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March 17, 2008

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: California Independent System Operator Corporation
Docket No. ES08-____-000

Dear Secretary Salas:

Enclosed please find the California Independent System Operator Corporation's Application Under Section 204 of the Federal Power Act for an Order Authorizing the Issuance of Securities, submitted in the captioned docket.

An extra copy of this filing is also enclosed to be stamped with the date and time of filing and returned to the messenger. Thank you for your assistance in this matter. Please contact the undersigned with any questions.

Respectfully submitted,



Bradley R. Miliauskas
Alston & Bird LLP

Counsel for the California Independent
System Operator Corporation

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

California Independent System) Docket No. ES08-____-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**

Pursuant to Section 204 of the Federal Power Act, 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, the California Independent System Operator Corporation ("CAISO") files this application for a Commission order authorizing the CAISO to issue bonds in an amount not to exceed \$206 million. Of this amount, \$69 million will be a new money issue and up to \$137 million, if issued, would be used to refund existing debt.¹

**I. BACKGROUND AND REASONS FOR THIS APPLICATION TO ISSUE
NEW DEBT**

A. The Issuance of New Bonds

The purposes of the proposed bond issuance contemplated by the CAISO are to provide funding for projected capital expenditures for 2008-2009 and for

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the CAISO Tariff.

The Commission has previously accepted the applications that the CAISO has submitted for authorization to issue bonds. See *California Independent System Operator Corporation*, 118 FERC ¶ 62,250 (2007) (authorizing the CAISO to issue bonds in an amount up to \$60 million); *California Independent System Operator Corporation*, 109 FERC ¶ 62,138 (2004) (authorizing the CAISO to issue bonds in an amount up to \$127 million); *California Independent System Operator Corp.*, 90 FERC ¶ 62,088 (2000) (authorizing the CAISO to issue bonds in an amount up to \$295 million); *California Independent System Operator Corp.*, 83 FERC ¶ 62,039 (1998) (amending earlier letter order to authorize the CAISO to issue bonds in the amount of \$310 million);

the potential refunding of existing CAISO debt issued in 2004 and 2007. The amounts of net funds to be generated by the financing for these purposes will be \$60 million, and \$135.1 million, respectively. The difference between the requested maximum issuance of \$206 million and the sum of \$60 million and \$135.1 million represents issuance costs, and depending on the finally determined bond structure, either a debt service reserve fund, or bond premium on fixed rate bonds.

With respect to the need to fund capital expenditures, the CAISO identified the need for \$60 million of capital funding for 2008-2009 during the 2008 budgeting process. The allocation of the capital spending between these years, and the possibility that some funding will be used in 2010 will be impacted by the Market Redesign and Technology Upgrade ("MRTU") project schedule. Proceeds from the offering would also be used to fund a debt service reserve fund of \$7 million, to pay issuance costs and 2008 capitalized interest costs (\$2 million).² In total, these amounts total \$69 million for the new money component of the bond issue.

With respect to the refinancing component of the bond offering, the CAISO would use the proceeds to refund all of its debt existing as of May 1, 2008, of \$135.1 million. The balance of the proceeds from this potential bond issuance will be used to pay issuance costs. A new debt service reserve fund for this portion of the bond offering, if required, will be funded from existing debt service

California Independent System Operator Corp., 81 FERC ¶ 62,220 (1997) (authorizing the CAISO to issue bonds in an amount up to \$260 million).

reserve funds. The need for this refinancing is related to current bond market conditions. The variable rate demand bond market has been unsettled in recent months due to concerns about the financial viability of the major bond insurers. The CAISO's \$135.1 million of outstanding debt on April 1, 2008³ is supported by a bond insurance policy issued by Ambac Assurance Corporation. Investor concerns about Ambac have resulted in the CAISO paying weekly interest rates on its bonds substantially above the benchmark SIFMA index for tax-exempt debt, and the CAISO's existing interest rate swaps have been ineffective to hedge this risk. Accordingly, the CAISO will face substantial unbudgeted interest costs of \$300,000-\$400,000 per month for as long as these conditions persist. If these conditions turn, when investors are no longer are concerned about Ambac's financial viability, and the CAISO's existing debt structure performs as intended, the CAISO may cancel the refinancing transaction. This decision would be made prior to the scheduled issuance targeted for May 1, 2008. The CAISO's most likely structure for the bonds continues to be variable rate demand bonds, but such bonds will be supported by a bank letter of credit rather than bond insurance. This structure has continued to perform in a cost effective manner in recent months.

1. Capital Expenditure Funding Needs

In December 2007, the CAISO Governing Board approved the CAISO's 2008 budget, revenue requirement, and Grid Management Charge ("GMC")

² Exhibit G to the present filing contains a financial summary, prepared by Banc of America Securities LLC, of the terms of the proposed bond offering for which Commission approval is sought herein.

rates. A substantial portion (\$21.5 million) of the CAISO's \$30 million 2008 capital budget was to be funded from bond proceeds, authorization of which is requested here. The proposed issuance would also provide funding for other capital projects that the CAISO anticipates undertaking during 2009, and potentially into 2010. The CAISO's 2008 Revenue Requirement includes \$8.5 million for capital projects, with the balance of the capital budget to be funded by this proposed offering. The list of likely capital projects to be undertaken by the CAISO for 2008 was posted to the CAISO Website on December 4, 2007. That list of capital projects is provided in Exhibit H to the present filing.⁴ Additionally, bond proceeds from this offering would be used on a temporary basis to fund up to \$18 million of expenditures related to the development of a new CAISO headquarters facility to be located on a parcel of land the CAISO currently owns in Folsom, California. Upon securing permanent financing for the facility anticipated in early 2009, the temporary use of the bond proceeds from this bond offering would be repaid and used for other capital expenditures.

2. Anticipated Terms of New Bonds

The CAISO anticipates the issuance of variable rate demand bonds with a term of not longer than six years to meet the capital project funding needs. The proposed amortization schedule for the new money portion of the proposed bond offering would be tailored to facilitate a stable overall CAISO bundled *pro forma* GMC from 2008 through 2013.

³ The CAISO Governing Board has authorized the early retirement on April 1, 2008 of \$3.9 million of Series 2000C bonds that were previously scheduled to be retired on April 1, 2009.

The amortization schedule of the potential refunding bonds would be tailored to match the maturities of the existing debt being refunded.

The CAISO intends to incorporate the debt service costs for this new bond program into its GMC for 2009 through 2013.

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

The CAISO is not requesting that any changes be made to the GMC rates in effect, which were established by the Commission's acceptance of the current GMC rate structure in Docket No. ER08-135-000. The GMC rate formula in the CAISO Tariff provides that the CAISO may adjust the GMC charges for 2008, without filing a rate case pursuant to Section 205 of the Federal Power Act, as long as the CAISO's overall annual revenue requirement is below \$195 million. The revenue requirement in 2008 is below the threshold established in Docket No. ER08-135-000. No changes are proposed to the existing 2008 GMC rates as a result of this bond offering. Interest costs for 2008 on the new money portion of the bond offering will be funded from bond proceeds ("capitalized interest"). The CAISO is aiming for a stable *pro forma* bundled GMC from 2008 to 2013. The CAISO will include the debt service for this proposed bond offering in the CAISO's future year's annual revenue requirement, consistent with this goal.

Without bond financing a portion of the capital spending program in 2008 and 2009, the CAISO revenue requirement would be significantly higher in these

⁴ The following address on the CAISO Website also contains additional information about these potential capital projects: <http://www.caiso.com/1cab/1cabdd8a4c068.pdf>, starting at page 188.

years than in past years assuming the Commission-directed market enhancements are to progress as scheduled. Thus, the bond program will facilitate greater stability in CAISO rates. It will also effectively spread the costs of the CAISO capital expenditures over the expected useful lives of those capital assets. The CAISO is planning to fund the majority of its capital spending program for 2010 and future years directly through the GMC, as expenditures for those years at this time are anticipated to be for routine capital additions that are relatively constant in amount.

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 CAISO provides the following information:

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

California Independent System Operator Corporation
151 Blue Ravine Road
Folsom, California 95630

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

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

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

William J. Regan, Jr.
Chief Financial Officer
California Independent System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4450
Fax: (916) 351-2350

or

Philip Leiber
Treasurer & Director of Financial Planning
California Independent System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-2168
Fax: (916) 351-2259

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

Kenneth G. Jaffe
Alston & Bird LLP
950 F Street, NW
Washington, DC 20004
Tel: (202) 756-3300
Fax: (202) 756-3333

(d) Requested action date.

The CAISO respectfully requests that the Commission issue an order authorizing the CAISO to issue bonds as described in this application by April 18, 2008. The CAISO seeks to execute its bond offering on May 1, 2008, and Commission approval of the offering a reasonable time in advance of the offering date is necessary.

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

1. Type and nature of the securities.

Depending on economic and market conditions, the CAISO may issue variable rate demand bonds or fixed rate bonds. The likely structure as of the date of the submission of this application will be variable rate demand bonds.

The CAISO has utilized variable rate demand bonds for its year 1998, 2000, 2004, and 2007 bond issuances. The variable rate demand bonds for this offering (the most likely structure) would be supported by a bank letter of credit rather than bond insurance. With respect to the new money component of the offering, if the CAISO proceeds with a VRDB offering, the CAISO would enter into a variable to fixed interest rate swap agreement with a notional amount of not less than 50% of the bonds. Such a structure will provide for a reasonable degree of protection from potentially volatile interest rates, and also provide savings from the currently very low short-term interest rates that have persisted in recent years. The bonds will be amortized over approximately six years, with principal payments scheduled to result in a stable bundled *pro forma* GMC from 2008 to 2014.

If the CAISO proceeds with refunding its currently outstanding indebtedness, the maturities for the refunding portion of the proposed bond offering will match the maturities of the existing debt.

2. Amount of securities.

The value of the bonds to be issued is not to exceed \$206 million, consisting of:

New money for capital expenditures	\$60 million
Refinance existing 2004/2007 bonds	<u>\$135.1 million</u>
Subtotal	\$195.1 million
Issuance Costs- not to exceed	\$1.5 million
Capitalized 2008 Interest- not to exceed	<u>\$1.5 million</u>
Subtotal	\$198.1 million

Additional Potential Components

If VRDB offering: Debt Service Reserve Fund \$7 million

On new money component of offering

If Fixed Rate Offering: Bond Premium \$6 million

Total, not to exceed \$206 million

3. Interest or dividend rate.

Anticipated interest rates under either a variable rate demand bond structure, or a fixed rate structure, are comparable, at about 3.8 to 4%.

Variable rate demand bonds have interest rates that are periodically reset on a daily, weekly, or monthly basis. Data regarding the CAISO's current variable rate demand bonds with a weekly interest rate reset period (proposed for this issuance) since April 13, 2000 follows:

Minimum rate:	0.45%
Maximum rate:	8% (March 2008)
Average rate:	3.46% (in December 2007)

As discussed previously, interest rates have been abnormally high due to investor concerns about the financial viability of the current bond insurer. Interest rates on variable rate demand bonds supported by a high quality bank letter of credit have been substantially lower. Fees and costs for a bank letter of credit, remarketing agent fees are other ongoing costs to be considered along with the interest costs on the bonds, and these costs add approximately 0.40%-0.68% to the bond interest costs. Additionally, the CAISO expects to enter into an interest rate swap to cover not less than 50% of the outstanding principal amount for the new money component of the bond offering as a hedge against interest rate volatility. The CAISO intends to maintain the existing interest rate swaps on the debt to be refinanced.

“All-in true interest costs” for a variable rate demand bond issuance are likely to be between 3.0% and 4.0%.

If the CAISO proceeds with a fixed-rate offering, the all-in-interest rate would be approximately 4%, based on current market conditions.

4. Dates of issuance and maturity.

The target issuance date for the bonds is early May of 2008.

Final maturity of the bonds will occur no later than March 2014.

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

The CAISO's underlying or issuer credit ratings are as follows:

Moody's: A2

Standard & Poor's: BBB+

If the CAISO issues variable rate demand bonds, the bonds are anticipated to have a higher credit rating due to credit enhancement in the form of a bank letter of credit. The

CAISO's current bonds are rated as follows:

Moody's: Aaa / VMIG-1

Standard & Poor's: AAA / A-1+

The CAISO's current bonds have these ratings due to the bond insurance provided by AMBAC and a liquidity agreement provided by a bank group (Bank of America and JPMorganChase).

The CAISO proposes to purchase credit enhancement in the form of a bank letter of credit for this transaction because it is more cost-effective than bond insurance given current bond market conditions. The CAISO expects the proposed bonds to have the quality ratings similar to the banks providing the letter of credit and has secured a commitment from a bank group to provide the required letter of credit.

If the CAISO instead executes a fixed rate offering, the bonds would likely be issued without credit enhancement, and the ratings would reflect the CAISO's underlying or issuer ratings noted above.

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

The securities are to be issued to obtain funding to finance CAISO capital expenditures over the next two to three years and, potentially, to refund the existing CAISO debt. The net proceeds of the bond issuance, after the potential refunding of existing debt, of \$60 million, will be used to fund projects planned for 2008 -2009, including market design enhancements (including convergence bidding and scarcity pricing), essential projects (including an energy management system operating system upgrade), and strategic initiatives (including payment acceleration). This will supplement the \$8.5 million funding in capital expenditures included in the 2008 revenue requirement (the CAISO posted a listing of projects in early December of 2006 consistent with

the \$30 million stated need for 2008). Delays in the MRTU schedule in 2008 may cause the deferral of other capital spending originally scheduled for 2008, resulting in the availability of bond funds into 2010.

The balance of the bond proceeds will be used for bond issuance costs and 2008 capitalized interest. All proceeds will be used solely for purposes of the CAISO.

(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 issuer. The CAISO anticipates filing an application for issuance through a State of California government entity conduit issuer subsequent to the filing of this FERC application. The CAISO's bonds were issued through the California Economic Development Financing Authority in 1998 and the California Infrastructure and Economic Development Bank, in 2000, 2004, and 2007. (The first-named organization was replaced by the latter subsequent to 1998.)

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

The CAISO'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 additional borrowings are reasonably necessary for the CAISO to finance the capital expenditures needed to properly perform the services of a

public utility provider and will not impair its ability to perform as an independent transmission system operator and a public utility.

As noted in section (f), above, the bond proceeds may be used to fund the various capital projects, including market enhancements which the Commission is already familiar and to refund the existing CAISO debt (to result in lower interest rates that will benefit CAISO GMC ratepayers.) The other funds provided by the offering will be used to pay for other CAISO capital projects that have been developed and presented to the CAISO stakeholders and CAISO Governing Board during the 2008 budgeting processes. The results of these budgeting processes were posted on the CAISO Website in December 2008.

The CAISO has presented this proposed bond offering to its Governing Board on January 29, 2008, and will request formal approval of the transaction at the March 26-27, 2008 Board meeting. The CAISO will provide the Commission with the record of the Board's approval of the transaction subsequent to that March meeting.

The offering will also further assist the CAISO in maintaining rate stability and the proper matching of project costs with the beneficiaries of those projects. Without the bond offering that is the subject of this application, the CAISO would have to substantially increase its revenue requirement in 2008 to collect the funds required for Commission-directed market enhancements and other capital projects

and, accordingly, would be required to increase its GMC charges. Financing these market enhancements and other capital projects through the planned bond offering will allow the CAISO to maintain a 2008 revenue requirement that is below the \$195 million threshold established in Docket No. ER08-135-000. Further, the CAISO is aiming to maintain a stable bundled GMC over the life of these bonds.

(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 CAISO's bond issuance for the years 2000, 2004, and 2007, including a pledge of operating revenues as security for the bonds. There are no restrictions in the existing bond documents that limit the CAISO from this additional bond issuance for new money and/or refinancing.

(j) Summary of rate changes.

The present filing includes financial statements for the time-period from January 1, 2007 through December 31, 2007. The CAISO's updated rates for the 2008 GMC were posted on the CAISO Website on December 4, 2007. The revenue requirement for 2008, on which those GMC rates are based, includes the CAISO's budgeted operating costs, debt service on the existing or restructured debt and the new proceeds proposed by this application, and other costs as set forth in the CAISO Tariff, Appendix F, Schedule 1, Part C. No changes in the

GMC rates are requested or anticipated as a result of the bond offering that is the subject of this application.

(k) Form of notice.

A form of notice is included in the present filing as Attachment A and an electronic version has been included with this filing.

B. Section 34.4 Requirements

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

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

Exhibit A- The Articles of Incorporation of the California Independent System Operator Corporation, dated May 5, 1997

Exhibit B- (1) Resolutions adopted by the CAISO Governing Board authorizing the CAISO's initial year 1998 bond issuance.
(2) Resolution adopted by the CAISO Governing Board authorizing the CAISO's year 2000 bond restructuring and additional proceeds offering.
(3) Resolution adopted by the CAISO Governing Board authorizing the CAISO's 2004 bond issuance.
(4) Resolution adopted by the CAISO Governing Board authorizing the CAISO's 2007 bond issuance.
(5) Resolution adopted by the CAISO Governing Board declaring the official intent of the CAISO to use proceeds of indebtedness to pay or reimburse itself for expenditures incurred in connection with the capital budget for the purpose of financing the capital expenditures on a long-term basis.

Exhibit C- Projected *Pro Forma* Balance Sheets of the CAISO for the twelve months ending 12/31/2007, and Schedule of Pro Forma Adjustments

Exhibit D- Projected Pro Forma Income Statements for the twelve months ending 12/31/2007

Exhibit E- Projected Pro Forma Statement of Cash Flows for the twelve months ending 12/31/2007 and calculation of interest coverage

Exhibit F- Official Statement for the year 2007 bonds

Exhibit G- Indicative bond run numbers for Series 2008 Refunding & New Money Bonds showing sources and uses of funds for a fixed rate offering of \$205.2 million. A VRDB offering would include a DSRF but exclude bond premium.

Exhibit H- Potential 2008 and 2009 capital projects listing (posted to the CAISO Website on December 4, 2007). See original document located on the CAISO Website at:
<http://www.caiso.com/1cab/1cabdd8a4c068.pdf>, starting at page 188.

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

With respect to the CAISO'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 CAISO. The CAISO anticipates filing an application for issuance through a State of California government entity conduit issuer subsequent to the filing of this FERC application. The CAISO's bonds for the year 1998 were issued through the California Economic Development Financing Authority and for years 2000, 2004, and 2007 through the California Infrastructure and Economic Development Bank. (The first-named organization was replaced by the latter subsequent to 1998.)

The CAISO requested proposals from four firms. Of those four, three submitted proposals comparable in expenses for the transaction. The CAISO has selected all three firms – Banc of America Securities LLC, J.P. Morgan

Securities, Inc., and Royal Bank of Canada – to act as co-underwriters of the bonds. Banc of America Securities LLC was selected as lead manager for the transaction. The CAISO is confident that the underwriting fees to be charged by these entities represent an attractive option relative to other alternatives in the market. For credit enhancement, the CAISO proposes to use a bank letter of credit rather than bond insurance, which is more cost effective given current market conditions. The CAISO requested quotes from several banks, and selected the lowest cost provider for the letter of credit. Additionally, if the CAISO chooses to issue variable rate demand bonds, the interest rates initially set by the underwriters based on market conditions at the time will be in effect only for a one-week period, and will subsequently be reset on the same basis.

With respect to an interest rate swap, the CAISO would intend to execute to hedge a portion of its exposure to the variable interest rates, the CAISO intends to obtain multiple quotes and/or use the services of an independent pricing agent to opine on the competitiveness of the proposed swap interest rates; the CAISO used such a pricing agent during its bond offerings in 1998, 2000, 2004, and 2007. The CAISO intends to hedge between 50 and 100% of its variable interest rate exposure for the new money component of the bond offering, and will determine the percentage to be hedged based on interest rate and hedge pricing at the time the swap arrangement is to be finalized.

The CAISO notes that the Commission exempted the CAISO's four 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 CAISO respectfully requests a waiver of the competitive bid and negotiated placement requirements of Section 34.2(a), which the CAISO believes should be granted because the CAISO'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 CAISO has served copies of this transmittal letter and all attachments on the California Public Utilities Commission, the California Energy Commission, and the California Electricity Oversight Board. In addition, the CAISO is making the transmittal letter and attachments available to all CAISO Market Participants by posting them on the CAISO Website, www.aiso.com.

IV. SUPPORTING DOCUMENTS

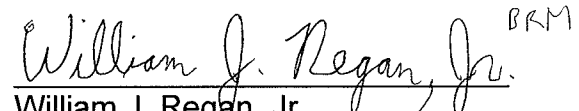
In addition to this transmittal letter and the exhibits described above in Section II, this filing contains a form of notice, suitable for publication in the Federal Register (Attachment A), together with the form of notice in electronic format.

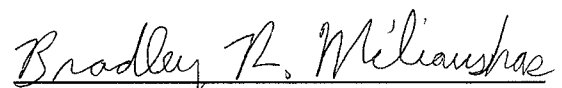
V. CONCLUSION

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

- authorize the CAISO's proposed bond issuance in an amount not to exceed \$206 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 April 18, 2008.

Respectfully submitted,


William J. Regan, Jr.
Chief Financial Officer
California Independent System
Operator Corporation


Kenneth G. Jaffe
Bradley R. Miliauskas
Alston & Bird LLP

**Counsel for the California
Independent System Operator
Corporation**

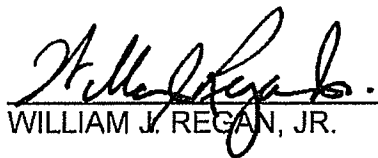
Dated: March 17, 2008

VERIFICATION

STATE OF CALIFORNIA)
)
CITY OF FOLSOM)
COUNTY OF SACRAMENTO)

DOCKET NO.
ES08-____-000

WILLIAM J. REGAN, JR., being duly sworn, on oath, says that he is the WILLIAM J. REGAN, JR. identified in the foregoing Section 204 Application; that he caused to be prepared such document; and that the information appearing therein is true to the best of his knowledge and belief.



WILLIAM J. REGAN, JR.

*See
attached
jurat*

~~Subscribed and sworn to before
me this ____ day of _____, 2008.~~

~~_____
Notary Public~~

CALIFORNIA JURAT WITH AFFIANT STATEMENT

- See Attached Document (Notary to cross out lines 1-6 below)
- See Statement Below (Lines 1-5 to be completed only by document signer[s], not Notary)

1 _____

2 _____

3 _____

4 _____

5 _____

6 _____

Signature of Document Signer No. 1 _____ Signature of Document Signer No. 2 (if any) _____

State of California

County of Sacramento

Subscribed and sworn to (or affirmed) before me on this

17th day of March, 2008, by

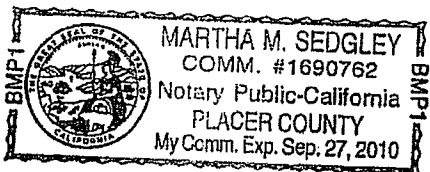
(1) William J. Regan, Jr.
Name of Signer

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

(and)
(2) _____
Name of Signer

proved to me on the basis of satisfactory evidence to be the person who appeared before me.)

Signature Martha M. Sedgley
Signature of Notary Public



Place Notary Seal Above

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 Named Above: _____

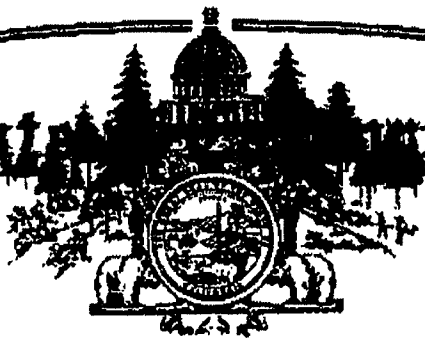
RIGHT THUMBPRINT OF SIGNER #1
Top of thumb here

RIGHT THUMBPRINT OF SIGNER #2
Top of thumb here

EXHIBIT A

2009677

State of California



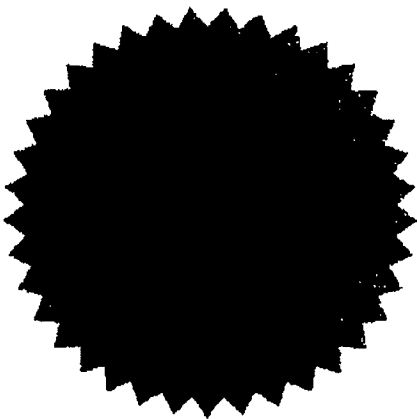
SECRETARY OF STATE

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, 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

EXHIBIT B

RESOLUTIONS

Borrowing

RESOLVED, that the Chief Executive Officer or the Chief Financial Officer of the California Independent System Operator Corporation (ISO) be, and they hereby are, authorized and empowered, in the name and on behalf of the ISO, to perform the following, provided that prior to any execution of the following the Board will be advised of any policy issues related to the execution:

- issue bonds in an amount not to exceed \$260,000,000; and
- borrow money, incur other obligations and to guarantee the obligations of the ISO in an amount not to exceed \$260,000,000, and in furtherance thereof to execute and deliver from time to time any note or other instrument evidencing indebtedness or other obligations of the ISO, including related agreements and documents and guarantees of obligations or endorsement of notes, when deemed by them to be in the best interests of the ISO, at a rate or rates of interest, and upon such other term or terms as shall be agreed upon by such officers.
- the total indebtedness authorized by this Resolution shall not exceed \$260,000,000, except to the extent that bond proceeds may be retained for a period of up to one month prior to the repayment of any preexisting notes.

RESOLVED FURTHER, that such officers with respect to any single transaction covered by the foregoing resolution may delegate in writing to any one or more officers of the ISO the power to sign such instruments, agreements or other documents on their behalf as may be required to consummate such transaction.

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

BORROWING RESOLUTION (1998-02-02)

RESOLVED, that the Chief Executive Officer or the Chief Financial Officer of the California Independent System Operator Corporation (CAISO) be, and they hereby are, authorized and empowered, in the name and on behalf of the CAISO, to perform the following, provided that prior to any execution of the following the Board of Governors will be advised of any policy issues related to the execution.

- Issue bonds in an amount not to exceed \$310,000,000.
- Borrow money, incur other obligations and guarantee the obligations of the CAISO in an amount not to exceed \$310,000,000, and in furtherance thereof to execute and deliver from time to time any note or other instrument evidencing indebtedness or other obligations of the CAISO, including related agreements and documents and guarantees of obligations or endorsements of notes, when deemed by them to be in the best interests of the CAISO, at a rate or rates of interest, and upon such other term or terms as shall be agreed upon by such officers.
- The total indebtedness authorized by this Resolution shall not exceed \$310,000,000, except to the extent that bond proceeds may be retained for a period of up to one month prior to the repayment of any preexisting notes.

RESOLVED FURTHER, that such officers with respect to any single transaction covered by the foregoing resolution may delegate in writing to any one or more officers of the CAISO the power to sign such instruments, agreements or other documents on their behalf as may be required to consummate such transaction.

Attachment B
(amended)

Finance Committee

Debt Refinancing

MOVED, that the Board approve the amendment to the January 27, 2000 Borrowing Resolution as set forth below:

WHEREAS, in the Borrowing Resolution of January 27, 2000 (the "Borrowing Resolution") the California Independent System Operator Corporation (CAISO) Board of Governors authorized the Chief Executive Officer or the Chief Financial Officer to issue bonds in an amount not to exceed \$300,000,000; and borrow money, incur other obligations and guarantee the obligations of the CAISO in an amount not to exceed \$300,000,000 and in furtherance thereof to execute and deliver from time to time any note or other instrument evidencing indebtedness or other obligations of the CAISO, including related agreements and documents and guarantees of obligations or endorsements of notes, when deemed by them to be in the best interests of the CAISO, at a rate or rates of interest, and upon such other term or terms as shall be agreed upon by such officers; and

WHEREAS, the Board of Governors directed that the total indebtedness authorized by such Borrowing Resolution not exceed \$300,000,000, except to the extent that bond proceeds may be retained for a period of up to one month prior to the repayment of any pre-existing debt; and

WHEREAS, the Board of Governors has determined that it is in the best interest of the CAISO to extend the period that bond proceeds may be retained prior to repayment of the existing debt for a period of not in excess of sixty (60) days,

MOVED, that the Borrowing Resolution of January 27, 2000, is hereby amended so that total indebtedness authorized by the Resolution shall not exceed \$300,000,000 except to the extent that bond proceeds may be retained for a period of up to sixty (60) days prior to the repayment of any pre-existing debt.

MOVED FURTHER, that Management be authorized and directed to take any and all actions necessary and appropriate to modify the terms of CAISO's existing interest rate swap arrangements consistent with a move to a partial floating rate debt structure wherein the floating portion does not exceed 40%.

Committee Action: Passed Vote Count: 5-0-0						Board Action: Passed Vote Count: 25-0-0					
Moved: Roscoe Second: Johanson						Moved: Second:					
	C	B		C	B		C	B		C	B
Barkovich			Edwards			Kashiwada			McNally		Toenyes
Blue			Ferreira	Y		Kehrein			Parquet		White
											X

Carnahan		Felder	X	Kirshner		Roscoe	Y	Winter		
Collins	Y	Florio		Macias		Smutny-Jones		Wiseman	X	
Cotton		Johanson	Y	McGuire	Y	Swanson		Woychik		

Board of Governors 11/10/2004 Approval of Bond Issuance

Moved, that the Board approve the Borrowing Resolution set forth below:

Borrowing Resolution (2004-11-10)

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

- Issue variable rate demand bonds in an amount not to exceed \$127,000,000 through the California Infrastructure and Economic Development Bank.
- Borrow money, incur other obligations and guarantee the obligations of the CAISO in an amount not to exceed \$127,000,000, and in furtherance thereof to execute and deliver from time to time any note or other instrument evidencing indebtedness or other obligations of the CAISO, including related agreements and documents and guarantees of obligations or endorsements of notes, when deemed by them to be in the best interests of the CAISO, at a rate or rates of interest, and upon such other term or terms as shall be agreed upon by such officers.
- Procure a standby bond purchase agreement from Bank of America and JPMorganChase Bank for a term not to exceed three years at a cost not to exceed 35 basis points annually plus other associated expenses.
- Procure a bond insurance policy from Ambac at a cost not to exceed 66 basis points of principal, interest paid over the life of the bond, and potential swap unwind payment of \$3.5 million and other associated expenses.

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

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

Moved: Florio Second: Gage

Finance Committee Action: Passed Vote Count: 2-0-0	
Florio	Y
Gage	Y

Moved: Gage Second: Florio

Board Action: Passed Vote Count: 5-0-0	
Cazalet	Y
Florio	Y
Gage	Y
Kahn	Y
Wiseman	Y

Motion Number: <number>

Borrowing Resolution (2007-03-07)

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

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

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

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

Moved: Gage Second: Capuano

Board Action: Passed Vote Count: 5-0-0

Capuano	Y
Gage	Y
Lowe	Y
Page	Y
Willrich	Y

Motion Number: 2007-03-G5

**RESOLUTION DECLARING OFFICIAL INTENT OF
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO REIMBURSE CERTAIN EXPENDITURES FROM PROCEEDS OF INDEBTEDNESS
ADOPTED JANUARY 29, 2008**

WHEREAS, the California Independent System Operator Corporation (the "Corporation") expects to pay certain expenditures (the "Expenditures") in connection with its 2008-2009 capital and project budgets (collectively, the "Project") prior to and in anticipation of the issuance of indebtedness for the purpose of financing the capital expenditures on a long-term basis;

WHEREAS, the Corporation reasonably expects that debt obligations will be issued in one or more series and that certain proceeds of such debt obligations will be issued to pay or reimburse the Expenditures for the Project in an amount not to exceed \$60,000,000; and

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

NOW, THEREFORE, THE CORPORATION hereby resolves:

- 1. The Corporation finds and determines that the foregoing recitals are true and correct.**
- 2. The Corporation hereby declares its official intent to use proceeds of indebtedness to pay or reimburse itself for Expenditures in an amount not expected to exceed \$60,000,000.**
- 3. This Resolution shall take effect from and after its adoption.**

Moved: Gage Second: Capuano

Board Action: Passed	Vote Count: 5-0-0
Capuano	Y
Doll	Y
Gage	Y
Page	Y
Wilrich	Y

Motion Number: 2008-01-G3

EXHIBIT C

Exhibit C
California Independent System Operator Corporation
Balance Sheet (Unaudited)
December 31, 2007

Line No.	Title of Account (FERC Account)	Balance December 31, 2007	Pro Forma Adjustments For Issuance of Bonds	Balance After Pro Forma Adjustments	Pro Forma Adjustments For Bond Amortization	Balance After Pro Forma Adjustments
1	ASSETS AND OTHER DEBITS					
2	Utility Plant					
3	Utility Plant (101-106, 114)	\$ 251,087,607		\$ 251,087,607		\$ 251,087,607
4	Construction Work in Progress (107)	192,724,143		192,724,143		192,724,143
5	Total Utility Plant	443,811,750		443,811,750		443,811,750
6	(Less) Accum. Prov. For Depr. Amor. Depl. (108, 110, 111, 115)	237,093,479		237,093,479		237,093,479
7	Net Utility Plant	206,718,271		206,718,271		206,718,271
8						
9	Other Property and Investments					
10	Other Investments (124)	61,859,841		61,859,841		61,859,841
11	Sinking Funds (125)	-		-		-
12	Other Special Funds (128)	139,622,700	\$ 41,257,970	180,880,670		180,880,670
13	Total Other Property and Investments	201,482,541	41,257,970	242,740,511	-	242,740,511
14						
15	Current and Accrued Assets					
16	Cash (131)	66,001,429		66,001,429	(34,132,524)	31,868,905
17	Special Deposits (132-134)	62,466,308	22,098,885	84,565,193	-	84,565,193
18	Working Fund (135)	1,840		1,840		1,840
19	Customer Accounts Receivable (142)	850,698		850,698		850,698
20	Other Accounts Receivable (143)	1,440,497		1,440,497		1,440,497
21	Prepayments (165)	3,979,375		3,979,375		3,979,375
22	Interest and Dividends Receivable (171)	1,803,238		1,803,238		1,803,238
23	Accrued Utility Revenues (173)	46,730,847		46,730,847		46,730,847
24	Total Current and Accrued Assets	183,274,232	22,098,885	205,373,117	(34,132,524)	171,240,593
25						
26	Deferred Debits					
27	Unamortized Debt Expense/Loss on Refunding (181)	1,205,724	2,821,524	4,027,248	(470,254)	3,556,994
28	Clearing Accounts (184)	(3,195,374)		(3,195,374)		(3,195,374)
29	Total Deferred Debits	(1,989,650)	2,821,524	831,874	(470,254)	361,620
30						
31	TOTAL ASSETS	\$ 589,485,394	\$ 66,178,379	\$ 655,663,773	\$ (34,602,778)	\$ 621,060,995
32						
33	See notes to Balance Sheet					

Exhibit C
California Independent System Operator Corporation
Balance Sheet (Unaudited)
December 31, 2007

Line No.	Title of Account (FERC Account)	Balance December 31, 2007	Pro Forma Adjustments For Issuance of Bonds	Balance After Pro Forma Adjustments	Pro Forma Adjustments For Bond Amortization	Balance After Pro Forma Adjustments
33	LIABILITIES AND OTHER CREDITS					
34	Proprietary Capital					
35	Retained Earnings (215, 215.1,216)	\$ 207,326,205		\$ 207,326,205	\$ (6,359,715)	\$ 200,966,490
36	Total Proprietary Capital	<u>207,326,205</u>		<u>207,326,205</u>	<u>(6,359,715)</u>	<u>200,966,490</u>
37						
38	Long-Term Debt					
39	Bonds (221)	189,700,000	60,220,000	249,920,000	(27,250,000)	222,670,000
40	Total Long-Term Debt	<u>189,700,000</u>	<u>60,220,000</u>	<u>249,920,000</u>	<u>(27,250,000)</u>	<u>222,670,000</u>
41						
42	Other NonCurrent Liabilities					
43	Accumulated Provision for Pensions and Benefits (228.3)	8,519,403		8,519,403		8,519,403
44	Unamortized Bond Premium		5,958,379	5,958,379	(993,063)	4,965,316
45	Long-term Portion of Derivative Instrument Liabilities	-		-		-
46	Total Other NonCurrent Liabilities	<u>8,519,403</u>	<u>5,958,379</u>	<u>14,477,782</u>	<u>(993,063)</u>	<u>13,484,719</u>
47						
48	Current and Accrued Liabilities					
49	Accounts Payable (232)	27,156,356		27,156,356		27,156,356
50	Customer Deposits (235)	101,572,637		101,572,637		101,572,637
51	Taxes Accrued (236)	26,493		26,493		26,493
52	Total Current and Accrued Liabilities	<u>128,755,486</u>	<u>-</u>	<u>128,755,486</u>	<u>-</u>	<u>128,755,486</u>
53						
54	Deferred Credits					
55	Other Deferred Credits (253)	55,184,300		55,184,300		55,184,300
56	Total Deferred Credits	<u>55,184,300</u>	<u>-</u>	<u>55,184,300</u>	<u>-</u>	<u>55,184,300</u>
57						
58	TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	<u>\$ 589,485,394</u>	<u>\$ 66,178,379</u>	<u>\$ 655,663,773</u>	<u>\$ (34,602,778)</u>	<u>\$ 621,060,995</u>
59						
60	See notes to Balance Sheet					

Exhibit C
California Independent System Operator Corporation
Notes to Balance Sheet (Unaudited)
December 31, 2007

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	Source and Use of Bond Proceeds	
5	Bond Proceeds - Par Amount	\$ 199,220,000
6	Bond Proceeds - Net Premium	5,958,379
7	2007 Construction Fund	2,362,216
8	Other Sources of Funds	18,742,030
9	Bond Proceeds	<u>\$ 226,282,625</u>
10		
11	Use of Proceeds	
12	Debt Service Reserve Fund	\$ 19,922,000
13	Special Deposits - Capitalized Interest and Expense Fund	2,176,885
14	Unamortized Debt Expense - Costs of Issuance	364,000
15	Unamortized Debt Expense - Underwriter's discount, Letter of credit fees	648,050
16	Swap Termination Fee	1,800,000
17	Additional Proceeds	9,474
18	Bond Refunding	139,000,000
19	Special Funds - Construction Fund	62,362,216
20	Bonds issued	<u>\$ 226,282,625</u>
21	No construction costs funded during period	
22		
23	Bond Amortization	
24	The Proforma adjustments reflecting the amortization of bonds have the following components:	
25		
26	Issuance date - January 1, 2007 (Actual issuance will be on during May-June 2007--1/1/2007 is assumed for purposes of this pro-forma statement.	
27		3.838595%
28	Amortization date - December 31, 2007	
29	Interest rate - all in	<u>\$ 7,647,249</u>
30	Interest cost - Year 1 (line 13 x line 6)	
31	Principal reduction:	
32	Year 1	\$ 27,250,000
33	Year 2	53,595,000
34	Year 3	42,525,000
35	Year 4	25,165,000
36	Year 5	24,615,000
37	Year 6	26,070,000
38	Total	<u>\$ 199,220,000</u>
39	Unamortized Debt Expense	
40	Method - ratably over 6 years	
41	Expense - Year 1 ((line 10 + line 11) / 6)	<u>\$ 470,254</u>
42	Interest and principal reduction paid from cash account	
43	Bond Premium Amortization	<u>\$ 993,063</u>
44	Revenues	
	Interest Income	<u>\$ 764,725</u>
45	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 Year Ended December 31, 2007

Line No.	Title of Account (FERC Account)	Year Ended December 31, 2007	Pro Forma Adjustments For Bond Amortization	12/31/2007 Balance After Pro Forma Adjustments
1	Utility Operating Income			
2	Operating Revenues (400)	\$ 198,083,829		\$ 198,083,829
3				
4	Operating Expenses			
5	Operating Expenses (401)	116,852,975		116,852,975
6	Maintenance Expenses (402)	20,621,113		20,621,113
7	Depreciation Expense (403)	14,163,650		14,163,650
8	Taxes Other Than Income Taxes (408.1)	318,619		318,619
9	Total Utility Operating Expenses	<u>151,956,357</u>		<u>151,956,357</u>
10				
11	Net Utility Operating Income	46,127,472		46,127,472
12				
13	Other Income			
14	Interest and Dividend Income (419)	12,856,528	764,725	13,621,253
15	Miscellaneous Non-operating Income (421)	227,092		227,092
16	Total Other Income	<u>13,083,620</u>	<u>764,725</u>	<u>13,848,345</u>
17				
18	Interest Charges			
19	Interest on Long-term Debt (427)	6,883,688	\$ 7,647,249	14,530,937
20	Amortization of Debt Expense/Loss of Refunding (428)	505,058	470,254	975,312
21	Amortization of Bond Premium	-	(993,063)	(993,063)
22	Other Interest Expense (431)	6,738,046	-	6,738,046
23	Net Interest Charges	<u>14,126,792</u>	<u>7,124,440</u>	<u>21,251,232</u>
24				
25	Net Income	\$ 45,084,300	\$ (6,359,715)	\$ 38,724,585
26				
27	See notes to Statement of Income			

