

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

California Independent System) Docket No. ES09-____-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 (“ISO”) files this application for a Commission order authorizing the ISO to issue bonds in an amount not to exceed \$225 million. The entire \$225 million amount will be a new money issue. Approximately \$160 million of this amount will be used for facility and other infrastructure-related costs, approximately \$15 million will be used for 2010 capital expenditures, and the balance of the \$225 million amount – approximately \$50 million – will cover a net bond discount, capitalized and contingency interest, a debt service reserve fund, and issuance costs for this bond issuance.¹ The bonds will be structured as traditional fixed rate bonds with a maximum maturity of up to thirty years.

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

The Commission has previously accepted the applications that the ISO has submitted for authorization to issue bonds. See *California Independent System Operator Corporation*, 123 FERC ¶ 62,091 (2008) (authorizing the ISO to issue bonds in an amount up to \$215 million); *California Independent System Operator Corporation*, 118 FERC ¶ 62,250 (2007) (authorizing the ISO to issue bonds in an amount up to \$60 million); *California Independent System Operator Corporation*, 109 FERC ¶ 62,138 (2004) (authorizing the ISO to issue bonds in an amount up to \$127 million); *California Independent System Operator Corp.*, 90 FERC ¶ 62,088 (2000) (authorizing the ISO to issue bonds in an amount up to \$295 million); *California Independent*

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

A. The Issuance of New Bonds

1. Funding Needs for the ISO's New Facility

The new ISO facility has been contemplated for several years. In 2000, the ISO acquired the 30 acres of land on which the new facility will be constructed. The ISO did some initial concept work at the time but did not take the planning process further until recently. In 2007, the ISO renewed its efforts to plan for the facility. The ISO assessed several options for housing the ISO, including the options of making significant investments in its existing buildings to address functional and security needs, purchasing a different building, and constructing a new building. The ISO determined that constructing the new building was the best option.² The ISO's current facility consists of a group of aging buildings that are already being fully utilized. In order to upgrade and repair the current facility to meet the ISO's current and anticipated needs, the ISO would have to make a significant investment, including an investment in physical security enhancements, while still having to bear the ongoing cost of leasing the facility. The ISO also determined that the current facility cannot be fully upgraded to meet security needs. Further, the ISO attempted but was unable to identify a suitable existing building in the region. By comparison, the

System Operator Corp., 83 FERC ¶ 62,039 (1998) (amending earlier letter order to authorize the ISO to issue bonds in the amount of \$310 million); *California Independent System Operator Corp.*, 81 FERC ¶ 62,220 (1997) (authorizing the ISO to issue bonds in an amount up to \$260 million).

² See Memorandum from the ISO's Chief Information Officer and Vice President of Information Technology and the ISO's Chief Financial Officer and Vice President of Corporate Services to ISO Governing Board, March 18, 2008, available on the ISO Website at <http://www.caiso.com/1f8f/1f8fc56b1bbd0.pdf>.

new building will meet all of the ISO's current and anticipated needs, will allow the ISO to focus mission-critical functions in a single location, and perhaps most importantly, will allow the ISO to enforce physical security around its entire premises.

2. Funding Needs for Capital Expenditures

In December 2008, the ISO Governing Board ("Board") approved the ISO's 2009 budget, revenue requirement, and Grid Management Charge ("GMC") rates. The ISO has not yet completed its 2010 budget process, but is currently projecting capital expenditures of \$15 million for that year. The list of capital projects that the ISO will likely undertake in 2010 is provided in Exhibit H to the present filing.

3. Funding Needs for Net Bond Discount, Capitalized and Contingency Interest, Debt Service Reserve Fund, and Issuance Costs

As explained below, the ISO anticipates that its funding needs for the net bond discount, capitalized and contingency interest, debt service reserve fund, and issuance costs will total approximately \$50 million.

It is estimated that the coupon rate of the bonds will be below market value at the time of issuance, which will result in a bond discount of approximately \$2.6 million.

Pursuant to its bond issuance, the ISO proposes to use approximately \$25.8 million for capitalized interest costs on the new building portion of the bond offering and on the capital expenditures portion of the bond offering. In addition,

the ISO proposes to use approximately \$2.1 million as a contingency fund for potential changes in interest rates impacting capitalized interest.

