Attachment B

Moody's Ratings Report
CAISO Series 2008 Bonds

Moody's Investors Service

Global Credit Research
New Issue
29 MAY 2008

New Issue: California Infrastruc. & Econ. Dev. Bank, CA

MOODY'S ASSIGNS A2 RATING TO CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK REVENUE BONDS (CAL ISO PROJECT); OUTLOOK STABLE

CAL ISO REFUNDING ALL OUTSTANDING DEBT

Electric Utilities
CA

Moody's Rating

ISSUE	RATING
Revenue Bonds 2008 Series A (California Independent System Operator)	A2

Sale Amount	$198,200,000
Expected Sale Date	06/02/08
Rating Description	Revenue Bonds

Moody's Outlook Stable

Opinion

NEW YORK, May 29, 2008 -- Moody's Investors Service has assigned the underlying credit rating of A2 with a stable outlook to the sale of $198.2 million California Infrastructure and Economic Development Bank (CIEDB) Revenue Bonds, 2008 Series A (California Independent System Operator Project). The bonds are scheduled to price in June 2008.

The A2 rating reflects the stable California electricity market and regulatory environment; the improving credit profile of the state's investor-owned utilities; the stress-tested provision that Cal ISO has a priority first claim on revenues to pay its operations and debt service; and the more established role the Cal ISO plays in the state's electricity marketplace. Also considered in the rating assigned is the uncertainty about the impact of the new state restrictions on greenhouse gas emissions and the implementation of the wholesale electricity market redesign.

BOND SECURITY: The bonds are being issued by the California Infrastructure and Economic Development Bank (The Bank) on behalf of the California Independent System Operator (Cal ISO). The bank will loan the proceeds to Cal ISO pursuant to a loan agreement dated June 1, 2008. The bonds are secured by the Cal ISO's pledge of its net operating revenues to pay debt service. Sound bond security provisions include a 1.25 times rate covenant. The primary credit strength is the Cal ISO's priority first claim on all clearing account and grid-management charge (GMC) revenues which provides strong margins of coverage.

USE OF BOND PROCEEDS: The Cal ISO will be refunding all outstanding bonds and it will terminate its existing swap agreements associated with the prior bonds. In addition, the Cal ISO will be financing computer hardware and software used in managing the electric gird and operating markets for electricity products. The funds will primarily be used to provide enhancements to the new system developed as part of the Market Redesign and Technology Upgrade (MRTU) program scheduled for completion in the fall of 2008. Funding will also be used on an interim basis for the design and construction of a new headquarters facility.

INTEREST RATE DERIVATIVES: None after the current offering.

STRENGTHS:

*Essential nature of transmission service

*Priority claim on Cal ISO energy market clearing account to fund Cal ISO's monthly grid management charge (GMC) billings in the event of a payment default by a market participant.

*If a scheduling coordinator fails to pay, Cal ISO can request the Federal Energy Regulatory Commission to terminate service

*Cal ISO operating reserve and debt service coverage requirements (operating reserve is maintained at 15% of the amount of the operating and maintenance budget) debt service coverage budgeted at 125%) are built into charges billed to customers

*Enterprise risk management focused on risk mitigation strategies and the achievement of goals established in a five year business plan updated annually

*Expensive and difficult process for transmission owners to replace Cal ISO including a required two year notice of withdraw

CHALLENGES:

*High debt leverage of assets

*MRTU contains implementation risk

*Greenhouse gas emissions regulations and integration of renewal resources to meet targets required by state legislation could pose power resource and reliability challenges

*Highly technical operation requires maintenance of skilled workforce

*Maintaining public reputation in industry subject to event risks

*Counterparty concentration in several large investor-owned utilities

BOND SECURITY PROVISIONS HAVE BEEN STRESS-TESTED AND REMAIN A FUNDAMENTAL CREDIT STRENGTH

The Cal ISO's operations and debt service are funded through the GMC, a strong and well-tested source of security for these bonds. The GMC can be adjusted quarterly due to changes in transmission volume (greater than 5 percent) and market volume to ensure adequate liquidity and bond covenants are met. Ordinarily, the Cal ISO's annual rate filing for the GMC is subject to FERC approval. However, since 2004, the Cal ISO and stakeholders have reached multi-year rate agreements (which have been approved by FERC), such that the Cal ISO avoids annual rate case filings with FERC. Customers must meet creditworthiness standards to conduct business with Cal ISO. Collateral postings secure obligations above granted unsecured credit limits.