Exhibit D
California Independent System Operator Corporation
Notes to Statement of Income (Unaudited)
December 31, 2007

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	\$ 199,220,000
6	Other Sources of Funds	18,742,030
7	Bond Proceeds	<u>\$ 217,962,030</u>
8		
9	Use of Proceeds	
10	Debt Service Reserve Fund	\$ 19,922,000
11	Special Deposits - Capitalized Interest and Expense Fund	2,176,885
12	Unamortized Debt Expense - Costs of issuance	364,000
13	Unamortized Debt Expense - Underwriter's discount, Letter of credit fees	648,050
14	Swap Termination Fee	1,800,000
15	Additional Proceeds	9,474
16	Special Funds - Construction Fund	62,362,216
17	Bonds issued	<u>\$ 87,282,625</u>
18	No construction costs funded during period	
19		
20	Bond Amortization	
21	The Proforma adjustments reflecting the amortization of bonds have the following components:	
22		
23	Issuance date - January 1, 2007 (Actual issuance will be on during May-June 2007--1/1/2007 is assumed for purposes of this pro-forma statement.	
24		
25	Amortization date - December 31, 2007	
26	Interest rate - all in	3.838595%
27	Interest cost - Year 1 (line 13 x line 6)	<u>\$ 7,647,249</u>
28	Principal reduction:	
29	Year 1	\$ 27,250,000
30	Year 2	53,595,000
31	Year 3	42,525,000
32	Year 4	25,165,000
33	Year 5	24,615,000
34	Year 6	26,070,000
35	Total	<u>\$ 199,220,000</u>
36	Unamortized Debt Expense	
37	Method - ratably over 6 years	
38	Expense - Year 1 ((line 10 + line 11) / 6)	<u>\$ 470,254</u>
39	Interest and principal reduction paid from cash account	
40	Bond Premium Amortization	<u>\$ 993,063</u>
41		
42		
43		
44		
45	Revenues	
46	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 Year Ended December 31, 2007

Line No.	Account Description	Year Ended December 31, 2007	Pro Forma Adjustments For Issuance of Bonds	Balance After Pro Forma Adjustments	Pro Forma Adjustments For Bond Amortization	12/31/2007 Balance After Pro Forma Adjustments
1	Net Cash Flow from Operating Activities					
2	Net Income	\$ 45,084,300		\$ 45,084,300	\$ (6,359,715)	\$ 38,724,585
3	Noncash Charges (Credits) to Income:					
4	Depreciation and Depletion	14,163,650		14,163,650		14,163,650
5	Amortization of Debt Expense/Loss on Refunding	505,058		505,058	470,254	975,312
6	Amortization of Bond Premium				(993,063)	(993,063)
7	Net (Increase) Decrease in Receivables	(5,540,874)		(5,540,874)		(5,540,874)
8	Net Increase (Decrease) in Payables and Accrued Expenses	(2,167,329)		(2,167,329)		(2,167,329)
9	Net Increase (Decrease) in Other Deferred Credits	6,100,588		6,100,588		6,100,588
10	Net Cash Provided by (Used In) Operating Activities	<u>58,145,393</u>		<u>58,145,393</u>	<u>(6,882,524)</u>	<u>51,262,869</u>
11						
12	Cash Flows From Investment Activities					
13	Gross Additions to Common Utility Plant	(54,975,197)		(54,975,197)		(54,975,197)
14	Net Proceeds from Sales (Purchases) of Investments	9,824,301		9,824,301		9,824,301
15	Net Cash Provided By (Used In) Investing Activities	<u>(45,150,896)</u>		<u>(45,150,896)</u>		<u>(45,150,896)</u>
16						
17	Cash Flows from Financing Activities					
18	Net Proceeds from Issuance of Long-Term Debt	59,168,091	\$ 202,356,855	261,524,946		261,524,946
19	Decrease in Customer Deposits	49,712,706		49,712,706		49,712,706
20	Payments for Retirement of Long-Term Debt	(58,700,000)	(139,000,000)	(197,700,000)	(27,250,000)	(224,950,000)
21	Increase in Sinking Funds	-		-		-
22	(Increase) Decrease in Special Deposits	1,578,703	(22,098,885)	(20,520,182)		(20,520,182)
23	Net Decrease (Increase) Other Special Funds	(66,805,360)	(41,257,970)	(108,063,330)		(108,063,330)
24	Net Cash Provided By (Used In) Financing Activities	<u>(15,045,860)</u>	<u>(0)</u>	<u>(15,045,860)</u>	<u>(27,250,000)</u>	<u>(42,295,860)</u>
25						
26	Net Increase (Decrease) in Cash and Cash Equivalents	(2,051,363)	(0)	(2,051,363)	(34,132,524)	(36,183,887)
27						
28	Cash and Cash Equivalents at Beginning of Period	68,052,792		68,052,792		68,052,792
29						
30	Cash and Cash Equivalents at End of Period	<u>\$ 66,001,429</u>	<u>\$ (0)</u>	<u>\$ 66,001,429</u>	<u>\$ (34,132,524)</u>	<u>\$ 31,868,905</u>
31						
32	See notes to Statement of Cash Flows					
33						

Exhibit E
California Independent System Operator Corporation
Notes to Statement of Cash Flows (Unaudited)
December 31, 2007

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	Source and Use of Bond Proceeds	
5	Bond Proceeds - Par Amount	\$ 199,220,000
6	Bond Proceeds - Net Premium	5,958,379
7	2007 Construction Fund	2,362,216
8	Other Sources of Funds	18,742,030
9	Bond Proceeds	<u>\$ 226,282,626</u>
10		
11	Use of Proceeds	
12	Refunding of Bonds	\$ 139,000,000
13	Debt Service Reserve Fund	19,922,000
14	Special Deposits - Capitalized Interest and Expense Fund	2,176,885
15	Unamortized Debt Expense - Costs of issuance	364,000
16	Unamortized Debt Expense - Underwriter's discount, Letter of credit fees	648,050
17	Swap Termination Fee	1,800,000
18	Additional Proceeds	9,474
19	Special Funds - Construction Fund	62,362,216
20	Bonds issued	<u>\$ 226,282,625</u>
21	No construction costs funded during period	
22		
23	Bond Amortization	
24	The Proforma adjustments reflecting the amortization of bonds have the following components:	
25		
26	Issuance date - January 1, 2007 (Actual issuance will be on during May-June 2007--1/1/2007 is assumed for purposes	
27	of this pro-forma statement.	
28	Amortization date - December 31, 2007	
29	Interest rate - all in	3.838595%
30	Interest cost - Year 1 (line 13 x line 6)	<u>\$ 8,686,074</u>
31	Principal reduction:	
32	Year 1	\$ 27,250,000
33	Year 2	53,595,000
34	Year 3	42,525,000
35	Year 4	25,165,000
36	Year 5	24,615,000
37	Year 6	26,070,000
38	Total	<u>\$ 199,220,000</u>
39	Unamortized Debt Expense	
40	Method - ratably over 6 years	
41	Expense - Year 1 ((line 10 + line 11) / 6)	<u>\$ 470,254</u>
42	Interest and principal reduction paid from cash account	
43	Bond Premium Amortization	<u>\$ 993,063</u>
44		
45	Revenues	
46	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 Year Ended December 31, 2007

Line No.	Description	Year Ended December 31, 2007	Pro Forma Adjustments For Bond Amortization	12/31/2007 Balance After Pro Forma Adjustments
1	Net Income	\$ 45,084,300	\$ (6,359,715)	\$ 38,724,585
2				
3	Add Back Interest Expense:			
4	Interest on Long-Term Debt	6,883,688	7,647,249	14,530,937
5	Amortization of Debt Discount and Expense	505,058	470,254	975,312
6	Other Interest Expense	6,738,046		6,738,046
7	Total Interest Expense	<u>14,126,792</u>	<u>8,117,503</u>	<u>22,244,295</u>
8				
9	Income before Interest	<u>\$ 59,211,092</u>	<u>\$ 1,757,788</u>	<u>\$ 60,968,880</u>
10				
11	Total Interest Expense (line 7)	\$ 14,126,792	\$ 8,117,503	\$ 22,244,295
12	Interest capitalized to Utility Plant	1,600,000		1,600,000
13	Total Interest Incurred	<u>\$ 15,726,792</u>	<u>\$ 8,117,503</u>	<u>\$ 23,844,295</u>
14				
15	Computation of Interest Coverage			
16	Interest coverage (line 9 / line 13)	<u>3.76</u>		<u>2.56</u>

Exhibit E
California Independent System Operator Corporation
Notes to Schedule of Interest Coverage
December 31, 2007

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	\$ 199,220,000
6	Other Sources of Funds	18,742,030
7	Bond Proceeds	<u>\$ 61,785,000</u>
8		
9	Use of Proceeds	
10	Debt Service Reserve Fund	\$ 19,922,000
11	Special Deposits - Capitalized Interest and Expense Fund	2,176,885
12	Unamortized Debt Expense - Costs of issuance	364,000
13	Unamortized Debt Expense - Underwriter's discount, Letter of credit fees	648,050
14	Swap Termination Fee	1,800,000
15	Additional Proceeds	9,474
16	Special Funds - Construction Fund	62,362,216
17	Bonds issued	<u>\$ 87,282,625</u>
18	No construction costs funded during period	
19		
20	Bond Amortization	
21	The Proforma adjustments reflecting the amortization of bonds have the following components:	
22		
23	Issuance date - January 1, 2007 (Actual issuance will be on during May-June 2007--1/1/2007 is assumed for purposes of this pro-forma statement.	
24	Amortization date - December 31, 2007	
25	Interest rate - all in	3.838595%
26	Interest cost - Year 1 (line 13 x line 6)	<u>\$ 3,350,426</u>
27	Principal reduction:	
28	Year 1	\$ 27,250,000
29	Year 2	53,595,000
30	Year 3	42,525,000
31	Year 4	25,165,000
32	Year 5	24,615,000
33	Year 6	26,070,000
34	Total	<u>\$ 199,220,000</u>
35	Unamortized Debt Expense	
36	Method - ratably over 6 years	
37	Expense - Year 1 ((line 10 + line 11) / 6)	\$ 168,675
38	Interest and principal reduction paid from cash account	
39		
40	Revenues	
41	No adjustment was made to increase GMC revenues to cover the proforma debt service	

EXHIBIT F

NEW ISSUE – FULL BOOK-ENTRY ONLY

Ratings: See “EXPECTED RATINGS” herein

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

\$60,000,000

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

Variable Rate Demand Revenue Bonds

(California Independent System Operator Corporation Project)

\$30,000,000

\$30,000,000

2007 Series A

2007 Series B

CUSIP: 13033W XS7

CUSIP: 13033W XT5

Dated: Date of Issuance

Price: 100%

Due: February 1, 2013

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 \$30,000,000 aggregate principal amount of 2007 Series A Bonds (the “Series A Bonds”) and the \$30,000,000 aggregate principal amount of 2007 Series B Bonds (the “Series B Bonds” and, together with the Series A Bonds, the “Bonds”) are being issued by the California Infrastructure and Economic Development Bank (the “Infrastructure Bank”) for the purpose of providing funds to (i) finance a portion of the costs of the California Independent System Operator Corporation’s (the “Corporation”) market redesign and technology upgrade project and other planned capital projects, which consist primarily of computer hardware and software systems, related development costs and other associated costs (the “Project”); (ii) fund a debt service reserve fund; and (iii) pay costs of issuance of the Bonds. See “PLAN OF FINANCE” herein. The Bonds are being issued pursuant to an Indenture of Trust, dated as of April 1, 2007, between the Infrastructure Bank and Deutsche Bank National Trust Company, as trustee (the “Trustee”).

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



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

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

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

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



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

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

The Bonds are offered when, as and if issued by the Infrastructure Bank and accepted by the Underwriters, subject to prior sale or withdrawal or modification of the offer without notice, and subject to receipt of an approving legal opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Certain legal matters will be passed upon for the Infrastructure Bank by its General Counsel, Brooke Bassett, Esq., for the Corporation by its General Counsel and by its special counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, for the Liquidity Banks by their counsel, Chapman and Cutler LLP, and for the Underwriters by their counsel, Sidley Austin LLP. The Bonds are expected to be available for delivery through the facilities of DTC in New York, New York, on or about April 5, 2007.

Banc of America Securities LLC

JPMorgan

Dated: March 28, 2007

No broker, dealer, salesperson or other person has been authorized by the Infrastructure Bank, the Corporation or the Underwriters to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements in this Official Statement which involve estimates, forecasts or matters of opinion whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

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

CAUTIONARY STATEMENTS REGARDING
FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

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

**CALIFORNIA INFRASTRUCTURE AND
ECONOMIC DEVELOPMENT BANK**

Members

Dale E. Bonner, *Chair*
Bill Lockyer
Rosario Marin
Michael C. Genest
D. Everett Rice

CALIFORNIA INDEPENDENT SYSTEM OPERATOR

Officers

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

Financial Administrator for Bonds

Philip Leiber, *Treasurer and Director of Financial Planning*

SPECIAL SERVICES

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Agent of Sale

Treasurer of the State of California

Swap Pricing Advisor

Sperry Capital
Tiburon, California

Remarketing Agent for the Series A Bonds

Banc of America Securities LLC

Remarketing Agent for the Series B Bonds

J. P. Morgan Securities Inc.

Trustee, Tender Agent, Registrar and Paying Agent

Deutsche Bank National Trust Company
New York, New York

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OFFICIAL STATEMENT
relating to
\$60,000,000
California Infrastructure and Economic Development Bank
Variable Rate Demand Revenue Bonds
(California Independent System Operator Corporation Project)

\$30,000,000
2007 Series A

\$30,000,000
2007 Series B

INTRODUCTION

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

Purpose

This Official Statement, which includes the cover page and Appendices hereto, of the California Infrastructure and Economic Development Bank (the "Infrastructure Bank") is being furnished to provide certain information concerning the Infrastructure Bank's Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2007 Series A in the principal amount of \$30,000,000 (the "Series A Bonds") and 2007 Series B in the principal amount of \$30,000,000 (the "Series B Bonds" and together with the Series A Bonds, the "Bonds"). The Bonds are being issued by the Infrastructure Bank under and pursuant to an Indenture of Trust, dated as of April 1, 2007 (the "Indenture"), by and between the Infrastructure Bank and Deutsche Bank National Trust Company, as trustee (the "Trustee"), for the purpose of providing funds to: (i) finance a portion of the costs of the California Independent System Operator Corporation's (the "Corporation") market redesign and technology upgrade project and other planned capital projects, which consist primarily of computer hardware and software systems, related development costs and other associated costs (the "Project"); (ii) fund a debt service reserve fund; and (iii) pay costs of issuance of the Bonds. See "PLAN OF FINANCE" herein.

Plan of Finance

The Bonds are being issued for the purpose of financing the costs of the Project. The Corporation intends to enter into an interest rate swap agreement in connection with the Bonds pursuant to which the Corporation will convert 100% of the total floating interest amounts on the Bonds into substantially fixed payments. To effectuate this conversion, the Corporation will agree in such swap agreement to pay a fixed interest rate on a notional amount of \$60,000,000 and in return, JPMorgan Chase Bank, N.A. will agree to pay a variable rate of interest on a like notional amount. See "PLAN OF FINANCE" herein.

The Infrastructure Bank

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

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

The Corporation

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

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

Security and Sources of Payment for the Bonds

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

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

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

Rate Covenant

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

Debt Service Reserve

A Debt Service Reserve Fund is established pursuant to the Indenture in an amount equal to the Debt Service Reserve Requirement (as defined in the Indenture). The Debt Service Reserve Requirement for the Bonds shall be \$6,000,000 upon the issuance of the Bonds. See "SECURITY FOR THE BONDS—Debt Service Reserve Fund" herein. Amounts on deposit in the Debt Service Reserve Fund shall be applied to the payment of the principal or redemption price of, or interest on, the Bonds in the event that amounts on deposit in the Bond Fund are insufficient therefor.

Bond Insurance

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

Liquidity Facility

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

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

Other Matters

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

PLAN OF FINANCE

The Project

A portion of the proceeds of the Bonds will be applied to finance a portion of the costs of the Corporation's Market Redesign and Technology Upgrade ("MRTU") project and other planned capital projects.

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

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

FERC required changes at a cost of \$189.2 million, with an implementation date of February 1, 2008 (commencing January 31, 2008).

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

Additional projects to be funded from the proceeds of the Bonds include approximately \$2 million in other capital projects deemed necessary by the Corporation in 2007 and 2008. The projects include other computer software and hardware and other equipment or facilities upgrades.

Swap Agreement

The Corporation intends to enter into an interest rate swap agreement in the form of an ISDA Master Agreement and Schedule and related Transaction (the "2007 Swap Agreement") with JPMorgan Chase Bank, N.A. (the "2007 Counterparty") in connection with the Bonds for the purpose of converting 100% of the floating interest payments the Corporation is required to make on the Bonds into substantially fixed payments. The effect of the 2007 Swap Agreement is to modify the Corporation's risk of interest rate changes with respect to the interest payments on the Bonds. Pursuant to the Transaction under the 2007 Swap Agreement, the Corporation agrees to pay a fixed interest rate based on an initial notional amount of \$60,000,000. In return, the 2007 Counterparty will agree to pay a variable rate of interest equal to the Securities Industry and Financial Markets Association Municipal Swap Index on a like notional amount. The amounts payable by a party under the 2007 Swap Agreement are due monthly but are netted against the payments to be received by such party thereunder. The 2007 Swap Agreement constitutes a Parity Obligation for purposes of the Indenture. Under certain circumstances, the 2007 Swap Agreement is subject to termination and the Corporation may be required to make a substantial termination payment to the 2007 Counterparty thereunder. Any amounts payable upon early termination thereof are payable on a parity with the payment of the Bonds. Ambac Assurance will insure the regularly scheduled amounts (but not termination payments) payable by the Corporation under the 2007 Swap Agreement. None of the Infrastructure Bank, the Trustee nor the Bondholders shall have any interest in or rights under the 2007 Swap Agreement. See "SECURITY FOR THE BONDS – Outstanding Parity Obligations" herein.

ESTIMATED APPLICATION OF PROCEEDS

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

Construction Fund	\$52,971,293
Debt Service Reserve Fund	6,000,000
Capitalized Interest	117,615
Costs of Issuance ⁽¹⁾	736,035
Underwriters' Discount	175,057
Total	<hr/> \$60,000,000

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

THE INFRASTRUCTURE BANK

The Infrastructure Bank is located within the Business, Transportation and Housing Agency and is governed by a five-member board of directors (the "Infrastructure Bank Board") consisting of the Secretary of the Business, Transportation and Housing Agency, who serves as chair, the State Director of Finance, the State Treasurer, the Secretary of the State and Consumer Services Agency and an appointee of the Governor. The Infrastructure Bank Board members serve without compensation.

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

THE CORPORATION

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

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

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

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

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

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

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

THE BONDS

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

General

The Bonds of each Series will be dated their date of issuance and will be issued in the principal amount indicated on the cover page of this Official Statement. The Bonds of each Series will mature on February 1, 2013 (the "Maturity Date").

Pursuant to the Indenture, the Bonds of each Series shall bear interest at the Daily Rate, Weekly Rate, Commercial Paper Rate (each, a "Variable Rate"), ARS Rate or a Fixed Rate, based on the Interest Rate Determination Method specified from time to time by the Corporation. The interest rate for all the Bonds of a Series shall be determined based on the same Interest Rate Determination Method and (except as to Liquidity Provider Bonds) shall bear interest at the same interest rate. The Bonds of each Series will initially bear interest at the Weekly Rate, determined as described herein. The maximum rate of interest any of the Bonds (other than Liquidity Provider Bonds) may bear is 12% per annum. The Bonds shall bear interest payable on each Interest Payment Date computed on the basis of a 365/366-day year and actual days elapsed. The Bonds will initially be issued in authorized denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof.

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

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

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

Weekly Rate Period for Bonds

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

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

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

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

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

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

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

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

Conversion of Interest Rate Determination Method from Weekly Rate

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

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

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

termination of the Liquidity Facility to be effective upon such Conversion Date to a Fixed Rate or to a ARS Rate.

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

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

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

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

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

Tender of Bonds for Purchase

Optional Tender. During each Weekly Rate Period, any Bond or portion thereof in an Authorized Denomination shall be subject to tender for purchase at the option of the Holder of such Bond on any Business Day at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon to but not including the date of purchase (provided, however, if the date of such purchase occurs after the Record Date applicable to the interest accrued on such Bond from the last occurring Interest Payment Date, then the Purchase Price shall not include accrued and unpaid interest, which shall be paid to the Holder of record on the applicable Record Date) payable in immediately available funds, upon delivery by the Holder or Beneficial Owner of such Bond to the Tender Agent at its Principal Office of an irrevocable notice by telephone (promptly confirmed in writing) or written or Electronic notice by 5:00 p.m. (New York City time) on any Business Day at least seven (7) days prior to the Purchase Date, which states the principal amount of such Bond to be tendered for purchase and the Purchase Date. The Purchase Price of such tendered Bond shall be payable only upon delivery of such Bond to the Tender Agent in accordance with the Indenture.

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

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

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

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

- (i) on the effective date of any new Interest Rate Determination Method for such Bonds of a Series;
- (ii) on the day before the termination date of the then current Liquidity Facility as a result of providing a substitute Liquidity Facility with respect to the Bonds of a Series pursuant to the Loan Agreement;
- (iii) on the day before the effective date of any amendment or modification of the Liquidity Facility applicable to the Bonds of such Series unless the Trustee shall have received a Rating Confirmation with respect to such amendment or modification;
- (iv) upon receipt by the Trustee of written notice from the Liquidity Provider for that Series of Bonds stating that an event has occurred as a result of which the Liquidity Provider is permitted under the Liquidity Agreement, to terminate or to suspend its obligation to purchase Bonds of such Series under the Liquidity Agreement, on a Business Day selected by the Trustee not more than five (5) days after receipt of such notice; or
- (v) on the last Business Day that is not less than five (5) calendar days preceding the expiration, or the termination by the Corporation, of the Liquidity Facility then in effect with respect to such Series, in the event that at least 35 days prior to the expiration in whole of any Liquidity Facility then in effect with respect to such Bonds of a Series (other than an expiration of the Liquidity Facility at the maturity of the such Bonds of a Series) the Trustee shall have not received (a) a renewal or extension of the existing Liquidity Facility for a period of at least 364 days (or, if shorter, the period to maturity of the Bonds of a Series) or (b) a substitute Liquidity Facility meeting the requirements of the Loan Agreement.

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

affected Bonds of the applicable Series at their addresses shown on the registration books kept by the Registrar within two (2) Business Days of receipt of the notice pursuant to clause (iv) above.

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

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

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

Remarketing

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

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

Redemption

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

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

Optional Redemption Upon Extraordinary Events. The Bonds of such Series as shall be designated by an Authorized Corporation Representative shall be redeemed in whole or in part, and if in part by lot, at any time, but only from Available Amounts (provided that the portion of the redemption price that is accrued interest need not be paid with Available Amounts if the redemption date is an Interest Payment Date for the Bonds of a Series to be redeemed), at a redemption price equal to the principal

amount thereof plus accrued interest to the redemption date upon receipt by the Trustee of a written notice from the Corporation stating that any of the following events has occurred and that the Corporation therefore intends to exercise its option to prepay the payments due under the Loan Agreement and thereby effect the redemption of Bonds in whole or in part to the extent of such prepayments:

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

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

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

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

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

Mandatory Sinking Fund Redemption.

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

<u>Redemption Date (February 1)</u>	<u>Principal Amount</u>
2010	\$ 2,750,000
2011	9,500,000
2012	7,650,000
2013 [†]	10,100,000

[†] Maturity.

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

<u>Redemption Date (February 1)</u>	<u>Principal Amount</u>
2010	\$ 2,750,000
2011	9,500,000
2012	7,650,000
2013 [†]	10,100,000

[†] Maturity.

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

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

With respect to any notice of optional redemption or redemption upon mandatory prepayment as described above, unless upon the giving of such notice the Bonds of a Series to be redeemed are deemed to have been paid, such notice must state that such redemption is conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of Available Amounts sufficient to pay the

principal of, and premium, if any, and interest on, such Bonds to be redeemed, and that if such Available Amounts are not received, such notice will be of no force and effect and the Infrastructure Bank will not be required to redeem such Bonds. If such redemption is not effected, the Trustee will, within a reasonable time thereafter, give notice that such Available Amounts were not so received to such persons and entities that received the original notice of redemption.

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

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

Book-Entry Only System

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

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

SECURITY FOR THE BONDS

Payments by the Corporation Under the Loan Agreement

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

THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN A LIMITED OBLIGATION OF THE INFRASTRUCTURE BANK PAYABLE SOLELY FROM REVENUES. THE BONDS DO NOT CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, BUT WILL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR INTEREST ON, THE BONDS; AND NO HOLDER OR BENEFICIAL OWNER OF ANY BONDS SHALL HAVE ANY RIGHT TO DEMAND PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE BONDS BY THE INFRASTRUCTURE BANK, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OUT OF ANY FUNDS TO BE RAISED BY TAXATION OR APPROPRIATION.

Rate Covenant

The Corporation has covenanted in the Loan Agreement that, so long as any Bonds remain Outstanding, for each year it shall establish a Grid Management Charge in accordance with the Grid Management Charge Formula which shall include in its budgeted revenue requirements a Coverage Requirement with respect to budgeted debt service on the Bonds and any Parity Obligations of not less than 25% and shall not take any action to modify the Grid Management Charge Formula in any manner which would adversely affect the security afforded the Bondholders under the Loan Agreement including, without limitation, ceasing to maintain the Reserve Requirement at 15% of its annual Operating Expenses for purposes of the Grid Management Charge Formula. "Grid Management Charge" means the Corporation's several separate fees 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) an amount necessary to fully amortize the Corporation's start-up

and development costs over a period of not less than 5 years, (ii) budgeted annual operating costs, (iii) financing costs and (iv) budgeted annual costs of pay-as-you-go capital expenditures and reasonable coverage of debt service obligations.

Outstanding Parity Obligations

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

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

In connection with the 2004 Series A Bonds and the 2004 Series B Bonds, the Corporation entered into an interest rate swap agreement in the form of an ISDA Master Agreement and Schedule and related Transactions (the "2004 Swap Agreement") with JPMorgan Chase Bank, N.A. ("JPMorgan"). Pursuant to the Transactions under the 2004 Swap Agreement, the Corporation agreed to pay a fixed interest rate on an initial notional amount of \$74,460,000 and declining in accordance with the amortization of the 2004 Series A Bonds and 2004 Series B Bonds. In return, JPMorgan agreed to pay a variable rate of interest, equal to 60% of the London Interbank Offering Rate ("LIBOR") one month index plus a specified spread of 0.32% (thirty-two basis points) on a like notional amount. The amounts payable by a party under the 2004 Swap Agreement are due monthly but are netted against the payments to be received by such party thereunder.

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

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

Additional Parity Obligations

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

Debt Service Reserve Fund

Upon the issuance of the Bonds, there will be deposited from the proceeds of the Bonds in the Debt Service Reserve Fund an amount equal to the least of (i) 10% of the initial offering price to the public of the Bonds as determined under the Code, or (b) the greatest amount of Bond Debt Service in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Bond is due, or (c) 125% of the sum of the Bond Debt Service for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the execution and delivery of any Bonds) and terminating with the last Fiscal Year in which any Bond Debt Service is due, divided by the number of such Fiscal Years, all as computed and determined by the Corporation and specified in writing to the Trustee; provided, however that in determining Bond Debt Service during any Weekly Rate Period, the interest rate on such Bonds for any period as to which such interest rate has not been established shall be assumed to be 110% of the daily average interest rate on such Bonds during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Bonds shall have been Outstanding (the "Debt Service Reserve Requirement") (\$6,000,000 upon the delivery of the Bonds).

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

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

In lieu of deposits and transfers to the Debt Service Reserve Fund, the Corporation may cause to be deposited in the Debt Service Reserve Fund a Reserve Financial Guaranty or Reserve Financial Guaranties in an amount equal to the difference between the Debt Service Reserve Requirement and the

sums, if any, then on deposit in the Debt Service Reserve Fund or being deposited in such Fund concurrently with such Reserve Financial Guaranty or Guaranties.

Limitations on Remedies

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

BOND INSURANCE

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

Payment Pursuant to Financial Guaranty Insurance Policy

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

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

unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Policy shall be fully discharged.

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

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

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

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

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

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

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

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$10,015,000,000 (unaudited) and statutory capital of approximately \$6,371,000,000 (unaudited) as of December 31, 2006. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

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

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

Available Information

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

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

Incorporation of Certain Documents by Reference

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

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007.

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

THE STANDBY BOND PURCHASE AGREEMENT

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

Pursuant to the Standby Bond Purchase Agreement, the Liquidity Banks provide an Available Commitment severally, and not jointly, in an amount equal to \$60,670,685. Each Liquidity Bank's

obligation under the Standby Bond Purchase Agreement is limited to 50% of the Available Commitment contained therein. The Trustee, upon compliance with the terms of the Standby Bond Purchase Agreement, is authorized and directed to draw up to an amount sufficient to pay the portion of the purchase price of Bonds in a Daily Rate Period or a Weekly Rate Period delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed equal to the principal amount of such Bonds, plus an amount not to exceed thirty-four (34) days of accrued interest on such Bonds at a rate of 12% per annum to pay interest on Bonds when due.

The Liquidity Banks' Available Commitment under the Liquidity Facility will terminate on the earlier of (a) April 5, 2010 (unless renewed or extended); (b) the Business Day immediately following a Conversion to a Fixed Rate or ARS Rate under the Indenture with respect to all outstanding Bonds covered by the Liquidity Facility; (c) the date on which the Trustee accepts a Substitute Liquidity Facility; (d) the date on which the Liquidity Banks are no longer required to purchase tendered Bonds following an event of termination as described below; or (e) the date on which no Bonds covered by the Liquidity Facility are outstanding.

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

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

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

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

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

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

(f) nonpayment of any other fees, or any other amount when due under the Standby Bond Purchase Agreement, if such failure to pay when due shall continue for 10 Business Days after written notice thereon to the Corporation, the Infrastructure Bank and the Insurer by the Liquidity Banks; or

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

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

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

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

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

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

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

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

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

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

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

Upon the occurrence of an Event of Termination described in clause (b)(ii) above, the obligations of the Liquidity Banks to purchase Bonds shall be immediately suspended, without notice or demand to any person, until a final non-appealable order of a court having jurisdiction in the premises shall be entered declaring that all material contested provisions of the Policy are upheld in their entirety.

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

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

Substitute Liquidity Facility

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

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

The Corporation may at any time provide a substitute Liquidity Facility with respect to a Series of Bonds in accordance with the provisions of the Loan Agreement and the Indenture (provided, however, that the Corporation shall not substitute any Liquidity Facility with respect to the Bonds during a Rate

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

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

(i) the substitute Liquidity Facility must be a Liquidity Facility entered into by, or issued by, a commercial bank or other financial institution;

(ii) the terms and provisions of the substitute Liquidity Facility with respect to the purchase of Bonds thereunder must be in all material respects no less favorable to the Trustee than the terms and provisions of the initial Liquidity Facility provided under the Loan Agreement;

(iii) the substitute Liquidity Facility must take effect on or before the date of termination of the existing Liquidity Facility and the term of the substitute Liquidity Facility must be at least 364 days (or, if shorter, the period to maturity of the applicable Series of Bonds); and

(iv) the substitute Liquidity Facility must be in an amount sufficient to pay the maximum purchase price of the Series of Bonds which will be applicable during the then current Rate Period.

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

THE LIQUIDITY BANKS

Bank of America, N.A.

Bank of America, N.A. ("BofA") is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. BofA is a wholly-owned indirect subsidiary of Bank of America Corporation ("BofA Corporation") and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of

September 30, 2006, BofA had consolidated assets of \$1,186 billion, consolidated deposits of \$721 billion and stockholder's equity of \$110 billion based on regulatory accounting principles.

BofA Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding BofA Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2005, together with any subsequent documents it filed with the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Recent Developments: On January 1, 2006, BofA Corporation completed its merger with MBNA Corporation.

Additional information regarding the foregoing is available from the filings made by BofA Corporation with the SEC, which filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov>, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning BofA Corporation, BofA and the foregoing mergers contained herein is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

The Standby Bond Purchase Agreement has been executed and delivered by BofA. Moody's Investors Service, Inc. ("Moody's") currently rates BofA's long-term debt as "Aa1" and short-term debt as "P-1." The Outlook is Stable. Standard & Poor's rates BofA's long-term debt as "AA" and its short-term debt as "A-1+." Ratings are on CreditWatch Positive. Fitch Ratings, Inc. ("Fitch") rates long-term debt of BofA as "AA-" and short-term debt as "F1+." The outlook is Positive. Further information with respect to such ratings may be obtained from Moody's, Standard & Poor's and Fitch, respectively. No assurances can be given that the current ratings of BofA's instruments will be maintained.

BofA will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the Commission pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of BofA delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications
100 North Tryon Street, 18th Floor
Charlotte, North Carolina 28255
Attention: Corporate Communications

PAYMENTS OF THE PURCHASE PRICE OF THE BONDS WILL BE MADE FROM ADVANCES UNDER THE STANDBY BOND PURCHASE AGREEMENT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE STANDBY BOND PURCHASE AGREEMENT IS A BINDING OBLIGATION OF BOFA, THE BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF BOFA CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL

AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery hereof shall not create any implication that there has been no change in the affairs of BofA Corporation or BofA since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

JPMorgan Chase Bank, N.A.

JPMorgan Chase Bank, National Association (“JPMorgan”) is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. JPMorgan is a commercial bank offering a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of December 31, 2006, JPMorgan Chase Bank, National Association, had total assets of \$1,179.4 billion, total net loans of \$416.7 billion, total deposits of \$650.6 billion, and total stockholder’s equity of \$96.0 billion. These figures are extracted from JPMorgan’s unaudited Consolidated Reports of Condition and Income as at December 31, 2006, which are filed with the Federal Deposit Insurance Corporation.

Additional information, including the most recent Form 10-K for the year ended December 31, 2006, of JPMorgan Chase & Co., the 2006 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017.

The information contained under this caption relates to and has been obtained from JPMorgan. The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of JPMorgan since the date hereof, or that the information contained or referred to under this caption is correct as of any time subsequent to its date.

ABSENCE OF LITIGATION

The Infrastructure Bank

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

The Corporation

There is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body known to the Corporation to be pending or threatened against the

Corporation wherein an unfavorable decision, ruling or finding would adversely affect (i) the corporate existence or organization of the Corporation or the title to office of any member of the Corporation's Board of Governors or officer of the Corporation or any power of the Corporation material to the transaction, or (ii) the validity of the proceedings taken by the Corporation for the adoption, authorization, execution, delivery and performance by the Corporation of, or the validity or enforceability of, the Bonds, the Loan Agreement or the Standby Bond Purchase Agreement.

EXPECTED RATINGS

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

UNDERWRITING

The Underwriters named on the cover page hereof (the "Underwriters") are expected to agree, subject to certain conditions, to purchase the Bonds from the Infrastructure Bank at a price of \$59,824,943 (which reflects an Underwriters' discount of \$175,057). The Bond Purchase Contract provides that the Underwriters are obligated to purchase all of the Bonds if any are purchased. The Bonds may be offered and sold by the Underwriters to certain dealers and others at prices lower than the public offering price indicated on the cover of this Official Statement, and the public offering price may be changed, from time to time, by the Underwriters. The Corporation has agreed to indemnify the Infrastructure Bank and the Underwriters against certain liabilities, including certain liabilities under federal securities laws.

CERTAIN RELATIONSHIPS

Bank of America, National Association, which is serving as a Liquidity Provider, is an affiliate of Banc of America Securities LLC, an Underwriter and the Remarketing Agent for the Series A Bonds. JPMorgan Chase Bank, N.A., which is serving as a Liquidity Provider and as the 2007 Counterparty, is an affiliate of J.P. Morgan Securities Inc., an Underwriter and the Remarketing Agent for the Series B Bonds.

TAX MATTERS

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

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

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

The interest rate mode and certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or dispositions of, or the accrual or receipt of the interest on, the Bonds may otherwise affect a beneficial owner’s federal, state or local tax liability. The nature and extent of these other taxes

consequences depend upon the particular tax status of the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

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

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

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

OTHER LEGAL MATTERS

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

EXECUTION AND DELIVERY

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

**CALIFORNIA INFRASTRUCTURE AND
ECONOMIC DEVELOPMENT BANK**

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

Approved by:

CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION

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

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

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

DEFINITIONS

"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.

"Acquire" means, with respect to the Project, the acquisition of all or a portion of the Project from the developers thereof, the development of all or a portion of the Project by the Corporation, the installation of the Project into Corporation Facilities and equipment, the testing of the Project, the training of Corporation personnel and others with respect to the Project and all other activities necessary or useful in integrating the Project into the Corporation's Facilities, equipment and operations.

"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.

"Act of Bankruptcy" means any of the following with respect to any Person: (a) the commencement by such Person of a voluntary case under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws; (b) failure by such Person to timely controvert the filing of a petition with a court having jurisdiction over such Person to commence an involuntary case against such Person under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws; (c) such Person shall admit in writing its inability to pay its debts generally as they become due; (d) a receiver, trustee, custodian or liquidator of such Person or such Person's assets shall be appointed in any proceeding brought against the Person or such Person's assets; (e) assignment by such Person for the benefit of its creditors; or (f) the entry by such Person into an agreement of composition with its creditors.

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

"Alternate Daily Index" means an index which is a composite of bid-side yields of obligations (a) which (i) provide for a daily adjustment of the interest rate and (ii) must be purchased on demand of the owner thereof on the same day on which notice is given and (b) the interest on which is excluded from gross income for federal income tax purposes.

"Amendment" means any amendment or modification of any of the Documents.

"ARS" means Auction Rate Securities.

"ARS Bonds" means any Bonds in the ARS Interest Rate Period.

“ARS Interest Rate Period” means a period during which the ARS Bonds bear interest at an ARS Rate.

“ARS Rate” means the rate of interest to be borne by the ARS Bonds determined in accordance with the Indenture.

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

“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, the Liquidity Provider (if any) and the Trustee, as a person authorized to act on behalf of the Corporation. Such certificate shall contain the specimen signature of such person, shall be signed on behalf of the Corporation by any officer of the Corporation and may designate an alternate or alternates.

“Authorized Denomination” means with respect to Bonds of any Series, during any Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period, \$100,000 or any multiple of \$5,000 above that amount.

“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 or Executive Director of the Infrastructure Bank by written certificate furnished to the Trustee, the Corporation, the Insurer and the Liquidity Provider (if any), as a person authorized to act on behalf of the Infrastructure Bank.

“Available Amounts” means (a) funds received by the Trustee pursuant to any Liquidity Facility; (b) moneys which have been continuously on deposit with the Trustee (i) held in any separate and segregated fund, account or subaccount established under the Indenture in which no other moneys which are not Available Amounts are held, and (ii) which have so been on deposit with the Trustee for at least 123 consecutive days from their receipt by the Trustee and not commingled with any moneys so held for less than said period and during and prior to which period no Act of Bankruptcy of the Corporation or the Infrastructure Bank has occurred; (c) proceeds from the sale of the Bonds of any Series received contemporaneously with the issuance and sale or remarketing of such Bonds; (d) any other moneys if there is delivered to the Trustee at the time such moneys are deposited with the Trustee an opinion of counsel (which may assume that no Holder of Bonds is an “insider” within the meaning of the Bankruptcy Code) from a firm experienced in bankruptcy matters to the effect that the use of such moneys to pay amounts due on the Bonds would not be recoverable from the Bondholders pursuant to Section 550 of the Bankruptcy Code as avoidable preferential payments under Section 547 of the Bankruptcy Code in the event of the occurrence of an Act of Bankruptcy of the Corporation or the Infrastructure Bank; or (e) proceeds of the investment of funds qualifying as Available Amounts under the foregoing clauses.

