information and operating data described in Section 4.1(1)(i) hereof are included in the Borrower’s audited financial statements, they need not be separately reported.

(2) “Audited Financial Statements” means the annual financial statements, if any, of the Borrower, audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that pursuant to Section 3.2(a) hereof, the Borrower may from time to time, if required by Federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(a) hereof shall include a reference to the specific Federal or State law or regulation describing such accounting principles, or other description thereof.

(3) “Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

(4) “Counsel” means Orrick, Herrington & Sutcliffe LLP or other nationally recognized bond counsel or counsel expert in federal securities laws.

(5) “GAAP” means generally accepted accounting principles as prescribed from time to time by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties or responsibilities of either of them.

(6) “Material Event” means any of the following events with respect to the Bonds, whether relating to the Borrower or otherwise, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bond;
- (vii) modifications to rights of Bondholders;
- (viii) Bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds;
and
- (xi) rating changes.

(7) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

(8) “Official Statement” means the Official Statement dated July 8, 2009 of the Issuer relating to the Bonds.

(9) “Repository” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule.

(10) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(11) “SEC” means the United States Securities and Exchange Commission.

(12) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

(13) “Underwriters” means RBC Capital Markets Corporation, as Representative, Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities Inc. as underwriters of the Bonds.

ARTICLE V

Miscellaneous

Section 5.1. Duties, Immunities and Liabilities of Trustee. The Trustee shall have only such duties under this Agreement as are specifically set forth in this Agreement, and the Borrower agrees to indemnify and save the Trustee, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Trustee’s negligence or willful misconduct in the performance of its duties hereunder. Such indemnity shall be separate from and in addition to that provided to the Trustee under the Indenture. The obligations of the Borrower under this Section shall survive resignation or removal of the Trustee and payment of the Bonds.

Section 5.2. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives, all as of the date first above written.

CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION

By: _____
An Authorized Representative

DEUTSCHE BANK NATIONAL TRUST
COMPANY, as Trustee

By: _____
An Authorized Representative

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EXHIBIT G

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California Independent System Operator
2013 Series A Refunding Bonds
Advance Refunding of 2009 Series A - Refund 2015 Maturity and All Callable Bonds
Assumes Current Ratings: A1 / A / AA-
No New Reserve Fund
Rates as of June 5, 2013

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SOURCES AND USES OF FUNDS

California Independent System Operator
 2013 Series A Refunding Bonds
 Advance Refunding of 2009 Series A - Refund 2015 Maturity and All Callable Bonds
 Assumes Current Ratings: A1 / A / AA-
 No New Reserve Fund
 Rates as of June 5, 2013

Dated Date 08/21/2013
 Delivery Date 08/21/2013

Sources:

Bond Proceeds:	
Par Amount	182,700,000.00
Premium	22,253,610.60
	<u>204,953,610.60</u>
Other Sources of Funds:	
Debt Service Reserve Release	14,775,000.00
DSRFDA Termination Gain	1,500,000.00
	<u>16,275,000.00</u>
	<u>221,228,610.60</u>

Uses:

Project Fund Deposits:	
Deposit to Series 2009 A Construction Fund	15,000,000.00
Refunding Escrow Deposits:	
Cash Deposit	0.27
SLGS Purchases	205,185,001.00
	<u>205,185,001.27</u>
Delivery Date Expenses:	
Cost of Issuance	650,000.00
Underwriter's Discount	388,767.98
	<u>1,038,767.98</u>
Other Uses of Funds:	
Additional Proceeds	4,841.35
	<u>221,228,610.60</u>

BOND SUMMARY STATISTICS

California Independent System Operator
 2013 Series A Refunding Bonds
 Advance Refunding of 2009 Series A - Refund 2015 Maturity and All Callable Bonds
 Assumes Current Ratings: A1 / A / AA-
 No New Reserve Fund
 Rates as of June 5, 2013

Dated Date	08/21/2013
Delivery Date	08/21/2013
Last Maturity	02/01/2039
Arbitrage Yield	3.307253%
True Interest Cost (TIC)	3.908334%
Net Interest Cost (NIC)	4.227406%
All-In TIC	3.937536%
Average Coupon	4.980617%
Average Life (years)	15.889
Duration of Issue (years)	11.119
Par Amount	182,700,000.00
Bond Proceeds	204,953,610.60
Total Interest	144,581,583.33
Net Interest	122,716,740.71
Total Debt Service	327,281,583.33
Maximum Annual Debt Service	12,936,250.00
Average Annual Debt Service	12,862,594.98
Underwriter's Fees (per \$1000)	
Average Takedown	2.000000
Other Fee	0.127904
Total Underwriter's Discount	2.127904
Bid Price	111.967620