The ISO proposes to establish a debt service reserve fund in the amount of approximately \$17 million which would be available to pay debt service in the event of financial difficulties affecting the ISO. A debt service reserve fund is considered necessary to interest bond investors in the proposed bond offering and is traditional in municipal “revenue bond” (as opposed to general obligation bond) financings. The ISO proposes to fund the debt service reserve fund from the proceeds of the new bond offering.

The ISO anticipates that the issuance costs for this bond issuance will be approximately \$2.5 million.

4. Anticipated Terms of New Bonds

The ISO anticipates issuing fixed rate bonds with a term of not longer than thirty years to meet its new building funding needs. The ISO also anticipates issuing fixed rate bonds with a term of not longer than six years to meet its capital expenditure funding needs. The proposed amortization schedule of the proposed bond offering would be tailored to facilitate a stable overall ISO bundled *pro forma* GMC.

The ISO intends to incorporate the debt service costs for this new bond offering into its GMC for 2011 through 2039.

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

The ISO is not requesting that any changes be made to the GMC rates currently in effect, which were established by the Commission’s acceptance of

the current GMC rate structure in Docket No. ER08-585-000. The GMC rate formula in the ISO Tariff provides that the ISO may adjust the GMC charges for 2009, without filing a rate case pursuant to Section 205 of the Federal Power Act, as long as the ISO's overall annual revenue requirement is below \$197 million. The revenue requirement in 2009 is below the threshold established in Docket No. ER08-585-000. No changes are proposed to the existing 2009 GMC rates as a result of this bond offering. Interest costs for 2009 through November 2011 on the new building portion of the bond offering, and interest costs for 2009 on the capital expenditures portion of the bond offering, will be funded from the GMC. The ISO's goal is to achieve a stable *pro forma* bundled GMC. Consistent with this goal, the ISO will include the debt service for this proposed bond offering in the ISO's annual revenue requirement for future years.

Without bond financing for a portion of the capital spending program in 2010, the ISO's revenue requirement would be significantly higher than in past years, assuming that the Commission-directed market enhancements are to progress as scheduled. Thus, the ISO's proposed bond issuance will facilitate greater stability in ISO rates. It will also effectively spread the costs of the ISO's capital expenditures over the expected useful lives of those capital assets. The ISO is planning to fund the majority of its capital spending program for 2011 and future years directly through the GMC, as expenditures for those years are currently anticipated to be for routine capital additions costing relatively constant amounts.³

³ Although the ISO does not anticipate that this bond issuance will cause any increase in the GMC in any year, other than the GMC rate previously stakeholdered with projections that are

II. PART 34 REQUIREMENTS

A. Section 34.3 Requirements

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

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

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

Steve Berberich
Vice President Corporate Services &
Interim Chief Financial Officer and Treasurer
California Independent System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 351-2350
E-mail: sberberich@caiso.com

included in the bond offering, the GMC *may* significantly increase in the event that a load-serving entity were to withdraw its load from the ISO Balancing Authority Area, particularly if the entity were one of California's three investor-owned electric utilities – Pacific Gas and Electric Company ("PG&E"), Southern California Edison Company ("SCE"), or San Diego Gas & Electric Company ("SDG&E"). The ISO has no reason to believe that any load-serving entity is planning to withdraw. However, if a load-serving entity that is a Participating Transmission Owner such as PG&E, SCE, or SDG&E did decide to withdraw, as a practical matter it would have to satisfy the withdrawal requirements of the Transmission Control Agreement ("TCA") – the agreement that conveys control (but not ownership) of transmission lines to the ISO. The TCA ordinarily requires a Transmission Owner to give the ISO two years' advance notice before withdrawing, and obtain Commission approval. The only exception to the two-year notice requirement would be if an event occurs that threatens the tax-exempt status or tax-exempt financing of a Participating Transmission Owner (to the extent it has tax-exempt status or tax-exempt financing), in which case the Transmission Owner may withdraw immediately.

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

Kenneth G. Jaffe
Bradley R. Miliauskas
Alston & Bird LLP
950 F Street, NW
Washington, DC 20004
Tel: (202) 756-3300
Fax: (202) 756-3333
E-mail: kenneth.jaffe@alston.com
bradley.miliauskas@alston.com

(d) Requested action date.

The ISO respectfully requests that the Commission issue an order authorizing the ISO to issue bonds as described in this application by June 3, 2009. The ISO seeks to execute its bond offering on July 22, 2009, 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.

The ISO anticipates using traditional fixed rate bonds for this offering. The new building portion of the bonds will be amortized over thirty years. The capital expenditures portion of the bonds will be amortized over six years. This will result in a stable bundled *pro forma* GMC.