“Bank Rate” means with respect to Liquidity Provider Bonds the interest rate to be borne by such Bonds pursuant to the terms of the related Liquidity Agreement.

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

“Beneficial Owner” means, with respect any Book-Entry Bond, the beneficial owner of such Bond as determined in accordance with the applicable rules of DTC.

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

“Bond Insurance Agreement” means that certain agreement, dated as of April 1, 2007, by and between the ISO and the Insurer.

“Bond Insurance Policy” means the financial guaranty insurance policy issued by the Insurer with respect to the Bonds.

“Bond Purchase Fund” means the fund by that name established pursuant to the Indenture.

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

“Business Day” means a day on which banks located in the cities in which the Principal Offices of the Trustee, the Registrar, the Paying Agent, the Tender Agent, the Remarketing Agent and the Liquidity Provider, if any, are located, are not required or authorized to be closed and on which the New York Stock Exchange is not closed.

“Calendar Week” means the period of seven days from and including Thursday of any week to and including Wednesday of the next following week.

“Certificate of the Corporation” means a certificate signed by an Authorized Corporation Representative.

“Certificate of the Infrastructure Bank” means a certificate signed by an Authorized Infrastructure Bank Representative.

“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.

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

“Commercial Paper Rate” means the interest rate on a Bond of any Series in a Commercial Paper Rate Period for a Commercial Paper Term established pursuant to the Indenture.

“Commercial Paper Rate Period” means a period during which the Bonds of any Series bear interest at Commercial Paper Rates.

“Commercial Paper Term” means a period during which a Bond in a Commercial Paper Rate Period bears interest at a specific rate of interest determined for such Bond in accordance with the Indenture.

“Completion Date” means the date of completion of the last portion of any part of the Project as that date shall be certified as provided in the Agreement.

“Computation Date” means any Business Day during the period from and including the date of receipt of a Conversion Notice relating to a Fixed Rate Conversion to and including the Business Day next preceding the proposed Conversion Date.

“Construction Fund” means the fund by that name established pursuant to the Indenture.

“Conversion Date” means the date any Conversion becomes effective in accordance with the Indenture (or, with respect to notices, time periods and requirements in connection with the proceedings for such Conversion, the day on which it is proposed that such Conversion occur).

“Corporate Trust Office” means the corporate trust office of the Trustee as designated in the Indenture or such other office designated by the Trustee from time to time.

“Corporation” or “ISO” 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 Agreement.

“Costs” means, with respect to the Project, the sum of the items, or any such item, authorized to be paid from the Construction Fund pursuant to the provisions of the Act and the Agreement with respect to the Acquisition of the Project, but shall not include any Costs of Issuance of the Bonds.

“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 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 Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds which constitutes a “cost of issuance” within the meaning of Section 147(g) of the Code.

“Costs of Issuance Fund” means the fund by that name established pursuant to the 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.

“Daily Rate” means an interest rate on the Bonds of any Series in a Daily Rate Period established pursuant to the Indenture.

“Daily Rate Period” means a period during which the Bonds of any Series bear interest at Daily Rates.

“Debt Service Reserve Fund” means the Debt Service Reserve Fund established pursuant to the Indenture.

“Debt Service Reserve Valuation Date” means the Business Day preceding each February 1 and August 1, commencing February 1, 2008.

“Determination of Taxability” means a determination that, interest on the Bonds, or any of them, is determined not to be Tax-Exempt by a final administrative determination of the Internal Revenue Service or a final judicial decision of a court of competent jurisdiction in a proceeding of which the

Corporation received notice and was afforded an opportunity to participate to the full extent permitted by law. A determination or decision will not be considered final for purposes of the preceding sentence unless such proceeding shall not be subject to a further right of appeal or shall not have been timely appealed.

“Documents” means, collectively, the Indenture, the Agreement, the Bond Insurance Policy and any Liquidity Facility.

“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 or other similar electronic means of communication confirmed by writing or written transmission.

“Event of Default” as used with respect to the Indenture has the meaning specified in the provisions of the Indenture described under the caption “Indenture of Trust—Default—Events of Default; Acceleration; Waiver of Default,” and as used with respect to the Agreement has the meaning specified in such provisions.

“Existing Parity Obligations” means, collectively, (1) the obligations of the Corporation under the 2000 Loan Agreement, (2) the obligations of the Corporation under any Liquidity Facility or Liquidity Agreement, and any substitute Liquidity Facility and any Liquidity Agreement related thereto (for purposes of this clause (2) of this definition of “Existing Parity Obligations,” the terms Liquidity Facility and Liquidity Agreement have the meanings given those terms in the 2000 Indenture), (3) the obligations of the Corporation under the Swap Agreement (for purposes of this clause (3) of this definition of “Existing Parity Obligations,” the term Swap Agreement has the meaning given that term in the 2000 Indenture), (4) the obligations of the Corporation under the 2004 Swap Agreement, (5) the obligations of the Corporation under the Agreement, (6) the obligations of the Corporation under any Liquidity Facility or Liquidity Agreement and any substitute Liquidity Facility and any Liquidity Agreement related thereto (as such terms are defined in the Indenture), and (7) the Swap Agreement (as such term is defined in the Indenture).

“Facilities” means the physical facilities of the Corporation at which all or a portion of the Project is being utilized and the equipment of the Corporation necessary for the operation of Project.

“Fiscal Year” means the period beginning on January 1 of each year and ending on the next succeeding December 31, or any other twelve-month period selected and designated as the official Fiscal Year of the Corporation.

“Fitch” means Fitch Ratings Ltd., and any successor thereto.

“Fixed Rate” means the fixed interest rate borne by each maturity of the Bonds of any Series from the Fixed Rate Conversion Date established in accordance with the Indenture.

“Government Obligations” means any of the following:

- (1) Cash (insured at all times by the Federal Deposit Insurance Corporation); and

(2) 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 fees 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) an amount necessary to fully amortize the Corporation’s start-up and development costs over a period of not less than 5 years, (ii) budgeted annual operating costs, (iii) financing costs and (iv) budgeted annual costs of pay-as-you-go capital expenditures and reasonable coverage of debt service obligations.

“Holder” or “Bondholder” means the registered owner of any Bond, and for the purposes and subject to the limitations described in the Indenture, the Insurer.

“Indenture” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture entered into pursuant to the provisions of the Indenture.

“Infrastructure Bank” means the California Infrastructure and Economic Development Bank, and any successor to its functions.

“Insurer” means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, and its successors.

“Interest Payment Date” means (i) with respect to each Liquidity Provider Bond and each Bond bearing interest in a Daily Rate Period or Weekly Rate Period, the first Business Day of each calendar month, and (ii) in all events, the final maturity date of each Bond.

“Interest Rate Determination Method” means any of the methods of determining the interest rate on the Bonds of any Series from time to time as described in the Indenture.

“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
- Senior debt obligations of other Government Sponsored Agencies approved by the Insurer.

(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 360 calendar days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

(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 approved in writing by the Insurer (supported by appropriate opinions of counsel); and

(9) Other forms of investments (including repurchase agreements) approved in writing by the Insurer.

“Issue Date” means the date of delivery of the Bonds.

“Liquidity Agreement” means, with respect to any Liquidity Facility, the agreement or agreements between the Corporation and the applicable Liquidity Provider, as originally executed or as it or they may from time to time be replaced, supplemented or amended in accordance with the provisions thereof, providing for the issuance of the Liquidity Facility and the reimbursement of the Liquidity Provider for payments thereunder, and any subsequent agreement pursuant to which a substitute Liquidity Facility is provided, together with any related pledge agreement, security agreement or other security document.

“Liquidity Facility” means, with respect to any Series of Bonds, the Standby Bond Purchase Agreement and any letter of credit, guarantee, standby purchase agreement, or other support arrangement with respect to the purchase price of the Bond of such Series or any combination of the foregoing, provided by the Corporation, pursuant to the Agreement and the Indenture. A Liquidity Facility and the related Liquidity Agreement may be a single document.

“Liquidity Facility Purchase Account” means the account by that name established within the Bond Purchase Fund.

“Liquidity Provider” means the issuer or issuers or other provider or providers of a Liquidity Facility as permitted under the Agreement and the Indenture (except the Corporation), and the respective successors and assigns of the business thereof and any surviving, resulting or transferee entity with or into which it may be consolidated or merged or to which it may transfer all or substantially all of its business. The initial Liquidity Provider for the Bonds shall be Bank of America, N.A. and JPMorgan Chase Bank severally but not jointly, as described in the Standby Bond Purchase Agreement.

“Liquidity Provider Bonds” means any Bonds of any Series purchased pursuant to a Liquidity Facility as provided in the Indenture for so long as such Bonds are held by or for the account of, or are pledged to, the applicable Liquidity Provider in accordance with the Indenture.

“Maximum Interest Rate” means as to the Bonds of any Series, other than Liquidity Provider Bonds, (a) while a Liquidity Facility is in effect with respect to the Bonds of such Series, the rate of interest specified in such Liquidity Facility which is used to determine the amount available under such Liquidity Facility for payment of interest due and payable to Holders of the Bonds, but in no event greater than 12% per annum, and (b) at all other times, 12% per annum; provided, however, that, notwithstanding the foregoing, the term “Maximum Interest Rate” shall never exceed the Maximum Lawful Rate..

“Maximum Lawful Rate” means the maximum rate of interest on the relevant obligation permitted by applicable law.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, and any successor thereto.

“Net Operating Revenues” means, for any period, an amount equal to the Operating Revenues for that period less Operating Expenses for that period.

“Net Proceeds” means the proceeds from insurance or from actual or threatened condemnation or eminent domain actions with respect to the Project or any part thereof, less any costs reasonably expended by the Corporation to receive such proceeds.

“Non Payment Rate” means, on any date of determination, the interest rate per annum equal to the lesser of the (i) Maximum Interest Rate or (ii) 12% per annum.

“Notice by Mail” or “notice” of any action or condition “by Mail” shall mean a written notice meeting the requirements of the Indenture mailed by first class mail to the Holders of specified Bonds, at the addresses shown on the registration books maintained pursuant to the Indenture.

“NRMSIR” means a nationally recognized municipal securities information repository recognized by the Securities and Exchange Commission pursuant to Rule 15c2-12.

“Operating Expenses” means all expenses that are incurred by the ISO to carry out its operations and are included in an Approved Operating Budget or, if not expressly included in an Approved Operating Budget, expressly approved by the board of the ISO, including but not limited to: compensation of any type, salaries and benefits, building and facility use and maintenance, rents, taxes, equipment rental and lease costs, insurance, third party vendor contracts, professional and consulting fees, studies, legal and regulatory costs, training and travel, software, office expense and fees, and fees and expenses payable under or pursuant to any Liquidity Agreement, the Agreement, the Swap Agreement and any other agreement evidencing Parity Obligations.

“Operating Fund” means those bank accounts specified in the Indenture.

“Operating Revenues” means all revenues received by the ISO for the account of the ISO from all sources, including but not limited to the Grid Management Charge, interest on all ISO operating accounts and reserve accounts, communication fees, Western Systems Coordinating Council security fees, application fees, training reimbursements, and any other revenues from ancillary services, but excluding any moneys received by the ISO in trust for third parties i.e., (i) moneys in the Clearing Account established pursuant to the Tariff in Section 11.8.2 of the Settlement and Billing Protocol included in the Tariff, other than those moneys payable as the Grid Management Charge, (ii) moneys in the accounts established pursuant to the Appendix N, Part J, Section 2 and (iii) moneys in any like account established by the ISO pursuant to the Tariff.

“Opinion of Bond Counsel” means an Opinion of Counsel from a Bond Counsel.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Corporation) acceptable to the Infrastructure Bank, the Insurer and the Corporation.

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

(a) Bonds theretofore cancelled by the Registrar or surrendered to the Registrar for cancellation;

(b) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the terms of the Indenture;

(c) 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 Indenture; and

(d) Bonds deemed purchased pursuant to the Indenture.

“Parity Obligations” means, collectively, (1) the Existing Parity Obligations and (2) 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 Agreement.

“Paying Agent” means any paying agent appointed as provided in the Indenture, or any successor thereto.

“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 Installment” means, with respect to any Principal Installment Date, the sum of (a) the aggregate amount of principal due with respect to Bonds that mature on such Principal Installment Date, plus (b) the aggregate amount of mandatory sinking fund payments due on such Principal Installment Date.

“Principal Installment Date” means any date on which any Bonds mature or any date on which any of the Bonds are subject to redemption from mandatory sinking fund payments.

“Principal Office” (i) of the Tender Agent, the Registrar or the Paying Agent means the office thereof designated in writing by the Tender Agent, the Registrar or the Paying Agent, as the case may be, to the Infrastructure Bank, the Trustee, the Liquidity Provider and the Corporation, which initially shall be located in Irvine, California, at the address set forth in the Indenture, (ii) of the Trustee means the Corporate Trust Office of the Trustee; (iii) of the Remarketing Agent means its office designated in writing to the Infrastructure Bank, the Trustee, the Tender Agent, the Liquidity Provider and the Corporation; (iv) of the initial Liquidity Provider means the office of Bank of America, N.A., designated in writing to the Infrastructure Bank, the Trustee, the Tender Agent and the Corporation, which initially, shall be located in Sacramento, California at the address set forth in the Indenture; and (v) of any subsequent Liquidity Provider means its office located at such address as such Liquidity Provider shall designate in writing to the Infrastructure Bank, the Trustee, the Tender Agent and the Corporation.

“Purchase Contract” means, with respect to each Series of the Bonds, the Bond Purchase Contract among the Infrastructure Bank, the Treasurer of the State, the Corporation and the underwriter for such Series of the Bonds named therein, relating to the sale of such Series of the Bonds from the Infrastructure Bank to such underwriter.

“Purchase Date” means any date on which any Bond is required to be purchased pursuant to optional tender and mandatory tender provisions of the Indenture.

“Qualified Newspaper” means The Wall Street Journal or The Bond Buyer or any other newspaper or journal containing financial news, printed in the English language and customarily published on each Business Day, of general circulation in New York, New York, and selected by the Corporation, approved by the Infrastructure Bank and designated to the Trustee.

“Rate” means the interest rate applicable to any Bond or Bonds of any Series as provided in the Indenture.

“Rate Index” means, during such times as the Bonds of any Series are in a Weekly Rate Period, the Weekly Rate Index.

“Rate Period” means any Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period, ARS Interest Rate Period, or Fixed Rate Period.

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

“Rating Confirmation” means, with respect to the Variable Rate Bonds of any Series, written evidence from each Rating Agency then rating such Variable Rate Bonds to the effect that, following one of the events which requires a Rating Confirmation, such Variable Rate Bonds will be rated in the highest short-term rating category (without regard to rating subcategories) of such Rating Agency either (i) as a result of the provision of a particular Liquidity Facility or (ii) based on the credit of the Insurer and the Corporation and the applicable Liquidity Facility.

“Rebate Fund” means the Rebate Fund established and held by the Trustee in accordance with the Indenture.

“Rebate Requirement” has the meaning assigned to such term in the Tax Certificate.

“Record Date” means with respect to any Interest Payment Date in respect of any Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period, the Business Day next preceding such Interest Payment Date.

“Registrar” means any registrar appointed as provided in the Indenture, or any successor thereto.

“Remarketing Agent” means, with respect to any Series of Bonds and as the context may require, the initial Remarketing Agent designated for such Series of the Bonds in the Indenture and any successor to such initial Remarketing Agent appointed pursuant to the Indenture.

“Remarketing Agreement” means any agreement or agreements meeting the requirements of the Indenture.

“Repayment Installment” means any amount that the Corporation is required to pay to the Trustee pursuant to the provisions of the Agreement described below under the caption “The Loan Agreement—Loan to the Corporation; Repayment Provisions—Repayment and Payment of Other Amounts Payable” as a repayment of the loan made by the Infrastructure Bank under the Agreement.

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

“Reserve Financial Guaranty” means a policy of municipal bond insurance or surety bond issued by a municipal bond insurer or a letter of credit issued by a bank or other institution if the obligations insured by such insurer or issued by such bank or other institution, as the case may be, have ratings at the time of issuance of such policy or surety bond or letter of credit in the highest rating category (without regard to qualifiers) by Standard & Poor’s and Moody’s and, if rated by A.M. Best & Company, also in the highest rating category (without regard to qualifiers) by A.M. Best & Company.

“Reserve Financial Guaranty Provider” means an issuer of a Reserve Financial Guaranty.

“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.

“Revenues” means all receipts, installment payments and other income derived by the Infrastructure Bank or the Trustee under the Agreement or otherwise in respect of the financing or refinancing of the Project as contemplated by the Agreement, and any income or revenue derived from the investment of any money in any fund or account established pursuant to the Indenture (other than the Bond Purchase Fund, the Rebate Fund and the accounts therein), including all Repayment Installments, amounts received under the Bond Insurance Policy to pay principal of and interest on the Bonds and any other payments made by the Corporation with respect to the Bonds pursuant to the Agreement; provided, however, that such term shall not include certain payments to the Infrastructure Bank or the Trustee with respect to certain provisions of the Indenture including the fees, expenses and indemnification rights of the Infrastructure Bank and the Trustee, certain payments described under “The Loan Agreement—Special Covenants and Agreements—Tax-Exempt Status of Interest on Bonds” and such term shall not include any amounts on deposit in the Bond Purchase Fund, the Rebate Fund or accounts therein.

“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, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190, 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.

“Series” means, with respect to the Bonds, each of the Infrastructure Bank’s Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2007 Series A and Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2007 Series B.

“Serial Bonds” means Bonds for which no mandatory sinking fund payments are established.

“SID” means the state information depository, if any, of the State recognized by the Securities and Exchange Commission pursuant to Rule 15c2-12.

“Standby Bond Purchase Agreement” means, the Standby Bond Purchase Agreement, dated as of April 1, 2007, among the Corporation, the Trustee, and Bank of America, N.A., individually and as

Administrative Agent, and JPMorgan Chase Bank, N.A., as the same may be supplemented and amended from time to time in accordance with its terms and the terms of the Indenture.

“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 any successors thereto.

“State” means the State of California.

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

“Tariff” means the ISO Tariff and Pro Forma Agreements as posted from time to time pursuant to an order of the Federal Energy Regulatory Commission. References contained in the Indenture to specific sections of the Tariff shall mean the Tariff as posted on November 29, 2007.

“Tax Certificate” means, for each Series of Bonds, the Tax Certificate and Agreement related to such Series of Bonds, dated as of the Issue Date for such Series, 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 Bonds, that such interest is excluded from the gross income of the holders thereof (other than any holder who is a “substantial user” of facilities financed with such obligations or a “related person” within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

“Tax-Exempt Securities” means revenue bonds or other securities the interest on which is Tax-Exempt.

“Tender Agent” means, with respect to the Bonds of any Series, the tender agent for the Bonds of such Series, if any, selected by the Corporation and meeting the requirements of the Indenture.

“Term Bonds” means Bonds which are payable on or before their specified maturity dates from mandatory sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

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

“2000 Indenture” means that certain Indenture, dated as of March 1, 2000, by and between the Infrastructure Bank and Deutsche Bank National Trust Company (f/k/a Bankers Trust Company of California, N.A.), as trustee.

“2000 Loan Agreement” means that certain Loan Agreement, dated as of March 1, 2000, by and between the Infrastructure Bank and the Corporation.

“2000 Swap Agreement” means the ISDA Master Agreement, between the Corporation and JPMorgan Chase Bank, National Association, as amended and supplemented by the parties in accordance with the terms thereof, including each transaction thereunder.

“2004 Indenture” means that certain Indenture of trust, dated as of December 1, 2004, by and between the Infrastructure Bank and Deutsche Bank National Trust Company, as trustee.

“2004 Loan Agreement” means that certain Loan Agreement, dated as of December 1, 2004, by and between the Infrastructure Bank and the Corporation.

“2004 Series A Bonds” means the California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2004 Series A authorized and issued pursuant to the 2004 Indenture.

“2004 Series B Bonds” means the California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2004 Series B authorized and issued pursuant to the 2004 Indenture.

“2004 Swap Agreement” means the ISDA Master Agreement, between the Corporation and JPMorgan Chase Bank, National Association, as amended and supplemented by the parties in accordance with the terms thereof, including each transaction thereunder.

“2007 Series A Bonds” means the California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2007 Series A authorized and issued pursuant to the Indenture.

“2007 Series B Bonds” means the California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2007 Series B authorized and issued pursuant to the Indenture.

“2007 Swap Agreement” means the ISDA Master Agreement, between the Corporation and JPMorgan Chase Bank, National Association, as amended and supplemented by the parties in accordance with the terms thereof, including each transaction thereunder.

“Variable Rate Bonds” means Bonds of any Series that bear interest at a Variable Rate.

“Weekly Rate” means an interest rate on the Bonds of any Series in a Weekly Rate Period established in accordance with the Indenture.

“Weekly Rate Index” means The Bond Market Association Municipal Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., or its successor, or as otherwise designated by The Bond Market Association; provided, however, that, if such index is no longer produced by Municipal Market Data, Inc. or its successor, then “The Bond Market Association Municipal Index” shall mean such other reasonably comparable index selected by the Corporation.

“Weekly Rate Period” means a period during which the Bonds of any Series bear interest at Weekly Rates.

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

INDENTURE OF TRUST

The Bonds

Issuance of Bonds. The Trustee shall authenticate and deliver the Bonds of each Series to the purchasers thereof upon compliance with the following conditions:

(a) The Trustee shall have received an executed copy of the Agreement, the applicable Purchase Contract and the Indenture;

(b) The Trustee shall have received the Bond Insurance Policy and an executed copy of the Standby Bond Purchase Agreement, and opinions of Bond Counsel, counsel to the Insurer and counsel to the Liquidity Provider under the Standby Bond Purchase Agreement meeting the requirements of the applicable Purchase Contract; and

(c) The Trustee shall have received a Written Request of the Infrastructure Bank certifying that all conditions precedent to the issuance of such Series of Bonds have been complied with and directing the Trustee to authenticate and deliver such Series of Bonds.

Transfer and Exchange of Bonds. Registration of any Bond may, in accordance with the terms of the Indenture, be transferred, upon the books of the Registrar required to be kept pursuant to the provisions of the Indenture, by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by a written instrument of transfer in a form approved by the Registrar, duly executed. Whenever any Bond shall be surrendered for registration of transfer, the Infrastructure Bank shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds of the same tenor of Authorized Denominations. No registration of transfer of Bonds upon the books of the Registrar required to be kept pursuant to the provisions of the Indenture shall be required to be made during the period after any Record Date and prior to the related Interest Payment Date or during the period of 15 days next preceding the date on which the Trustee gives any notice of redemption, nor shall any registration of transfer of Bonds called for redemption be required.

Bonds may be exchanged at the Principal Office of the Registrar for a like aggregate principal amount of Bonds of the same tenor of Authorized Denominations. The Registrar shall require the payment by the Bondholder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange, and there shall be no other charge to any Bondholders for any such exchange. Except with respect to Bonds purchased pursuant to the Indenture, no exchange of Bonds shall be required to be made during the period after any Record Date and prior to the related Interest Payment Date or during the period of 15 days next preceding the date on which the Trustee gives notice of redemption, nor shall any exchange of Bonds called for redemption be required.

Bond Register. The Registrar will keep or cause to be kept at its Principal Office sufficient books for the registration and the registration of transfer of the Bonds, which shall at all times, during regular business hours, be open to inspection by the Infrastructure Bank, the Trustee, the Insurer, the Liquidity Provider, if any, and the Corporation; and, upon presentation for such purpose, the Registrar

shall, under such reasonable regulations as it may prescribe, register the transfer or cause to be registered the transfer, on said books, of Bonds as before provided.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Infrastructure Bank, upon the request and at the expense of the Holder of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and number in exchange and substitution for the Bond so mutilated, but only upon surrender to the Registrar of the Bonds so mutilated. Every mutilated Bond so surrendered to the Registrar shall be cancelled by it and destroyed and, upon the written request of the Infrastructure Bank, a certificate evidencing such destruction shall be delivered to the Infrastructure Bank, with a copy to the Corporation. If any Bond issued under the Indenture shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Infrastructure Bank, the Corporation and the Registrar, and if such evidence be satisfactory to them and indemnity satisfactory to them shall be given by or on behalf of the Holder of such lost, destroyed or stolen Bond, the Infrastructure Bank, at the expense of the Holder, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured, instead of issuing a substitute Bond the Registrar may pay the same without surrender thereof upon receipt of indemnity satisfactory to it). The Infrastructure Bank may require payment of a reasonable fee for each new Bond issued under this paragraph and payment of the expenses which may be incurred by the Infrastructure Bank and the Registrar. Any Bond issued under the provisions of this paragraph in lieu of any Bond mutilated or alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Infrastructure Bank whether or not the Bond mutilated or so alleged to be lost, destroyed or stolen shall be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of the Indenture with all other Bonds secured by the Indenture.

Construction Fund; Costs of Issuance Fund

Construction Fund. (a) The Trustee shall establish the "2007 California Independent System Operator Corporation Construction Fund" (the "Construction Fund"). The Trustee shall establish within the Construction Fund such accounts and subaccounts as are specified in the Tax Certificate and, upon written direction from an Authorized Corporation Representative, such additional accounts and subaccounts as may be necessary or convenient to carry out the purposes of the Tax Certificate and the Indenture.

(b) Before each payment is made from the Construction Fund (including any account established therein) by the Trustee, there shall be filed with the Trustee a requisition conforming with the requirements of the Agreement.

Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Upon receipt of each such requisition, signed by an Authorized Corporation Representative, the Trustee shall pay the amount set forth therein as directed by the terms thereof.

(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 Construction Fund or provision having been made for payment of such Costs not yet due by retaining the amount of such Costs in the Construction Fund or otherwise as directed in such certificate, the Trustee shall transfer any remaining balance in the Construction Fund into a separate account within the Bond Fund, which the Trustee shall establish and hold in trust, and which shall be entitled the "Surplus Account." The moneys in any Surplus Account shall be used and applied to pay the principal, including redemption price and purchase price, and interest on the Bonds as directed by an Authorized Corporation Representative (unless some other

application of such moneys is requested by the Corporation and would not, in the Opinion of Bond Counsel, in and of itself, adversely affect the Tax-Exempt status of interest on the Bonds) to the purchase for cancellation or redemption of Bonds of any Series as designated by an Authorized Corporation Representative in Authorized Denominations, to the maximum degree permissible, and at the earliest possible dates at which such Bonds can be purchased or redeemed pursuant to the Indenture. Notwithstanding the provisions of the Indenture described below under "Revenues—Investment of Moneys," the moneys in such Surplus Account shall be invested at the written instruction of the Corporation at a yield no higher than the yield on the Outstanding Bonds (unless in the Opinion of Bond Counsel investment at a higher yield would not in and of itself, adversely affect the Tax-Exempt status of interest on the Bonds), and all such investment income shall be deposited in such Surplus Account and expended or reinvested as provided above.

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

Costs of Issuance Fund. The Trustee shall establish the 2007 Costs of Issuance Fund (the "Costs of Issuance Fund"). The Trustee shall establish such accounts and subaccounts within the Costs of Issuance Fund as may be specified in a written direction from an Authorized Corporate Representative. The moneys in the Costs of Issuance Fund shall be held by the Trustee in trust and applied to the payment of Costs of Issuance of the Bonds. All payments from the Costs of Issuance Fund shall be reflected in the Trustee's regular accounting statements. Any amounts remaining in an account of the Costs of Issuance Fund three months following the Issue Date shall be transferred to the Construction Fund and deposited in such accounts as are specified in the applicable Tax Certificate or, in the absence of any such specification, as directed by an Authorized Corporation Representative.

Revenues

Pledge of Revenues and Liquidity Facility. All of the Revenues are irrevocably pledged to the punctual payment of the principal of and interest and premium, if any, on the Bonds (including Liquidity Provider Bonds), and thereafter to the payment of obligations due to the Liquidity Provider under the Liquidity Agreement, to the extent of its interests in such Revenues; and Revenues shall not be used for any other purpose, except as provided in the Indenture, while any of the Bonds (including Liquidity Provider Bonds) remain Outstanding. Said pledge shall constitute a first and exclusive lien on the Revenues for the payment of the Bonds (including Liquidity Provider Bonds), and payment to the Liquidity Provider in accordance with the terms of the Indenture and of the Liquidity Agreement. All Revenues shall be held in trust for the benefit of the Holders from time to time of the Bonds (including Liquidity Provider Bonds), and thereafter to the Liquidity Provider, to the extent of its interests in such Revenues but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

Each Liquidity Facility, if any, provided with respect to a Series of the Bonds is irrevocably pledged to the punctual payment of the Purchase Price of the Bonds of such Series, and proceeds of any drawing on such Liquidity Facility shall not be used for any other purpose. Said pledge shall constitute a first and exclusive lien on such Liquidity Facility in favor of the Trustee for the benefit of the Holders of the Bonds of the Series secured by such Liquidity Facility and any payments thereunder for the payment of the Purchase Price of the Bonds of such Series in accordance with the terms thereof. Each Liquidity Facility, if any, and any payments thereunder shall be held in trust for the benefit of the Holders from time to time of the Bonds of the Series secured by such Liquidity Facility but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

The Corporation may at its sole discretion from time to time deliver to the Trustee such additional or other security interests permitted by the Indenture or the Infrastructure Bank to secure the payment of the principal of and interest and premium, if any, on, and Purchase Price of, the Bonds or the Bonds of any Series and any such additional or other security delivered by the Corporation shall be pledged to such payment, provided that there is delivered to the Trustee an Opinion of Bond Counsel to the effect that the delivery of such additional or other security does not, in and of itself, adversely affect the Tax-Exempt status of interest on the Bonds.

The Bonds shall not constitute a debt or liability of the State or any political subdivision thereof, other than a limited obligation of the Infrastructure Bank payable solely from Revenues. The Bonds do not constitute a pledge of the faith and credit of the State or any political subdivision thereof, but shall be payable solely from the funds provided therefor in the Indenture. Neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal of, or interest on, the Bonds; and no Holder or Beneficial Owner of any Bond shall have any right to demand payment of the principal of, premium, if any, or interest on, the Bonds by the Infrastructure Bank, the State or any political subdivision thereof, out of any funds to be raised by taxation or appropriation.

Bond Fund. Upon the receipt thereof, the Trustee shall deposit all Revenues in the "California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) Series 2007 Bond Fund" (the "Bond Fund"), which the Trustee shall establish and maintain and hold in trust, and which shall be disbursed and applied only as authorized in the Indenture. Except as provided in the Indenture, moneys in the Bond Fund shall be used solely for the payment of the principal of and premium, if any, and interest on all Series of the Bonds as the same shall become due, *pari passu*, whether at maturity or upon redemption or acceleration.

The Trustee shall deposit in the Bond Fund from time to time, upon receipt thereof, all amounts received by the Trustee pursuant to the Bond Insurance Policy, all Repayment Installments received by the Trustee from 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 Revenues, including any other prepayment amounts received under the Agreement from or for the account of the Corporation.

In making payments of principal of, premium, if any, and interest on the Bonds, the Trustee shall use any Revenues received by the Trustee, and shall not be limited to Available Amounts.

Except to the extent such moneys are required to be held for the payment of principal of, redemption premium, if any, or interest on the Bonds then due and payable or to effect the defeasance of Bonds pursuant to the provisions of the Indenture described below under "Defeasance," so long as no Event of Default (or any event which would be an Event of Default under the Indenture with the passage of time or the giving of notice) exists under the Indenture, on the fifth day after each Interest Payment Date, the Trustee, unless otherwise instructed by the Corporation, shall return to the Corporation (free and clear of the pledge and lien of the Indenture) any moneys then on deposit in the Bond Fund or shall deposit such funds in the Rebate Fund if so instructed by the Corporation; provided, however, that no payment shall be made to the Corporation if the Corporation has any obligations to a Liquidity Provider which are then due and payable, as certified by the Liquidity Provider to the Trustee.

Debt Service Reserve Fund. The Trustee shall establish and maintain and hold in trust the "California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) Series 2007 Debt Service Reserve Fund" (the "Debt Service Reserve Fund"). If, on any date on which the principal or redemption price of, or interest on, Bonds is due, the amount in the Bond Fund available for such payment is less than the amount of the principal and redemption price of and interest on the Bonds due on such date, the Trustee shall

apply amounts from the Debt Service Reserve Fund to the extent necessary to make good the deficiency. For purposes of determining the amount on deposit in the Debt Service Reserve Fund, all investments shall be valued two Business Days before each Debt Service Reserve Valuation Date at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions).

Except as provided in the Indenture, if on any Debt Service Reserve Valuation Date the amount on deposit in the Debt Service Reserve Fund shall exceed the Debt Service Reserve Requirement, such excess shall be applied to the reimbursement of each drawing on a Reserve Financial Guaranty deposited in or credited to such Fund and to the payment of interest or other amounts due with respect to such a Reserve Financial Guaranty and any remaining moneys shall be deposited in the Bond Fund.

Whenever the amount in the Debt Service Reserve Fund (excluding Reserve Financial Guaranties), together with the amount in the Bond Fund, is sufficient to pay in full all of the Outstanding Bonds in accordance with their terms (including principal or redemption price and interest thereon), the funds on deposit in the Debt Service Reserve Fund, subject to the provisions of the Indenture, shall be transferred to the Bond Fund.

In the event of the refunding of one or more Bonds (or portions thereof), the Trustee shall, upon the written direction of an Authorized Corporation Representative, withdraw from the Debt Service Reserve Fund any or all of the amounts on deposit therein (excluding Reserve Financial Guaranties) and deposit such amounts with itself as Trustee, or the escrow agent for the Bonds to be refunded, to be held for the payment of the principal or redemption price, if any, of, and interest on, the Bonds (or portions thereof) being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds (or portions thereof) being refunded shall be deemed to have been paid pursuant to the Indenture, and (b) the amount remaining in the Debt Service Reserve Fund after such withdrawal, taking into account any deposits to be made in the Debt Service Reserve Fund in connection with such refunding, shall not be less than the Debt Service Reserve Requirement.

In lieu of the deposits and transfers to the Debt Service Reserve Fund required by the Agreement, the Corporation may cause to be deposited in the Debt Service Reserve Fund a Reserve Financial Guaranty or Reserve Financial Guaranties in an amount equal to the difference between the Debt Service Reserve Requirement and the sums, if any, then on deposit in the Debt Service Reserve Fund or being deposited in such Fund concurrently with such Reserve Financial Guaranty or Guaranties. The Trustee shall draw upon or otherwise take such action as is necessary in accordance with the terms of the Reserve Financial Guaranties to receive payments with respect to the Reserve Financial Guaranties (including the giving of notice as required thereunder): (i) on any date on which moneys shall be required to be withdrawn from the Debt Service Reserve Fund and applied to the payment of principal or redemption price of, or interest on, any Bonds and such withdrawal cannot be met by amounts on deposit in the Debt Service Reserve Fund; (ii) on the first Business Day which is at least ten (10) days prior to the expiration date of each Reserve Financial Guaranty, in an amount equal to the deficiency which would exist in the Debt Service Reserve Fund if the Reserve Financial Guaranty expired, unless a substitute Reserve Financial Guaranty with an expiration date not earlier than 180 days after the expiration date of the expiring Reserve Financial Guaranty is acquired prior to such date or the Corporation deposits funds in the Debt Service Reserve Fund on or before such date such that the amount in the Debt Service Reserve Fund on such date (without regard to such expiring Reserve Financial Guaranty) is at least equal to the Debt Service Reserve Requirement.

If, upon the deposit of a Reserve Financial Guaranty into the Debt Service Reserve Fund pursuant to immediately preceding paragraph, there shall be any amount in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement, such excess amount may be applied to the cost of

acquiring such Reserve Financial Guaranty and, to the extent not so applied, shall be transferred to the Bond Fund.

Trustee Authorized to Take Actions Under the Agreement. The Infrastructure Bank authorizes and directs the Trustee, and the Trustee agrees, subject to the Indenture, to take such actions as the Trustee deems necessary to enforce the Corporation's obligation under the Agreement to make payments at such times and in such amounts as are necessary in order for the Trustee to make timely payment of principal of and interest on the Bonds to the extent any Bond proceeds and other moneys in the Bond Fund are not available for such payment in accordance with the provisions of the Indenture.

Investment of Moneys. Subject to the provisions of the Indenture, any moneys in any of the funds and accounts to be established by the Trustee pursuant to the Indenture (other than the Bond Purchase Fund) shall 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), by the Trustee, if and to the extent then permitted by law, in Investment Securities. In the absence of such written direction, the Trustee shall invest solely in units of a money-market fund or portfolio restricted to obligations issued by, or guaranteed by the full faith and credit of, the United States of America which is rated by each Rating Agency at least as high as the then-current rating of such Rating Agency on the Bonds. Moneys in any fund or account (other than the Bond Purchase Fund) shall 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 Holder) not later than the date on which such moneys will be required by the Trustee.

Notwithstanding the foregoing provisions, (i) any moneys held in the Bond Purchase Fund and any moneys constituting payments under any Liquidity Facility shall be held uninvested unless such moneys are invested in accordance with the provisions of the Indenture described below under the caption "Defeasance" to effect the defeasance of Bonds and (ii) any moneys constituting Available Amounts shall be invested in Investment Securities that are rated "AAA" or "A-1+" by Standard & Poor's and that mature on or before the date on which such moneys are to be applied to redeem Bonds.

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

The Infrastructure Bank (and the Corporation by its execution of the Agreement) acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Infrastructure Bank or the Corporation the right to receive brokerage confirmations of security transactions as they occur, the Infrastructure Bank and the Corporation specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Corporation and, if requested, the Infrastructure Bank, periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

Enforcement of Obligations. (a) The Trustee also shall be entitled to take all steps, actions and proceedings reasonably necessary in its judgment (1) to enforce the terms, covenants and conditions of, and preserve and protect the priority of its interest in and under, the Agreement, the Bond Insurance Policy, any Liquidity Facility and any other security agreement with respect to the Project, other than the Tax Certificate, or the Bonds, and (2) to assure compliance with all covenants, agreements and conditions on the part of the Infrastructure Bank contained in the Indenture with respect to the Revenues.

Liquidity Facilities; Liquidity Provider Bonds. The Trustee acknowledges the right of the Corporation at any time to provide a substitute Liquidity Facility with respect to any Series of Bonds bearing interest at a Variable Rate for the Liquidity Facility then in effect. If there shall have been delivered to the Infrastructure Bank and the Trustee in connection with a Series of the Bonds (i) a substitute Liquidity Facility meeting the requirements of the Agreement and (ii) the opinions and documents required by the Agreement, then the Trustee shall accept such substitute Liquidity Facility and, if so directed by the Corporation, on or about the fifth Business Day succeeding the effective date of such substitute Liquidity Facility promptly surrender the Liquidity Facility theretofore in effect with respect to such Series of Bonds in accordance with the respective terms thereof for cancellation; provided the Trustee shall not surrender any Liquidity Facility until all draws or requests to purchase Bonds made under such Liquidity Facility have been honored. In the event that the Corporation elects to provide a substitute Liquidity Facility in connection with a Series of the Bonds, the Bonds of such Series shall be subject to mandatory tender as described in body of this Official Statement under subparagraph (ii) under the caption “The Bonds—Tender of Bonds for Purchase—Mandatory Tender During Weekly Rate Period.” If at any time all Bonds of a Series secured by a Liquidity Facility shall cease to be Outstanding under the Indenture or all the Outstanding Bonds of a Series secured by a Liquidity Facility have been converted to a Fixed Rate or an ARS Rate, or a Liquidity Facility shall be terminated pursuant to its terms, the Trustee shall promptly surrender such Liquidity Facility in accordance with its terms for cancellation. The Trustee shall comply with the procedures set forth in each Liquidity Facility relating to the termination thereof.

In the event that a Liquidity Facility is in effect, the Trustee shall make a demand for payment under such Liquidity Facility subject to and in accordance with its terms, in order to receive payment thereunder as provided in the Indenture.