The strength of bond security for Cal ISO bonds was evidenced by the severe stress experienced during the 2000-2001 California power crises. Despite the $6.4 billion of defaulted payments by market participants to the Cal ISO market clearing account in 2001, Cal ISO continued to operate and debt service was paid on time and in full. Cal ISO had exercised its priority first claim on the non-defaulted payments from the GMC and the market clearing account. The operating reserve, another source of funds to pay Cal ISO costs, also remained intact as monthly GMC collections were met in full given the priority claim noted above. Despite the defaulted payments to the market clearing account, there was no cross default between the two accounts and there was no impact on the payment of debt service on the Cal ISO bonds. Since the 2000-2001 crisis there have been no defaults of the GMC.

STABLE CALIFORNIA ELECTRICITY MARKET: OUTLOOK REMAINS STABLE SUBJECT TO VARIOUS INFLUENCES

The electricity market in California has been stable. The GMC at 76 cents/Mwh is above average relative to the average for ISOs in the U.S. but it is about the same as similar sized ISOs. Cal ISO has achieved a relative improvement in its cost position since 2003, when it ranked as the highest cost ISO, and its GMC costs are at the median. There appears to be continued improved regulatory certainty with consistent decisions by FERC on the Cal ISO's rate tariff and by the state Public Utilities Commission in support of utility cost recovery and market stability.

Cal ISO's debt service coverage, based on net revenues, in 2007 was 1.22 times (Moody's calculation of income statement coverage) and its operating reserve at the end of 2007 was funded in excess of the required 15% of the O&M budget. Estimated 2008 financial results indicate sound debt service coverage, with the continued inclusion of the 1.25 debt service coverage included as an element of the revenue requirement.

The Cal ISO anticipates that there should be an adequate electric supply-demand balance in California for the next five years. However, several other factors create challenges for the power supply outlook, including possible faster economic recovery that increases electric demand above forecast; the investment in new generation versus the retirement of more thermal generation units than planned; the uncertain impact of new greenhouse gas regulations and the need to maintain reliability with the inclusion of renewable resources required under state legislation; and the effect of continued drought conditions on California hydro production.

There is also some implementation risk as the Cal ISO continues to move ahead on a mult-year market reform plan called MRTU, which has the overall objective of a more reliable and competitive wholesale electricity marketplace. Cal ISO received FERC approval in September 2006 for the significant aspects of the MRTU program, and has since been engaged in development and testing of the software and systems for MRTU. The market design is expected to be implemented once all programs have been tested and are ready. Simulation testing is currently underway with market participants, and Cal ISO projects that the system will go-live in the fall of 2008.

MRTU includes an implementation of locational marginal pricing, a day-ahead energy market, and the use of a full network model providing enhanced operational control and understanding of the grid. Additional enhancements such as development of a capacity market are expected to be studied and potentially implemented at a later date.

IMPROVED CREDIT QUALITY OF MAJOR ENERGY MARKET PARTICIPANTS

Substantial improvement has taken place in the credit quality of the two major market participants: Southern California Edison's senior unsecured credit rating is now A3 and Pacific Gas & Electric's (PG&E) A3. While the dominance of these two counterparties is a potential credit risk, the demonstrated, priority first claim on revenues deposited in the clearing account and ISO operating account are significant mitigating factors.

CAL ISO IS AN INTEGRAL PART OF CALIFORNIA'S ELECTRICITY INDUSTRY

The California Independent System Operator Corporation, a not-for-profit public benefit corporation, is responsible for the operation of the long-distance, high-voltage power lines that deliver electricity throughout most of California. The Cal ISO states that its primary objective is to ensure the reliability of the California electricity grid, while fostering a low-cost wholesale marketplace for electrical generation in the state. The Cal ISO charges the GMC to scheduling coordinators to cover its costs. Cal ISO operates day-ahead and hour-ahead markets for transmission congestion and ancillary services, operates a real-time market for balancing energy, and administers reliability must-run contracts. The Cal ISO also runs a settlement and clearing function by collecting payments from users of these services and making pass-through payments from users of such services. The California ISO is governed by a five member board with staggered three-year terms appointed by the Governor and confirmed by the State Senate.

Outlook

Moody's has assigned a stable credit outlook given the strong and tested security provisions, satisfactory financial operations, more stable electricity market and improving credit quality of the major energy market participants.

What Could Change the Rating - UP:

The rating could be upgraded should the implementation of MRTU be successful.

What Could Change the Rating - DOWN:

The rating could be downgraded if there are successful challenges to the Cal ISO's role in the state's electric industry which impacts revenues and debt service coverage.

KEY STATISTICS:

Debt Outstanding, 2008: $198.2 million (after current offering)

Security: Net revenues of CAL ISO

Rate Covenant:Requires inclusion of 1.25x debt service coverage in annual revenue requirement and maintenance of an operating reserve

Debt service coverage, 2007:1.22x

Peak Load Served (MW) 50,270

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