2. Amount of securities.

The value of the bonds to be issued is not to exceed \$225 million, consisting of:⁴

New facility (project fund)	\$160.0 million
Capital expenditures	\$15.0 million
Net bond discount	\$2.6 million
Capitalized interest through November 2011	\$25.8 million
Contingency for interest rate differential	\$2.1 million
Debt service reserve fund	\$17.0 million
Issuance costs	\$2.5 million
	<hr/>
Total	\$225 million

3. Interest or dividend rate.

Based on a fixed rate offering, the estimated all-in interest rate will be approximately 6.0%, based on current market conditions. These bonds will likely be issued at a discount due to current market conditions.

4. Dates of issuance and maturity.

The target issuance date for the bonds is late July of 2009.

Final maturity of the bonds will occur no later than thirty years from the issuance date of the bonds.

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

The ISO's existing underlying or issuer credit ratings (which are updated annually) are as follows:⁵

Moody's: A2

Standard & Poor's: A-

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

The securities are to be issued to obtain funding to finance the new ISO building as well as 2010 capital expenditures. The new building costs will include construction costs and associated costs (data center move and associated relocation cost, consultants, construction management, furniture, fixtures, and contingency). The capital expenditure costs will include the costs of the likely capital projects for 2010 listed in Exhibit H to the present filing. The balance of the bond proceeds will be used for the net bond discount, capitalized and contingency interest costs, the debt service reserve fund, and issuance costs. All proceeds will be used solely for these ISO purposes.

⁴ The individual listed amounts are approximate amounts that are subject to change and that will be finalized by the time the bonds are sold and issued. In any event, the total amount of the bond issuance will not exceed \$225 million.

⁵ The ISO anticipates that its credit ratings may increase in the future, due at least in part to the ISO's implementation of its Market Redesign and Technology Upgrade program on March 31, 2009. In any event, the ISO does not anticipate that its credit ratings will decrease.

(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 ISO anticipates filing an application for issuance through a State of California government entity conduit issuer subsequent to the filing of this application with the Commission. The ISO's bonds were issued through the California Infrastructure and Economic Development Bank in 2000, 2004, 2007, and 2008.

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

The ISO's issuance of the bonds is consistent with its corporate purposes and responsibilities, its operation as an independent transmission system operator, and the public interest. The additional borrowings are necessary for the ISO to finance the new building, 2010 capital expenditures, capitalized and contingency interest, debt service reserve fund, and issuance costs, as discussed in section (f), above. The additional borrowings will enhance the ISO's ability to perform as an independent transmission system operator and a public utility.

The ISO will present this proposed bond offering to its Board and will request formal approval of the transaction at the Board's May 18-19, 2009 meeting. The ISO will provide the Commission with the

record of the Board's approval of the transaction subsequent to that meeting.⁶

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

The bond indenture for the proposed new debt is expected to contain terms similar to the indenture issued in connection with the ISO's bond issuance in 2008, including a pledge of operating revenues. This offering will also include the mortgage of the new building as security for the bonds. There are no restrictions in the existing bond documents that limit the ISO from this additional bond issuance for new money.

(j) Summary of rate changes.

The present filing includes financial statements for the time period from January 1, 2008 through December 31, 2008. The ISO's updated rates for the 2009 GMC were posted on the ISO Website in December 2008. No changes in the 2009 GMC rates are requested or anticipated as a result of the bond offering that is the subject of this application.

B. Section 34.4 Requirements

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

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

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

⁶ In previous bond issuance proceedings, the ISO requested Commission approval of the proposed bond issuance prior to obtaining Board approval of the issuance, which approval the ISO then provided to the Commission. See ISO bond issuance filing, Docket No. ES07-20-000 (filed February 9, 2007), at page 11, and ISO bond issuance filing, Docket No. ES08-36-000 (filed March 17, 2008), at page 14. The ISO will do the same in this proceeding.