Each demand for payment under a Liquidity Facility shall be made not later than the time required by the Liquidity Facility in order to receive payment thereunder not later than the time payment of the Purchase Price is required to be made to the Holders or the Beneficial Owners of the Bonds pursuant to the Indenture. The Trustee shall give notice of each such demand for payment to the Corporation at the time of each such demand. The proceeds of each such demand shall be deposited in the Liquidity Facility Purchase Account, and used in the order of priority established by the Indenture. At the time of making any demand under a Liquidity Facility pursuant to the Indenture, the Trustee shall direct the Liquidity Provider to pay the proceeds of such demand directly to the Tender Agent for deposit in the Liquidity Facility Purchase Account in the Bond Purchase Fund. The Trustee shall comply with all provisions of each Liquidity Facility in order to realize upon any demand for payment thereunder, and will not demand payment under any Liquidity Facility of any amounts for payment of: (i) Liquidity Provider Bonds; or (ii) Bonds held by the Infrastructure Bank or the Corporation or actually known by the Trustee to be held by any affiliate of the Corporation or any nominee of the Infrastructure Bank or the Corporation unless such Liquidity Facility specifically permits such demand.

Any Bonds purchased with payments made under a Liquidity Facility pursuant to the Indenture shall constitute Liquidity Provider Bonds and shall be registered in the name of, or as otherwise directed by, the Liquidity Provider and delivered to or upon the order of, or as otherwise directed by, such Liquidity Provider; provided, that if such Bonds are Book-Entry Bonds, the Trustee shall immediately

upon making any demand for payment on a Liquidity Facility pursuant to the Indenture notify the Tender Agent. Upon receipt of such notice, the Tender Agent shall direct DTC to cause any Bonds purchased with the proceeds of such demand to be transferred to such account at DTC as directed by the Liquidity Provider, and such Bonds shall be held in the name of or for the account of the Liquidity Provider or as may be directed by such Liquidity Provider.

Unless otherwise provided in the Liquidity Agreement, Liquidity Provider Bonds shall be remarketed by the Remarketing Agent prior to any other Bonds tendered for purchase under the Indenture, and shall be remarketed in accordance with the terms of the applicable Remarketing Agreement. Upon (i) receipt by the Trustee and the Tender Agent of written notification from the Liquidity Provider that its Liquidity Facility has been fully reinstated with respect to principal and interest and (ii) release by the Liquidity Provider of any Liquidity Provider Bonds which the Remarketing Agent has remarketed, such Bonds shall be made available to the purchasers thereof and shall no longer constitute Liquidity Provider Bonds for purposes of the Indenture. The proceeds of any remarketing of Liquidity Provider Bonds shall be paid to the Liquidity Provider by the Tender Agent on such remarketing date in immediately available funds.

Each of the Trustee and the Tender Agent agrees that it will, immediately upon receipt, send to the Liquidity Provider (by telephonic or Electronic notice) a copy of every notice received by it under the Indenture relating to any Liquidity Provider Bonds.

Notwithstanding anything to the contrary in the Indenture or in the Bonds, all obligations of the Corporation under or in connection with any Liquidity Agreement (including, without limitation, reimbursement obligations of the Corporation to any participating Liquidity Providers with respect to a Liquidity Facility and any Liquidity Provider Bonds) shall be governed by the terms of such Liquidity Agreement.

The Trustee shall provide to each Rating Agency written notice of the extension of any Liquidity Facility in effect with respect to the Bonds.

Whenever requested in writing by the Corporation, the Trustee shall submit to each Liquidity Provider a reduction certificate or other appropriate documentation necessary under the Liquidity Facility to reduce the principal amount of Bonds and related interest to which such Liquidity Facility relates to reflect any purchase or redemption and the cancellation of such Bonds.

Covenants of the Infrastructure Bank

Payment of Principal and Interest. The Infrastructure Bank shall punctually pay, but only out of Revenues as provided in the Indenture, the principal and the interest (and premium, if any) to become due in respect of every Bond issued under the Indenture at the times and places and in the manner provided in the Indenture and in the Bonds according to the true intent and meaning thereof. All such payments shall be made by the Trustee as provided in the Indenture. When and as paid in full, all Bonds, if any, shall be delivered to the Trustee and shall forthwith be cancelled by the Trustee, who shall deliver a certificate evidencing such cancellation to the Corporation and, if requested, the Infrastructure Bank. The Trustee may retain or destroy such cancelled Bonds.

Extension or Funding of Claims for Interest. In order to prevent any accumulation of claims for interest after maturity, the Infrastructure Bank shall not, directly or indirectly, extend or assent to the extension of the time for the payment of any claim for interest on any of the Bonds, and shall not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding such claims or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the

consent of the Infrastructure Bank, such claim for interest so extended or funded shall not be entitled, in case of default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Paying Agents. The Infrastructure Bank, with the written approval of the Trustee and the Corporation, may appoint and at all times have one or more Paying Agents (which shall meet the qualifications of the Trustee set forth in the Indenture) in such place or places as the Corporation may designate, for the payment of the principal of, and the interest (and premium, if any) on, the Bonds. The Paying Agent initially appointed under the Indenture is the Trustee.

Preservation of Revenues. The Infrastructure Bank shall not waive any provision of the Agreement or take any action to interfere with or impair the pledge and assignment under the Indenture of Revenues and the assignment to the Trustee of rights under the Agreement, or the Trustee's enforcement of any 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 Indenture.

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

Arbitrage Covenants; Rebate Fund. The Infrastructure Bank covenants with all Persons who hold or at any time held Bonds that the Infrastructure Bank will not directly or indirectly use the proceeds of any of the Bonds or any other funds of the Infrastructure Bank or permit the use of the proceeds of any of the Bonds or any other funds of the Infrastructure Bank or take or omit to take any other action which will cause any of the Bonds to be "arbitrage bonds" or otherwise subject to federal income taxation by reason of Sections 103 and 141 through 150 of the Code and any applicable regulations promulgated thereunder. To that end the Infrastructure Bank covenants to comply with all covenants set forth in the Tax Certificate, which is incorporated in the Indenture by reference as though fully set forth in the Indenture.

The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated the "California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds, Series 2007 (California Independent System Operator Corporation Project) Rebate Fund" (herein called the "Rebate Fund"). Within the Rebate Fund, the Trustee shall maintain such accounts as shall be directed by the Corporation as necessary in order for the Infrastructure Bank and the Corporation to comply with the terms and requirements of the Tax Certificate. Subject to the transfer provisions provided in paragraph (c) below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States Government, and none of the Corporation, the Infrastructure Bank nor the Bondholders shall have any rights in or claim to such moneys. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the applicable provisions of the Indenture and the Agreement and by the Tax Certificate. The Trustee shall conclusively be deemed to have complied with such provisions if it follows the directions of the Corporation, including supplying all necessary information requested by the Corporation and the Infrastructure Bank in the manner set forth in the Tax Certificate, and shall not be required to take any actions thereunder in the absence of written directions from the Corporation.

Upon receipt of the Corporation's written instructions, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States Government, as so directed. In addition, if the Corporation so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by the Corporation's written directions. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement and payment of all other amounts due and owing pursuant to the Agreement shall be withdrawn and remitted to the Corporation upon its written request.

Notwithstanding any provision of the Indenture, the obligation of the Corporation to pay the Rebate Requirement to the United States Government and to comply with all other requirements of the Indenture described under the applicable provisions of the Indenture and the Agreement and the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

Notwithstanding any of the applicable provisions of the Indenture and the Agreement, if the Corporation shall provide to the Infrastructure Bank and the Trustee an Opinion of Bond Counsel that any specified action required under applicable provisions of the Indenture and the Agreement is no longer required or that some further or different action is required to maintain the Tax-Exempt status of interest on the Bonds, the Corporation, the Trustee and the Infrastructure Bank may conclusively rely on such opinion in complying with the requirements of the Indenture; and the covenants under the Indenture shall be deemed to be modified to that extent.

Other Liens. So long as any Bonds are Outstanding, the Infrastructure Bank shall not create or allow to be created any pledge, lien or charge of any type whatsoever upon all or any part of the Revenues, other than the lien of the Indenture.

Further Assurances. Whenever and so often as requested so to do by the Trustee, the Infrastructure Bank shall 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 Bondholders all of the rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by the Indenture and to perfect and maintain as perfected such rights, interests, powers, benefits, privileges and advantages.

Default

Events of Default; Acceleration; Waiver of Default. Each of the following events shall constitute an "Event of Default" under the Indenture:

(a) Failure to make payment of any installment of interest upon any Bond when such payment shall have become due and payable;

(b) Failure to make due and punctual payment of the principal of or premium, if any, on any Bond when such payment shall have become due and payable, whether at the stated maturity thereof, or upon proceedings for redemption thereof or upon the maturity thereof by declaration;

(c) The occurrence of an "Event of Default" under the Agreement; or

(d) 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 Indenture or in the 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, shall 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 Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding.

No default specified in (d) above shall constitute an Event of Default unless the Infrastructure Bank and the Corporation shall have failed to correct such default within the applicable 30-day period; provided, however, that if the default shall be such that it can be corrected, but cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Infrastructure Bank or the Corporation within the applicable period and diligently pursued until the default is corrected. With regard to any alleged default concerning which notice is given to the Corporation under the provisions of the Indenture, the Infrastructure Bank grants the Corporation full authority for the account of the Infrastructure Bank to perform any covenant or obligation the non-performance of which is alleged in said notice to constitute a default in the name and stead of the Infrastructure Bank with full power to do any and all things and acts to the same extent that the Infrastructure Bank could do and perform any such things and acts and with power of substitution. Notwithstanding such grant, the Corporation shall not have any obligation to cure any default of the Infrastructure Bank.

Upon the occurrence and continuation of an Event of Default, the Trustee may, and, upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding and with the consent of the Insurer, or upon the written request of the Insurer, shall, by notice in writing delivered to the Corporation and the Insurer, with copies of such notice being sent to the Infrastructure Bank, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable. Notwithstanding the foregoing, the Trustee shall not be required to take any action upon the occurrence and continuation of an Event of Default under paragraphs (c) or (d) above until a Responsible Officer of the Trustee has actual knowledge of such Event of Default. After any declaration of acceleration of the Bonds under the provisions of the Indenture described under this caption “—Events of Default; Acceleration; Waiver of Default” the Trustee shall immediately declare all indebtedness payable under the Agreement with respect to the Bonds to be immediately due and payable in accordance with the Agreement and may exercise and enforce such rights as exist under the Agreement.

The preceding paragraph, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Indenture, there shall 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 Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the 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 Bonds due and payable solely by reason of such declaration) shall 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 shall have been made therefor, then, and in every such case, the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding (by written notice to the Infrastructure Bank and to the Trustee accompanied by the written consent of the Insurer, may, on behalf of the Holders of all Bonds, rescind and annul such declaration with respect to the Bonds and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Notwithstanding anything else in the provisions of the Indenture described under this caption “—Events of Default; Acceleration; Waiver of Default” to the contrary, the failure of the Corporation to observe any covenant, agreement or representation in the Agreement which results in a Determination of Taxability, shall not constitute an Event of Default under the Indenture if the Bonds are redeemed pursuant to provisions of the Indenture relating to redemption upon mandatory prepayments. Payment of the redemption price for such Bonds shall constitute the full and complete payment and satisfaction to the Holders of the Bonds for any claims, damages, costs or expenses arising out any failure on the part of the Corporation described above in this paragraph.

The provisions of the Indenture described under this caption “—Events of Default; Acceleration; Waiver of Default” are expressly subject to the rights of the Insurer set forth under the provisions of the Indenture described below under “Bond Insurance Policy Provisions—Right To Control Remedies.”

Institution of Legal Proceedings by Trustee. In addition, if one or more of the Events of Default under the Indenture shall happen and be continuing, the Trustee in its sole discretion may, and upon the written request of the Insurer, or the Holders of a majority in aggregate principal amount of the Bonds then Outstanding with the consent of the Insurer, and upon being indemnified to its satisfaction in its sole discretion therefor (including with respect to any expenses or liability the Trustee may incur) shall, proceed to protect or enforce its rights or the rights of the Holders under the Act or under the Indenture, by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties under the Indenture.

Application of Moneys Collected by Trustee. Any moneys collected by the Trustee and moneys in the Bond Fund on or after the occurrence of an Event of Default shall 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 premium, if any) or interest, upon presentation of the Bonds, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

First: To the payment of costs and expenses of collection, just and reasonable compensation to the Trustee for its own services and for the services of counsel, agents and employees by it properly engaged and employed, and for advances made pursuant to the provisions of the Indenture with interest on all such advances at the rate of nine percent (9%) per annum; provided, that any payments under a Liquidity Facility shall not be so applied.

Second: In case the principal of none of the Outstanding Bonds shall have become due and remains unpaid, to the payment of interest in default on the Outstanding 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 Indenture; provided, however, that no payment of interest shall be made with respect to any Bonds held by the Infrastructure Bank, the Corporation or actually known by the Trustee to be held by any affiliate of the Corporation, or any nominee of the Infrastructure Bank, the Corporation, or any affiliate of the Corporation, until interest due on all Bonds not so registered shall have been paid.

Third: In case the principal of any of the Outstanding Bonds shall have become due by declaration or otherwise and remains unpaid, first to the payment of principal of all Outstanding Bonds then due and unpaid, then to the payment of interest in default in the order of maturity thereof, and then to the payment of the premium thereon, if any; in every instance such payment to be made ratably to the Persons entitled thereto without discrimination or preference, except as specified in the Indenture; provided, however, that no payment of principal or premium or interest

shall be made with respect to any Bonds held by the Infrastructure Bank, the Corporation or known by the Trustee to be held by any affiliate of the Corporation or any nominee of the Infrastructure Bank, the Corporation, or any affiliate of the Corporation, until all amounts due on all Bonds not so held have been paid.

Fourth: To the Liquidity Provider, if any, for amounts due under its Liquidity Agreement other than as the Holder of Liquidity Provider Bonds, as certified by the Liquidity Provider to the Trustee.

Fifth: To the payment of fees and costs due and owing to the Infrastructure Bank and the Trustee, not covered under paragraph "First" above.

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

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

Covenant to Pay Bonds in Event of Default. The Infrastructure Bank covenants that, upon the happening of any Event of Default, the Infrastructure Bank will pay to the Trustee upon demand, but only out of Revenues, for the benefit of the Holders of such Bonds, the whole amount then due and payable thereon (by declaration or otherwise) for interest or for principal and premium, or both, as the case may be, and all other sums which may be due under the Indenture or secured by the Indenture, including reasonable compensation to the Trustee, its agents and counsel, and any expenses or liabilities incurred by the Trustee under the Indenture. In case the Infrastructure Bank shall fail to pay the same forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled to institute proceedings at law or in equity in any court of competent jurisdiction to recover judgment for the whole amount due and unpaid, together with costs and reasonable attorneys' fees and expenses, subject, however, to the condition that such judgment, if any, shall be limited to, and payable solely out of, Revenues as provided in the Indenture and not otherwise. The Trustee shall be entitled to recover such judgment as aforesaid, either before or after or during the pendency of any proceedings for the enforcement of the Indenture, and the right of the Trustee to recover such judgment shall not be affected by the exercise of any other right, power or remedy for the enforcement of the provisions of the Indenture.

Trustee Appointed Agent for Bondholders. The Trustee is appointed the agent and attorney of the Holders of all Bonds Outstanding under the Indenture for the purpose of filing any claims relating to the Bonds.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of Holders of the Bonds, it shall have full power, in the exercise of its discretion for the best interests of the Holders of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default under the 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 Insurer, the Liquidity Provider, if any, or the Holders of at least a majority in principal amount of the Bonds Outstanding under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

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

Limitation on Bondholders' Right to Sue. No Holder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Holder shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Indenture; (b) the Holders of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (c) said Holders shall 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 shall have refused or omitted to comply with such request for a period of thirty (30) days after such written request shall have been received by, and said tender of indemnity shall 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 Holder of any remedy under the Indenture; it being understood and intended that no one or more Holders shall have any right in any manner whatever by his or her or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

The right of any Holder to receive payment of the principal of (and premium, if any) and interest on such Bond out of Revenues, as provided therein and in the Indenture, on and after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder, notwithstanding the foregoing provisions or any other provision of the Indenture.

Limitation of Liability to Revenues. Notwithstanding anything in the Indenture contained, the Infrastructure Bank shall not be required to advance any moneys derived from any source of income of any governmental body or political subdivision of the State or the Infrastructure Bank other than the Revenues, for any of the purposes in the Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of the Indenture. The Bonds are not general obligations of the Infrastructure Bank, and are payable from and secured by the Revenues only.

The Bonds do not constitute a debt or liability of the State or of any political subdivision thereof, other than the Infrastructure Bank, and do not constitute a pledge of the faith and credit of the State or any of its political subdivisions, other than the Infrastructure Bank, but are payable solely from the funds provided therefor under the Indenture. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation therefor or to make any appropriation for their payment.

The Trustee, The Registrar, The Tender Agent and the Remarketing Agent

Duties, Immunities and Liabilities of Trustee and Registrar. The Trustee shall, prior to an Event of Default under the Indenture, and after the curing of all Events of Default under the Indenture which may have occurred, and the Registrar at all times shall, perform such duties and only such duties as are specifically set forth in the Indenture. The Trustee shall, during the existence of any Event of Default under the Indenture (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as prudent persons would exercise or use under the circumstances in the conduct of their own affairs.

No provision of the Indenture shall be construed to relieve the Trustee or the Registrar from liability for its own negligent action or its own negligent failure to act or its own willful misconduct, except that:

(a) Prior to the occurrence of any Event of Default under the Indenture and after the curing of all Events of Default which may have occurred, the duties and obligations of the Trustee and the Registrar, as the case may be, shall at all times be determined solely by the express provisions of the Indenture; the Trustee or the Registrar, as the case may be, shall not be liable except for the performance of such duties and obligations as are specifically set forth in the Indenture; and no covenants or obligations shall be implied into the Indenture which are adverse to the Trustee or the Registrar, as the case may be; and

(b) At all times, regardless of whether or not any Event of Default shall exist,

(i) the Trustee and the Registrar shall not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Trustee or the Registrar unless it shall be proved that the Trustee or the Registrar, as the case may be, was negligent in ascertaining the pertinent facts; and

(ii) neither the Trustee nor the Registrar shall be personally liable with respect to any action taken, permitted or omitted by it in good faith in accordance with the direction of the Holders of not less than a majority, or such other percentage as may be required under the Indenture, in aggregate principal amount of the Bonds Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or the Registrar, or exercising any trust or power conferred upon the Trustee or the Registrar under the Indenture; and

(iii) in the absence of bad faith on the part of the Trustee or the Registrar, as the case may be, the Trustee and the Registrar may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee or the Registrar, as the case may be, conforming to the requirements of the Indenture; but in the case of any such certificate or opinion which by any provision of the Indenture is specifically required to be furnished to the Trustee or the Registrar, as the case may be, the

Trustee or the Registrar, as the case may be, shall be under a duty to examine the same to determine whether or not it conforms to the requirements of the Indenture.

(c) The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it under the Indenture by or through attorneys, agents or receivers, and shall be entitled to advice of counsel concerning all matters of trust and concerning its duties under the Indenture and the Trustee shall not be responsible for any misconduct or negligence on the part of any attorney or agent appointed with due care by it under the Indenture.

None of the provisions contained in the Indenture shall require the Trustee or the Registrar to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers. The permissive right of the Trustee to perform acts enumerated in the Indenture or the Agreement shall not be construed as a duty or obligation under the Indenture.

Qualifications of Trustee and Registrar. There shall at all times be a trustee and a registrar under the Indenture which shall be corporations or banking associations organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least seventy-five million dollars (\$75,000,000), subject to supervision or examination by federal or state authority. If such corporations or banking associations publish reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this paragraph the combined capital and surplus of such corporations or banking associations shall be deemed to be their combined capital and surplus as set forth in their most recent reports of conditions so published. In case at any time the Trustee or the Registrar shall cease to be eligible in accordance with the provisions of this paragraph, the Trustee or the Registrar, as the case may be, shall resign immediately in the manner and with the effect specified in the Indenture.

Resignation and Removal of Trustee or Registrar and Appointment of Successor Trustee or Registrar. The Trustee or the Registrar may at any time resign by giving written notice to the Infrastructure Bank, the Corporation, the Insurer and the Liquidity Provider, if any, and by giving to the Bondholders notice either by publication of such resignation, which notice shall be published at least once in a Qualified Newspaper, or by giving Notice by Mail to such Bondholders. The Trustee shall also mail a copy of any such notice of resignation to the Rating Agencies. Upon receiving such notice of resignation, the Infrastructure Bank, with the advice of the Corporation and the consent of the Insurer (whose consent shall not be unreasonably withheld), shall promptly appoint a successor Trustee or registrar, as the case may be, by an instrument in writing. If no successor Trustee or registrar, as the case may be, shall have been so appointed and have accepted appointment within forty-five (45) days after the giving of such notice of resignation by the Trustee or the Registrar, as the case may be, the resigning Trustee or registrar, as the case may be, may petition any court of competent jurisdiction for the appointment of a successor Trustee or registrar, as the case may be, or any Bondholder who has been a bona fide Holder for at least six (6) months may, on behalf of himself and others similarly situated, petition any such court for the appointment of a successor Trustee or registrar, as the case may be. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, appoint a successor Trustee or registrar, as the case may be.

In case at any time either of the following shall occur:

(i) the Trustee or the Registrar shall cease to be eligible in accordance with the provisions of the Indenture and shall fail to resign after written request therefor by the

Infrastructure Bank, the Insurer, or by any Bondholder who has been a *bona fide* Holder for at least six months, or

(ii) the Trustee or the Registrar shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or Registrar or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or Registrar or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (A) the Infrastructure Bank may remove the Trustee or the Registrar, as the case may be, and, with the advice of the Corporation and the consent of the Insurer (whose consent shall not be unreasonably withheld), appoint a successor Trustee or Registrar, as the case may be, by an instrument in writing, or (B) if the Insurer so requests in writing to the Infrastructure Bank, the Infrastructure Bank shall remove the Trustee or the Registrar, as the case may be, and, with the advice of the Corporation and the consent of the Insurer (whose consent shall not be unreasonably withheld), appoint a successor Trustee or Registrar, as the case may be, by an instrument in writing.

The Infrastructure Bank, in the absence of an Event of Default, or the Holders of a majority in aggregate principal amount of the Bonds at the time Outstanding may, with the advice of the Corporation, at any time, or, upon the written request of the Insurer, the Infrastructure Bank shall, remove the Trustee or the Registrar, as the case may be, and, with the advice of the Corporation and the consent of the Insurer (whose consent shall not be unreasonably withheld), appoint a successor Trustee or registrar, as the case may be, by an instrument or concurrent instruments in writing signed by the Infrastructure Bank or such Bondholders, as the case may be.

Any resignation or removal of the Trustee or the Registrar, as the case may be, and appointment of a successor Trustee or registrar, as the case may be, pursuant to any of the provisions of this paragraph shall become effective only upon acceptance of appointment by the successor Trustee or registrar, as the case may be, as provided in the Indenture, and upon transfer of the Liquidity Facility, if any, then in effect to the successor Trustee.

Notwithstanding the foregoing to the contrary, no successor Trustee shall be appointed under the Indenture without the written consent of the Insurer (which consent shall not be unreasonably withheld).

Acceptance of Trust by Successor Trustee. Any successor Trustee appointed as provided in the Indenture shall execute, acknowledge and deliver to the Infrastructure Bank, the Corporation, the Liquidity Provider, if any, and to its predecessor Trustee an instrument accepting such appointment under the Indenture, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusts under the Indenture, with like effect as if originally named as Trustee in the Indenture; but, nevertheless, on the Written Request of the Infrastructure Bank or the request of the successor Trustee, the Trustee ceasing to act shall execute and deliver an instrument transferring to such successor Trustee, upon the trusts expressed in the Indenture, all the rights, powers and trusts of the Trustee so ceasing to act. Upon request of any such successor Trustee, the Infrastructure Bank shall execute any and all instruments in writing necessary or desirable for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and duties. Any Trustee ceasing to act shall, nevertheless, retain a lien upon all property or funds held or collected by such Trustee to secure the amounts due it as compensation, reimbursement, expenses and indemnity afforded to it by the Indenture.

No successor Trustee shall accept an appointment as successor trustee unless at the time of such acceptance such successor Trustee shall be eligible under the provisions of the Indenture.

Upon acceptance of appointment by a successor Trustee as provided in the foregoing, the Infrastructure Bank or such successor Trustee shall give the Bondholders, the Insurer, the Liquidity Provider, if any, and each Rating Agency notice of the succession of such Trustee to the trusts under the Indenture in the manner prescribed in the Indenture for the giving of notice of resignation of the Trustee.

Registrar. The Infrastructure Bank, at the request of the Corporation, shall appoint a registrar for the Bonds. The Registrar shall be a bank, trust company or national banking association which meets the qualifications of the Indenture, willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture. The Registrar shall signify its acceptance of the duties and obligations imposed upon it by the Indenture by executing and delivering to the Infrastructure Bank and the Trustee a written acceptance thereof. The Registrar initially appointed under the Indenture is the Trustee.

Appointment, Duties and Qualifications of Tender Agent. In order to carry out the duties and obligations of the Tender Agent contained in the Indenture, the Infrastructure Bank, with the advice of the Corporation, shall appoint a Tender Agent in order to carry out such duties and obligations. The Tender Agent shall signify in writing its acceptance of the duties and obligations imposed upon it under the Indenture. The Tender Agent shall keep such books and records with respect to its activities as Tender Agent as shall be consistent with prudent industry practice and to make such books and records available for inspection by each of the Infrastructure Bank, the Trustee and the Corporation at all reasonable times. The Tender Agent initially appointed under the Indenture is the Trustee.

Each Tender Agent shall be a banking corporation or banking association organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least fifty million dollars (\$50,000,000), subject to supervision or examination by federal or state authority. If such banking corporation or banking association publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then the combined capital and surplus of such banking corporation or banking association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Tender Agent may resign by notifying the Infrastructure Bank, the Trustee, the Insurer, the Liquidity Provider, if any, the Remarketing Agent and the Bondholders at least thirty (30) days before the effective date of such resignation. The Infrastructure Bank, with the advice of the Corporation, may, or, upon written request of the Insurer, the Infrastructure Bank shall, remove the Tender Agent and appoint a successor by notifying the Tender Agent, the Remarketing Agent, the Liquidity Provider, if any, and the Trustee. No resignation or removal shall be effective until the successor has delivered an acceptance of its appointment to the Infrastructure Bank, the Trustee and the predecessor Tender Agent. In the event of the resignation or removal of the Tender Agent, such Tender Agent shall pay over, assign and deliver any moneys held by it as Tender Agent to its successor, or if there is no successor, to the Trustee. In the event that for any reason there shall be a vacancy in the office of Tender Agent, the Trustee shall act as such Tender Agent to the extent it has operational capacity to perform such tasks. The Tender Agent shall be entitled to the same protections, immunities and limitations from liability afforded the Trustee under the Indenture.

Appointment, Duties and Qualifications of Remarketing Agent. In order to carry out the duties and obligations contained in the Indenture, the Corporation, with the approval of the Liquidity Provider, shall appoint the Remarketing Agent for each Series of Bonds subject to the conditions set forth below. A Remarketing Agent shall be a bank, trust company or member of the National Association of Securities Dealers, Inc. organized and doing business under the laws of any state of the United States of America or the District of Columbia and shall have together with its parent, if any, a capitalization of at

least fifty million dollars (\$50,000,000) as shown in its or its parent's most recently published annual report. The Remarketing Agent initially appointed for the 2007 Series A Bonds is J.P. Morgan Securities, Inc. The Remarketing Agent initially appointed for the 2007 Series B Bonds is Banc of America Securities LLC.

The Corporation shall enter into a Remarketing Agreement with each Remarketing Agent and such other parties as shall be appropriate, pursuant to which such Remarketing Agent shall designate its Principal Office and agree particularly (but without limitation): (i) to perform the duties and comply with the requirements imposed upon it by the Remarketing Agreement, the Indenture and the Agreement; and (ii) to keep such books and records with respect to its activities as Remarketing Agent as shall be consistent with prudent industry practice and to make such books and records available for inspection by each of the Infrastructure Bank, the Trustee, the Insurer, the Liquidity Provider and the Corporation at all reasonable times. The Remarketing Agent shall not be entitled to any compensation from the Infrastructure Bank or the Trustee but rather shall only be entitled to compensation from the Corporation.

The Corporation shall furnish a copy of the Remarketing Agreement to the Infrastructure Bank, the Trustee, the Insurer, the Liquidity Provider, if any, and the Tender Agent.

The Remarketing Agent may resign by notifying the Infrastructure Bank, the Trustee, the Insurer, the Liquidity Provider, the Tender Agent and the Bondholders at least thirty (30) days before the effective date of such resignation. The Corporation may remove the Remarketing Agent pursuant to the terms of the Remarketing Agreement. Any appointment of a successor Remarketing Agent by the Corporation shall be subject to the consent of the Insurer and the Liquidity Provider, if any.

Modification of Indenture, Documents

Modification without Consent of Bondholders. Notwithstanding anything in the Agreement to the contrary, the Infrastructure Bank and the Trustee, without the consent of or notice to any Bondholders from time to time and at any time, but subject to the conditions and restrictions contained in the Indenture, may enter into an indenture or indentures supplemental to the Indenture, which indenture or indentures thereafter shall form a part of the Indenture; and the Trustee, without the consent of or notice to any Bondholders, 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 Indenture, or of the Corporation or of any Liquidity Provider contained in any Document, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for any of the Bonds, or to surrender any right or power reserved to or conferred upon the Infrastructure Bank or the Corporation therein or in the Indenture; provided, that no such covenant, agreement, assignment, pledge or surrender shall materially adversely affect the interests of the Holders of the Bonds;

(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 Indenture or any Document, or in regard to matters or questions arising under the Indenture or any Document, as the Infrastructure Bank may deem necessary or desirable and not inconsistent with the Indenture and which shall not materially adversely affect the interests of the Holders of the Bonds;

(c) to modify, amend or supplement the Indenture or any indenture supplemental to the Indenture in such manner as to permit the qualification of the Indenture or thereof under the

Trust Indenture Act of 1939 or any similar federal statute hereafter in effect, and, if they so determine, to add to the Indenture or any indenture supplemental to the Indenture such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute, and which shall not adversely affect the interests of the Holders of the Bonds;

(d) to provide for any additional procedures, covenants or agreements necessary to maintain the Tax-Exempt status of interest on the Bonds; provided that such amendment or supplement shall not materially adversely affect the interests of the Holders of the Bonds;

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

(f) to provide for the procedures required to permit any Bondholder to separate the right to receive interest on the 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, Registrar or Paying Agent;

(h) to change the description of the Project contained in the Agreement in accordance with the provisions thereof and of the Tax Certificate;

(i) to provide for an extension of a Liquidity Facility or a substitute Liquidity Facility;

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

(k) in connection with any other change consented to by the Insurer which will not adversely affect the security for the Bonds or the Tax-Exempt status of interest thereon or otherwise materially adversely affect the Holders of the Bonds, such determination to be based upon an Opinion of Bond Counsel; or

(l) subject to the consent of the Insurer, to modify, alter, amend or supplement the Indenture or any Document in any other respect, including amendments which would otherwise be described in the provisions of the Indenture described below under “—Modification with Consent of Insurer or Bondholders,” if the effective date of such Supplemental Indenture or Amendment is a date on which all Bonds affected thereby are subject to mandatory tender for purchase pursuant to the Indenture or if Notice by Mail of the proposed Supplemental Indenture or Amendment is given to Holders of the affected Bonds at least thirty (30) days before the effective date thereof and, on or before such effective date, such Bondholders have the right to demand purchase of their Bonds pursuant to the Indenture.

Before the Infrastructure Bank or the Trustee enters into an Indenture supplemental to the Indenture and before the Trustee consents to any Amendment pursuant to the provisions of the Indenture described under this caption “—Modification without Consent of Bondholders,” the Infrastructure Bank, or the Trustee, as the case may be, shall cause notice of the proposed execution of the Supplemental Indenture or Amendment to be given by mail to the Insurer and each Rating Agency. A copy of the proposed Supplemental Indenture or Amendment shall 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 shall have been delivered to

the Trustee an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (1) authorized or permitted by the Indenture, the Act and other applicable law; (2) complies with their respective terms, in the case of a Supplemental Indenture, will upon the execution and delivery thereof; (3) be valid and binding upon the Infrastructure Bank in accordance with its terms; and (4) will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Notwithstanding the foregoing provisions of the Indenture described under this caption “—Modification without Consent of Bondholders,” the Trustee shall not be obligated to enter into any such Supplemental Indenture which affects the Trustee’s own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such Supplemental Indenture, and the Trustee shall not enter into any Supplemental Indenture or consent to any Amendment without first obtaining the written consent of the Corporation. The Trustee will give notice of the provisions of any Supplemental Indenture authorized by the provisions of the Indenture described under this caption “—Modification without Consent of Bondholders” to each Rating Agency. Any Supplemental Indenture or Amendment permitted pursuant to the provisions of the 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 Insurer or Bondholders. Subject to the provisions of the Indenture described below under the captions “Bond Insurance Policy Provisions—Amendments Affecting Insurer’s Rights” and “—Insurer Deemed Holder,” with the consent of the Holders of not less than sixty-six and two-thirds percent (66 2/3%) in aggregate principal amount of the Bonds at the time Outstanding, evidenced as provided in the Indenture, (i) the Infrastructure Bank and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental to the Indenture for the purpose of adding any provisions to or changing in any manner or, eliminating any of the provisions of the Indenture or of any Supplemental Indenture; (ii) the Infrastructure Bank and/or the Corporation, as applicable, 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 Indenture; provided, however, that no such supplement 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 Agreement without the consent of the Liquidity Provider and all the Holders of the Bonds; and that no such Supplemental Indenture shall (1) extend the fixed maturity of any Bond or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Holders whose consent is required for the execution of such Supplemental Indentures, or permit the creation of any lien on the Revenues prior to or on a parity with the lien of the Indenture, except as permitted in the Indenture, or permit the creation of any preference of any Bondholder over any other Bondholder, except as permitted in the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture upon the Revenues, without the consent of the Liquidity Providers and the Holders of all the Bonds then Outstanding. Nothing in this paragraph shall be construed as making necessary the approval of any Bondholder of any Supplemental Indenture or Amendment permitted by the provisions of the Indenture described above under the caption “—Modification without Consent of Bondholders.”

Upon receipt by the Trustee of: (1) a Certified Resolution authorizing the execution of any such Supplemental Indenture or Amendment; (2) an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (i) authorized or permitted by the Indenture, the Act and other applicable law; (ii) complies with their respective terms; (iii) in the case of a Supplemental Indenture, will, upon the execution and delivery thereof, be valid and binding upon the Infrastructure Bank in accordance with its

terms; and (iv) will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds; and (3) evidence of the consent of the Insurer and, if required, the Bondholders and the Liquidity Providers, as aforesaid, the Trustee shall join with the Infrastructure Bank in the execution of such Supplemental Indenture or shall consent to such Amendment; provided, however, that (i) the Trustee shall not be obligated to enter into any such Supplemental Indenture which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its sole discretion, but shall not be obligated to, enter into such Supplemental Indenture; and (ii) the Trustee shall not enter into such Supplemental Indenture or consent to any Amendment of any Document without first obtaining the Corporation's written consent thereto.

It shall not be necessary for the consent of the Insurer, the Liquidity Providers or the Bondholders under the foregoing provisions relating to amendments with the consent of the Insurer or the Bondholders to approve the particular form of any proposed Supplemental Indenture or Amendment, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the parties thereto of any Supplemental Indenture or Amendment as provided in the Indenture, the Trustee shall mail a notice (prepared by the Corporation) setting forth in general terms the substance of such Supplemental Indenture or such Amendment to the Insurer, the Liquidity Providers to each Bondholder at the address contained in the bond register maintained by the Registrar and to the applicable Rating Agencies. Any failure of the Trustee to give such notice, or any defect therein, shall 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 Agreement pursuant to the provisions of the Indenture or the Agreement, as the case may be, shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture and the Agreement of the Infrastructure Bank, the Trustee, the Corporation and all Holders of Outstanding Bonds shall thereafter be determined, exercised and enforced under the Indenture and under the Agreement subject in all respects to such Supplemental Indentures and Amendments, and all the terms and conditions of any such Supplemental Indenture or Amendment shall be part of the terms and conditions of the Indenture or the Agreement, as the case may be, for any and all purposes.

Required and Permitted Opinions of Counsel. Subject to the provisions of the 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 Indenture complies with the requirements of the Indenture, that the appropriate consents have been obtained and that such Supplemental Indenture or Amendment has been duly authorized by the Infrastructure Bank.

Notation of Modification on Bonds; Preparation of New Bonds. Bonds authenticated and delivered after the execution of any Supplemental Indenture pursuant to the provisions of the Indenture may bear a notation, at the Written Request of the Infrastructure Bank, as to any matter provided for in such Supplemental Indenture, and if such Supplemental Indenture shall so provide, new Bonds, so modified as to conform, in the opinion of the Trustee and the Infrastructure Bank, to any modification of the Indenture contained in any such Supplemental Indenture, may be prepared by the Infrastructure Bank, authenticated by the Trustee and delivered without cost to the Holders of the Bonds then Outstanding, upon surrender for cancellation of such Bonds in equal aggregate principal amounts.

Notice to Rating Agency. The Trustee shall give to each Rating Agency notice of any amendment made to the Indenture, the initial Liquidity Facility or the termination, expiration, extension

or substitution of the initial Liquidity Facility or other Liquidity Facility, notice of any amendment made to the Agreement, notice of any extraordinary redemptions or any redemption, purchase or defeasance of all of the Bonds, notice of any adjustment to a new Rate Period and notice of any successor Trustee or Tender Agent under the Indenture or any successor Remarketing Agent. Notwithstanding the foregoing, it is expressly understood and agreed that failure to provide any such notice to any Rating Agency or any defect therein will not (i) constitute an Event of Default under the Indenture; and (ii) affect the validity of any action with respect to which notice is to be given or the effectiveness of any such action.

Defeasance

Discharge of Indenture. If all Bonds shall be paid and discharged in any one or more of the following ways:

- (a) by the payment of the principal of, and premium, if any, and interest on all Bonds as and when the same become due and payable; or
- (b) by providing for the payment of the principal of, premium, if any, and interest on all Bonds as provided in the provisions of the Indenture described below under “—Discharge of Liability on Particular Bonds”; or
- (c) by the delivery to the Registrar, for cancellation by it, of all Bonds;

and if all other sums payable under the Indenture by the Infrastructure Bank shall be paid and discharged, then thereupon the Indenture shall cease, terminate and become null and void, and thereupon the Trustee shall, upon Written Request of the Infrastructure Bank, and upon receipt by the Trustee of an Opinion of Bond Counsel to the effect that all conditions precedent to the satisfaction and discharge of the Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Indenture. The Trustee shall mail written notice of such payment and discharge to the Infrastructure Bank, the Corporation, each Rating Agency, to the Insurer and to the Liquidity Providers. The satisfaction and discharge of the Indenture shall be without prejudice to the rights of the Trustee to charge and be reimbursed by the Corporation for any expenditures which it may thereafter incur in connection with the Indenture.

The Infrastructure Bank, the Corporation and any Liquidity Provider may at any time surrender to the Registrar for cancellation by it any Bonds previously authenticated and delivered which the Infrastructure Bank or the Corporation or such Liquidity Provider lawfully may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Discharge of Liability on Particular Bonds. Any Bond or a portion thereof shall be deemed to be paid within the meaning of the Indenture when payment of the principal of and premium, if any, on such 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 Indenture) shall have been provided for by (i) irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment moneys and/or nonprepayable, noncallable Government Obligations as provided in the Indenture; (ii) if such Bond or portion thereof is to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for giving such notice; (iii) arrangements satisfactory to the Trustee shall have been made to assure that Bonds tendered for purchase in accordance with the optional and mandatory tender provisions of the Indenture can be paid and redeemed from such moneys and/or Government Obligations; and (iv) the Trustee shall have received written confirmation from each

Rating Agency then rating the Bonds, if any, that such Rating Agency's then current rating on the Bonds will not be lowered or withdrawn as a result of such provision.

In the event of the provision of the payment of less than the full principal amount of a Bond in accordance with the provisions described above under "—Discharge of Indenture," the principal amount of the Bond as to which such payment is not provided for shall be in an Authorized Denomination and, unless that portion of the Bond as to which payment is provided for in accordance with the provisions described above under "—Discharge of Indenture" is to be paid or redeemed within sixty days of the deposit with the Trustee, such portion will also be in an Authorized Denomination.

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 Indenture to pay or redeem a Bond or a portion thereof and the satisfaction of the other conditions specified in the Indenture, such Bond, or the applicable portion thereof, shall be deemed to be paid under the Indenture, shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys 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 Bond, or the applicable portion thereof, shall cease, terminate and be completely discharged, except that the Infrastructure Bank and the Corporation shall remain liable for the payment of the principal of, premium, if any, and interest on such Bond, or the applicable portion thereof, but only from, and the Bondholders shall 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 Indenture.