Bond Component	Par Value	Price	Average Coupon	Average Life	PV of 1 bp change
Serials	136,845,000.00	113.153	4.969%	13.169	105,400.90
Term Bond due 2039	45,855,000.00	109.279	5.000%	24.005	38,059.65
	182,700,000.00			15.889	143,460.55

	TIC	All-In TIC	Arbitrage Yield
Par Value	182,700,000.00	182,700,000.00	182,700,000.00
+ Accrued Interest			
+ Premium (Discount)	22,253,610.60	22,253,610.60	22,253,610.60
- Underwriter's Discount	-388,767.98	-388,767.98	
- Cost of Issuance Expense		-650,000.00	
- Other Amounts			
Target Value	204,564,842.62	203,914,842.62	204,953,610.60
Target Date	08/21/2013	08/21/2013	08/21/2013
Yield	3.908334%	3.937536%	3.307253%

BOND PRICING

California Independent System Operator
 2013 Series A Refunding Bonds
 Advance Refunding of 2009 Series A - Refund 2015 Maturity and All Callable Bonds
 Assumes Current Ratings: A1 / A / AA-
 No New Reserve Fund
 Rates as of June 5, 2013

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Yield to Maturity	Call Date	Call Price
Serials:								
	02/01/2015	4,010,000	3.000%	0.420%	103.711			
	02/01/2016	4,125,000	4.000%	0.650%	108.110			
	02/01/2017	4,290,000	4.000%	0.910%	110.454			
	02/01/2018	4,460,000	4.000%	1.220%	111.990			
	02/01/2019	4,645,000	5.000%	1.570%	117.830			
	02/01/2020	4,875,000	5.000%	1.870%	118.918			
	02/01/2021	5,120,000	5.000%	2.240%	118.826			
	02/01/2022	5,375,000	5.000%	2.550%	118.505			
	02/01/2023	5,640,000	5.000%	2.720%	118.875			
	02/01/2024	5,925,000	5.000%	2.900%	117.238 C	3.059%	02/01/2023	100.000
	02/01/2025	6,220,000	5.000%	3.040%	115.984 C	3.310%	02/01/2023	100.000
	02/01/2026	6,530,000	5.000%	3.170%	114.833 C	3.518%	02/01/2023	100.000
	02/01/2027	6,860,000	5.000%	3.270%	113.957 C	3.675%	02/01/2023	100.000
	02/01/2028	7,200,000	5.000%	3.350%	113.262 C	3.798%	02/01/2023	100.000
	02/01/2029	7,565,000	5.000%	3.430%	112.572 C	3.908%	02/01/2023	100.000
	02/01/2030	7,940,000	5.000%	3.490%	112.058 C	3.993%	02/01/2023	100.000
	02/01/2031	8,335,000	5.000%	3.550%	111.546 C	4.069%	02/01/2023	100.000
	02/01/2032	8,755,000	5.000%	3.610%	111.038 C	4.138%	02/01/2023	100.000
	02/01/2033	9,190,000	5.000%	3.650%	110.700 C	4.190%	02/01/2023	100.000
	02/01/2034	9,650,000	5.000%	3.680%	110.448 C	4.231%	02/01/2023	100.000
	02/01/2035	10,135,000	5.000%	3.710%	110.196 C	4.269%	02/01/2023	100.000
		<u>136,845,000</u>						
Term Bond due 2039:								
	02/01/2036	10,640,000	5.000%	3.820%	109.279 C	4.391%	02/01/2023	100.000
	02/01/2037	11,170,000	5.000%	3.820%	109.279 C	4.391%	02/01/2023	100.000
	02/01/2038	11,730,000	5.000%	3.820%	109.279 C	4.391%	02/01/2023	100.000
	02/01/2039	12,315,000	5.000%	3.820%	109.279 C	4.391%	02/01/2023	100.000
		<u>45,855,000</u>						
		182,700,000						

Dated Date	08/21/2013	
Delivery Date	08/21/2013	
First Coupon	02/01/2014	
Par Amount	182,700,000.00	
Premium	22,253,610.60	
Production	204,953,610.60	112.180411%
Underwriter's Discount	-388,767.98	-0.212790%
Purchase Price	204,564,842.62	111.967620%
Accrued Interest		
Net Proceeds	204,564,842.62	