- Exhibit B- Resolution adopted by the ISO Governing Board on March 26, 2008 declaring the official intent of the ISO to use the 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 ISO for the twelve months ending 12/31/2008, and Schedule of *Pro Forma* Adjustments
- Exhibit D- Projected *Pro Forma* Income Statements for the twelve months ending 12/31/2008
- Exhibit E- Projected *Pro Forma* Statement of Cash Flows for the twelve months ending 12/31/2008 and calculation of interest coverage
- Exhibit F- Official Statement for the year 2008 bonds
- Exhibit G- Indicative bond run numbers for Series 2009 New Money Bonds showing sources and uses of funds for a fixed rate offering of \$225 million
- Exhibit H- Potential 2010 capital project list

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

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

A governmental entity will issue the bonds for the benefit of the ISO. The ISO anticipates filing an application for issuance through a State of California government entity conduit issuer subsequent to the filing of this application with the Commission. The ISO's bonds for the year 1998 were issued through the

California Economic Development Financing Authority and for the years 2000, 2004, 2007, and 2008 through the California Infrastructure and Economic Development Bank. (The first-named organization was replaced by the latter subsequent to 1998.)

In January 2009, the ISO requested financing proposals from four firms: Banc of America, JPMorgan, Wells Fargo, and RBC (Royal Bank of Canada) Capital Markets (“RBC”). Those firms’ financing proposals were reviewed by the ISO’s current Chief Financial Officer and independent financial advisor Sperry Capital. All of the firms, and RBC in particular, provided a range of useful ideas to help the ISO meet its objectives.

The ISO selected RBC to serve as senior underwriter for the transaction, with Banc of America and JPMorgan serving as junior underwriters. RBC will assist the ISO in issuing bonds, and as explained above, the ISO intends to use traditional fixed rate bonds. The fixed rate bonds will be of the same type the ISO issued in June 2008, but with a longer (*i.e.*, thirty-year) term.

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

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

described above, eliminate any need for those requirements to be applied to the proposed bond issuance.

III. SERVICE OF DOCUMENTS

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

IV. SUPPORTING DOCUMENTS

In addition to this transmittal letter, this filing contains the exhibits described above in Section II and the executed verification of Steve Berberich, Vice President Corporate Services & Interim Chief Financial Officer and Treasurer for the ISO.

V. CONCLUSION

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

- authorize the ISO's proposed bond issuance in an amount not to exceed \$225 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 June 3, 2009.

Respectfully submitted,

/s/ Steve Berberich

Steve Berberich
Vice President Corporate Services &
Interim Chief Financial Officer and
Treasurer

California Independent
System Operator Corporation

/s/ Bradley R. Miliauskas

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

Counsel for the California
Independent System Operator
Corporation

Dated: April 10, 2009

VERIFICATION

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

DOCKET NO.
ES09-____-000

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



STEVE BERBERICH

~~Subscribed and sworn to before
me on this ____ day of _____, 2009~~

~~_____
Notary Public~~

*see attached
California Jurat*

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 Verification by Steve Berberich
 2 _____
 3 _____
 4 _____
 5 _____
 6 (see verification) _____
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
10th day of April, 2009, by
Date Month Year

(1) Steve Berberich
Name of Signer

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

(and

(2) n/a
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

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

Motion

Reimbursement Resolution (2008-03-26)

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

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

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

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

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

NOW, THEREFORE, THE CORPORATION hereby resolves:

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

This Resolution shall take effect from and after its adoption.

Moved: Page Second: Gage

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

Motion Number: 2008-03-G6

EXHIBIT C

Exhibit C
California Independent System Operator Corporation
Balance Sheet (Unaudited)
December 31, 2008