Deposit of Money or Securities with Trustee. Whenever in the 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 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 Indenture and shall be:

(a) Available Amounts in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) nonprepayable, noncallable Government Obligations purchased with Available Amounts, 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 Bonds to be paid or redeemed, as such principal or redemption price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the 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 Bonds. The Trustee shall not be responsible for verifying the sufficiency of money and

Government Obligations deposited with the Trustee to provide for the payment of the principal of, premium, if any, and interest on Bonds pursuant to the provisions described under the caption “— Defeasance” but may conclusively rely for all purposes of the Indenture on an Accountant’s Report as to such sufficiency.

Outstanding Bonds. In the event that the principal or interest, or both, due on the Bonds shall be paid by the Insurer pursuant to the Bond Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Infrastructure Bank, and the assignment and pledge of the Revenues and all covenants, agreements and other obligations of the Infrastructure Bank to the Holders under the Indenture shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Holders.

Bond Insurance Policy Provisions

Amendments Affecting Insurer’s Rights. Any provision of the Indenture or the Agreement expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer without the prior written consent of the Insurer.

Insurer Deemed Holder. Subject to the Indenture, for the purposes of (1) the giving of consents to amendments to the Indenture and the Agreement under of the applicable provisions thereof, and (2) the giving of any other consent of the Holders under the Indenture or the Agreement, the Insurer shall be deemed to be the sole Holder of the Bonds; provided, however, that, notwithstanding the foregoing, the Insurer shall not be deemed to be the Holder of the Bonds for any consent to an amendment or Supplemental Indenture to the Indenture that (1) extends the fixed maturity of any Bond or reduces the rate of interest thereon or extends the time of payment of interest, or reduces the amount of the principal thereof, or reduces any premium payable on the redemption thereof, or (2) reduces the aforesaid percentage of Holders whose consent is required for the execution of such Supplemental Indentures, or permits the creation of any lien on the Revenues prior to or on a parity with the lien of the Indenture, except as permitted in the Indenture, or permits the creation of any preference of any Bondholder over any other Bondholder, except as permitted in the Indenture, or deprives the Holders of the Bonds of the lien created by the Indenture upon the Revenues.

Right To Control Remedies. Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default under the Indenture, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders or the Trustee for the benefit of the Holders under the Indenture, including, without limitation: (a) the right to accelerate the principal of the Bonds as described in the Indenture, and (b) the right to annul any declaration of acceleration, and the Insurer shall also be entitled to approve all waivers of Events of Default under the Indenture.

Miscellaneous

Governing Law; Venue. The Indenture shall be construed in accordance with and governed by the Constitution and laws of the State applicable to contracts made and performed in the State. The Indenture shall be enforceable in the State, and any action arising out of the Indenture shall be filed and maintained in the Sacramento County Superior Court, Sacramento, California, unless the Infrastructure Bank waives this requirement.

Insurer. All provisions of the Indenture regarding consents, approvals, directions, appointments or requests by the Insurer, including the rights of the Insurer under the Indenture, shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by the Insurer during any

time in which the Insurer has failed to honor a demand for payment presented to it in strict conformance with the applicable provisions of the Bond Insurance Policy, or after the Bond Insurance Policy shall at any time for any reason cease to be valid and binding on the Insurer, or while the Insurer is denying further liability or obligation under the Bond Insurance Policy or after the Insurer has rescinded, repudiated or terminated the Bond Insurance Policy; provided, however, that nothing contained in this paragraph shall limit the rights of the Insurer as a Holder of Bonds.

Liquidity Provider. All provisions of the Indenture regarding consents, approvals, directions, appointments or requests by a Liquidity Provider shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by such Liquidity Provider during any time in which no Liquidity Facility issued by such Liquidity Provider is in effect, or such Liquidity Provider has failed to honor a demand for payment presented to it in strict conformance with the applicable provisions of the Liquidity Facility issued by such Liquidity Provider, or after the Liquidity Facility issued by such Liquidity Provider shall at any time for any reason cease to be valid and binding on such Liquidity Provider, or while such Liquidity Provider is denying further liability or obligation under the Liquidity Facility issued by such Liquidity Provider (unless such Liquidity Facility has been fully drawn or to the extent that the conditions to payment thereunder have not been fully satisfied) or after such Liquidity Provider has rescinded, repudiated or terminated the Liquidity Facility issued by such Liquidity Provider; provided, however, that nothing contained in this paragraph shall limit the rights of a Liquidity Provider as a Holder of Liquidity Provider Bonds.

All provisions in the Indenture relating to a Liquidity Provider shall be of no force and effect with respect to such Liquidity Provider if the applicable Liquidity Facility and Liquidity Agreement are not in effect, there are no related Liquidity Provider Bonds and all amounts owing to such Liquidity Provider under the applicable Liquidity Agreement have been paid.

Unclaimed Moneys. Notwithstanding any provisions of the Indenture to the contrary, and subject to applicable laws of the State, any moneys deposited with the Trustee or any Paying Agent, in trust for the payment of the principal of, or interest or premium on, any Bonds remaining unclaimed for two years after the principal of any or all of the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in the Indenture), shall then be repaid to the Corporation upon its written request, and the Holders of such Bonds shall thereafter be entitled to look only to the Corporation for payment thereof, and all liability of the Infrastructure Bank, the Trustee and each Paying Agent with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Corporation as aforesaid, the Trustee or Paying Agent, as the case may be, shall (at the request and cost of the Corporation) first publish at least once in a Notice by Mail, at least 30 days prior to such repayment, in such form as may be deemed appropriate by the Corporation and the Trustee, in respect of the Bonds so payable and not presented and in respect of the provisions relating to the repayment to the Corporation of the moneys held for the payment thereof. In the event of the repayment of any such moneys to the Corporation as aforesaid, the Holders of the Bonds in respect of which such moneys were deposited shall thereafter be deemed to be unsecured creditors of the Corporation for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the Corporation (without interest thereon).

LOAN AGREEMENT

Issuance of the Bonds; Application of Proceeds; Construction of Project Facilities

Agreement to Issue Bonds; Application of Bond Proceeds. To provide funds to finance a portion of the Costs of the Project, the Infrastructure Bank agrees that it will issue the Bonds pursuant to the Indenture and sell and deliver the Bonds (or cause the Bonds to be sold and delivered) to the

purchasers thereof pursuant to the Purchase Contracts. The Infrastructure Bank will thereupon apply the proceeds received from the sale of the Bonds as provided in the Indenture.

Investment of Moneys In Funds. Subject to the provisions of the Agreement, any moneys in any fund held by the Trustee shall, to the extent permitted under the Indenture, at the written request of an Authorized Corporation Representative, be invested or reinvested by the Trustee as provided in the Indenture. Such investments shall 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 shall, except as otherwise provided in the Indenture, be credited or charged to such fund.

Agreement to Acquire Project. The Corporation agrees that it will Acquire the Project, and will acquire, equip, construct, furnish and install all other facilities and real and personal property deemed necessary for the operation of the Project, substantially in accordance with the description of the Project contained in the Agreement, including any and all supplements, amendments and additions or deletions thereto or therefrom, it being understood that the approval of the Infrastructure Bank shall not be required for changes in such descriptions which do not substantially alter the purpose and description of the Project referred to above. The Corporation further agrees to proceed with due diligence to complete the Project within three years from the date of the Agreement and to ensure that the Project is consistent with any existing local or regional comprehensive plans.

In the event that the Corporation desires to alter or change the description of the Project, and such alteration or change either substantially alters the purpose and description of the Project from that contained in the Agreement, the Infrastructure Bank will enter into, and will instruct the Trustee to consent to, such amendment or supplement as shall be required to reflect such alteration or change to the Project upon receipt of:

- (i) a certificate of an Authorized Corporation Representative describing in detail the proposed changes and stating that they will not have the effect of disqualifying the Project as facilities that may be financed pursuant to the Act;
- (ii) a copy of the proposed form of such amendment or supplement; and
- (iii) an Opinion of Bond Counsel that such proposed changes will not adversely affect the Tax-Exempt status of interest on the Bonds.

Disbursements of Bond Proceeds. Subject to the provisions of the Agreement, the Corporation will authorize and direct the Trustee, upon compliance with the Indenture, to disburse the moneys in the Construction Fund to or on behalf of the Corporation only to pay the Costs of the Project (and not for Costs of Issuance).

All moneys remaining in the Construction Fund after the Completion Date shall be used in accordance with the Indenture.

The Corporation will authorize and direct the Trustee, upon compliance with the 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 Bonds.

Establishment of Completion Date; Obligation of Corporation to Complete. As soon as the Acquisition of the Project is completed, the Authorized Corporation Representative, on behalf of the Corporation, shall evidence the Completion Date by providing a certificate to that effect to the Trustee stating the Costs of the 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 Construction Fund, including any earnings resulting from the investment of such moneys, shall be used as provided in the Indenture.

In the event the moneys in the Construction Fund available for payment of the Costs of the Project should be insufficient to pay all costs of Acquiring the Project in full, the Corporation agrees to pay directly, or to deposit in the Construction Fund moneys sufficient to pay, any costs of completing the Acquisition of the 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 Fund, and available for payment of the Costs of the Project under the provisions of the Agreement, will be sufficient to pay all the amounts which may be incurred for all costs in connection with the Acquisition of the Project. The Corporation agrees that if, after exhaustion of the moneys in the Construction Fund, the Corporation should pay, or deposit moneys in the Construction Fund for the payment of, any portion of the costs of the Acquisition of the Project pursuant to the provisions of the Indenture, it shall not be entitled to any reimbursement therefor from the Infrastructure Bank, from the Trustee or from the Holders of any of the Bonds, nor shall it be entitled to any diminution of the amounts payable under the Agreement.

Loan to Corporation; Repayment Provisions

Loan to Corporation. The Infrastructure Bank covenants and agrees, upon the terms and conditions in the Agreement, to make a loan to the Corporation for the purpose of financing a portion of the Costs of the Project. Pursuant to said covenant and agreement, the Infrastructure Bank will issue each Series of the Bonds upon the terms and conditions contained in the Agreement and the Indenture. The Infrastructure Bank and the Corporation agree that the application of the proceeds of sale of each Series of the Bonds to finance a portion of the Costs of the Project 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 Bonds.

Repayment and Payment of Other Amounts Payable. With respect to the 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 Indenture for the payment of principal of (whether at maturity or upon redemption or acceleration), premium, if any, and/or interest on the Bonds, until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the 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 Bonds as provided in the Indenture.

Each payment made by the Corporation pursuant to the foregoing provisions shall 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 Bonds; provided that any amount held by the Trustee in the Bond Fund on any due date for a Repayment Installment under the Agreement shall 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 and the Debt Service Reserve 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 shall be relieved of any obligation to make any further payments with respect to the Bonds under these provisions of the Indenture relating to the repayment and payment of other amounts

payable. 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 Bonds as such payments become due, the Corporation shall forthwith pay such deficiency as a Repayment Installment under the Agreement.

Without limiting the generality of the obligations of the Corporation under the foregoing provisions to ensure that the moneys available in the Bond Fund are sufficient to pay when due the principal of, premium, if any, and interest on the Outstanding Bonds, but without duplication, the Corporation shall make the deposits with the Trustee of the amounts described in (i) and (ii) below.

(i) *Interest Deposits.* (A) The Corporation agrees that it will deposit with the Trustee on the last Business Day of each calendar month an amount equal to the interest that accrued on the Outstanding Bonds, but which was not paid, during such calendar month and (B) if any Interest Payment Date is not on the first Business Day of a calendar month, the Corporation agrees that it will deposit with the Trustee on the Business Day immediately preceding such Interest Payment Date an amount equal to the amount of interest payable on the Bonds on such Interest Payment Date less any amounts then on deposit in the Bond Fund with respect to the interest payable on such Interest Payment Date.

(ii) *Principal Deposits.* The Corporation agrees that, on the first Business Day of each calendar month, commencing 12 months before the initial Principal Installment Date, it will deposit with the Trustee an amount equal to one-twelfth (1/12) of the Principal Installment due on the next succeeding Principal Installment Date.

Subject to the right of the Corporation to deposit a Reserve Financial Guaranty in lieu of a cash deposit as provided in the Indenture, within two Business Days after a withdrawal of moneys from the Debt Service Reserve Fund in accordance with the provisions of the Indenture (except a withdrawal of moneys therefrom pursuant to the provisions of the Indenture relating to the withdrawal of funds from the Debt Service Reserve Fund as a result of excess amounts on deposit therein) and on each Debt Service Reserve Valuation Date, the Corporation shall pay an amount such that, after the deposit of such amount in the Debt Service Reserve Fund, the amount on deposit in such Debt Service Reserve Fund shall be at least equal to the Debt Service Reserve Requirement, including amounts necessary to reinstate any Reserve Financial Guaranties on deposit in the Debt Service Reserve Fund. If at any time the Trustee shall draw upon any Reserve Financial Guaranty, then the Corporation shall promptly pay to the Reserve Financial Guaranty Provider thereof the amount of such draw. If at any time obligations insured or issued by a Reserve Financial Guaranty Provider shall no longer maintain the required ratings set forth in the definition of "Reserve Financial Guaranty" in the Indenture, the Corporation shall provide or cause to be provided cash or a substitute Reserve Financial Guaranty meeting such requirements to the extent necessary to satisfy the Debt Service Reserve Requirement with either cash, qualified Reserve Financial Guaranties or a combination thereof.

The Corporation agrees that, so long as any of the Bonds remain Outstanding, all of the Operating Revenues shall be deposited as soon as practicable upon receipt in a fund designated as the "Operating Fund" which the Corporation shall establish and maintain, subject to the provisions of the Agreement, in an account or accounts at such banking institution or institutions as the Corporation shall from time to time designate in writing to the Trustee for such purpose (herein called the "Depository Bank(s)").

In the event the Corporation should fail to make any of the payments required by the Agreement, such payments shall continue as obligations of the Corporation until such amounts shall have been fully paid. The Corporation agrees to pay such amounts, together 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 the Agreement and to perform and observe the other agreements on its part contained in the Agreement shall 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 term of the Agreement, the Corporation shall pay absolutely the payments to be made on account of the loan as prescribed in the Agreement and all other payments required under the 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 Bonds shall have been fully paid, or provision for the payment thereof shall have been made as required by the Indenture, the Corporation (i) will not suspend or discontinue any payments provided for in the Agreement; (ii) will perform and observe all of its other covenants contained in the Agreement; and (iii) except as provided in the Agreement, will not terminate the 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 Project, termination of any lease relating to the Project, 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 Agreement or the Indenture.

Amounts Remaining In Funds. It is agreed by the parties to the Agreement that any amounts remaining in any fund held by the Trustee under the Indenture after payment in full of (i) the Bonds, or after provision for such payment shall have been made as provided in the Indenture, (ii) the fees, charges and expenses of the Trustee, the Registrar, the Tender Agent, the Remarketing Agent, any Paying Agent, any Auction Agent, any Market Agent, any Broker-Dealer and the Liquidity Providers, due and owing in accordance with the Agreement and the Indenture and (iii) all other amounts required to be paid under the Agreement and the Indenture, shall be applied as provided in the Indenture.

Liquidity Facility. The Corporation will deliver (or cause to be delivered) to the Trustee on or prior to the Issue Date an executed counterpart of the Standby Bond Purchase Agreement as the initial Liquidity Facility for the Bonds. The Corporation shall maintain one or more Liquidity Facilities, either by maintaining the Standby Bond Purchase Agreement or providing one or more substitute Liquidity Facilities as provided in this “—Liquidity Facility,” to provide a source of payment of the Purchase Price of all Variable Rate Bonds. If the short-term ratings assigned to the obligations of any Liquidity Provider then providing a Liquidity Facility (which obligations are payable on a parity with such Liquidity Provider’s obligations under the Liquidity Facility) shall be reduced below “A-1” by Standard & Poor’s, “VMIG-1” by Moody’s, or “F-1” by Fitch, then the Corporation shall use its best efforts to provide a substitute Liquidity Facility in accordance with the Agreement, within 60 days of the reduction of such ratings.

With respect to the Bonds of each Series bearing interest at a Variable Rate, at least thirty-five (35) days prior to the expiration or termination of any existing Liquidity Facility for such Series of Bonds, including any renewals or extensions thereof (other than an expiration of such Liquidity Facility at the final maturity of the Series of Bonds), the Corporation shall provide to the Trustee (with a copy to the applicable Remarketing Agent) (i) a renewal or extension of the term of the existing Liquidity Facility for such Series of Bonds for a term of at least 364 days (or, if shorter, the period to maturity of such Series of Bonds) or (ii) a substitute Liquidity Facility meeting the requirements set forth in the Agreement. The Corporation shall not permit any Liquidity Facility in effect to terminate with respect to any Series of Bonds during any Variable Rate Period unless such Series of Bonds are then required to be tendered for purchase pursuant to the mandatory tender provisions of the Indenture.

(c) Subject to the consent of the Insurer, the Corporation may at any time provide a substitute Liquidity Facility with respect to a Series of Bonds during any Variable Rate Period in accordance with the provisions of the Agreement and of the Indenture and upon delivery to the Trustee of the items specified in the Agreement; provided, however, that the Corporation shall not substitute any Liquidity Facility with respect to any Series of Bonds during a Variable Rate Period if such Series of Bonds are not then required to be tendered for purchase pursuant to the Indenture.

Any such substitute Liquidity Facility must meet the following conditions:

(i) the substitute Liquidity Facility must be a Liquidity Facility entered into by, or issued by, a commercial bank or other financial institution;

(ii) the terms and provisions of the substitute Liquidity Facility with respect to the purchase of Bonds thereunder must be in all material respects no less favorable to the Trustee than the terms and provisions of the initial Liquidity Facility provided under the Agreement;

(iii) the substitute Liquidity Facility must take effect on or before the date of termination of the existing Liquidity Facility and the term of the substitute Liquidity Facility must be at least 364 days (or, if shorter, the period to maturity of the applicable Series of Bonds);

(iv) the substitute Liquidity Facility must be in an amount sufficient to pay the maximum purchase price of the Series of Bonds which will be applicable during the then current Rate Period; and

(v) on the effective date of the substitution, the short-term ratings assigned to the obligations of each issuer or provider (which obligations are payable on a parity with the obligations of such issuer or provider under the substitute Liquidity Facility) of the substitute Liquidity Facility must be at least "A-1" by Standard & Poor's, "VMIG-1" by Moody's, or "F-1" by Fitch.

On or prior to the date of the delivery of a substitute Liquidity Facility to the Trustee pursuant to the Agreement, the Corporation shall cause to be furnished to the Trustee (i) an Opinion of Bond Counsel addressed to the Trustee to the effect that the delivery of such substitute Liquidity Facility to the Trustee is authorized under the Indenture and the Agreement and complies with the terms thereof and will not adversely affect the Tax-Exempt status of interest on any of the Bonds, and (ii) an opinion or opinions of counsel to the Liquidity Provider addressed to the Trustee and the Infrastructure Bank, to the effect that the Liquidity Facility has been duly authorized, executed and delivered by the Liquidity Provider and constitutes the valid, legal and binding obligation of the Liquidity Provider enforceable against the Liquidity Provider in accordance with its terms.

Special Covenants and Agreements

Right of Access to the Facilities. The Corporation agrees that during the term of the Agreement, and, to the extent within its control, for so long as the Corporation owns or operates the Facilities, the Infrastructure Bank, the Trustee, the Insurer, the Liquidity Provider and the duly authorized agents of any of them shall have the right (but not the duty) at all reasonable times during normal business hours to enter upon the sites of the Facilities to examine and inspect the Facilities; provided, however, that this right is subject to federal and State laws and regulations applicable to the sites of the Facilities; and provided further that the Corporation reserves the right to restrict access to the Facilities in accordance with reasonably adopted procedures relating to safety and security. The rights of access reserved to the Infrastructure Bank, the Trustee, the Insurer, the Liquidity Provider and their respective authorized agents

may be exercised only after the party seeking such access shall have given reasonable advance notice and executed release of liability (which release shall not limit any of the Corporation's obligations under the Agreement) agreements if requested by the Corporation in the form then currently used by the Corporation. Nothing contained in this paragraph or in any other provision of the Agreement shall be construed to entitle the Infrastructure Bank, the Trustee, the Insurer or the Liquidity Provider 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. The Corporation agrees that during the term of the Agreement and so long as any Bond is Outstanding, it will maintain its corporate existence, 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 the 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 (iii) assumes in writing all of the obligations of the Corporation under the Agreement. Notwithstanding the foregoing, as a condition precedent to any consolidation, merger, sale or other transfer, the Trustee and the Infrastructure Bank shall receive 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 Bonds.

Notwithstanding any other provision of the Agreement described under "—Corporation's Maintenance of Its Existence; Assignments," the Corporation need not comply with any of the provisions of the preceding paragraph if, at the time of any transaction not satisfying the terms of the preceding paragraph, provision for the payment of all Outstanding Bonds will be made as provided in the Indenture.

The rights and obligations of the Corporation under the Agreement may be assigned by the Corporation, in whole or in part; provided, however, that any assignment other than pursuant to the first paragraph above shall be subject to each of the following conditions:

(i) No such assignment shall relieve the Corporation from primary liability for any of its obligations under the Agreement, and the Corporation shall continue to remain primarily liable for the payments specified in the Agreement, and for performance and observance of the other agreements on its part provided in the Agreement to be performed and observed by it.

(ii) Any such assignment from the Corporation shall retain for the Corporation such rights and interests as will permit it to perform its obligations under the Agreement, and any assignee from the Corporation shall assume the obligations of the Corporation under the Agreement to the extent of the interest assigned.

(iii) The Corporation shall, 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.

(iv) The Corporation shall cause to be delivered to the Infrastructure Bank and the Trustee an Opinion of Bond Counsel to the effect that such assignment will not, in and of itself, adversely affect the Tax-Exempt status of interest on the Bonds.

If a merger, consolidation, sale or other transfer is effected, as provided in the foregoing provisions, the foregoing provisions shall continue in full force and effect and no further merger, consolidation, sale or transfer shall be effected except in accordance with the foregoing provisions.

Maintenance And Repair; Taxes; Utility And Other Charges; Insurance. For so long as the Facilities are in operation, the Corporation agrees to maintain, to the extent permitted by applicable law and regulation, the Facilities, or cause the Facilities to be so maintained, during the term of the Agreement (i) in as reasonably safe condition as its operations shall permit and (ii) in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof.

For so long as the Facilities are in operation, 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 Agreement all taxes, governmental charges of any kind lawfully assessed or levied upon the Facilities or any part thereof, including any taxes levied against the Facilities, all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Facilities and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the 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, shall be obligated to pay only such installments as are required to be paid during the term of the 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 Facilities or any part thereof will be subject to loss or forfeiture.

Nothing contained in the foregoing shall constitute a limitation on any provision with respect to the maintenance of the Facilities or the payment of taxes and governmental and other charges in connection with the Facilities.

Qualification In California. The Corporation agrees that throughout the term of the Agreement it, or any successor or assignee as permitted by the Agreement will be qualified to do business in the State.

Tax-Exempt Status of Interest On Bonds.

(a) It is the intention of the parties to the Agreement that interest on the Bonds shall be and remain Tax-Exempt, and to that end the covenants and agreements of the Infrastructure Bank and the Corporation in the following provisions and the Tax Certificate are for the benefit of the Trustee and each and every person who at any time will be a Holder of the Bonds.

(b) Each of the Corporation and the Infrastructure Bank covenants and agrees that it will not directly or indirectly use or permit the use of any proceeds of the Bonds or other funds, or take or omit to take any action that will cause any Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code. Each of the Corporation and the Infrastructure Bank further covenants and agrees that it will not direct the Trustee to invest any funds held by it under the Indenture or the Agreement, in such manner as would, or enter into or allow any related person to enter into any arrangement (formal or informal) that would, cause any Bond to be an "arbitrage bond" within the meaning of Section 148(a) of the Code. To such ends with respect to the Bonds, the Infrastructure Bank and the Corporation will comply with all requirements of Section 148 of the Code to the extent applicable to the Bonds. In the event that at any time the Infrastructure Bank or the Corporation is of the opinion that it is necessary to restrict or limit the

yield on the investment of any moneys held by the Trustee under the Agreement or the Indenture, the Infrastructure Bank or the Corporation shall so instruct the Trustee in writing and the Trustee shall comply with such written instructions.

Without limiting the generality of the foregoing, the Corporation and the Infrastructure Bank agree that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any applicable Treasury Regulations. This covenant shall survive payment in full of the Bonds or provision for the payment of the Bonds in accordance with the Indenture. The Corporation specifically covenants to calculate or cause to be calculated and to pay or cause to be paid for and on behalf of the Infrastructure Bank to the United States at the times and in the amounts determined under the Indenture the Rebate Requirement as described in the Tax Certificate, and under no circumstance shall payment of the Rebate Requirement be the obligation of the Infrastructure Bank.

(c) The Infrastructure Bank certifies, represents and agrees that it has not taken, and will not take, any action which will cause interest paid on the Bonds to become includable in gross income of the Holders of the Bonds for federal income tax purposes pursuant to Sections 103 and 141 through 150 of the Code; and the Corporation certifies and represents that it has not taken or, to the extent within its control, permitted to be taken, and the Corporation covenants and agrees that it will not take or, to the extent within its control, permit to be taken any action which will cause the interest on the Bonds to become includable in gross income of the Holders of the Bonds for federal income tax purposes pursuant to the provisions of Article XIII of the Tax Reform Act of 1986; provided that neither the Corporation nor the Infrastructure Bank shall have violated these covenants if the interest on any of the Bonds becomes taxable to a Person solely because such person is a "substantial user" of the financed facilities or a "related person" within the meaning of Section 103(b)(13) of the Code; and provided, further, that none of the covenants and agreements contained in the Agreement shall require either the Corporation or the Infrastructure Bank to enter an appearance or intervene in any administrative, legislative or judicial proceeding in connection with any changes in applicable laws, rules or regulations or in connection with any decisions of any court or administrative agency or other governmental body affecting the taxation of interest on the Bonds. The Corporation agrees to perform all duties imposed on it by the tax provisions of the Indenture, by provisions of the Agreement described under this "—Tax-Exempt Status of Interest On Bonds" and by the Tax Certificate.

(d) Notwithstanding any of the foregoing provisions of the Agreement, the tax provisions of the Indenture or any provision of the Tax Certificate, if the Corporation shall provide to the Infrastructure Bank and the Trustee an Opinion of Bond Counsel that any specified action required under the foregoing provisions of the Agreement, the tax provisions of the Indenture or any provision of the Tax Certificate is no longer required or that some further or different action is required to maintain the Tax-Exempt status of interest on the Bonds, the Corporation, the Trustee and the Infrastructure Bank may conclusively rely on such opinion in complying with the requirements of the foregoing provisions of the Agreement, the tax provisions of the Indenture or any provision of the Tax Certificate; and the covenants contained in the foregoing provisions of the Agreement, the tax provisions of the Indenture or any provision of the Tax Certificate shall be deemed to be modified to that extent.

Notice of Rate Periods. The Corporation shall designate and give timely written notice to the Trustee as required by the Indenture prior to any change in Rate Periods for the Bonds. In addition, if the Corporation shall elect to change Rate Periods in accordance with the Indenture under circumstances requiring the delivery of an Opinion of Bond Counsel, the Corporation shall deliver such opinion to the Trustee concurrently with the giving of notice with respect thereto.

Remarketing of the Bonds. The Corporation agrees to perform all obligations and duties required of it by the Indenture and the Remarketing Agreement with respect to any remarketing of the Bonds. If requested in writing by the Insurer, the Corporation shall remove the Remarketing Agent pursuant to the terms of the Remarketing Agreement.

Purchase of Bonds. The Corporation agrees that it shall not purchase, and it shall cause any guarantor or affiliate of the Corporation not to purchase, Bonds from the Remarketing Agent or otherwise.

Damage, Destruction and Condemnation; Continuation of Payment

Obligation to Continue Payments. So long as any Bonds are Outstanding, if (i) the Facilities or any portion thereof is destroyed (in whole or in part) or is damaged by fire or other casualty, or (ii) the temporary use of the Facilities or any portion thereof shall 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 shall nevertheless be obligated to continue to pay the amounts specified in the Agreement, to the extent not prepaid in accordance with the Agreement.

Damage to Or Condemnation of Facilities. As between the Infrastructure Bank and the Corporation, the Corporation shall be entitled to the Net Proceeds of any insurance or condemnation award or portion thereof made for damages to or takings of the Facilities.

Events of Default and Remedies

Events of Default. Any one of the following which occurs shall constitute an Event of Default pursuant to the Agreement:

(a) failure by the Corporation to pay or cause to be paid any amounts required to be paid under the Agreement when due or to make the deposits required to be made under the Agreement when due; or

(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 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 shall specify such failure and request that it be remedied, unless the Infrastructure Bank and the Trustee shall 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 hereafter 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 Indenture; or

(e) the occurrence of an event of default under the Insurance Agreement with respect to a payment required under Section 1.02(b) of the Insurance Agreement.

The provisions of subsection (b) of the preceding paragraph are subject to the limitation that the Corporation shall not be deemed in default if and so long as the Corporation is unable to carry out its agreements under the 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 shall be entirely within the discretion of the Corporation, and the Corporation shall 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 shall not apply to any default under subsections (a), (c), (d) or (e) of the provisions described under “—Events of Default,” or any agreement to make payments.

Remedies On Default. Whenever any Event of Default shall have occurred and shall continue:

(a) The Trustee, by notice in writing delivered to the Corporation (with copies of such notice being sent to the Infrastructure Bank and the Insurer) and with the prior consent of the Insurer, may, and, upon the written request of the Insurer, shall, declare the unpaid balance of the loan payable under the Agreement in an amount equal to the Outstanding principal amount of the Bonds, together with the interest accrued thereon, to be immediately due and payable, but may do so only if the Bonds have been accelerated as provided in the 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 Agreement and thereafter to become due under the Agreement or the enforcement of the performance and observance of any obligation, agreement or covenant of the Corporation under the Agreement, 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 shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Agreement, there shall have been deposited with the Trustee a sum sufficient to pay all the principal of the 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 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) shall have been made good

or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Holders of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Infrastructure Bank and to the Trustee accompanied by the written consent of the Insurer may, on behalf of the Holders of all the Bonds, rescind and annul such declaration and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

In case the Trustee or the Infrastructure Bank shall have proceeded to enforce its rights under the Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall 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 shall be restored respectively to their several positions and rights under the Agreement, and all rights, remedies and powers of the Corporation, the Trustee and the Infrastructure Bank shall 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 shall not be disturbed by reason of this provision).

Notwithstanding the foregoing, upon the occurrence and continuance of an Event of Default under the Agreement, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders or the Trustee for the benefit of the Holders under the Agreement, including, without limitation: (a) the right to declare the unpaid balance of the loan payable under the Agreement, and (b) the right to annul any such declaration, and the Insurer shall also be entitled to approve all waivers of Events of Default under the Agreement.

Agreement to Pay Attorneys' Fees and Expenses. In the event the Corporation should default under any of the provisions of the Agreement and the Infrastructure Bank or the Trustee should employ attorneys or incur other expenses for the collection of the payments due under the Agreement or the enforcement of performance or observance of any obligation or agreement on the part of the Corporation contained in the Agreement, the Corporation agrees to pay to the Infrastructure Bank or the Trustee the reasonable fees and expenses of such attorneys, such other reasonable expenses so incurred by the Trustee and such other expenses so incurred by the Infrastructure Bank, including the cost of the Infrastructure Bank and Attorney General employees.

No Remedy Exclusive. No remedy conferred upon or reserved to the Infrastructure Bank or the Trustee in the Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Infrastructure Bank or the Trustee to exercise any remedy reserved to it in the Indenture, it shall not be necessary to give any notice, other than such notice as may be expressly required in the Agreement. Such rights and remedies as are given the Infrastructure Bank under the Agreement shall also extend to the Trustee, and the Trustee and the Holders of the Bonds shall be deemed third party beneficiaries of all covenants and agreements contained in the Agreement. To the extent that any covenants and agreements in the Agreement expressly grant rights to the Insurer, it shall be deemed a third party beneficiary of such covenants and agreements.

No Additional Waiver Implied By One Waiver. In the event any agreement or covenant contained in the Agreement should be breached by the Corporation and thereafter waived by the Infrastructure Bank or the Trustee, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach under the Agreement.

Nonliability of Infrastructure Bank

Nonliability of Infrastructure Bank. The Infrastructure Bank shall not be obligated to pay the principal of, premium, if any, or interest on the Bonds, except from Revenues. The Corporation acknowledges that the Infrastructure Bank's sole source of moneys to repay the Bonds will be provided by the payments made by the Corporation pursuant to the Agreement, together with other Revenues with respect to the Bonds, including investment income on certain funds and accounts held by the Trustee under the Indenture, and agrees that if the payments to be made under the Agreement shall ever prove insufficient to pay all principal of, and premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Corporation shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, premium or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Corporation, the Infrastructure Bank, the Insurer, any Liquidity Provider or any third party.

Miscellaneous

Amendments, Changes and Modifications. Except as otherwise provided in the Agreement or the Indenture, the Agreement may not be effectively amended, changed, modified, altered or terminated except in accordance with the Indenture.

Governing Law; Venue. The Agreement shall be construed in accordance with and governed by the Constitution and laws of the State applicable to contracts made and performed in the State. The Agreement shall be enforceable in the State, and any action arising out of the Agreement shall be filed and maintained in a court in Sacramento County, California, unless the Infrastructure Bank waives this requirement.

Insurer. All provisions of the Indenture regarding consents, approvals, directions, appointments or requests by the Insurer shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by the Insurer during any time in which the Insurer has failed to honor a demand for payment presented to it in strict conformance with the applicable provisions of the Bond Insurance Policy, or after the Bond Insurance Policy shall at anytime for any reason cease to be valid and binding on the Insurer, or while the Insurer is denying further liability or obligation under the Bond Insurance Policy or after the Insurer has rescinded, repudiated or terminated the Bond Insurance Policy.

Liquidity Provider. All provisions of the Indenture regarding consents, approvals, directions, appointments or requests by a Liquidity Provider shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by such Liquidity Provider during any time in which no Liquidity Facility has been delivered, or such Liquidity Provider has failed to honor a demand for payment presented to it in strict conformance with the provisions of the applicable Liquidity Facility, or after the applicable Liquidity Facility shall at any time for any reason cease to be valid and binding on such Liquidity Provider, or while such Liquidity Provider is denying further liability or obligation under the applicable Liquidity Facility (unless such Liquidity Facility has been fully drawn or to the extent that the conditions to making a demand for payment thereunder have not been strictly satisfied) or after such Liquidity Provider has rescinded, repudiated or terminated the Liquidity Facility.

All provisions in the Agreement relating to a Liquidity Provider shall be of no force and effect with respect to such Liquidity Provider if the applicable Liquidity Facility is not in effect, there are no related Liquidity Provider Bonds with respect to the applicable Liquidity Facility and all amounts owing to such Liquidity Provider under the applicable Liquidity Facility have been paid.

APPENDIX B

BOOK-ENTRY ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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

[Date of Issuance]

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

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

Ladies and Gentlemen:

We have acted as bond counsel in connection with issuance by the California Infrastructure and Economic Development Bank (the "Infrastructure Bank") of \$60,000,000 aggregate principal amount of California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2007 Series A and 2007 Series B (the "Bonds"), issued pursuant to the provisions of the Bergeson-Peace Infrastructure and Economic Development Bank Act of the State of California (constituting Division 1 of Title 6.7 of the Government Code of the State of California, commencing with Section 63000), and an Indenture of Trust, dated as of April 1, 2007 (the "Indenture"), between the Infrastructure Bank and Deutsche Bank National Trust Company, as trustee (the "Trustee"). The Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to the California Independent System Operator Corporation, a California nonprofit public benefit corporation (the "Corporation"), pursuant to a Loan Agreement, dated as of April 1, 2007 (the "Agreement"), between the Infrastructure Bank and the Corporation. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

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

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

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 Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against instrumentalities and agencies of the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the personal property described in or as subject to the lien of the Indenture or the Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute the valid and binding limited obligations of the Infrastructure Bank.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Infrastructure Bank. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid assignment to the Trustee, for the benefit of the holders from time to time of the Bonds, of the right, title and interest of the Infrastructure Bank in the Agreement (to the extent more particularly described in the Indenture).

