

Briefing on 2008 Proposed Bond Issuance



Phil Leiber, Treasurer & Director of Financial Planning



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Summary of Proposed Bond Issue

Up to \$70 million face value of bonds to fund:

- \$60 million Capital Project Fund:
 - \$21.5 million in 2008 / \$38.5 million in 2009
 - Two year funding plan will provide substantial flexibility as needs develop
 - Allocation between years subject to MRTU schedule
- \$3 million for capitalized interest and bond issuance expenses
- \$7 million debt service reserve fund (unnecessary w/ certain bond structures)

Bond Structure

- Tax-exempt bonds with 6-year amortization
- Types of bonds under consideration:
 - Variable rate demand bonds w/swap (achieving “synthetic fixed rate structure”)
 - Private placement
 - Fixed rate bonds
- Credit enhancement:
 - Bank letter of credit
 - Bond insurance / Standby Bond Purchase Agreement

Issuance Environment

Negative Factors

- Sub-prime mortgage crisis has severely impacted bond insurers and cost of credit enhancement from banks
 - Value of insurance from major bond insurers is questionable
 - Cost of bank liquidity increasing

Positive Factors

- Federal Reserve rate cuts
 - “10- year Treasury note yields dropped 7 basis points to 3.34 percent, falling to the lowest since June 2003”
- Demand for “quality” issuances helps CAISO

Financing Team

- 🌐 Internal (Finance/Accounting, Legal)

- 🌐 External (Selection process underway)
 - Underwriter(s) *
 - Counsel *
 - Conduit issuer
 - Pricing agent
 - Credit enhancement providers *
 - Swap provider *
 - Rating agencies (Moody's and S&P)

(*) Competitive process for selection

Planned Schedule

- 🌐 January
 - Initial preparatory work
 - Brief Board/request approval of reimbursement resolution
- 🌐 February
 - Finalize financing team
 - File for approval for issuance from FERC under Section 204
 - Continue preparatory work
 - Brief rating agencies
- 🌐 March
 - Request CAISO Board approval of issuance
- 🌐 April
 - FERC approval
 - Conduit issuer approval of issuance
- 🌐 May
 - Issue bonds
 - Brief Board
 - Follow-up filing at FERC

Potential Risks and Mitigations

<u>Risk</u>	<u>Mitigation</u>
Cost and availability of credit enhancement	<ul style="list-style-type: none">Alternative forms availableAlternative bond structuresCommitment letter in-hand
Ongoing interest rate risk with variable rate demand bonds	<ul style="list-style-type: none">Interest Rate SwapTerm of credit enhancement agreements
Schedule risk given uncertainties in financial markets	<ul style="list-style-type: none">Realistic scheduleOpportunity to defer if necessaryReimbursement resolution

Conclusion

- Preparations for bond issuance underway
- Decision on reimbursement resolution necessary
 - Provides flexibility enabling CAISO to draw bond funds to reimburse expenditures made more than 60 days prior to bond issuance