Line No.	Title of Account (FERC Account)	Balance December 31, 2008	Pro Forma Adjustments For Issuance of Bonds	Balance After Pro Forma Adjustments For Issuance	Pro Forma Adjustments For Bond Amortization	Balance After Pro Forma Adjustments for Issuance and Amortization
1	ASSETS AND OTHER DEBITS					
2	Utility Plant					
3	Utility Plant (101-106,114)	\$ 262,918,482		\$ 262,918,482		\$ 262,918,482
4	Construction Work in Progress (107)	223,180,128		223,180,128		223,180,128
5	Total Utility Plant	<u>486,098,610</u>		<u>486,098,610</u>		<u>486,098,610</u>
6	(Less) Accumulated Provision For Depreciation, Amortization and Depletion (108,110,111,115)	<u>228,845,943</u>		<u>228,845,943</u>		<u>228,845,943</u>
7	Net Utility Plant	<u>257,252,667</u>		<u>257,252,667</u>		<u>257,252,667</u>
8						
9	Other Property and Investments					
10	Other Investments (124)	52,690,353		52,690,353		52,690,353
11	Other Special Funds - Construction and Debt Service (128)	224,691,316	\$ 192,000,000	416,691,316	\$ (9,660,000)	407,031,316
12	Total Other Property and Investments	<u>277,381,669</u>	<u>192,000,000</u>	<u>469,381,669</u>	<u>(9,660,000)</u>	<u>459,721,669</u>
13						
14	Current and Accrued Assets					
15	Cash (131)	86,834,006		86,834,006	(6,204,000)	80,630,006
16	Special Deposits (132-134)	23,572,153	27,900,000	51,472,153	558,000	52,030,153
17	Working Fund (135)	1,588		1,588		1,588
18	Customer Accounts Receivable (142)	1,558,833		1,558,833		1,558,833
19	Other Accounts Receivable (143)	1,520,374		1,520,374		1,520,374
20	Prepayments (165)	6,491,627		6,491,627		6,491,627
21	Interest and Dividends Receivable (171)	1,209,498		1,209,498		1,209,498
22	Accrued Utility Revenues (173)	49,674,128		49,674,128		49,674,128
23	Total Current and Accrued Assets	<u>170,862,207</u>	<u>27,900,000</u>	<u>198,762,207</u>	<u>(5,646,000)</u>	<u>193,116,207</u>
24						
25	Deferred Debits					
26	Unamortized Debt Expense, Loss on Refunding and Bond Discount (181)	1,972,141	5,100,000	7,072,141	(182,143)	6,889,998
27	Clearing Accounts (184)	(69,387)		(69,387)		(69,387)
28	Total Deferred Debits	<u>1,902,754</u>	<u>5,100,000</u>	<u>7,002,754</u>	<u>(182,143)</u>	<u>6,820,611</u>
29						
30	TOTAL ASSETS	<u>\$ 707,399,297</u>	<u>\$ 225,000,000</u>	<u>\$ 932,399,297</u>	<u>\$ (15,488,143)</u>	<u>\$ 916,911,154</u>
31						
32	See notes to Balance Sheet					

Exhibit C
California Independent System Operator Corporation
Balance Sheet (Unaudited)
December 31, 2008

Line No.	Title of Account (FERC Account)	Balance December 31, 2008	Pro Forma Adjustments For Issuance of Bonds	Balance After Pro Forma Adjustments For Issuance	Pro Forma Adjustments For Bond Amortization	Balance After Pro Forma Adjustments for Issuance and Amortization
33	LIABILITIES AND OTHER CREDITS					
34	Proprietary Capital					
35	Retained Earnings (215, 215.1,216)	\$ 242,678,677		\$ 242,678,677	\$ (9,284,143)	\$ 233,394,534
36	Total Proprietary Capital	<u>242,678,677</u>		<u>242,678,677</u>	<u>(9,284,143)</u>	<u>233,394,534</u>
37						
38	Long-Term Debt					
39	Bonds (221)	204,372,456	\$ 225,000,000	429,372,456	(6,204,000)	423,168,456
40	Total Long-Term Debt	<u>204,372,456</u>	<u>225,000,000</u>	<u>429,372,456</u>	<u>(6,204,000)</u>	<u>423,168,456</u>
41						
42	Other Noncurrent Liabilities					
43	Accumulated Provision for Pensions and Benefits (228.3)	11,560,848		11,560,848		11,560,848
44	Total Other Noncurrent Liabilities	<u>11,560,848</u>		<u>11,560,848</u>		<u>11,560,848</u>
45						
46	Current and Accrued Liabilities					
47	Accounts Payable (232)	32,013,163		32,013,163		32,013,163
48	Customer Deposits (235)	100,228,607		100,228,607		100,228,607
49	Taxes Accrued (236)	221,526		221,526		221,526
50	Total Current and Accrued Liabilities	<u>132,463,296</u>		<u>132,463,296</u>		<u>132,463,296</u>
51						
52	Deferred Credits					
53	Other Deferred Credits (253)	116,324,020		116,324,020		116,324,020
54	Total Deferred Credits	<u>116,324,020</u>		<u>116,324,020</u>		<u>116,324,020</u>
55						
56	TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	<u>\$ 707,399,297</u>	<u>\$ 225,000,000</u>	<u>\$ 932,399,297</u>	<u>\$ (15,488,143)</u>	<u>\$ 916,911,154</u>
57						
58	See notes to Balance Sheet					

California Independent System Operator Corporation
Notes to Balance Sheet (Unaudited)
December 31, 2008