3. The Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Infrastructure Bank.

4. The Bonds are not a lien or charge upon the funds or property of the Infrastructure Bank except to the extent of the aforementioned pledge and assignment. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

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APPENDIX D

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

[Handwritten signature of Robert J. Prada]

President



[Handwritten signature of Anne G. Gill]

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

[Handwritten signature of Noranda Lauer]

Authorized Officer of Insurance Trustee

Endorsement

Policy for:

Attached to and forming part of Policy No.:


Effective Date of Endorsement:

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

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation



President



Secretary

Authorized Representative

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EXHIBIT G

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California Independent System Operator
Series 2008 Refunding & New Money Bonds
Fixed Rate - No Insurance
Market Rates as of 3.3.2008

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SOURCES AND USES OF FUNDS

California Independent System Operator
Series 2008 Refunding & New Money Bonds
Fixed Rate - No Insurance
Market Rates as of 3.3.2008

Sources:

Bond Proceeds:	
Par Amount	199,220,000.00
Net Premium	<u>5,958,379.30</u>
	205,178,379.30
Other Sources of Funds:	
2007 Construction Fund	2,362,216.28
2004 DSRF	12,742,029.29
2007 DSRF	<u>6,000,000.00</u>
	21,104,245.57
	<hr/>
	226,282,624.87

Uses:

Project Fund Deposits:	
Project Fund	60,000,000.00
Refunding Escrow Deposits:	
Cash Deposit	139,000,000.00
Other Fund Deposits:	
Debt Service Reserve Fund	19,922,000.00
Capitalized Interest	<u>2,176,884.53</u>
	22,098,884.53
Delivery Date Expenses:	
Cost of Issuance	364,000.00
Underwriter's Discount	<u>648,050.00</u>
	1,012,050.00
Other Uses of Funds:	
2007 Construction Fund	2,362,216.28
Swap Termination Fee	1,800,000.00
Additional Proceeds	<u>9,474.06</u>
	4,171,690.34
	<hr/>
	226,282,624.87

SUMMARY OF REFUNDING RESULTS

California Independent System Operator
Series 2008 Refunding & New Money Bonds
Fixed Rate - No Insurance
Market Rates as of 3.3.2008

Dated Date	05/01/2008
Delivery Date	05/01/2008
Arbitrage yield	3.874017%
Escrow yield	
Bond Par Amount	132,480,000.00
True Interest Cost	3.838595%
Net Interest Cost	3.910109%
Average Coupon	4.933986%
Average Life	2.337
Par amount of refunded bonds	139,000,000.00
Average coupon of refunded bonds	3.261230%
Average life of refunded bonds	2.312
PV of prior debt to 05/01/2008 @ 3.874017%	138,065,110.72
Net PV Savings	2,519,639.74
Percentage savings of refunded bonds	1.812690%
Percentage savings of refunding bonds	1.901902%

BOND PRICING

California Independent System Operator
 Series 2008 Refunding & New Money Bonds
 Fixed Rate - No Insurance
 Market Rates as of 3.3.2008

Bond Component	Maturity Date	Amount	Rate	Yield	Price
Series 2008 Stand Alone Fixed Refunding, Refunding Serial Bonds:					
	02/01/2009	27,250,000	4.000%	2.950%	100.769
	02/01/2010	53,495,000	5.000%	3.350%	102.776
	02/01/2011	17,905,000	5.000%	3.620%	103.575
	02/01/2012	14,390,000	5.000%	3.920%	103.726
	02/01/2013	19,440,000	5.000%	4.120%	103.755
		<u>132,480,000</u>			
Series 2008_ Fixed, No Insurance, Serial Bonds:					
	02/01/2010	100,000	5.000%	3.350%	102.776
	02/01/2011	24,620,000	5.000%	3.620%	103.575
	02/01/2012	10,775,000	5.000%	3.920%	103.726
	02/01/2013	5,175,000	5.000%	4.120%	103.755
	02/01/2014	26,070,000	5.000%	4.330%	103.371
		<u>66,740,000</u>			
		199,220,000			

Dated Date	05/01/2008	
Delivery Date	05/01/2008	
First Coupon	08/01/2008	
Par Amount	199,220,000.00	
Premium	5,958,379.30	
Production	205,178,379.30	102.990854%
Underwriter's Discount	-648,050.00	-0.325294%
Purchase Price	204,530,329.30	102.665560%
Accrued Interest		
Net Proceeds	204,530,329.30	

BOND SUMMARY STATISTICS

California Independent System Operator
 Series 2008 Refunding & New Money Bonds
 Fixed Rate - No Insurance
 Market Rates as of 3.3.2008

Dated Date	05/01/2008
Delivery Date	05/01/2008
Last Maturity	02/01/2014
Arbitrage Yield	3.874017%
True Interest Cost (TIC)	3.998824%
Net Interest Cost (NIC)	4.069036%
All-In TIC	4.064454%
Average Coupon	4.965498%
Average Life (years)	2.973
Duration of Issue (years)	2.769
Par Amount	199,220,000.00
Bond Proceeds	205,178,379.30
Total Interest	29,413,875.00
Net Interest	24,103,545.70
Total Debt Service	228,633,875.00
Maximum Annual Debt Service	62,193,500.00
Average Annual Debt Service	39,762,413.04

Bond Component	Par Value	Price	Average Coupon	Average Life
Refunding Serial Bonds	199,220,000.00	102.991	4.965%	2.973
	199,220,000.00			2.973

	TIC	All-In TIC	Arbitrage Yield
Par Value	199,220,000.00	199,220,000.00	199,220,000.00
+ Accrued Interest			
+ Premium (Discount)	5,958,379.30	5,958,379.30	5,958,379.30
- Underwriter's Discount	-648,050.00	-648,050.00	
- Cost of Issuance Expense		-364,000.00	
- Other Amounts			
Target Value	204,530,329.30	204,166,329.30	205,178,379.30
Target Date	05/01/2008	05/01/2008	05/01/2008
Yield	3.998824%	4.064454%	3.874017%

PRIOR BOND DEBT SERVICE

California Independent System Operator
Series 2008 Refunding & New Money Bonds
Fixed Rate - No Insurance
Market Rates as of 3.3.2008

Period Ending	Principal	Coupon	Interest	Debt Service	Other Cash Flow	Total
02/01/2009	28,900,000	**	3,265,291.41	32,165,291.41	264,232.78	32,429,524.19
02/01/2010	55,600,000	**	3,408,428.80	59,008,428.80	299,862.38	59,308,291.18
02/01/2011	19,000,000	3.468%	1,890,059.98	20,890,059.98	153,265.78	21,043,325.76
02/01/2012	15,300,000	3.468%	1,231,140.04	16,531,140.04	103,303.47	16,634,443.51
02/01/2013	20,200,000	3.468%	700,536.01	20,900,536.01	62,028.66	20,962,564.67
	139,000,000		10,495,456.24	149,495,456.24	882,693.07	150,378,149.31

BOND DEBT SERVICE

California Independent System Operator
Series 2008 Refunding & New Money Bonds
Fixed Rate - No Insurance
Market Rates as of 3.3.2008

Period Ending	Principal	Coupon	Interest	Debt Service
02/01/2009	27,250,000	4.000%	7,266,375	34,516,375
02/01/2010	53,595,000	5.000%	8,598,500	62,193,500
02/01/2011	42,525,000	5.000%	5,918,750	48,443,750
02/01/2012	25,165,000	5.000%	3,792,500	28,957,500
02/01/2013	24,615,000	5.000%	2,534,250	27,149,250
02/01/2014	26,070,000	5.000%	1,303,500	27,373,500
	199,220,000		29,413,875	228,633,875

BOND DEBT SERVICE BREAKDOWN

California Independent System Operator
Series 2008 Refunding & New Money Bonds
Fixed Rate - No Insurance
Market Rates as of 3.3.2008

Period Ending	Series 2008 Stand Alone Fixed Refunding	Series 2008_ Fixed, No Insurance	Total
02/01/2009	32,013,625	2,502,750	34,516,375
02/01/2010	58,756,500	3,437,000	62,193,500
02/01/2011	20,491,750	27,952,000	48,443,750
02/01/2012	16,081,500	12,876,000	28,957,500
02/01/2013	20,412,000	6,737,250	27,149,250
02/01/2014		27,373,500	27,373,500
	147,755,375	80,878,500	228,633,875

PROJECT FUND

California Independent System Operator
Series 2008 Refunding & New Money Bonds
Fixed Rate - No Insurance
Market Rates as of 3.3.2008

Date	Deposit	Interest @ 3.8740173%	Principal	Scheduled Draws	Balance
05/01/2008	60,000,000		60,000,000	60,000,000	
	60,000,000	0	60,000,000	60,000,000	

Arbitrage Yield: 3.8740173%

RESERVE FUND

California Independent System Operator
 Series 2008 Refunding & New Money Bonds
 Fixed Rate - No Insurance
 Market Rates as of 3.3.2008

Debt Service Reserve Fund

Date	Deposit	Interest @ 3.8740173%	Principal	Debt Service	Balance
05/01/2008	19,922,000				19,922,000
08/01/2008		192,945.43		-192,945.43	19,922,000
02/01/2009		385,890.87		-385,890.87	19,922,000
08/01/2009		385,890.87		-385,890.87	19,922,000
02/01/2010		385,890.87		-385,890.87	19,922,000
08/01/2010		385,890.87		-385,890.87	19,922,000
02/01/2011		385,890.87		-385,890.87	19,922,000
08/01/2011		385,890.87		-385,890.87	19,922,000
02/01/2012		385,890.87		-385,890.87	19,922,000
08/01/2012		385,890.87		-385,890.87	19,922,000
02/01/2013		385,890.87	13,248,000	-13,633,890.87	6,674,000
08/01/2013		129,275.96		-129,275.96	6,674,000
02/01/2014		129,275.96	6,674,000	-6,803,275.96	
	19,922,000	3,924,515.18	19,922,000	-23,846,515.18	

Average Life (years): 5.0850
 Yield To Receipt Date: 3.8750239%
 Arbitrage Yield: 3.8740173%
 Value of Positive Arbitrage: 916.60

RESERVE FUND

California Independent System Operator
Series 2008 Refunding & New Money Bonds
Fixed Rate - No Insurance
Market Rates as of 3.3.2008

Capitalized Interest

Date	Deposit	Interest @ 3.8740173%	Principal	Scheduled Draws	Balance
05/01/2008	2,176,884.53				2,176,884.53
06/01/2008		7,027.74	-7,027.74		2,183,912.27
07/01/2008		7,050.43	-7,050.43		2,190,962.70
08/01/2008		7,073.19	827,176.81	834,250.00	1,363,785.89
09/01/2008		4,402.78	-4,402.78		1,368,188.67
10/01/2008		4,416.99	-4,416.99		1,372,605.66
11/01/2008		4,431.25	-4,431.25		1,377,036.91
12/01/2008		4,445.55	-4,445.55		1,381,482.46
01/01/2009		4,459.91	-4,459.91		1,385,942.37
02/01/2009		4,474.30	1,385,942.37	1,390,416.67	
	2,176,884.53	47,782.14	2,176,884.53	2,224,666.67	

Average Life (years): 0.5666
Yield To Receipt Date: 3.9054194%
Arbitrage Yield: 3.8740173%
Value of Positive Arbitrage: 375.70

COST OF ISSUANCE

California Independent System Operator
Series 2008 Refunding & New Money Bonds
Fixed Rate - No Insurance
Market Rates as of 3.3.2008

Cost of Issuance	\$/1000	Amount
Upfront Conduit Fee	0.37647	75,000.00
Bond Counsel	0.50196	100,000.00
Issuer Counsel	0.20078	40,000.00
Regulatory Counsel	0.07529	15,000.00
Agent For Sale Fee	0.04518	9,000.00
Rating Fee - Moodys	0.25098	50,000.00
Rating Fee - S&P	0.22588	45,000.00
Trustee Acceptance/First	0.02510	5,000.00
Trustee Counsel	0.05020	10,000.00
Printing and Mailing OS	0.02008	4,000.00
Contingency	0.05020	10,000.00
TEFRA Expenses	0.00502	1,000.00
	1.82713	364,000.00

ESCROW REQUIREMENTS

California Independent System Operator
Series 2008 Refunding & New Money Bonds
Fixed Rate - No Insurance
Market Rates as of 3.3.2008

Period Ending	Principal Redeemed	Total
05/01/2008	139,000,000.00	139,000,000.00
	139,000,000.00	139,000,000.00

ESCROW SUFFICIENCY

California Independent System Operator
Series 2008 Refunding & New Money Bonds
Fixed Rate - No Insurance
Market Rates as of 3.3.2008

Date	Escrow Requirement	Net Escrow Receipts	Excess Receipts	Excess Balance
05/01/2008	139,000,000.00	139,000,000.00		
	139,000,000.00	139,000,000.00	0.00	

NET DEBT SERVICE

California Independent System Operator
Series 2008 Refunding Bonds

Period Ending	Principal	Interest	Total Debt Service	Debt Service Reserve Fund	Net Debt Service
02/01/2009	27,250,000	4,763,625	32,013,625	384,922.36	31,628,702.64
02/01/2010	53,495,000	5,261,500	58,756,500	513,229.82	58,243,270.18
02/01/2011	17,905,000	2,586,750	20,491,750	513,229.82	19,978,520.18
02/01/2012	14,390,000	1,691,500	16,081,500	513,229.82	15,568,270.18
02/01/2013	19,440,000	972,000	20,412,000	13,761,229.82	6,650,770.18
	132,480,000	15,275,375	147,755,375	15,685,841.64	132,069,533.36

NET DEBT SERVICE

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
 Revenue Bonds
 (California Independent Systems Operator Corporation)
 Series 2008
 No Bond Insurance
 Market Rates as of 3/3/2008

Period Ending	Principal	Interest	Total Debt Service	Annual Trustee, Rating, Conduit Fees	Debt Service Reserve Fund	Capitalized Interest	Net Debt Service
02/01/2009		2,502,750	2,502,750		193,913.94	2,224,666.67	84,169.39
02/01/2010	100,000	3,337,000	3,437,000	10,500	258,551.92		3,188,948.08
02/01/2011	24,620,000	3,332,000	27,952,000	10,500	258,551.92		27,703,948.08
02/01/2012	10,775,000	2,101,000	12,876,000	10,500	258,551.92		12,627,948.08
02/01/2013	5,175,000	1,562,250	6,737,250	10,500	258,551.92		6,489,198.08
02/01/2014	26,070,000	1,303,500	27,373,500	10,500	6,932,551.92		20,451,448.08
	66,740,000	14,138,500	80,878,500	52,500	8,160,673.54	2,224,666.67	70,545,659.79

EXHIBIT H



FINAL

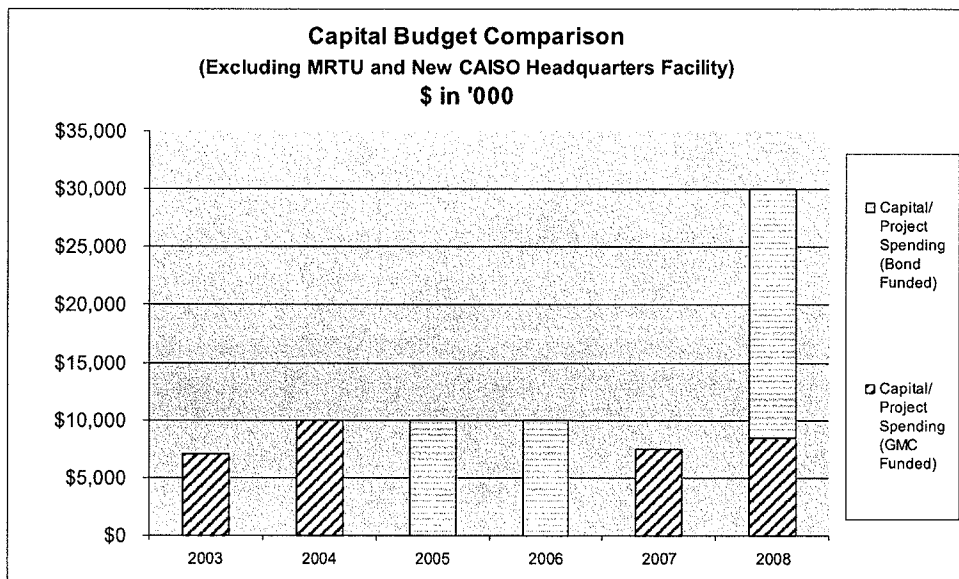
Date: 11/30/2007

X. 2008 CAPITAL / PROJECT BUDGET

Summary

The 2008 Revenue Requirement provides for GMC funding of \$ 8.5 million will provide for the initial funding for the proposed 2008 Capital and Project Budget of \$30 million. The current plan to provide for the additional funding will be a bond issue that will fund both 2008-2009 capital projects. After the completion of the 2008-2012 Strategic Plan update expected early 1st quarter, the current project listing will be validated and will again be presented to the Board of Governors with the request to authorize a bond issuance.

The current project list and budget does not include any 2008 funding for the proposed CAISO headquarters facility (which will be addressed separately early in 2008), or the funding related to the completion of the MRTU project (separately budgeted and funded at \$189.2 million).



Capital / Project Budget Development Process

CAISO departments were requested to submit potential capital projects for consideration during June 2007. These projects were initially classified as priority 1-Essential, 2-Important and 3 – Not Critical, assessed against a list of corporate key initiatives from the 2007-2011 Business Plan (listed on the following page), and cross-referenced to the Enterprise Risk Inventory. The initial list of potential projects resulting from this review was published in the draft budget proposal released for stakeholder review in September 2007.



Additional reviews were then conducted subsequently to further refine the project list using the following criteria:

Categories	The project...
Corporate Objective	Is within the scope of a Key Initiative (KI) in the Five-Year Business Plan
Compliance/Regulatory	Is mandated by some regulatory body
IT Infrastructure	Is critical to the availability and reliability of our grid, market and corporate systems
Enterprise Risk Inventory Top 15 Risk Mitigation	Contributes to the mitigation of a Top 15 Risk in the Enterprise Risk Inventory as presented to the Board of Governors in 3Q 2007
Existing Project	Continuation of 2007 project , impacts if not completed
Safety/ Security/ Employer of Choice	Contributes to the safety and security of CAISO people and facilities and/or contributes to employee satisfaction
Constraints	Uses a constrained IT Resource
Resource Availability	Recognition of impact MRTU implementation schedule on CAISO resources and contractors
Market Initiative Roadmap	Are projects with the scope of this stakeholder process
Nature of Project or Previous Ranking	Placeholder projects (need not certain) Previously identified as Priority 2

CAISO Key Initiatives

- KI.01 - National Reliability Standards
- KI.02 - Reduce Settlement timeframe
- KI.03 - Design and Build new control room
- KI.04 - Implement advanced tools to support operations
- KI.05 - Expand Operator Training on new advanced tools
- KI.07 - Implement Long Term Transmission Rights
- KI.08 - Implement Value-added market enhancements
- KI.09 - Assess Capacity pricing mechanisms
- KI.10 - Increase demand participation in ISO Markets
- KI.11 - Increase regional outreach & coordination
- KI.12 - Market Simplifications
- KI.13 - Establish "third-category" of transmission
- KI.14 - Integration of Renewable Resources
- KI.20 - Design & Build new campus
- KI.22 - Create & implement career management program
- KI.24 - Develop & launch talent management program
- KI.28 - Enterprise-wide issue tracking
- KI.29 - Provide customer portal to Access Market information & Issue Data
- KI.32 - Integrate state demand response program into Grid Ops. Build new products
- CM.12 – Establish GMC consistent with Corporate Goals
- CM.13 –Control of Actual Expense to Compare to Budget



The final list, that follows, includes projects identified as “Top Priorities-1” and “High Priorities -1.1”. The expectation is that projects identified as “High Priorities” would be initiated in 2008 if a “Top Priority” project is dropped or deferred. The “High Priority” projects would likely be considered for the 2009 Capital budget.

This list of projects put forward is consistent with the proposed funding level, and provides an indication of the projects to be initiated during 2008. However, projects will be subject to additional review before funding, including further consideration of project need, a cost-benefit analysis, and completion of a project plan. Further, priorities may change during 2008 as a result of the completion of the 2008-2012 strategic plan update, and as a result of other developments during 2008. The Corporate Management Committee⁷ will review and approve projects to be funded in 2008.

Results

The following pages contain additional detail on anticipated 2008-2009 capital and project expenditures:

⁷ The Corporate Management Committee consists of the CEO, CFO, General Counsel and the Director of Strategic Planning and Executive Operations.
Finance/PRL 11/30/2007

Exhibit: 2008-2009 Capital/Project Budget – Project Listing

Page Number	Project ID	2008-2009 Proposed Capital Projects	Comment	Priority	Cost Estimate Range
Small \$0 to \$500K; Medium \$501K to \$ 1M; Large >\$1M					
TOP PRIORITY PROJECTS					
COMPLIANCE/REGULATORY PROJECTS					
194	179	Information Security Compliance and Policy Management	Compliance/Regulatory/ Key Initiative KI.01	1	Small
196	364/400/401	Year 1 market design enhancements (Release 1A, including CB and SP)	Compliance/Regulatory/ Key Initiative KI.08	1	Large
202	395	Implement CRR market, release 2	Compliance/Regulatory/ Key Initiative KI.08	1	Large
203	399	WECC/NERC Reliability Charge Settlements - SaMC System	Compliance/Regulatory/ Key Initiative KI.01	1	Small
204	406	Enhancement of Planning and Engineering Software System	Compliance/Regulatory/ Key Initiative - KI.17	1	Medium
SUBTOTAL - COMPLIANCE/REGULATORY					\$ 10,500,000
ESSENTIAL PROJECTS/CORPORATE INFRASTRUCTURE					
206	173/190	2008 - Computer Hardware and Software & Office Equipment Purchases	IT Infrastructure	1	Large
209	191	Field Data Acquisition Replacement Vehicle	Safety/ Cost Savings	1	Small
210	215/316	2008 Facilities Leasehold Improvements/Furniture Purchase/Access Control/Security Equipment	Safety - Employer of Choice	1	Medium
213	383	Upgrade EMS Hardware from True 64 to HP UX - & GOTS	IT Infrastructure	1	Large
N/A	N/A	Enterprise Data Repository 2007 Project Completion	2007 Project Completion	1	Small
214	429	Program Office Staff	Project Management	1	Large
SUBTOTAL - ESSENTIAL PROJECTS					\$ 7,900,000
STRATEGIC INITIATIVES					
216	248	Modification of settlements in support of payment acceleration	Key Initiative - KI.02	1	Large
217	297	Oracle Application/Enhancements (HR/Corporate Financials)	Financial Management	1	Large
219	311	Control Room Work Environment Upgrade	Key Initiative - KI.03	1	Medium
220	354	Implement single outage Management Application -	Key Initiative - KI.04 - & ERI Top 15	1	Large
221	360	Interim Capacity Procurement Mechanism	Key Initiatives - KI.09 & ERI Top 15	1	Small
223	361	Demand Response System Integration	Key Initiatives - KI.10 & KI.32 & ERI top 15	1	Medium
225	370	Implement network application tools - dynamic stability	Key Initiative - KI.04	1	Large
226	371	Renewable Day Ahead Forecasting Tool	Key Initiative - KI.04 & ERI Top 15	1	Small
228	373	Ramp Forecasting Tool for Renewable	Key Initiatives- KI.04 & ERI Top 15	1	Small
229	388	Development of Simulation Tool for LMP Analysis	Key Initiative - KI.08 & ERI Top 15	1	Small
232	391	Development of Market Monitoring Framework within SAS EBI	Key Initiative - KI.08 & ERI Top 15	1	Medium
SUBTOTAL - STRATEGIC INITIATIVES					\$ 10,100,000



Page Number	Project ID	2008-2009 Proposed Capital Projects	Comment	Priority	Cost Estimate Range
TOP PRIORITY PROJECTS (cont.)					
BUDGET FOR IDENTIFIED FUTURE MARKET SYSTEM ENHANCEMENTS					
234	377	Tools to Support Market Systems and Processes	System Enhancements	1	Medium
235	393/ 394	Operational and Stakeholder MarketSystems Enhancements	System Enhancements	1	Large
239	422	Applicationenhancement for automation of manual workarounds	System Enhancements	1	Small
240	427	MQS Enhancements to Automate Manual Workarounds	System Enhancements	1	Medium
SUBTOTAL FUTURE SYSTEM ENHANCEMENTS					\$ 1,500,000
TOTAL TOP PRIORITY (PROPOSED PROJECTS FOR 2008)					\$ 30,000,000
HIGH PRIORITY ITEM (SUBJECT TO FUTURE CONSIDERATION)					
241	141	EMS System Enhancements	Application Placeholder	1.1	Small
242	333	Portal Enhancements	Software Applications	1.1	Medium
244	358	Enterprise Local Area Network Infrastructure Upgrade	IT Infrastructure	1.1	Large
245	374	Increase the detail of Network Model and add SCADA to Neighboring Control Areas	Software Applications	1.1	Small
246	389	Network Access Control	IT Infrastructure	1.1	Small
247	390	Wide Area Network Acceleration and Optimization	IT Infrastructure	1.1	Small
249	398	Market Clearing & Credit system enhancements	Application Placeholder	1.1	Medium
251	402	Greenhouse Gas tracking (initial specifications)	Application Placeholder	1.1	Small
252	404	Year 2 market design enhancements (Release 2) Full estimate \$ 23M 5% 2008	Application Placeholder	1.1	Large
254	416	Server Monitoring Enhancement for ETE, Test, Development Server Environments	IT Infrastructure	1.1	Small
255	417	Automation of new Resource Adequacy Requirements	Software Applications	1.1	Medium
257	418	Resource Interconnection Management System (RIMS) Application - Release 2	Application Placeholder	1.1	Small
258	419	master File Application Enhancement	Software Applications	1.1	Medium
259	420	Market Operations Training Simulator (MOTS)	Software Applications	1.1	Medium
260	430	LMP Validation Software Tool for Market Validation Group - AGI	Market Enhancement	1.1	Medium
262	432	LMP Contour Graphics	Software Applications	1.1	Small
263	435	Test Infrastructure Project	IT Infrastructure	1.1	Small
TOTAL HIGH PRIORITY PROJECTS					\$ 36,000,000



Page Number	Project ID	2008-2009 Proposed Capital Projects	Comment	Priority	Cost Estimate Range
ADDITIONAL CAPITAL PROJECTS FOR FUTURE CONSIDERATON					
N/A	134	Implement Corporate Library	Software Applications	2	Medium
N/A	216	Security Patrol Vehicle Replacement	Vehicles	2	Small
N/A	270	MSS Modifications	Application Placeholder	2	Small
N/A	274	Control Room Alarm System	IT Infrastructure	2	Small
N/A	326	Replacement O&M Budget Tool	Software Applications	2	Small
N/A	362	Development and implementation of CAISO-operated capacity market or other procurement mechanism to support long-term reliability requirements	Market Enhancement	2	Medium
N/A	363	Coordinated Day Ahead Scheduling and Congestion Management with Other Western Control Areas	Market Enhancement/ Requirements	2	Small
N/A	392	Furniture for Department Realignment post MRTU	Facilities	2	Small
N/A	408	Oracle Identity Management enhancements	Software Applications	2	Small
N/A	411	Vulnerability Assessment Toolkit Improvement	Software Applications	2	Small
N/A	412	Document Storage Repository Modernization	IT Infrastructure	2	Medium
N/A	413	Enhance/Centralized Security logging/monitoring	Software Applications	2	Small
N/A	414	Virtualized Server Capacity Expansion	IT Infrastructure	2	Medium
N/A	415	Multi-Function Device (printer/fax/copier) Project	Infrastructure	2	Small
N/A	433	EMC Hardware Refresh / Replacement (Storage)	IT Infrastructure	2	Large
TOTAL PRIORITY 2 FUTURE PROJECTS					\$20,000,000



2008-2009 Capital and Project Budget

Project ID Project Name

179 Information Security Compliance and Policy Management

Priority

Project Size

1 Top Priority

Small

Impacted Systems

Key Initiatives

Security Systems

KI.01 - National Reliability Standards

Overview/Summary of Project

Information security risk is a required component in the calculation of fiscal health, safety and soundness, and related business properties. The project provides the organization a way to track, manage and demonstrate initial and ongoing compliance with regulations and standards including Sarbanes-Oxley, HIPAA, SB 1386, NERC 1200 Cyber Security Standard, SAS 70, and ISO 17799.

To conduct automated information systems risk analysis and compliance management that combines knowledge of regulatory and standards compliance with automation, the CAISO will implement a software-based solution, the advantages of which include:

- Direct and track progress towards achieving compliance with applicable standards, regulations, and policies;
- Manage the organization's complete compliance program accurately and consistently;
- Identify risk and security issues sooner;
- Increase the efficiency of security personnel;
- Demonstrate compliance effectiveness;
- Deliver comprehensive, timely and quantitative results;
- Establish consistent collection, analysis and reporting processes across the organization; and
- Demonstrate risk reduction and the value that information security delivers.

Problem Statement

With the mandatory Information Security requirements from FERC we need an automated toolset that will allow us to track and manage our compliance. Currently we don't do this at all as the manual process is to labor intensive.

Solution/Alternatives Considered

Hire more people

Business Impact

None compliance carries heavy fines.

Business Benefit

Today's business challenge is determining internally whether existing security control structures really do perform their intended functions including compliance and then proving it to a variety of regulators, business partners and other stakeholders. While financial, physical, personnel, continuity and other traditional security control structures are well-understood and tightly integrated with day-to-day operations, information security control structures for networks and systems typically are not. This lack of integration has forced the organization into several expensive and time-consuming exercises including, for example, increasingly complex standards-mapping exercises to make it easy for external reviewers to "follow the logic" of a given local implementation back to external requirements, a difficult exercise that is automated with this project.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)



2008-2009 Capital and Project Budget

Non-compliance with Federal regulations

Other Issues

Additional O&M impact could be approximately \$40K for purchasing maintenance and support for purchased equipment if needed.

Resource Requirements from Other Departments

IT resources for installation;
All Business Units for input and setup of tool.



2008-2009 Capital and Project Budget

Project ID Project Name

364 Year 1 Market Design Enhancements (Release 1A Market Design Enhancements EXCLUDING Convergence Bidding and Scarcity Pricing)

	Priority	Project Size
1	Top Priority	Large

Key Initiatives

KI.08 - Implement Value-added market enhance

Overview/Summary of Project

Several features and functions were identified as highly desirable for MRTU by LECG, by FERC, by the stakeholders, and in the process of policy/tariff/software reconciliation, but could not be accommodated in the initial MRTU release. These market design enhancements are described in the frequently updated Market Initiatives Roadmap. A stakeholder scoping process is underway to rank these features and functions during the third Quarter of 2007. The items identified for implementation in the first package of enhancements will require capital budget in 2008 to begin the software design for implementation in early 2009. Potential features that are including in this Year 1 release that are in addition to Convergence Bidding and Scarcity Pricing is: 1) Re-bid Activity Rules (DEC bid rule), 2) Hourly designation of A/S instead of Daily, 3) Ramping limits of real-time pricing run of COG, 3) Aggregation of pumps and other demand (Note this item is separate from eh Demand Response Objective).

Problem Statement

The current list of potential Year 1 market design enhancements include: revised DEC Bidding activity rules, day ahead market power and unit commitment issues, and ramping limits for the real-time pricing run with constrained output generation.

Solution/Alternatives Considered

The above plan is based on the assumption that the items stated above are indeed identified as high priority items in the post MRTU Release 1 scoping process and that their target implementation date is 12 months after MRTU Release 1. If either of those assumptions prove not to be correct the above budget would have to be revised accordingly.

Business Impact

The items identified above will have significant impact on improving the reliability and market efficiency as well as customer satisfaction. ISO commitment to implementation of market design enhancements in line with prior commitments in Feb 9, 2006 MRTU filing and subsequent discussions with the stakeholders will augment CAISO's reputation and credibility.

Business Benefit

The items identified above will have significant impact on improving the reliability and market efficiency as well as customer satisfaction.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

H

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Other Issues

Captured in the miscellaneous provision above.

Resource Requirements from Other Departments



2008-2009 Capital and Project Budget

Other business units primarily contributing to this effort are PMO, operations, settlements, legal, and external affairs.

1. Project Manager - 1 FTE for 12 months
2. MRTU Team - 2 FTEs for 8 months
3. Market Systems (Market Operations and Settlement) 2 FTEs for 2 months
4. MPD 2 FTEs for 12 months
5. Settlements - 3 FTEs for 6 months
6. External Affairs - 3 FTEs for 2 months

Contractors:



2008-2009 Capital and Project Budget

Project ID Project Name

400 Year 1 Market Design Enhancement: Scarcity Pricing

Priority

Project Size

1 Top Priority

Large

Key Initiatives

KI.08 - Implement Value-added market enhanceme

Overview/Summary of Project

The current MRTU design provides for scarcity pricing for energy; however, no explicit measures are included for scarcity pricing of Reserves. In the MRTU Release, reserve prices may exceed the bid cap to the extent of the opportunity cost of energy. In other words, reserve prices will generally be limited to the sum of the prevailing bid cap for Reserves plus the prevailing bid cap for energy. The question that has faced the CAISO is whether (a) this implicit scarcity pricing (double cap) is adequate for scarcity pricing of reserves, or (b) explicit scarcity pricing for Reserves should be provided.

FERC's 9/21/06 MRTU Order (Paragraphs 1077 to 1079) found that the CAISO's proposal is too narrowly tailored, and that prices should rise to reflect the increased need for reserves and energy, whether or not the shortage arises in conjunction with a generation or transmission outage, in both the day-ahead and real-time markets.

While FERC concluded that the CAISO's limited scarcity pricing proposal is a reasonable start for implementation of MRTU, the CAISO should further refine its proposal to include a more broadly-triggered reserve shortage scarcity pricing, and on a more accelerated basis, to ensure that prices are not inappropriately suppressed during periods of genuine scarcity. The Order directs the CAISO to file tariff language for the implementation of an expanded scarcity pricing methodology within 12 months of the effective date of MRTU Release 1. Furthermore, the Order directs the CAISO to develop a reserve shortage scarcity pricing mechanism that applies administratively-determined graduated prices to various levels of reserve shortage, to be implemented within 12 months after Release 1.

Scarcity Pricing would be one of the major market enhancements after MRTU startup. Following a thorough stakeholder process to finalize the conceptual policy for Scarcity Pricing, the CAISO staff will seek approval from the Board of Governors on October 17-18 to file tariff language with FERC and proceed to plan and implement the software changes for implementation. With almost all human resources currently focused on MRTU Release 1, additional resources (primarily funding for deployment of consultants) is needed to ensure that implementation of Scarcity Pricing remains on track as ordered by FERC.

Problem Statement

The current MRTU design provides for scarcity pricing for energy; however, no explicit measures are included for scarcity pricing of Reserves. In the MRTU Release, reserve prices may exceed the bid cap to the extent of the opportunity cost of energy. In other words, reserve prices will generally be limited to the sum of the prevailing bid cap for Reserves plus the prevailing bid cap for energy. The question that has faced the CAISO is whether (a) this implicit scarcity pricing (double cap) is adequate for scarcity pricing of reserves, or (b) explicit scarcity pricing for Reserves should be provided.

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Solution/Alternatives Considered

The current MRTU Release 1 has some kind of Scarcity Pricing mechanism for energy. It is narrowly tailored and does not reflect the shortage in reserve, as FERC directed. Other ISOs all have a Scarcity Pricing mechanism implemented, though in different ways.

The current RA program and the capacity pricing mechanism currently under discussion is considered as an option to Scarcity Pricing. It may provide the "missing money" to attract investments on new supply, which is what Scarcity Pricing intended to do. However, the RA and capacity pricing mechanism are long-term focused. They cannot correctly reflect the supply-demand imbalance in real-time. Scarcity Pricing can provide prices to indicate the shortage in reserve, to improve price response from Demand Response Resources (DRR), to encourage market participants to contract for long-term, and to encourage generators to increase resource availability during peak load periods by scheduling maintenance and provide emergency generation capacity according to the price signals.

Business Impact

Scarcity Pricing defines a new pricing mechanism in both Day-Ahead and Real-Time markets in case of reserve shortage. The prices of both energy and reserves will rise to reflect the level of shortage in reserve. The scarcity prices are pre-determined, but may be significantly higher than the prices allowed under MRTU Release 1. Scarcity Pricing, together with proposed Resource Adequacy (RA) resources Day-Ahead (DA) Ancillary Service (A/S) must-offer, is expected to involve changes to business rules and processes within all MRTU systems, especially IFM and SaMC. A thorough assessment of the impacted systems and processes is part of this initiative to ensure smooth implementation of Scarcity Pricing within the mandated deadline.

Business Benefit

The overall impact of this initiative would be to prepare the ISO's resources and systems for the implementation of this important market enhancement, and to demonstrate to FERC and other stakeholder's clear progress toward implementing Scarcity Pricing in the mandated timeframe.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Other Issues

Resource Requirements from Other Departments



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Project ID Project Name

401 Convergence Bidding

Priority

1 Top Priority

Project Size

Large

Key Initiatives

KI.08 - Implement Value-added market enhance

Overview/Summary of Project

One of the first and highly demanded features that many Stakeholders and FERC have requested be implemented within 1 year of putting MRTU into production is Convergence Bidding.

451. Convergence bidding has proven to be a valuable market design feature in other LMP-based electricity markets. If included in the CAISO's market, convergence bidding could provide such benefits as improving day-ahead and real-time price convergence, as well as reducing the exercise of market power. However, while we are concerned about the lack of convergence bidding in Release 1, we also are concerned that requiring the implementation of convergence bidding with Release 1 could further delay the implementation of MRTU and its associated benefits. Clearly we agree with comments regarding the considerable benefits of convergence bidding, but we must also weigh these benefits against the importance of MRTU itself. We find that the harm of further delaying the substantial benefits of MRTU outweigh the potential benefits that are to be gained by implementing convergence bidding in Release 1.

As a result of the lack of Convergence Bidding FERC has ordered the CAISO to implement onerous less desirable features to curb under scheduling until convergence bidding is implemented.

Although some requirements will be documented in 2007 the balance of the effort will be in 2008.

Problem Statement

FERC's 9/21/2006 MRTU order requires implementation of Convergence Bidding within 12 months after MRTU startup. In order to build the ISO's capabilities to accommodate virtual bidding by this mandated deadline, an assessment of feasibility and the identification and development of software requirements for integration within the MRTU systems must be initiated even in the midst of intensive MRTU startup activities.

This "requirements phase" will encompass a functional review of Convergence Bidding's impact upon MRTU systems and processes, as well as a detailed write-up of the software requirements that can be used by vendors to implement this mandated enhancement to the MRTU markets. The focus is on thorough planning for the detailed design specifications leading to the development of software and process changes.

Convergence Bidding would be the first major market enhancement after MRTU startup, and the major component of "Release 1A." The ISO has consistently argued to FERC that Convergence Bidding cannot be implemented concurrently with MRTU Release 1 without significant delay because of the complexity and potential strain on resources. FERC has accommodated this argument by permitting staged implementation of this market feature (which is a beneficial component of current market operations at MISO, PJM, NYISO and ISO-NE); however, a significant number of market participants (chiefly generators) badly want features that permit virtual bidding as soon as possible. Thus, FERC approval for further delay of convergence bidding beyond one year after MRTU startup is highly unlikely.

Following a thorough stakeholder process to finalize the conceptual policy for convergence bidding, ISO staff will seek approval from the Board of Governors on September 6-7 to file tariff language with FERC and proceed to plan and implement the software changes for implementation. With almost all human resources currently focused on MRTU Release 1, additional resources (primarily funding for deployment of consultants) is needed to ensure that implementation of Convergence Bidding remains on track as ordered by FERC.



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This project is to cover requirements development in 2008 and implementation of convergence bidding software and business processes.

Solution/Alternatives Considered

Until Convergence Bidding is in place, FERC also requires "interim measures" to address the potential for LSEs to under schedule in the Day Ahead market. Such administrative measures are sub-optimal because they impose unpopular restrictions on bidding and require extra monitoring features by the ISO and fail to take full advantage of potentially beneficial market incentives in the bidding process. As explained above, continued reliance on such "interim measures" beyond the FERC deadline for implementation of convergence bidding would be highly unpopular and controversial among most LSEs, in addition to being out of compliance with a FERC order. The option to delay (until after MRTU startup) the deployment of new resources toward this "Release 1A" feature is not practical to meet FERC's requirement to implement Convergence Bidding no later than 12 months after MRTU startup.

The option to shift resources which are currently focused on MRTU startup to this Release 1A feature is not practical to complete all phases of MRTU implementation in the detailed timeline that has been made public, especially with significant resources of market participants dependent upon timely completion of the final phases of MRTU startup.

Business Impact

Business Benefit

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Other Issues

Resource Requirements from Other Departments



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Project ID Project Name

395 Implement CRR market, release 2

Priority

Project Size

1 Top Priority

Large

Key Initiatives

KI.07 - Implement Long Term Transmission Rights

Overview/Summary of Project

This project will implement release 2 of the Congestion Revenue Rights auction software. The major deliverable is to implement the year 2 (and beyond) functionality for Long-Term CRR's.

Problem Statement

The CAISO has committed to market participants and FERC to implement Long-Term CRR's. This project completes the CRR functionality by implementing the functionality to provide for LT-CRR's in year 2 of the allocation/auction and beyond.

Solution/Alternatives Considered

The solution identified is the result of negotiations with Market Participants and resulting negotiations with the software vendor. There are no other viable alternatives.

Business Impact

Low.

Business Benefit

Implementation will meet the need to provide a complete LT-CRR package for the market.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

L

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Significant legal risks may exist. This functionality was explicitly ordered by FERC.

Other Issues

Little to no increase in vendor maintenance contracts expected.

Resource Requirements from Other Departments

Minor resource requirements expected.



2008-2009 Capital and Project Budget

Project ID Project Name

399 WECC/NERC Reliability Charge Settlements - SaMC System

Priority

Project Size

1 Top Priority

Small

Impacted Systems

Key Initiatives

SaMC - Settlements

KI.01 - National Reliability Standards

Overview/Summary of Project

Deliver the WECC/NERC mandated charge and payment collections. These charges are being implemented in the legacy system during the last half of 07, and must carry into the new system. This was unplanned and unbudgeted work.

Problem Statement

WECC/NERC fee Settlement has been assigned to CISO as a business function. (Mike E. has additional details)

Solution/Alternatives Considered

Charge, collect and disburse the fees through the SaMC system.

No other viable alternative exists.

Business Impact

Non-compliance should the project not be implemented.

Business Benefit

Credibility with WECC/NERC. This project meets market participants expectations.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

H

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

WECC/NERC penalties. Possible sanctions to the ISO.

Other Issues

Business process may involve other departments.

Resource Requirements from Other Departments

Accounting and Finance. Possible communications issues from External Affairs.



2008-2009 Capital and Project Budget

Project ID Project Name

406 Enhancement of Planning and Engineering Software System

Priority

1 Top Priority

Project Size

Medium

Impacted Systems

N/A

Key Initiatives

KI.17 - High Priority Transmission Projects

Overview/Summary of Project

As part of Strategic Objective 3, PAID will provide the technical analysis necessary to fully understand the ramifications on system operations associated with various policy choices such as those related to the development of renewable resources and increased demand response programs and participation in the ISO markets. PAID must also address more fundamental needs for information by developing a comprehensive transmission plan that identifies transmission bottlenecks, where to interconnect new resources, long term transmission rights, and transmission congestion through a robust, transparent transmission planning process. PAID's computer modeling and analysis tools are the foundation upon which this work is done. As the technical analysis demands increase, newer and better modeling software is needed to facilitate the results driven efficiency of all Regional Transmission engineers. Further, with the continued implementation of the CPUC's RA program and the ISO's effort in Accessing Capacity Pricing Mechanisms, new computer tools and models will be required for PAID to support these strategic efforts.

Problem Statement

There are two key components of this project. The first is to transition from existing GE power flow/stability power system simulation software to the Siemens' PSS/E power flow/stability power system simulation software and to transition from the ABB GridView production cost software to PLEXOS. For Siemens' PSS/E, the modeling and mapping capabilities are better; PAID already uses Siemens MUST for generator deliverability analysis which required PSS/E; provides for the use of a common database to be used across all Siemens software products. For the transition from GridView to PLEXOS; the Department Market Monitoring and the Market & Product Development Department use PLEXOS for their analysis; as such, they do not support any work produced from other production cost simulation software. PAID uses this production cost simulation to perform economic analysis on transmission alternatives. PAID needs to transition to PLEXOS so that a common simulation model and database are utilized company wide.