BOND DEBT SERVICE

California Independent System Operator
 2013 Series A Refunding Bonds
 Advance Refunding of 2009 Series A - Refund 2015 Maturity and All Callable Bonds
 Assumes Current Ratings: A1 / A / AA-
 No New Reserve Fund
 Rates as of June 5, 2013

Period Ending	Principal	Coupon	Interest	Debt Service
02/01/2014			3,967,133.33	3,967,133.33
02/01/2015	4,010,000	3.000%	8,926,050.00	12,936,050.00
02/01/2016	4,125,000	4.000%	8,805,750.00	12,930,750.00
02/01/2017	4,290,000	4.000%	8,640,750.00	12,930,750.00
02/01/2018	4,460,000	4.000%	8,469,150.00	12,929,150.00
02/01/2019	4,645,000	5.000%	8,290,750.00	12,935,750.00
02/01/2020	4,875,000	5.000%	8,058,500.00	12,933,500.00
02/01/2021	5,120,000	5.000%	7,814,750.00	12,934,750.00
02/01/2022	5,375,000	5.000%	7,558,750.00	12,933,750.00
02/01/2023	5,640,000	5.000%	7,290,000.00	12,930,000.00
02/01/2024	5,925,000	5.000%	7,008,000.00	12,933,000.00
02/01/2025	6,220,000	5.000%	6,711,750.00	12,931,750.00
02/01/2026	6,530,000	5.000%	6,400,750.00	12,930,750.00
02/01/2027	6,860,000	5.000%	6,074,250.00	12,934,250.00
02/01/2028	7,200,000	5.000%	5,731,250.00	12,931,250.00
02/01/2029	7,565,000	5.000%	5,371,250.00	12,936,250.00
02/01/2030	7,940,000	5.000%	4,993,000.00	12,933,000.00
02/01/2031	8,335,000	5.000%	4,596,000.00	12,931,000.00
02/01/2032	8,755,000	5.000%	4,179,250.00	12,934,250.00
02/01/2033	9,190,000	5.000%	3,741,500.00	12,931,500.00
02/01/2034	9,650,000	5.000%	3,282,000.00	12,932,000.00
02/01/2035	10,135,000	5.000%	2,799,500.00	12,934,500.00
02/01/2036	10,640,000	5.000%	2,292,750.00	12,932,750.00
02/01/2037	11,170,000	5.000%	1,760,750.00	12,930,750.00
02/01/2038	11,730,000	5.000%	1,202,250.00	12,932,250.00
02/01/2039	12,315,000	5.000%	615,750.00	12,930,750.00
	182,700,000		144,581,583.33	327,281,583.33

SUMMARY OF REFUNDING RESULTS

California Independent System Operator
2013 Series A Refunding Bonds
Advance Refunding of 2009 Series A - Refund 2015 Maturity and All Callable Bonds
Assumes Current Ratings: A1 / A / AA-
No New Reserve Fund
Rates as of June 5, 2013

Dated Date	08/21/2013
Delivery Date	08/21/2013
Arbitrage yield	3.307253%
Escrow yield	0.187716%
Bond Par Amount	182,700,000.00
True Interest Cost	3.908334%
Net Interest Cost	4.227406%
Average Coupon	4.980617%
Average Life	15.889
Par amount of refunded bonds	189,310,000.00
Average coupon of refunded bonds	6.012811%
Average life of refunded bonds	16.241
PV of prior debt to 08/21/2013 @ 3.307253%	250,786,132.79
Net PV Savings	30,873,229.85
Percentage savings of refunded bonds	16.308293%
Percentage savings of refunding bonds	16.898320%

SAVINGS

California Independent System Operator
 2013 Series A Refunding Bonds
 Advance Refunding of 2009 Series A - Refund 2015 Maturity and All Callable Bonds
 Assumes Current Ratings: A1 / A / AA-
 No New Reserve Fund
 Rates as of June 5, 2013