Second, the CPUC RA and the ISO's effort to consider development of a Capacity Market will require that PAID acquire and learn how to use a probabilistic reliability assessment software package to conduct loss of load probability analysis. PAID's program of choice is the GE MARS program. The software will be leased and a database will be purchased.

Solution/Alternatives Considered

Transition to PSS/E: other programs are Power World and V&R. Power World does not have a stability program which is crucial to PAID's work. V&R, while used by some WECC members, is not a widely used program within the Western Interconnection, especially California. PSS/E is more widely used within WECC and has a much wider support base among the PTOs.

Transition to PLEXOS: transition to a common production cost simulation software within the ISO will reduce licensing costs, bring parity to economic evaluation across the corporation, allow PAID to work with M&PD who only utilizes and trusts PLEXOS, creates the opportunity to create a common simulation database within the ISO. Other simulation software options exist, but M&PD will only use and rely on PLEXOS results.



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Acquire Reliability Software: In order for PAID to move forward in supporting M&PD in the Capacity Market analysis, PADI must procure probabilistic software and databases. PAID does not currently have this software capability in-house. While GE MARS is preferred because it is widely utilized by the eastern ISOs, several alternatives exist. Further analysis is required to fully evaluate the correct software for the ISO.

Business Impact

Business Benefit

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Other Issues

Resource Requirements from Other Departments

IT for software and database installation



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Project ID Project Name

173 Computer Direct Purchases - Hardware and Software & Office Equipment - Annual Request 2008-2009

<i>Priority</i>	<i>Project Size</i>
1 Top Priority	Large

Impacted Systems

Computer Equipment

Overview/Summary of Project

This proposed program for FY2008 will to allow the ISO to determine the best financial decision on its acquisitions for new and/or replacement equipment. Currently each acquisition is evaluated to lease or buy based on direction from Finance as the best benefit for the ISO. These funds are required to purchase:

- Replacement of select group of servers (±50) in excess of 3 years old:
- New and replacement desktops and laptops equipment (200) and monitors (300):
- General software license purchases:

The proposed funding provides for the following IT hardware acquisition scenarios:

- 1) For non-project hardware and software purchases for all of FY2008
- 2) To support server/system consolidations,
- 3) To support expansions and upgrades of existing systems
- 4) Refresh owned hardware, 3 years or older

The proposed funding provides for the following IT software acquisition scenarios:

- Funding for required Third-Party software applications not covered under individual projects
- Procurement of licensing required for expansion for growth (additional licenses) for applications currently used, such as in the Office environment.

Note: Future needs are projected for applications such as: Microsoft, Oracle, Veritas, TripWire, Zen works, and HPOV.

Problem Statement

This is the funding mechanism to allow IT to maintain desktop (towers, laptop and monitor) refreshes for old equipment. This program supports the five year plan for maintaining a robust computing environment through system refreshes. The planned refreshes follow industry best practices of replacing equipment older than 3 years. This is also the funding mechanism to replace raised floor server technology that is not being upgraded by other projects such as MRTU or those identified in this budget cycle.

Solution/Alternatives Considered

IT has worked with SAIC on user profiles and an equipment refresh timeline that identifies groups for desktop equipment refresh on a quarterly basis each year. The equipment refresh plan is based on best practices of three years. In other words, replacing equipment every three years for the sake of reliability and system compatibility. Additionally, IT has an ongoing server refresh program to identify systems that are beyond three years of life, in order to consolidate and upgrade equipment that will not be changed out with MRTU or other identified projects.

Business Impact

This program impacts the efficiency of all IT groups and their ability to deliver service to business groups and individual users.

This funding is used for hardware and software procurements as outlined above, providing new, replacement, or



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modifications to existing IT platforms that support the personnel, and ultimately the applications for the Electricity Grid and Market.

This program provides an efficient, proven way for the ISO to control, report and approve miscellaneous, non-project IT requests. As managed by Asset Management for the past five years, this program is diligently tracked and provides detail when necessary, in support of additional projects.

Business Benefit

This program provides funding for hardware and software in support of organization according to these parameters:

- Useful life of item exceeds 1 year
- Unit is a traceable asset (desktop, laptop, monitor, printer, server, or software license)

Items that are expensed to O&M, rather than Capital, would include:

- Useful life of item is less than a year
- OR, item is a component or bulk item and is not tracked (hard drives, memory upgrades, removable media)
- Item supports existing functionality, or system

This funding, in addition to giving the ISO a mechanism to remain compliant in all areas of software licensing, also supports asset tracking through capital accounting and depreciated according to Finance requirements, and consolidates the expenses.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

C

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

If this funding is not approved, the IT division, and all other divisions, have no other budget to buy new desktop equipment to replace old equipment, fund net new desktop equipment to the environment, replace aging server infrastructure that is not part of another project.

Other Issues

O&M funds have been budgeted in the Asset Management budget to accommodate the maintenance related to purchase of Capital hardware and software. This funding is based on a formula of approximately 25% of the software license cost for software maintenance, approximately 20% of the hardware cost for annual hardware maintenance. The final O&M budget amount is dependant on the total approved capital budget.

Resource Requirements from Other Departments

This project request is for funding for IT hardware and software for all ISO systems that are subject to new purchase or replacement in 2008. It is unknown at this time how many "sub projects" this funding will support, and how those projects will be defined.

For example, a sub project funded by this request could be to replace servers for a miscellaneous system for which a mini project plan would need to be developed to include the transition of the old servers to the new servers, and the disposition of the new servers.

Another example, would be the purchase of new software licensing for expanded use or true up purposes such as Oracle or Actuate. In this case a deployment plan would need to be created.

In either case, it is unknown in June 2007 what the resources needs or constraints are for this funding.



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Project ID Project Name

190 PI Server / storage upgrades

Priority

1 Top Priority

Project Size

Small

Impacted Systems

EMS

Key Initiatives

KI.01 - National Reliability Standards

Overview/Summary of Project

PI is a mission critical historical archiving tool that the CAISO has developed to add extreme value to our organization. We are at the limit of our licensed point count and the expanded State Estimator alone will require thousands of additional points. The point count addition will allow CALISO to maintain full access to all of the archived data. The point count needs to be 250000 in all PI environments. The corresponding storage expansion will make the development system like the production configuration so the testing and development better surfaces problems during production implementation of any changes. The production PI storage needs to be expanded by 500MB for all PI servers to accommodate the expanding archive for the next 18 months.

Problem Statement

PI is a mission critical historical archiving tool that the CAISO has developed to add extreme value to our organization. This work is needed so the performance and system capability does not deteriorate at the point count and archive depth naturally expand.

Solution/Alternatives Considered

Business Impact

There are two components to this project the point count addition and the storage expansion. If these are not completed CALISO will have to reduce the data that is currently archived and the length the it is stored. Both aspects of the work can be done in a staged manner that will not impact production PI availability.

Business Benefit

PI is one of the most intensely used systems at CALISO. The proposed additions will allow CALISO to continue to use the archived EMS data for control and market functions.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

M

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Other Issues

If other projects (Phasor Data, Sub-second Frequency, State Estimation, Visualization, Etc.) require a significant number of additional PI tags then it might become necessary to further expand our licensed point count.

Resource Requirements from Other Departments

Pi system availability and performance is relied on by almost all departments at CALISO.



2008-2009 Capital and Project Budget

Project ID Project Name

191 Field Data Acquisition Replacement Vehicle

Priority

Project Size

1 Top Priority

Small

Key Initiatives

CM.13 - Impacts to actual O&M Expenses

Overview/Summary of Project

Replacement of three CA-ISO vehicles with newer models. The current, high-mileage vehicles are at risk of maintenance failures while our field engineering staff are at remote locations. Vital monitoring of generation metering and telemetry through Remote Intelligent Gateways (RIGs), Data Processing Gateways (DPGs) and Revenue Meters helps the ISO to meet its obligation of reliably operating the ISO Control Area. The Field Data Acquisition Services department engineers provide critical audit functions for these components.

Problem Statement

Solution/Alternatives Considered

Business Impact

Field audits are required to be completed in a timely manner per our tariff . They ensure that the meter data later used for Settlements and operational purposes are accurate and complete. The vehicles used by the engineers ensure they are able to reach their sites in a safe manner to perform SAS-70 required business control audits.

Business Benefit

Vehicle replacement will ensure the ability of the Field Data Acquisition group to perform Metering field audits and provide assistance to RIG and DPG real-time ISO generation SCADA device project and maintenance personnel. RIG and DPG site project meetings are required during the installation and commissioning of the RIG and DPG devices, requiring travel to and from the customers' facility.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Other Issues

Many sites are located in remote locations, which require a 4 wheel drive vehicle due to the rough terrain and adverse weather conditions. Many site owners will only permit 4 wheel drive vehicles to access their sites.

Resource Requirements from Other Departments



2008-2009 Capital and Project Budget

Project ID Project Name

215 Physical Security Systems Modification and Enhancement (Marsh Recommendations)

Priority

Project Size

1 Top Priority

Small

Impacted Systems

Security Systems

Overview/Summary of Project

Modification and enhancement of physical security equipment, including access control and related facility modifications, as identified by the Marsh Report and supported by previous internal assessments.

Problem Statement

In early 2007 Marsh completed a security assessment as part of an overall review of the ISO's response to the March 15 incident involving a disgruntled contractor. This project request funds to incorporate the Marsh Recommendations that are supported by ISO Security Management.

Most of the recommendations made in the Marsh Security Assessment were known issues. Major hardware and software components of the access control system and related security tools have been in place since start up. Periodic replacement, modification and/or enhancement is likely to continue. Additionally, changing business requirements frequently require increased physical access controls.

Solution/Alternatives Considered

The recommendations were evaluated against a set of internally established criteria including, difficulty to incorporate, total costs, the specific risk the recommendation address, the actual benefit incorporating the recommendation would have, and how long the recommendation would be useful.

Business Impact

Incorporating these recommendations will:

1. Bring the level of physical security systems in Alhambra to a level consistent with Folsom.
2. Specifically address the "Critical" recommendations and allow targeted implementation of High Risk/High Benefit recommendations

Business Benefit

Allows the ISO to maintain a reliable and effective access control infrastructure and respond to changing business needs.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

M

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

The level of risk associated with not implementing these security recommendations has increased due mainly to the fact that they have been documented and tied to a specific malicious act. If future malicious acts were to occur and these recommendations were not incorporated there may be a perception that we could have/should have done more

Other Issues



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Resource Requirements from Other Departments

IT Project Management, Facilities support for installation



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Project ID Project Name

316 2008 Facilities Leasehold Improvements/Furniture Purchase- Annual Request 2008 & 2009

	<i>Priority</i>	<i>Project Size</i>
1	Top Priority	Small

Impacted Systems

Facilities

Overview/Summary of Project

Provide for leasehold improvement projects and furniture requirements, as needed, to support ISO staff residing in our Folsom and Alhambra locations. The projects include 1) Ergonomic chair purchases, 2) Workstation enhancements, 3) Filing Cabinets, and 4) misc. installations for small projects, misc. data center electrical installations ,Boiler for 101 and 151 buildings, 5] Costs for moves of employees to accommodate realignment structure.

Problem Statement

Boiler, required by municipal code, -furniture/equipment failure - requiring replacement.

Solution/Alternatives Considered

Upgrade as required, annual leasehold situations that cannot be forecasted

Business Impact

Reliability and lessening of Employee of Choice Initiative-

Business Benefit

This project will reduce the number of smaller projects that need to be presented to the CMC for approval.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

H

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Code violations, equipment non functioning, employee satisfaction

Other Issues

n/a

Resource Requirements from Other Departments

n/a



2008-2009 Capital and Project Budget

Project ID Project Name

383 Upgrade EMS Hardware from True 64 to HP UX - 2 Year Project

Priority

Project Size

1 Top Priority

Large

Impacted Systems

Key Initiatives

EMS

KI.01 - National Reliability Standards

Overview/Summary of Project

The Hardware and Operating System that our EMS system is on is a "retired" platform from HP. They will continue support until 2010 however between EMS Application software development and dwindling support it makes sense to strategically make the change to the new platform (HP UX) much sooner. This will be a large project and will require contract (ABB and HP) and ISO EMS and Infrastructure staff. This is a 2 year project.

Problem Statement

The Hardware and Operating System that our EMS system is on is a "retired" platform from HP. They will continue support until 2010 however between EMS Application software development and dwindling support it makes sense to strategically make the change to the new platform (HP UX) much sooner. This will be a large project and will require contract (ABB and HP) and ISO EMS and Infrastructure staff.

Solution/Alternatives Considered

HP is the sole provider of hardware to ABB Network Manager

Business Impact

There are over app. 46 HP Servers that make up the various EMS systems (including production, QAS / PDS / Training Simulators etc). All HP True 64 hardware will be changed out.

Business Benefit

Having our most critical system on a highly supported platform and maintained with ABB's Application development.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

H

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

This project will have to happen eventually regardless of 2007 timetable. Our HP support and ABB support will go away in 2010. The O&M support costs for True 64 are increasing every year.

Other Issues

Resource Requirements from Other Departments

EMS, Unix, NetApps etc.;



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Project ID Project Name

429 Capitalized Labor for portion of Project Management Office

Priority

Project Size

1 Top Priority

Small

Impacted Systems

N/A

Overview/Summary of Project

Executive Management has expressed the view that CAISO staff committed to work on capital projects should be excluded from the O&M budget and included in the CAISO annual capital budget, and has specifically recommended this approach for CAISO's Project Management Office. This treatment is consistent with the required accounting treatment for actual costs incurred, where CAISO staff who work on capital projects are not charged to O&M expense, but are capitalized for financial reporting purposes at year-end. Accordingly, it is appropriate to align the budget and actual cost treatment for such staff.

This program would remove from the O&M budget the costs of 2 project managers in the PMO are assumed to be dedicated and directly contributing to capital projects. It is assumed that the PMO Manager is providing administrative oversight to the PMO, and that such costs are appropriately charged to O&M, not capital. Additionally, the costs of certain project work such as pre-project requirements gathering cannot be capitalized under the accounting guidelines. So, such costs are appropriately charged to O&M.

Other Issues:

The "IT Projects Group" also contains CAISO staff that work extensively on capital projects. The same treatment could be used for that group. The costs shown for this capital program do not at this time provide such treatment for the IT Projects Group.

The staff in the MRTU cost center were removed from the O&M budget in 2007. These staff will need to be returned to the O&M budget in 2008 unless they are dedicated to other capital projects.

Problem Statement

The following issues also are to be addressed related to this program:

1. Staff to be capitalized in this manner should be assigned to a separate cost center.
2. Staff will need to record their time spent on capital projects to the Oracle ATM system.
3. Rather than establishing a separate capital project in the budget, budgets for the projects that such staff will work on could (should) be increased to accommodate the project manager's time.

Solution/Alternatives Considered

Business Impact

Business Benefit

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Accounting for CAISO staff that work on capital projects should be consistent, clear and in conformance with the appropriate accounting guidelines. Further, it should allow CAISO to appropriately set and manage the funding sources for such costs, specifically-- all funding comes from either annual GMC collections, or from bonds. For 2008, the funding for CAISO's capital projects will be from a bond offering. It is appropriate that the costs of PMO



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staff dedicated to capital projects be funded from the bond proceeds (CAISO has used bond funds to reimburse for CAISO staff costs on capital projects). Accordingly, it is appropriate to align the budget and actual accounting treatment for such staff.

Other Issues

This program moves costs from the O&M budget to the Capital Budget.

Resource Requirements from Other Departments



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Project ID Project Name

248 Modification of Settlements in support of Payment Acceleration

Priority

1 Top Priority

Project Size

Large

Impacted Systems

SaMC - Settlements

MV- 90 MDAS

N/A

Key Initiatives

KI.02 - Reduce Settlement timeframe

Overview/Summary of Project

The existing interfaces to/from the Settlement system must be modified to accept estimated meter data in support of the Payment Acceleration initiatives that is expected to be implemented in 2008 (about 6 months after MRTU go live).

Problem Statement

The current payment timeline is one of the longest in the country. This long payment timeline puts creditors at risk of default, which is offset by higher credit requirements from debtors.

Solution/Alternatives Considered

Shorten the payment timeline, bringing it in line with other ISO's. This will significantly reduce market risk, and costs to participants.

Business Impact

- Delay in implementation of Payment Acceleration

Business Benefit

- SaMC will be able to get estimated meter data to support Payment Acceleration calculations.
- Continue support of Rerun process and settlement dispute process involving dates before the implementation of SaMC.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

H

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Significant credit cost to market participants, which also creates an entry barrier for new participants.

Other Issues

Need a clear coordination between the Settlement system and other legacy systems (Compliance, Master file, Market Systems, and Metering System) to implement any interface changes.

Resource Requirements from Other Departments



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Project ID Project Name

297 Oracle Ebusiness Suite Enhancements (HR/Corporate Financials)- 2 year Project

Priority

Project Size

1 Top Priority

Large

Impacted Systems

Key Initiatives

Oracle Financials/HR

CM.13 - Impacts to actual O&M Expenses

Overview/Summary of Project

Implementation of already purchased Oracle Applications to improve productivity and efficiency within the HR and Finance departments through integration and the availability of self-service functionality. The primary impact of this project is to eliminate back-end manual work-a-rounds in the Finance and HR departments. Create a self-service environment for employees that will reduce backend workload on HR and Finance.

Problem Statement

We upgraded our Oracle Software to 11.5.10.2 in 2006, which now allows us to continue installation of additional software modules that were purchased as far back as 2001, as well as enable functionality to streamline operations within the HR and Finance departments.

Solution/Alternatives Considered

Install/Implement Oracle E-business Suite applications; iRecruitment, Standard Appraisals integration with Compensation Workbench, Oracle Learning Management, Project Management, OTL integration with Projects, and Contract Management. We will also be looking to enhance our previous implementations of iExpense, iProcurement, and ATM by phasing in additional functionality and improvements. These tools will allow the ISO to integrate business functions and streamline processes. Certain applications will require additional license costs (Oracle Learning Management and Project Management) and additional hardware to allow external users access (Oracle Learning Management and iRecruitment).

Business Impact

We will retire old Microsoft Access applications by adding integrated online business functionality to our existing Oracle Financials software. Increased efficiencies will lead to cost reductions and free up resources that have been otherwise working manual processes.

Business Benefit

Efficiency, automation, and process control.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

H

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Other Issues

We will continue to leverage our investment in the Oracle Financials software which the company has used since start-up.

Resource Requirements from Other Departments

HR Analyst
IT Analyst and Engineers



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Finance Analyst
Project Manager



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Project ID Project Name

311 Control Room Work Environment Upgrade

Priority

Project Size

1 Top Priority

Medium

Key Initiatives

KI.03 - Design and Build new control room

Overview/Summary of Project

This project funds new dispatch consoles, Audio Visual equipment, and electrical to the Folsom and Alhambra Control Room.

Problem Statement

Solution/Alternatives Considered

Business Impact

Dispatching electricity is one of ISO's core functions and the space dedicated to a core function needs to meet the requirements of the end user.

Business Benefit

This project will update the Folsom control room and enhance the dispatcher's ability to not only perform their job on a day-to-day basis but also during Grid and Market emergencies.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Other Issues

Resource Requirements from Other Departments



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Project ID Project Name

354 Implement single outage Management Application - Two Year Project

Priority

Project Size

1 Top Priority

Large

Impacted Systems

Key Initiatives

SLIC

KI.12 - Market Simplifications

EMS

Overview/Summary of Project

"Initiative created by ACN team based upon analysis of Ops application structure; Outage components are separated among multiple applications and this initiative was added to achieve high performance via a single Outage application that can closely integrate with EMS and Market applications. This integrated outage management capability would be part of the EMS and Market applications, not integrated with the EMS and Market applications. This would be a multi-year project.

Problem Statement

All transmission & generation outages are currently handled in SLIC. There is currently a disconnect of getting SLIC information into SE/EMS. This extends to getting information back and forth between the two. CAISO already has this functionality and based on previous investigations, existing vendor applications do not meet the needs of the CAISO Operations and Market structure."

Solution/Alternatives Considered

1. Automate Process (recommended)
2. Do Nothing (does not allow update of NM required for MRTU (not recommended)
3. Manual entry of outages into NM for use by MRTU; requires undetermined number of additional qualified FTEs (not recommended)

Business Impact

Business Benefit

Efficiency, accuracy, timeliness of data into Network Model for use by MRTU.
Avoid additional FTEs

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

H

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Ø Internal MRTU preparedness
Reduced, accuracy and timeliness of data entry into Network Model for use by MRTU

Other Issues

TBD

Resource Requirements from Other Departments

TBD



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Project ID Project Name

360 Interim Capacity Procurement Mechanism

Priority

Project Size

1 Top Priority

Small

Key Initiatives

KI.09 - Assess Capacity pricing mechanisms

Overview/Summary of Project

The ISO will have made a tariff filing for the successor to the RCST, the Interim Reliability Requirements Mechanism, in September 2007: A FERC order is expected in mid-November 2007, which will require a compliance filing in late December 2007. It is likely that there will be some topics that may require further effort in the first quarter of 2008 by MPD and Legal to submit additional materials to FERC. It also is possible that the expected November 2007 FERC order could set some topics for settlement discussions. This budget item covers the development and implementation of the business requirements.

It also is worth noting that there will be some implementation work required in 2008 to arrange for a mechanism to settle the new tariff provisions outside of the SaMC system. Such settlement mechanism is likely to be in use for 6-18 months (estimated) after the MRTU Go Live date.

Problem Statement

An transitional reliability capacity service backstop mechanism needs to be developed for implementation prior to 1/1/2008. A backstop is necessary to fill any un-satisfied reliability requirement under the Resource Adequacy provisions established by the CPUC and other Local Regulatory Authorities. RCST-2 would have integrate with MRTU. RCST-1 was only intended to be in place to start of MRTU.

Solution/Alternatives Considered

Alternative 1: No backstop mechanism and rely strictly on RA
Con: May not satisfy reliability needs.

Alternative 2: Rely on direct contracting ability
Con: Based on past summer reliability procurement term and cost of capacity via direct contracts will be expensive and non-transparent.

Alternative 3: Expand RMR criteria and maintain RMR contracts
Con: Objective is to reduce RMR contracts

Business Impact

The impact of an RCST-2 produce will be similar to the effort to implement RCST-1 but would be integrated into new MRTU business processes.

Business Benefit

RCST-2 would provide the business a transparent, tariff based approach for ensuring sufficient reliability capacity is available when and where needed. This will emulate the need for continuation of RMR.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

M

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)



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If RCST-2 is not implemented in conjunction with MRTU, there is a risk that the CAISO will not have sufficient means to acquire capacity to meet reliability requirements that have remained un-satisfied by the RA showings and procurement.

Other Issues

After policy is developed and approved, this project will require an expansion to Master File, SIBR and IFM/RTM Obligation rules similar to RA reliability requirements. In addition, Settlement modifications are required to ensure such backstop capacity can be settled and allocated consistent with adopted policy.

Resource Requirements from Other Departments

1. Project Manager: 1 FTC/FTE 6 months
 2. Market System Analyst: 1 FTC 3 months
 3. Settlement Analyst: 1 FTC 3 months
- Vendor contract likely need to make SIBR/IFM modifications
4. Training: 1 FTE 1 month
 5. Other 6 FTE 1 month



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Project ID Project Name

361 Demand Response System Integration

Priority

Project Size

1 Top Priority

Medium

Impacted Systems

EMS

SaMC - Settlements

Key Initiatives

KI.10 - Increase demand participation in ISO Market

KI.32 - Integrate state demand response program in

Overview/Summary of Project

As part of the CAISO's reliability and market efficiency objectives, the CAISO is looking to further incorporate the economic and emergency-relief benefits provided by demand response. The CAISO needs to investigate impacted systems, both on the market and operational side, to ensure demand response resources can be effectively accounted for and dispatched by the CAISO. For example, the CAISO needs to ensure that it does not over procure in RUC by not accounting for economic demand response products in the load forecast. Additionally, the CAISO needs to investigate how aggregated demand response products can be woven into the CAISO's LMP based market/model so that they are effectively dispatched and don't exacerbate congestion. On the market systems side, SIBR needs to allow for multi-segment, three-part bids in and account for load ramping and incorporate the equivalent of start-up and min-run time characteristics for demand response.

Problem Statement

Solution/Alternatives Considered

Prospects for Enhanced Participating Load

Original MD02 conceptual design included comprehensive Participating Load model

Voluntary 3-part bids similar to generators' start-up/ minimum-load cost/ multi-segment energy bid, RUC participation, load aggregation, multiple markets (DA & RT), non-spin eligibility, run-time constraints, etc.

Original design included option for scheduling at local or aggregated levels, but overall MRTU design changed to scheduling Load at highly aggregated level.

Dispatch is needed at physical location.

Participating Load model could not be adapted in time for Release 1.

Participating Load model was partially developed, and can be restored as a market enhancement

Timing = TBD

A full Dispatchable Demand Resources model can consist of:

Three-part bid: Load curtailment cost, Minimum load reduction cost, Energy bid

Load curtailment time (time to begin curtailing load)

Minimum load reduction time (minimum operating time after load curtailment)

Minimum base load time (minimum time in normal operation after load restoration)

Maximum number of daily load curtailments

Load drop rate

Load pickup rate

Non-spinning reserve capacity (load reduction within 10 minutes)

Comparability to Generation

Dispatchable Demand Resource Generator Resource

Load Schedule Base Load

Minimum load reduction Minimum generator output

Minimum load Maximum generator output



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Load curtailment time □ Start-up time
Minimum load reduction time □ Minimum up time
Minimum base load time □ Minimum down time
Maximum number of daily curtailments □ Maximum daily start-ups
Load drop rate □ Ramp up rate
Load pickup rate □ Ramp down rate
Load curtailment cost □ Start-up cost
Minimum load reduction cost □ Minimum load cost

Business Impact

Business Benefit

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Other Issues

Resource Requirements from Other Departments

MRTU Team 2 FTE for 1 month
EMS 1 FTE for .5 month
Market Systems (Market Ops and Settlements) 2 FTE .5 month
MPD 1 FTE for 1 month



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Project ID Project Name

370 Implement Network Application Tools - Dynamic Stability

Priority

Project Size

1 Top Priority

Large

Impacted Systems

Key Initiatives

Network Applications

KI.04 - Implement advanced tools to support operati

Overview/Summary of Project

The Dynamic Stability Applications are critical tools for reliably operating the grid.

Problem Statement

Dynamic voltage stability refers to the ability of the system to provide sufficient reactive support to return the voltage to normal after a disturbance. The dynamic voltage stability of the system is significantly affected by the characteristics of the load. There is a concern that the high proportion of induction motor load may significantly degrade the dynamic voltage stability in the area. If most of these motors remain connected following network faults, then the additional current drawn by the motors as they re-accelerate back to normal operating speed after a fault could potentially cause the system voltage to collapse.

Solution/Alternatives Considered

Status Quo - Continued use of planning tools.

Business Impact

Enables the operators to perform their jobs efficiently and increase the situational awareness of the abnormal state of the power system.

Business Benefit

Helps monitor "System Stability" and enables proactive actions to improve the stability of the system.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

C

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Dynamic Instability in the system may cause black-out.

Other Issues

Resource Requirements from Other Departments

EMS Information Technology group, RTE & Grid Ops need to provide resources for implementation



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Project ID Project Name

371 Renewable Day Ahead Forecasting Tool

Priority

Project Size

1 Top Priority

Small

Key Initiatives

KI.04 - Implement advanced tools to support operati

Overview/Summary of Project

Develop a Day Ahead forecasting tool for renewable resources - especially wind generation and concentrated solar system.

Problem Statement

An estimate 5000 to 7000 MW of renewable resources will be added to the ISO control area in the next 2-3 years. Day Ahead Forecasts of the amount of energy from these renewable resources is essential for the ISO and the SC's to accurately schedule the generation resources for the next day. This forecast will be a key piece of our decision making process on what units should receive dispatch notices for the next day. We want to avoid starting up fossil units that ultimately will not be needed and will be sitting a minimum generation levels all day because the wind generation ramped up. A previous study for NY State has shown that a day ahead forecasting tool can reduce costs by \$100 million a year. The potential cost reduction for the CAISO system is currently being analyzed in a special study and this number will be available later this year.

Solution/Alternatives Considered

One alternative is to do nothing and just dispatch units on or off as needed. This may work successfully for hydro units part of the year and for quick start units. With the large amount of wind and solar generating resources that will be connected to our system, we will need a large amount of quick start units for this strategy to be successful and to maintain system reliability.

Reasonably accurate Day Ahead forecasts can ensure we only have the units on that we really need. A small amount of quick start units can be used to compensate for forecast inaccuracies. The CEC funded a major R&D project to develop this forecasting technology and the results have now been published. We can capitalized on this work to design and scope a industrial grade forecasting tool.

Business Impact

This tool needs to be developed and tested in 2007 for deployment and use in 2008-2010. It can be used initially as a stand alone tool and integrated in MRTU at a later date when it has been validated and refined.

Business Benefit

Potential benefit should substantially exceed \$100 million per year in cost savings for the rate payers in our system. The results will have to be shared with the SC's that are responsible for scheduling the energy from renewable and a collaborative effort will be essential for success.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

M

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

If this project is not initiated, the SC's will all have to develop their own forecasting tools and include the results in their day ahead schedules. If their forecasts are wrong or inaccurate, we are still responsible for maintaining system reliability. We also will be making less than optimum decisions on unit commitments and dispatch notices. There is a significant reliability risk if we do not have a good forecasting tool that can be used by both the



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markets group and by real-time operations.

Other Issues

To be determined. We need to write a detailed project description and project charter to determine the costs and impacts on other departments

Resource Requirements from Other Departments

To be determine



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Project ID Project Name

373 Ramp Forecasting Tool for Renewable

Priority

Project Size

1 Top Priority

Small

Key Initiatives

KI.04 - Implement advanced tools to support operati

Overview/Summary of Project

Develop a ramp forecasting system that predicts major ramps both up and down due to wind generation and concentrated solar resources. This system will be used by real-time operations and will give them several hours advanced warning of major weather fronts or other weather conditions that will results in large ramps (1500 MW to 3000 MW) in short periods of time (less than 1 hour)

Problem Statement

Large weather changes such as a Pacific Storm front will result in major energy ramps from wind generation. These units can also suddenly cut out when wind speeds exceed 50+ miles per hour. It is critical that real-time operations have advanced warning of these sudden system changes so they can position the system to take the large ramps (increase the amount of regulation available, move units up/down to make room for the forecasted change, send dispatch notices to quick start units, or notices to loads, etc.). The current weather forecasting systems can tell us amount storm fronts approaching Sacramento but they typically do not cover large wind generation areas such as Tehachapi. If 5000 MW of wind generation is going to be built in the Tehachapi area, we need to have weather forecasting visibility for that specific area.

Solution/Alternatives Considered

The wind generation owners are as much interested in this information as the ISO. This project should be done in cooperation with these owners and there is probably a cost sharing opportunity. It is possible we can contract with a weather forecasting service to provide us with the information needed so this option should be explored. There would still be a service cost but that would be an O&M cost and not a capital cost. We would like to keep this item in the capital budget until we can fully explore the alternatives.

Business Impact

There will be a major impact on system reliability if we do not have some type of a ramp forecasting tool.

Business Benefit

Improved operational reliability, less stress on the real-time operators, and potential cost savings by making the best possible dispatch decisions on moving units to accommodate the forecasted ramps.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

M

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Potential impact on grid reliability and increased number of operating violations.

Other Issues

to be determined

Resource Requirements from Other Departments

The major user and beneficiary of this project is Grid Operations



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Project ID Project Name

388 Development of Simulation Tool for LMP Analysis

Priority

Project Size

1 Top Priority

Small

Impacted Systems

Key Initiatives

Probe

KI.08 - Implement Value-added market enhance

Overview/Summary of Project

Develop a tool for quickly re-simulating the MRTU Day Ahead market and performing comparative analysis of results of various alternative scenarios representing different bidding patterns or operational conditions.

Problem Statement

With implementation of a day ahead LMP market under MRTU, the complexity and need for more detailed monitoring and analysis of market behavior, outcomes and potential design problems or modifications will significantly increase. In order to effectively and accurately analyze market behavior and outcomes under various 'what if' scenarios, the Department of Market Monitoring (DMM) will require a tool that can quickly and accurately re-simulate the day ahead market. The MRTU project includes plans for a DMM Test Environment, which is designed to consist of a working version of the actual MRTU software that it may be used by DMM to 're-run' the CAISO markets with modified inputs. However, DMM's ability to perform extensive scenario analysis with the DMM Test Environment will be limited due to the relatively lengthy run times required for each market run of the market software.

In addition to DMM's need to re-simulate the day ahead market as part of its on-going market monitoring and analysis responsibilities, DMM will need to perform such analysis as part of a variety of market monitoring and design requirements established by various FERC Orders and approved tariff provisions. For example, in the first year of MRTU, DMM will need to perform extensive re-simulation of market outcomes in order to analyze the following specific issues:

- o On a quarterly basis, DMM is required to provide a comparative analysis of the market impact of using the CAISO forecast of demand rather than bid-in demand in (April 20, 2007 Order at ¶496)

- o Under MRTU, DMM is required to reassess whether each transmission path is "competitive" or "non-competitive" on at least an annual basis, or more frequently if required by changes in transmission infrastructure, generation or load conditions (April 20, 2007 Order at ¶491)

- o In response to concerns about the potential for economic withholding under the LMP-option for Default Energy Bids used in Local Market Power Mitigation, FERC directed DMM to monitor and report any such behavior to FERC (April 20, 2007 Order at ¶506)

- o The potential need for market power mitigation provisions for Ancillary Services will need to be assessed as the CAISO considers more granular procurement of Ancillary Services.

Within 12 months of initial MRTU implementation, the CAISO is also required to implement a variety of additional market design changes that will require increased monitoring and analysis by DMM, such as:

- o Convergence (or Virtual) Bidding. This market design change will require extensive monitoring and analysis of the potential impacts of different ways in which participants may seek to indirectly profit from virtual trading through the effect of virtual trades on LMPs and congestion (e.g. by increasing revenues earned from CRR holdings).

- o Reserve Scarcity Pricing. This market design change will require extensive monitoring and analysis of the potential impacts of different ways in which participants may seek to effectively withhold capacity from the energy



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and Ancillary Services markets in order to trigger Reserve Scarcity Pricing

Solution/Alternatives Considered

In 2006, DMM reviewed the other leading software packages capable for performing electric market simulations and interviewed vendors about the current software capabilities and potential enhancements (UPlan, Promod, Plexos and PROBE). DMM also has extensive experience with the Plexos software and has already worked with the vendor of this software to seek to implement a number of enhancements that would be needed to utilize this software to meet DMM's various needs under MRTU. DMM also visited market monitoring staff at the NY-ISO and PJM – both of which use the PROBE software – and obtained input from these sources on the capabilities and uses of PROBE in market monitoring.

Based on information from these sources, DMM has determined that PROBE is the only software with the capabilities and proven track record needed for use by DMM in market monitoring.

Business Impact

This project does not impact other ISO systems. All data inputs for the model will be available from the DMM Test Environment. No special hardware is required to run PROBE, but high-performance PCs (with 2Gb of RAM) are recommended.

Business Benefit

This project supports the Corporate Goals and Business Plan of Market Efficiency by enhancing the CAISO's ability to more quickly identify, and subsequently mitigate participant behavior or market design problems that are creating market inefficiencies.

At other ISOs, the PROBE software is also used by various operations and transmission planning departments. For example, PJM's Operations Department uses the PROBE on a daily basis to check and supplement results of its primary day ahead unit commitment market software. In this context, the extremely rapid execution time and accuracy of the PROBE software allows highly customized contingency analysis of various 'what-if' scenarios for use in meeting reliability requirements in a highly cost-effective manner. The PROBE software has even been used by PJM operations staff as a backup to the primary day ahead unit commitment software when problems have occurred with the primary software. PJM's transmission outage staff also use the software to routinely assess the magnitude of potential costs associated with planned transmission outages, and uses these results to determine how transmission outages may be scheduled to lower market impacts.

As noted below, once the PROBE software is modified and implemented by DMM as a market monitoring tool, the software could be available for use by other CAISO Departments for relatively minor incremental annual cost. Other potential users of the model include Grid Operations, Market Operations, Transmission Planning, and Market and Product Development

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

H

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Without this type of market monitoring tool, DMM's ability to quickly diagnose market performance problems, and perform analysis necessary to develop and support potential market rule changes will be extremely limited. In addition, DMM's ability to meet various FERC monitoring and reporting requirements (without detracting from DMM's other monitoring and market design responsibilities) may be compromised.

Risks from Enterprise Risk Inventory List:

- Effectiveness of market abuse detection
- Regulatory compliance

Other Issues

DMM expects that some additional development work will be needed in 2009 and beyond in order to update the PROBE for various market design changes.



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In addition to this additional development work, annual O&M requirements include \$100,000 for licensing for all DMM staff. Additional licenses can be obtained for other Departments based on the following schedule:

1st application (DMM) - \$100,000
2nd application - \$50,000
3rd application - \$25,000
ISO-wide license - \$200,000

Resource Requirements from Other Departments

None anticipated at this time.



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Project ID Project Name

391 Development of Market Monitoring Framework within SAS EBI

Priority

Project Size

1 Top Priority

Medium

Impacted Systems

Key Initiatives

MMS

KI.06 - Implement and Enhance Market Redesign

Overview/Summary of Project

The purpose of the proposed project is to develop long-lasting improvements to the CAISO's ability to effectively monitor and report on market performance through enhancing existing software functionality within the SAS Enterprise Business Intelligence platform. Note that this request reflects the fact that CAISO Staff will be developing data, performance metrics, and process as part of their core responsibilities in 2008 and that the requested funds are specifically to hire consultants to enhance existing functionality within existing software utilized at CAISO. This project is required to develop the following functionalities:

DMM:

- Develop additional portal and drill-down functionality to accommodate market monitoring and performance metrics beyond the base set of metrics being developed in 2007,
- Incorporate MRTU EDR data structures into the EBI Metadata Server for increased efficiency and functionality of the EBI platform in generating market monitoring and performance metrics,
- Enhance existing EBI metric production functionality through developing and optimizing production of "intermediate" SAS data tables used in metric production, and
- Develop "templates" in EBI for frequently executed operations and graphics to reduce future time commitments by Analysts in inventing and re-inventing the same wheel.

MPD:

- Enhance existing SAS portal structure to accommodate metrics to assess separate market design elements including residual market design issues identified by LECG and market design issues identified on the Market Initiatives Road Map maintained by MPD,
- Develop and optimize production of "intermediate" data tables in the EBI environment that are specific to MPD's market design performance metrics.
- Enhance existing "drill-down" capabilities to incorporate market design performance information.

MS:

- Similar functionality as described in DMM section, specifically for Market Information requirements and content, building off of 2007 work and coordinated with DMM 2008 effort.
- Enhance EBI web reporting functionality to take advantage of DMM and MS metric production for automated market performance report production.
- Automation and reporting of LMP price validation, triggering, and correction production processes

Problem Statement

Staff from DMM, MPD, and MS will be tasked in 2008 with both monitoring a completely new and more complicated set of markets and developing additional performance metrics and monitoring indices in a new software system (SAS EBI). It is anticipated that there will be insufficient staff time to perform both functions concurrently, and risk of insufficient monitoring, detection, and analysis due to utilization of an inefficient and incomplete monitoring system must be mitigated. In order to adequately monitor the MRTU market in 2008 and continue development of the market monitoring system to insure completeness and effectiveness of that system,



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these three business units require further enhancements to (what will then be) the existing monitoring framework and the experience and expertise of specialized outside consultants to assist with development of those enhancements. Staff do not possess sufficient knowledge and experience in the software system used to make in-house enhancements efficient given competing demands for resources to perform core functions.

Solution/Alternatives Considered

Staff will develop additional performance metrics to be migrated into SAS EBI as well as 'intermediate' data tables comprised of MRTU EDR data most frequently used in monitoring metric generation. SAS consultants will assist in developing the infrastructure discussed in the "Overview/Summary of Project" section, migrating metric and data content into the SAS EBI platform, further develop the respective portal environments for monitoring and reporting, develop the SAS EBI Metadata repository to improve the effectiveness of metric development, and provide code templates for regularly performed functions (algorithms, graphic production, report generation).

Business Impact

This project further develops the monitoring capabilities of these business units beyond the base functionality through additional content, efficient production of monitoring metrics, and additional time for Analysts to monitor and analyze market and process outcomes in lieu of performing manual steps to produce metrics.

Business Benefit

This project supports the Corporate Goals and Business Plan of Market Efficiency by enhancing the CAISO's ability to more quickly identify, and subsequently resolve, participant behavior or market design elements that are creating market inefficiencies.

- An effective market monitoring system is imperative under a more complex market design.
- Market participants and the CAISO benefit by keeping Staff focused on their core function of monitoring MRTU markets in 2008 and developing market indices to be migrated into SAS EBI, not learning and executing portal development or data management.
- CAISO benefits by not diverting IT staff or hiring additional consultants to develop in-house expertise in the intricacies of the SAS EBI platform to provide timely support to business unit development of their respective MRTU monitoring portals.
- CAISO benefits through efficiency and minimized risk of project delay or failure by having experienced consultants assist in development.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

H

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Under-developed market monitoring system (portal and metric development) that is inefficient in producing market metrics and is disjointed from CAISO market data (metadata development). Outside consultant assistance is required for these items. Potential impacts are:

- Staff will be required to spend less time monitoring markets and investigating anomalous market activity / outcomes so that they can develop additional metrics and data relationships required.
- Monitoring in 2008 will be limited to content developed prior to MRTU go-live with marginal incremental content added by Staff during 2008.
- Monitoring content will be less efficient and potentially less effective due to inefficient use of EDR

Other Issues

None.

Resource Requirements from Other Departments

Minimal support by IT staff (Unix & Oracle) - not anticipated to be significant.



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Project ID Project Name

377 Tools to Support Market Systems and Processes

Priority

Project Size

1 Top Priority

Medium

Key Initiatives

KI.04 - Implement advanced tools to support operati

Overview/Summary of Project

These tools are needed for Market Services to support the implementation of new market application. This item would include transitioning existing tools or creating new tools for the new application. This may include the transition of the MAPP tool. This also includes Actuate report development for MQS deemed out-of-scope for MQS.

Problem Statement

Scoping of MRTU did not include tools currently used to support the market and which may be needed for the new applications. These include items needed for the Floor and Access queries used by both Market Services and Grid Operations offline. Other alternatives would be to hire additional staff to perform workarounds or develop ad-hoc analysis tools.

Solution/Alternatives Considered

Business Impact

While the business units know we will need tools, it is unclear what exactly will be needed. However, absent this item, the units will not be able to function. This is was not budgeted in MRTU.

Business Benefit

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

M

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

MAPP or similar tool is designed to manage the high number of manual post processes expected right after MRTU is implemented. Without such tool, the number and volume of manual corrections may exceed the team's ability to complete. Certain items may have to be left without correction thus potentially increasing disputes and audit exposure.

In addition, lack of tools will impact the ability to provide analysis to management.

Actuate is the corporation reporting tool for MRTU and specifically MQS. However, Actuate scope to MQS was not budgeted. Complex reports require and Actuate developer to create and cannot be created by MQS users themselves.

Other Issues

Resource Requirements from Other Departments



2008-2009 Capital and Project Budget

Project ID Project Name

393 Market System Operator Required Enhancements

Priority

Project Size

1 Top Priority

Large

Key Initiatives

KI.06 - Implement and Enhance Market Redesign

Overview/Summary of Project

The MRTU project will be implemented on April 1, 2008. Additional funds are requested to incorporate
1) new features resulting from unforeseen problems that may be encountered in the operation of the market system applications,
2) Important features identified previously, but were deferred because they were not critical for go-live of MRTU.

This project is intended to address operator requested enhancements for applications which are required to maintain grid reliability or will improve the efficiency of operation.

Problem Statement

Historically, after implementation of a major project, unanticipated problems occur which affect the ability to run the systems in a manner that is consistent with Applicable Reliability Criteria. In addition, initial implementation typically has not completely met the need of the users. These needs are identified but in many cases not implemented due to higher priority items taking precedent. Initiation of this new project will create a means to immediately assess and address the higher priority problems that occur, in a timely basis.

Solution/Alternatives Considered

The project will address operator requested enhancements which are required to maintain grid reliability or will improve the efficiency of operation. Other options: it is possible to defer to later years operator efficiency issues which provide a smaller benefit related to cost. As part of this project, a list of enhancements will be developed and reviewed with Grid Operations and Market Services to ensure the most important issues are addressed.

Business Impact

Enhancements will have low to significant business impact, and generally confined to IFM/RTM and SIBR applications.

Business Benefit

Implementation is expected to resolve several important operations-related problems that will occur in the first few months of go-live.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

L

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

The main risks of not implementing the project are budget related. To the extent major operational problems are identified which affect the ability to correctly run the MRTU applications, a way to resolve them will be found, usually to the detriment of other, less critical projects.

Other Issues

No additional maintenance requirements are expected.

Resource Requirements from Other Departments



2008-2009 Capital and Project Budget

Based on prior experience, a project of this magnitude takes 1.0 FTE for business analysis, 0.5 FTE for project management, and 2.0 FTE for development and testing.



2008-2009 Capital and Project Budget

Project ID Project Name

394 Market ParticipantMarket Systems Required Enhancements

Priority

Project Size

1 Top Priority

Medium

Key Initiatives

KI.06 - Implement and Enhance Market Redesign

Overview/Summary of Project

The MRTU project will be implemented on April 1, 2008. Additional funds are requested to incorporate the following Market Participant requested enhancements:

- 1) new features resulting from unforeseen usability problems that may be encountered after MRTU implementation.
- 2) Important features identified previously, but were deferred because they were not critical for go-live of MRTU.

This project is intended to address MP requested enhancements for Market Systems applications which will improve client satisfaction with the new applications.

Problem Statement

Historically, after implementation of a major project, unanticipated problems occur which affect the ability to run the systems in a manner that allows Market Participants to efficiently participate in the market. In addition, initial implementation typically has not completely met the need of the users. These needs are identified but in many cases not implemented due to higher priority items taking precedent. Initiation of this new project will create a means to immediately assess and address the higher priority problems that occur, in a timely basis.

Solution/Alternatives Considered

The project will address MP requested enhancements which will resolve a client usability issue or improve client satisfaction with the new applications. Other options: it is possible to defer to later years client satisfaction issues which provide a smaller benefit related to cost. As part of this project, a list of enhancements will be developed and reviewed with External Relations and Market Services to ensure the most important issues are addressed.

Business Impact

Enhancements will have low to significant business impact, and generally confined to IFM/RTM and SIBR applications.

Business Benefit

Implementation is expected to resolve several important MP-related problems that will occur in the first few months of go-live.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

L

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

To the extent major usability issues arise, failure to address may result in limitation of participation in the market by Market Participants. It could also increase manual workarounds by Grid Operations, Market Services and Operations Support.

Other Issues

No additional maintenance requirements are expected.



2008-2009 Capital and Project Budget

Resource Requirements from Other Departments

Based on prior experience, a project of this magnitude takes 0.75 FTE for business analysis, 0.5 FTE for project management, and 1.5 FTE for development and testing.



2008-2009 Capital and Project Budget

Project ID Project Name

422 Application corrections and automation of manual workarounds

Priority

Project Size

1 Top Priority

Small

Impacted Systems

Key Initiatives

CAP

KI.06 - Implement and Enhance Market Redesign

OMAR

Overview/Summary of Project

Request for funds to be set aside for necessary workaround automation and /or application fixes post MRTU go live. Specifically for the CAP and OMAR systems

Problem Statement

Through the MRTU implementation process, many gaps are being identified that will require manual workarounds at the time of "go-live". In addition, integration and user acceptance testing may identify additional workarounds that will need to be performed by the compliance and metering business units.

Solution/Alternatives Considered

Automation of manual workarounds that are conducted due to gaps identified as part of MRTU implementation and workarounds that were due to gaps in scoped CAP and OMAR functionality

Business Impact

Manual workaround will require additional contractual resources until such time that the automated solutions are implemented. In addition overtime of the Compliance and Metering FTEs will be required to conduct daily business

Business Benefit

Automated solutions remove the need for additional contractual resources

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

L

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Other Issues

Resource Requirements from Other Departments



2008-2009 Capital and Project Budget

Project ID Project Name

427 MQS Enhancements to Automate Manual Workarounds

Priority

Project Size

1 Top Priority

Medium

Impacted Systems

Key Initiatives

MQS

KI.06 - Implement and Enhance Market Redesign

Overview/Summary of Project

The CAISO will go-live with version 2.0 of MQS. MQS performs a series of post processes to allow for the calculation of expected energy, allocating capacity under the curve etc. After the initial go-live experience we are anticipating that there will be issues that need to be built into MQS that we have missed. Currently we have about fifteen issues that are candidates to be built into MQS at a later stage. We anticipate that each issue and each subsequent release of MQS will cost us a substantial amount of capital. We anticipate approximately \$1 million dollars for a release subsequent to 2.0. This capital item is a place holder for that project

Problem Statement

Many of the fixes required to settle according to the tariff will not be in MQS. We need them to be in MQS as it is safer and better than ad hoc processes.

Solution/Alternatives Considered

Siemens built the MQS system and there is no alternative as it is proprietary.

Business Impact

By doing this we will be instituting best practices for the organization and increasing the reliability of our systems

Business Benefit

Transactions will settle properly within our system

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

H

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

If we don't do this we increase the business risk of incorrect settlement

Other Issues

None

Resource Requirements from Other Departments

None



2008-2009 Capital and Project Budget

Project ID Project Name

141 EMS System Enhancements

Priority

1.1 High Priority

Project Size

Small

Impacted Systems

EMS

Key Initiatives

KI.01 - National Reliability Standards

KI.04 - Implement advanced tools to support operati

Overview/Summary of Project

It is anticipated that over the course of the next year, enhancements and incremental changes will need to be accomplished for the EMS system as incremental requests for new features and enhancements accrue. The dollars represented here should be considered "must do's " and not "nice to haves" and act as a placeholder for required changes. Place holder for Business Plan

Problem Statement

There are specific upgrades and licenses required.
Upgrade to the latest ABB release
Define / Develop and Implement a number of EMS Application Enhancements etc.
ESRI Licenses - There is a need for 10 additional licenses
ICCP Licenses - We need approximately 5 more licenses to augment our test systems

Solution/Alternatives Considered

N/A

Business Impact

EMS is a large suite of applications and functions that will require necessary changes for our internal customers, outside required entities such as NERC etc.

Business Benefit

Staying with the same EMS system has many benefits but requires necessary changes based on changing criteria and opportunities.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

C

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

We cannot allow this system to remain static. We will need to continue to provide a state of the art system for our Operations group.

Other Issues

Typical in any year has been EMS enhancements that fall into buckets of must do's and needed enhancements. Since most are covered in other projects (MRTU / State Estimator) etc. the visibility is often not clear as to the amount but it is anticipated there will be needful changes in Phasor Measurement and other emerging technologies.

Resource Requirements from Other Departments

Typical enhancements are purchased from our vendor ABB and tested and implemented by our EMS staff.



2008-2009 Capital and Project Budget

Project ID Project Name

333 Portal Enhancements

Priority

1.1 High Priority

Project Size

Medium

Impacted Systems

Market Participant Portal

Key Initiatives

KI.29 - Provide customer portal to Access Market in

Overview/Summary of Project

This requirement came about out of the realignment, and is tied to the Portal initiative for secure single point of entry that allows clients and stakeholders to view and retrieve client specific and market-based information. The portal has been implemented, and will need to undergo a series of enhancements to improve information access and functionality.

Problem Statement

This project seeks to use the portal to enhance information access and security and simplify customer interaction with the ISO.

A series of sub-projects are included in this project to

- >Enhance/replace the Portal technology to ensure we are situated to take advantage of changing technologies
- >Enhance/replace the Portal content management system to enable dispersed administration, by non-technical staff, while meeting IT security requirements
- >Implement customization and personalization functionality
- >Create new, secure reporting portlet to retrieve critical information that supports business decisions and processes, without the complexity of multi system interfacing. This data may include individual market participant trading behavior, detailed market results, transmission and generation facility data, and market financial risk and responsibility information, etc.
- >Enable access to secure documents, like secure operating procedures, SAS 70 audits, Transmission Outage Reports, in a centrally managed location.
- >Enable two way sharing of secure information through a web-interface, replacing the need to send secure files by e-mail and by CD/FedEx.

Solution/Alternatives Considered

We are just beginning the process of requirements gathering and have not yet evaluated alternatives.

Business Impact

Business Benefit

Enhanced customer service, increased transparency

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

H

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Customer Care and Information Technology: Failure to seek a simplified method of providing client with information continues to force our client to constantly seek capital expenditures to feed their ever-growing need to create systems that attempt to communicate with each of the CAISO systems. Failure to create a simplified single point data access also continues to foster the need for the ISO to manage multiple data access needs for both



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internal and external clients, and makes it more difficult to implement consistency across ISO applications and processes.

Other Issues

The project cost is incurred by several cost centers. Among these cost centers are External Affairs, Information Services, and Operations, but anticipate the bulk of the cost to be incurred by External Affairs.

Utilization of consultant and contractors will be used in the development effort of the product. In-house resources will provide project management and information subject matter experts.

Current application currently licensed to the CAISO will be investigated to determine proper fit with the Information product or service being developed. This may save in new application licensing cost, but anticipate the likelihood of an application acquisition.

We anticipate optimal use of system hardware resources and thus, do not anticipate the need to acquire hardware resources.

Web portal technology is expected to be used and is reflected in the cost estimated for this project.

The development effort is anticipated to be spread during the entire duration of 2008 – 2010 as we will have a series of enhancement projects.

Resource Requirements from Other Departments



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Project ID Project Name

358 Enterprise Local Area Network Infrastructure Upgrade

Priority

Project Size

1.1 High Priority

Large

Impacted Systems

Communication Network

Overview/Summary of Project

The current Local Area Network (LAN) is within the typical 3 to 6 year technology refresh window. There are multiple technical advantages to more current technologies in this environment. Upgrading the LAN (also known as "NGN") would provide benefits including an increase in overall availability and improved reliability and performance of the underlying LAN infrastructure (and, in turn, an increase in reliability and availability for the rest of the Information Technology computer systems).

Problem Statement

The current Enterprise Local Area Network ("NGN") was purchased in 2002 and installed in 2002 and 2003. This puts the current equipment in the typical 3 to 6 year technology refresh window. The current equipment is running on technology called "Cisco Supervisor 2", which is the hardware and software moving all data between all critical ISO Applications, Systems and End-User computers. The current generation equipment for this functionality is called "Cisco Supervisor 720". This new technology is faster, provides increased availability and more seamless failover between redundant components.

Solution/Alternatives Considered

The only alternate solution is "do nothing", leave the current equipment in place for another year.

Business Impact

Upgrading the underlying infrastructure can be an impact to the business, so close coordination across ISO divisions will be required in order to minimize business impact.

Business Benefit

The upgraded technology will provide the ISO with an updated network infrastructure, as well as increased reliability and availability of key Information Technology systems.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

M

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Other Issues

Resource Requirements from Other Departments



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Project ID Project Name

374 Increase the detail of Network Model and add SCADA to Neighboring Control Areas

Priority

Project Size

1.1 High Priority

Small

Impacted Systems

Key Initiatives

Network Applications

KI.11 - Increase regional outreach & coordination

Overview/Summary of Project

This initiative includes; adding more detail for the adjacent control areas; adding more SCADA points to EMS; testing and expanding the SE solution with more detail.

Problem Statement

Network Solutions for neighboring control areas are static and solved for a base case, which is not accurate.

Solution/Alternatives Considered

Static values used from base case.

Business Impact

Real time solutions for neighboring control areas, producing meaningful results.

Business Benefit

Greater situational awareness of neighboring areas.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

H

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Results produced from Net apps may not be representing reality.

Other Issues

Resource Requirements from Other Departments

OPs, RTEs, EMS IT



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Project ID Project Name

389 Network Access Control

Priority

1.1 High Priority

Project Size

Small

Impacted Systems

Communication Network

Overview/Summary of Project

Network Admission Control (NAC), a set of technologies and solutions built on an industry initiative, uses the network infrastructure to enforce security policy compliance on all devices seeking to access network computing resources, thereby limiting damage from emerging security threats. Networks using NAC can allow network access only to compliant and trusted endpoint devices (PCs, servers, and PDAs, for example) and can restrict the access of noncompliant devices.

Problem Statement

Access to CA ISO Critical Computing Resources is currently managed via higher layer access control systems such as firewalls. However, a non-ISO computer brought into the building, or connected via the ISO's Wireless LAN, can be used to gain access to the ISO's critical computing infrastructure, or introduce a virus, worm or malware. Network Admission Control (NAC), a set of technologies and solutions built on an industry initiative, uses the network infrastructure to enforce security policy compliance on all devices seeking to access network computing resources, thereby limiting damage from emerging security threats. Networks using NAC can allow network access only to compliant and trusted endpoint devices (PCs, servers, and PDAs, for example) and can restrict the access of noncompliant devices.

Solution/Alternatives Considered

The only alternative is to "do nothing" and continue to accept the current risk to our computing infrastructure.

Business Impact

Impact to the business is high to critical, should the ISO's network be compromised via an internal network connection, or should a virus or worm be introduced into the environment through an unsecured computer.

Business Benefit

ISO Security policy compliance can be on all devices seeking to access network computing resources, thereby limiting damage from emerging security threats.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

H

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Risk to the business is high to critical, should the ISO's network be compromised via an internal network connection, or should a virus or worm be introduced into the environment through an unsecured computer.

Other Issues

Resource Requirements from Other Departments



2008-2009 Capital and Project Budget

Project ID Project Name

390 Wide Area Network Acceleration and Optimization

Priority

1.1 High Priority

Project Size

Small

Impacted Systems

Communication Network

Overview/Summary of Project

To accelerate application and file performance and to reduce Wide Area Network (WAN) bandwidth usage, WAN optimization appliances incorporate application acceleration and WAN optimization techniques, including compression, redundancy elimination, transport optimizations, caching, and content distribution. These techniques help overcome the bandwidth, throughput, and latency limitations associated with TCP/IP and application protocols.

WAN optimization appliances achieve superior results over alternative offerings by applying optimization at three separate layers:

Latency and bandwidth reduction at Layer 7 using application-specific optimizations that suppress unnecessary messages, perform message and operation batching, and employ sophisticated caching techniques to minimize data transfers across the WAN

Bandwidth and throughput improvement at Layer 4 using techniques such as Data Redundancy Elimination (DRE), LZ Compression, and Transport Flow Optimization (TFO) based on extended TCP standards

Transparent network integration at Layers 3 and 4, allowing the appliances to take advantage of traffic classification, QoS, policy-based routing, high availability, load balancing, and other network policies

Problem Statement

Wide Area Network (WAN) bandwidth between Folsom and Alhambra is a finite resource, and expanding current bandwidth is a very expensive proposition. MRTU brings significant unknowns in terms of potential increase in utilization of network bandwidth between Folsom and Alhambra.

To accelerate application and file performance and to reduce Wide Area Network (WAN) bandwidth usage, WAN optimization appliances incorporate application acceleration and WAN optimization techniques, including compression, redundancy elimination, transport optimizations, caching, and content distribution. These techniques help overcome the bandwidth, throughput, and latency limitations associated with TCP/IP and application protocols.

Solution/Alternatives Considered

Alternatives include "do nothing" (with an associated risk of over-utilization of network bandwidth between locations), and increasing the current network bandwidth. An increase in existing bandwidth would be expensive in terms of both one time costs for hardware upgrades, as well as an increase in monthly recurring charges. The ROI for the WAN Optimization appliances, compared to increasing network size between locations, is a matter of months.

Business Impact

Business Benefit



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Business benefits include reduced costs (when compared to increasing network size between locations), reducing risk to the business due to over utilization of network bandwidth, and additional network overhead to accommodate future systems and applications.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

M

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Additional network bandwidth requirements introduced by MRTU could impact the available bandwidth for all critical applications, and introduce a risk of disruption of critical IT services and applications.

Other Issues

Resource Requirements from Other Departments



2008-2009 Capital and Project Budget

Project ID Project Name

398 Credit/Finance System Enhancements

Priority

Project Size

1.1 High Priority

Medium

Impacted Systems

Key Initiatives

SaMC - Settlements

KI.02 - Reduce Settlement timeframe

Overview/Summary of Project

Implementation of several requested SaMC enhancements that benefit both Accounting and Finance. Items include:

- 1. Reconfiguration to a single market invoice for the month.
- 2. Elimination of the monthly invoice for annual FERC fee payment - change to SaMC information monthly, with an annual billing.
- 3. Availability of EAL information by SC's through the SaMC application, and pass through of credit notices to SC's through the SaMC application.

Problem Statement

1. Single invoice was original configuration for market design. Cuts process time in half. Both 1 and 2 align with accelerated payments)
2. Currently 12 monthly invoices are issued for one annual payment. Original design was to provide information to SCs monthly but only include the annual amount on one market invoice
3. Credit notices are currently published to market participants via email after manually running a comparison of liabilities to credit limits in an Access database. Only market participants that are required to post additional collateral are currently notified. With SaMC, credit limits and liabilities will be in Oracle/Market Clearing. Liability amounts will be significantly more accurate due to the use of estimated meter data and the SaMC "credit management run". This proposed enhancement would push to the Portal the credit standing of each market participant.

Solution/Alternatives Considered

1. Options include: Continue dual invoicing or consolidate to one invoice
2. Options include: Continue additional invoices or eliminate invoices.
3. Options include: Continue manual process, or automate. Automate could include pushing credit management information to the portal, or email notifications.

Business Impact

1. The final invoicing takes as much resources as preliminary invoicing but only aggregates 5% of the dollars. Final invoice amounts could be included on subsequent months preliminary invoicing. This is required for accelerated payments.
2. Additional resources to manage extra invoicing. Extra invoices that have an extended payment date also confusing to SCs. Goal is to reduce the monthly invoices to one (current invoicing: prelim and final for GMC and Market, finals for TAC refund, FERC Fee monthly and FERC Fee monthly annual and FERC Fee supplemental and CRR auctions. Goal one monthly invoice that contains all of the above)
3. Automating the credit notices will permit a reduction in CAISO staff time on the credit management function. Currently, credit notices are generated by Finance and sent to External Affairs, which then forward the notice to the market participant. At times, there is a lag between the External Affairs notification and sending to the market participant. Collateral posting is to take place within 5 business days and a delay can impact this timeline.

Business Benefit



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1. Reduced resource requirements both buy ISO and SCs.
2. Reduced resource requirements both by ISO and SCs. .
3. Reduce delays in requests for collateral. Provide greater transparency of credit information. With convergence bidding, there is a need for more frequent credit notices. This will allow for that.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

M

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

- 1, 2: Market clearing These align with accelerated payments which will reduce market credit support.
- 3: Credit Management

Other Issues

Changes impact SaMC primarily

Resource Requirements from Other Departments

External Affairs, Finance, Accounting.



2008-2009 Capital and Project Budget

Project ID Project Name

402 Greenhouse Gas Tracking (Initial Specifications)

Priority

Project Size

1.1 High Priority

Small

Key Initiatives

KI.31 - Greenhouse Gas Policies

Overview/Summary of Project

Pursuant to recent state legislation the California Air Resources Board (CARB) will be considering alternative policy approaches to regulate greenhouse gas emissions by the electricity sector. There are two primary areas where the ISO needs to be engaged in the policy development process and ultimately in the implementation of the regulations once they are adopted: (1) provision of market data to the CARB or other appropriate state agency responsible for monitoring compliance with the regulations, and (2) analysis of alternative regulatory approaches with regard to their impact on and interaction with the ISO markets. For item (1) the ISO will need to develop systems and software to capture, process and store the necessary market data and convey it to the appropriate state agency. For item (2) the ISO will need to perform studies or market simulations under different assumed greenhouse gas regulatory approaches to assess their impacts on ISO market performance and market participant bidding and operating incentives.

Problem Statement

Two state laws represent the bulk of GHG reduction policy in this state. Below are summaries of these laws, followed by regulatory processes initiated by CARB, the CPUC, and the CEC and a description of the recently-enacted 5-state resolution established by the Governors of California, Washington, Oregon, Arizona and New Mexico.

The California Independent System Operator (California ISO) is responsible for the reliable operation of the electric transmission system serving approximately 80 percent of California residents, as well as for the operation of day-ahead and real-time wholesale markets for energy and ancillary services, and is committed to meeting these responsibilities in a way that is aligned with the state's key policy objectives. California is, once again, a leader in the nation with respect to one of the most prominent policy issues of our time--global climate change. California has embraced the global climate change challenge in the form of two state laws, as well as other initiatives involving surrounding states. The purpose of this budget item is to begin developing policy and business/functional requirement for the California ISO in support of the California's 2006 greenhouse gas (GHG) legislation.

Solution/Alternatives Considered

Business Impact

Business Benefit

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Other Issues

Resource Requirements from Other Departments



2008-2009 Capital and Project Budget

Project ID Project Name

404 Year 2 Market Design Enhancements (Release 2 Market Design Enhancements)

Priority

1.1 High Priority

Project Size

Large

Key Initiatives

KI.08 - Implement Value-added market enhance

Overview/Summary of Project

Several features and functions have been identified as highly desirable for MRTU by LECG, by FERC, by the stakeholders, and in the process of policy/tariff/software reconciliation, but could not be accommodated in the initial MRTU release. These market design enhancements are described in the frequently updated Market Initiatives Roadmap. A stakeholder scoping process is underway to rank these features and functions during the third Quarter of 2007. The items identified for implementation in the second package of enhancements(24 months after initial MRTU implementation) will require capital budget in 2008 to begin the software specification for implementation in early 2010.

Problem Statement

The current list of potential Year 2 market design enhancements include: 1) Use of Bid-in Demand rather than demand forecast, 2) speaker/combined cycle modeling, 3) BCR for resources with greater than 24 hours minimum up time, 4) SLIC to SIBR interface, 5) Export of AS, 6) Multi-Segment A/S Bids, 7) Multi-Hour constraint in RUC, 8) 9 ramp-rate segments.

Solution/Alternatives Considered

The above plan is based on the assumption that the items stated above are indeed identified as high priority items in the post MRTU Release 2 scoping process and that their target implementation date is 24 months after MRTU Release 1. If either of those assumptions prove not to be correct the above budget would have to be revised accordingly.

Business Impact

The items identified above will have significant impact on improving the reliability and market efficiency as well as customer satisfaction. ISO commitment to implementation of Release 2 issues in line with prior commitments in Feb 9, 2006 MRTU filing and subsequent discussions with the stakeholders will augment CAISO's reputation and credibility.

Business Benefit

The items identified above will have significant impact on improving the reliability and market efficiency as well as customer satisfaction.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

H

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Other Issues

Captured in the miscellaneous provision above.

Resource Requirements from Other Departments

Other business units primarily contributing to this effort are PMO, operations, settlements, legal, and external affairs.



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1. Project Manager - 1 FTE for 12 months
 2. MRTU Team - 2 FTEs for 8 months
 3. Market Systems (Market Operations and Settlement) 2 FTEs for 2 months
 4. MPD 2 FTEs for 12 months
 5. Settlements - 3 FTEs for 6 months
 6. External Affairs - 3 FTEs for 2 months
- Contractors:



2008-2009 Capital and Project Budget

Project ID Project Name

416 Server Monitoring Enhancement for ETE, Test, Development Server Environments

Priority

Project Size

1.1 High Priority

Small

Key Initiatives

KI.04 - Implement advanced tools to support operati

Overview/Summary of Project

CAISO is in the process of rolling out HP Openview across its server environment to enhance its server monitoring capability. As this work nears completion, CAISO would like to enhance the functionality to (1) include an additional 150 servers and (2) create a test HP OpenView environment where monitoring alerts and reports can be configured and tested before moving to the production network. This effort also requires labor to install, configure, and test new components.

Problem Statement

CAISO cannot fully monitor its development and test environments due to a shortage in software licenses and a test network Open View console.

Solution/Alternatives Considered

CAISO can continue to leave our test, Development, and ETE environments unmonitored, however this creates project delivery issues when those servers become unavailable or are over taxed. Ideally, CAISO would like to purchase the additional licenses and complete deployment into all environments.

Business Impact

Monitoring visibility into our development, test and ETE environments allows CAISO to provide a high-level of response to server failures within the computing environment.

Business Benefit

This investment allows for pro-active response leading to greater environment stability and reliability. Furthermore, this investment allows CAISO to capacity manage these environments such that server utilization characteristics can be captured and additional server purchases can be forecasted.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Monitoring will be incomplete and the development, test and ETE environments will be managed on a best effort basis.

Other Issues

Resource Requirements from Other Departments



2008-2009 Capital and Project Budget

Project ID Project Name

417 Automation of new Resource Adequacy Requirements

Priority

1.1 High Priority

Project Size

Medium

Key Initiatives

KI.12 - Market Simplifications

Overview/Summary of Project

- Placeholder - Resource Adequacy items for automation in 2008:
- Market Participant interface to submit Qualifying Capacity (cut from 2007 scope)
 - Market Participant interface to submit Supply Plans (cut from 2007 scope)
 - Market Participant interface and automation of Import Allocation Process
 - Local (Supplemental) Showing Assessment (we had a meeting about this a couple of weeks ago - called it IRR Phase 3 but I don't think it is happening this year)
 - Tool to translate pslf format used in P&ID to market resource ID used in rest of RA process (was in IRR Phase 3)
 - Local RCST Procurement and determination of RCST cost allocation (big unknown as to what is going to come out of this MPD initiative)
 - Use-Limited Resource Registration (may be a Market Services initiative)
 - Use Plan Submission (may be a Market Services initiative)
 - Bid Monitoring of Resource Adequacy Resources
 - Resource Adequacy Surcharges (for CAPS - still unknown whether we need this at the start of MRTU, if not then it will have to be automated in 2008 for 2009 year)
 - Some type of placeholder for additional work to support the CPUC (this may be more O&M rather than capital). The CPUC basically re-opens the RA process every year to add more requirements or change something for the upcoming year.

Problem Statement

Resource Adequacy is an annual and monthly process that spans multiple departments including Engineering, Operations Support and Grid Operations. Currently the majority of the Resource Adequacy process is manual and time consuming. The RA program has strict and short timelines that take 100% of staff time in each department to administer for every cycle. In addition, the ISO, CPUC and Market Participants are continuing to negotiate additional aspects to the program. Above is a list of items that we know will have to be implemented in 2008.

Solution/Alternatives Considered

The solution is to have an automated flexible system to that can be shared by all departments to administer the on-going RA requirement. The alternative would be to continue with manual work and hire additional resources to administer the current functionality and any new functionality that will be negotiated over time.

Business Impact

Considerable impact to the workload during the RA cycles. Other priority items will drop off during these times

Business Benefit

Efficiency gains that allow staff to focus on additional priorities and up-coming workload

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

L

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Other Issues



2008-2009 Capital and Project Budget

Resource Requirements from Other Departments

IT resources will be necessary to manage, analyze and develop system



2008-2009 Capital and Project Budget

Project ID Project Name

418 Resource Interconnection Management System (RIMS) Application - Release 2

Priority

Project Size

1.1 High Priority

Small

Impacted Systems

Key Initiatives

RIMS

KI.13 - Establish "third-category" of transmission

Overview/Summary of Project

The Resource Interconnection Management System (RIMS) application is scheduled for release in September 2007. There are known and anticipated enhancements that will be required to comply with Tariff changes expected in late 2007 and early 2008. These include FERC approval of the Small Generator Interconnection Procedures (SGIP) and addition of Tariff language to give the CAISO the ability to perform group Interconnection Studies. In addition, there are known and anticipated enhancements identified by RIMS users to improve the effectiveness of the application.

Problem Statement

There are known updates to the RIMS application that will be required in 2008 to comply with FERC orders including SGIP and additional Tariff changes. In addition, known and anticipated enhancements identified by RIMS users are needed to improve the effectiveness of the application. Funding is necessary to make these changes.

Solution/Alternatives Considered

If RIMS enhancements are not made, compliance with implementation of FERC Orders will be accomplished with EXCEL spreadsheets which create inefficiencies in the Interconnection process, increases probability that FERC milestones will not be met, requires creation and maintenance of a separate database outside of RIMS, and jeopardizes user acceptance of the RIMS application.

Business Impact

Generation and Transmission projects are currently tracked via a combination of EXCEL spreadsheets and a REMEDY database. PTO's and IC's do not have access to these applications. The RIMS application is a tool that provides a central database for all project team members and

Business Benefit

Compliance with FERC Orders, improved efficiency of the Generation and Transmission Interconnection processes, improved communication with stakeholders (PTO's, Interconnection Customers). reduction of manual work.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

M

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Tariff Compliance and Customer Care are jeopardized.

Other Issues

Resource Requirements from Other Departments

IT



2008-2009 Capital and Project Budget

Project ID Project Name

419 Master File Application Enhancement

Priority

1.1 High Priority

Project Size

Medium

Impacted Systems

Master File

Key Initiatives

KI.12 - Market Simplifications

Overview/Summary of Project

Enhance the market reference data capabilities to improve business efficiency and data accuracy for market participants and internal business users. Also, improve product supportability.

Problem Statement

The Master File user interface was scoped as an application where Market Participants can enter changes to their master file data through a web interface with very few if any enhancements. In the process of integrating Master File with the SIBR and IFM applications as well as working through the internal business processes of validating and approving Market Participant Master File change requests, it became clear that an up-front rules engine in the user interface would be the most efficient way to ensure that all requested changes would be compatible with the applications and the ISO business standards.

Solution/Alternatives Considered

The master file store several hundred operational data elements that are utilized through SIBR in the IFM and RTN. Many of these elements have one or more rules applied in these systems. Providing a up-front rules engine in the Master File user interface will provide transparency to the participants for the changes they are requesting and the compatibility of the change with the Market application prior to the change being submitted. The rules engine will also provide assurances to the ISO that Master File data changes will not pass into the database until they are automatically validated by the rules engine thus mitigating the risk of human error.

Business Impact

The business impact will be to the IT organization to develop the automated solution and to the Subject Matter Experts to determine business requirements and user testing.

Business Benefit

Transparency for the Market Participants and human error risk mitigation in manually processing Master File change requests

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

M

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Human error in manually processing changes to the Master File data, this risk can be mitigated through manual workarounds and use of rule scripts

Other Issues

Resource Requirements from Other Departments



2008-2009 Capital and Project Budget

Project ID Project Name

420 Market Operations Training Simulator (MOTS)

Priority

Project Size

1.1 High Priority

Medium

Key Initiatives

KI.05 - Expand Operator Training on new advanced

Overview/Summary of Project

This project is to integrate the Market Systems with the Grid Systems in a Training / Simulation environment. Currently, the Operations Division trains the Grid Operations personnel on the Grid Operation Training Simulator (GOTS). With the implementation of MRTU and the impacts and integration of the Market Systems, it is necessary to add the MRTU market systems (SIBR, IFM, RTM) into the simulation environment.

Problem Statement

Currently the Operations Support Department manages a Grid Operations Training Simulator and conducts simulation training with the Grid Operations personnel. In order to have a complete end-to-end training simulator, the Market Applications (SIBR, IFM, RTN, etc.) need to be integrated with the Grid applications (EMS, State Estimator).

Solution/Alternatives Considered

Integrate the new MRTU market applications into the Grid Operations Training Simulator. This can be accomplished by purchasing the hardware required to set up an additional MRTU environment as a training simulator. Alternatively, cost may be saved by re-using hardware from the MRTU program once that project is implemented into production. The estimated cost is based on the cost of setting up an additional environment for the MRTU program

Business Impact

The business impact is to the quality of training that the Grid Operations personnel receive on an annual basis. A full end-to-end simulator will allow the training team and Grid Operations to set up practice scenario's for a variety of conditions so our Grid Operations personnel will be well prepared and highly trained

Business Benefit

Highly training Grid personnel

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

L

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Other Issues

Resource Requirements from Other Departments



2008-2009 Capital and Project Budget

Project ID Project Name

430 LMP Validation Software Tool for Market Validation Group

Priority

Project Size

1.1 High Priority

Medium

Impacted Systems

Key Initiatives

IFM/RTN

KI.04 - Implement advanced tools to support operati

Overview/Summary of Project

This is a capital project to develop or purchase a software tool to aid the Market Validation and Price Correction Process. We currently have a SAS software tool which is designed to validate prices after the market runs. In the eastern ISOs that we have visited they have developed real-time custom software which integrates with their systems to highlight prices that are beyond certain specified thresholds. This enables the validation group to catch incorrect prices more quickly than they otherwise would. This decreases the frequency of bad dispatches, improves reliability, and prevents prices from ""churning"". All three eastern ISOs have made substantial investments in this type of software. We feel it would be prudent to learn from their experience and prepare for a similar eventuality here.

Problem Statement

The Market Validation procedure needs an automated method of highlighting when there might be invalid market intervals. This procedure needs to occur literally in real-time, so it needs tight integration with IFM/RTN. We already have a non-real-time solution.

Solution/Alternatives Considered

Right now the solutions have not been fully investigated. What we know is that we potentially have a need based on the activities of other ISOs with similar systems.

Business Impact

The impact to the business should not be too great as most of this work will be done off-line, so there will be little business dislocation except when it goes into production.

Business Benefit

The potential business benefit is substantial. A proper tool would increase the quality of our pricing, which is obviously a key concern of stakeholders. Further it may minimize the incidence of poor dispatches, which will increase reliability.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

M

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

The quality of our pricing would be worse. We would need more overtime and more FTE positions to fix the errors that weren't caught. Further market participants might reassess their opinion of our abilities due to the constant pricing changes after the fact. This has happened at other ISOs. Market participants dislike changes in dispatch prices, and the fewer changes the better. A tool of this nature would be designed to catch errors as early as possible to prevent pricing changes.

Other Issues

None



2008-2009 Capital and Project Budget

Resource Requirements from Other Departments

IT for hardware and software infrastructure support.



2008-2009 Capital and Project Budget

Project ID Project Name

432 LMP Contour Graphics

Priority

1.1 High Priority

Project Size

Small

Impacted Systems

OASIS

Key Initiatives

KI.04 - Implement advanced tools to support operati

Overview/Summary of Project

Market Information wants to show a contour plot of pricing under the new LMP pricing system. This is consistent with the practices of other ISOs, and has been identified as the sort of service/product that participants are expecting. There are similar maps for the ISO-NE, NYISO, PJM etc. This project would enhance the information that we provide to market participants, and would add new functionality to an already existing functionality that DMM has. DMM has an internal version of this, but not a web version for the general public. The work for the project would consist of hiring a specialized SAS consultant with expertise in mapping algorithms to take what has already been developed for DMM and post it to the web, write scripts to update the graphic every five minutes etc. This is such specialized work that it makes sense to hire someone to set it up. Once setup is complete there is a strong probability that we could maintain it ourselves as we will have access to all the code, however we need funding for the initial development

Problem Statement

In the absence of this product market participants will still have access to pricing data, however they will have to look at 3000 prices every five minutes to gain an idea of the pricing pattern over the CAISO footprint.

Solution/Alternatives Considered

We need to push the existing DMM product to the web

Business Impact

Minor business impact on current personnel. The product will need to be integrated with our current web services.

Business Benefit

Our stakeholders will be grateful

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

L

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Stakeholders will like us less and will complain

Other Issues

None

Resource Requirements from Other Departments

None



2008-2009 Capital and Project Budget

Project ID Project Name

435 Testing Infrastructure Update

Priority

1.1 High Priority

Project Size

Small

Overview/Summary of Project

The purpose of this project is to update testing environments. This project will cover server updates, build out of new environments, operational process updates, as well as all of the associated human resource costs.

Problem Statement

The current test environment is out of date and needs to be updated to support the FNM from MRTU, updated Legacy systems (as a result of MRTU), shared services, and a multithreaded capability.

Solution/Alternatives Considered

Existing hardware will be repurposed as much as necessary.

Business Impact

Minor impact to current operations. Schedule for implementation will need to be worked into existing project and development schedules.

Business Benefit

Essential for development and testing of all ISO applications in a timely manner.

Risk Magnitude: L=Low; M=Medium; H=High; C=Critical

H

Risks if project is not initiated (provide cross reference to the Enterprise Risk Inventory, as appropriate)

Other Issues

Resource Requirements from Other Departments

ATTACHMENT A

subscribed docket(s). For assistance with any FERC Online service, please e-mail FERCOnlineSupport@ferc.gov, or call toll-free (866) 208-3676 (toll free). For TTY, call (202) 502-8659.

Comment Date: _____