Date	Prior Debt Service	Refunding Debt Service	Savings	Present Value to 08/21/2013 @ 3.3072530%
02/01/2014	5,472,143.75	3,967,133.33	1,505,010.42	1,483,228.50
02/01/2015	14,774,287.50	12,936,050.00	1,838,237.50	1,769,086.43
02/01/2016	14,771,087.50	12,930,750.00	1,840,337.50	1,713,685.30
02/01/2017	14,771,887.50	12,930,750.00	1,841,137.50	1,659,142.20
02/01/2018	14,770,937.50	12,929,150.00	1,841,787.50	1,606,132.57
02/01/2019	14,775,187.50	12,935,750.00	1,839,437.50	1,552,078.86
02/01/2020	14,773,437.50	12,933,500.00	1,839,937.50	1,502,434.96
02/01/2021	14,772,450.00	12,934,750.00	1,837,700.00	1,452,184.31
02/01/2022	14,774,687.50	12,933,750.00	1,840,937.50	1,407,734.29
02/01/2023	14,772,075.00	12,930,000.00	1,842,075.00	1,363,117.87
02/01/2024	14,773,137.50	12,933,000.00	1,840,137.50	1,317,772.68
02/01/2025	14,771,300.00	12,931,750.00	1,839,550.00	1,274,812.92
02/01/2026	14,771,156.26	12,930,750.00	1,840,406.26	1,234,001.45
02/01/2027	14,775,012.50	12,934,250.00	1,840,762.50	1,194,145.45
02/01/2028	14,771,312.50	12,931,250.00	1,840,062.50	1,154,887.91
02/01/2029	14,774,300.00	12,936,250.00	1,838,050.00	1,116,098.25
02/01/2030	14,772,150.00	12,933,000.00	1,839,150.00	1,080,391.09
02/01/2031	14,773,750.00	12,931,000.00	1,842,750.00	1,047,201.91
02/01/2032	14,773,737.50	12,934,250.00	1,839,487.50	1,011,093.32
02/01/2033	14,770,937.50	12,931,500.00	1,839,437.50	977,870.79
02/01/2034	14,773,550.00	12,932,000.00	1,841,550.00	946,791.14
02/01/2035	14,774,125.00	12,934,500.00	1,839,625.00	914,643.51
02/01/2036	14,770,525.00	12,932,750.00	1,837,775.00	883,561.56
02/01/2037	14,770,512.50	12,930,750.00	1,839,762.50	855,249.79
02/01/2038	14,771,450.00	12,932,250.00	1,839,200.00	826,636.38
02/01/2039	14,770,525.00	12,930,750.00	1,839,775.00	799,405.08
	374,785,662.51	327,281,583.33	47,504,079.18	32,143,388.50

Savings Summary

PV of savings from cash flow	32,143,388.50
Less: Prior funds on hand	-16,275,000.00
Plus: Refunding funds on hand	15,004,841.35
Net PV Savings	30,873,229.85

COST OF ISSUANCE

California Independent System Operator
2013 Series A Refunding Bonds
Advance Refunding of 2009 Series A - Refund 2015 Maturity and All Callable Bonds
Assumes Current Ratings: A1 / A / AA-
No New Reserve Fund
Rates as of June 5, 2013

Cost of Issuance	\$/1000	Amount
Other Cost of Issuance	3.55774	650,000.00
	3.55774	650,000.00

UNDERWRITER'S DISCOUNT

California Independent System Operator
2013 Series A Refunding Bonds
Advance Refunding of 2009 Series A - Refund 2015 Maturity and All Callable Bonds
Assumes Current Ratings: A1 / A / AA-
No New Reserve Fund
Rates as of June 5, 2013

Underwriter's Discount	\$/1000	Amount
Average Takedown	2.00000	365,400.00
CUSIP	0.00275	503.00
DTC	0.00133	243.00
Dalcomp	0.08000	14,616.00
Day Loan	0.02740	5,005.98
CDIAC	0.01642	3,000.00
	2.12790	388,767.98

EXHIBIT H

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California Independent System Operator Corporation
2013-2015
Partial Listing of Potential and Ongoing Capital Projects

Project Name	Estimated Project Size
Enterprise Model Management System	Large
FERC 764 - 15-minute Scheduling and Settlement	Large
Operations Enhancements to Market Systems	Large
Outage Management System	Large
Energy Imbalance Market	Medium
Contingency Modeling Enhancements	Medium
Resource Interconnection Management System - Phase 5	Medium
Renewable Integration and Smart Grid Projects	Small

Guide to Estimated Project Sizes

Large Projects: capital costs greater than \$2.5 million

Medium Projects: capital costs \$1 million to \$2.5 million

Small Projects: capital costs up to \$1 million