Line No.	Description	Pro Forma Adjustments
1	Issuance of Bonds	
2	The pro forma adjustments reflecting the issuance of bonds have the following components:	
3		
4	<u>Source and Use of Bond Proceeds</u>	
5	Bond Proceeds - Par Amount	\$ 225,000,000
6	Bond discount	(2,600,000)
7	Net Bond Proceeds	<u>\$ 222,400,000</u>
8		
9	Use of Proceeds	
10	Special Funds - Debt Service Reserve Fund	\$ 17,000,000
11	Special Deposits - Capitalized Interest Fund (Actual through 11/1/2011)	25,800,000
12	Special Deposits - Capitalized Interest Fund (contingency for interest rate differential)	2,100,000
13	Unamortized Debt Expense - Issuance costs	2,500,000
14	Special Funds - Headquarters Facility	160,000,000
15	Special Funds - Software Development	15,000,000
16	Bonds issued	<u>\$ 222,400,000</u>
17	No construction costs funded during period	

California Independent System Operator Corporation
Notes to Balance Sheet (Unaudited)
December 31, 2008

Line No.	Description	Pro Forma Adjustments
18	Bond Amortization	
19	The pro forma adjustments reflecting the amortization of bonds have the following components:	
20		
21	Issuance date - Assume January 1, 2009. Actual issuance anticipated to be July 2009.	
22	Amortization date - Assume amortizations of both portions to commence December 31, 2009.	
23	Actual amortization of software portion anticipated to be May 2011 and facilities portion to be May 2012.	
24	Principal reduction - Assumes amortization of software portion over 5 years and facilities portion over 28 years.	
25	Actual amortization of software portion anticipated over 6 years with principle reductions starting in 2011 and ending in 2015.	
26	Actual amortization of facilities portion anticipated over 30 years with principle reductions starting in 2012 and ending in 2039.	
27	Interest rate - estimated all in rate	6.00%
28	Interest cost - Year 1 (line 27 x line 42)	<u>\$ 13,500,000</u>
29	Interest Paid from Special Deposits - Capitalized Interest Fund	<u>\$ 13,500,000</u>
30	Principle reduction	
31	Year 1	\$ 6,204,000
32	Year 2	6,442,000
33	Year 3	6,698,000
34	Year 4	7,004,000
35	Year 5	7,357,000
36	Years 6-10	23,902,000
37	Years 11-15	30,845,000
38	Years 16-20	40,833,000
39	Years 21-25	54,515,000
40	Years 26-28	41,200,000
41	Total	<u>\$ 225,000,000</u>
42	Principle amortization paid from Cash	<u>\$ 6,204,000</u>
43	Unamortized Debt Expense	
44	Method - ratably over 28 years	
45	Expense - Year 1 (line 13 / 28)	<u>\$ 89,286</u>
46	Interest and principal reduction paid from cash account	
47	Bond Discount Amortization - Year 1 (Line 6 / 28)	<u>\$ 92,857</u>
48	Interest on restricted funds	
49	Interest rate earned	2.00%
50	Special Funds - Construction Fund ((line 14 + line 15) x line 50)	<u>\$ 3,500,000</u>
51	Special Funds - Debt Service Reserve Fund (line 10 x line 50)	<u>\$ 340,000</u>
52	Special Deposits - Capitalized Interest fund ((line 11+ line 12) x line 50)	<u>\$ 558,000</u>
53	Assumed no software development costs or facility construction costs occurred.	
54	No adjustment was made to increase GMC revenues to cover the pro forma debt service	

EXHIBIT D

Exhibit D
California Independent System Operator Corporation
Statement of Income (Unaudited)
For the Year Ended December 31, 2008

Line No.	Title of Account (FERC Account)	Year Ended December 31, 2008	Pro Forma Adjustments for Bond Amortization	Balance After Pro Forma Adjustments for Amortization
1	Utility Operating Income			
2	Operating Revenues (400)	<u>\$ 200,743,909</u>		<u>\$ 200,743,909</u>
3				
4	Operating Expenses			
5	Operating Expenses (401)	117,987,930		117,987,930
6	Maintenance Expenses (402)	30,516,751		30,516,751
7	Depreciation Expense (403)	12,822,077		12,822,077
8	Taxes Other Than Income Taxes (408.1)	<u>278,624</u>		<u>278,624</u>
9	Total Utility Operating Expenses	<u>161,605,382</u>		<u>161,605,382</u>
10				
11	Net Utility Operating Income	<u>39,138,527</u>		<u>39,138,527</u>
12				
13	Other Income			
14	Interest and Dividend Income (419)	4,589,405	\$ 4,398,000	8,987,405
15	Miscellaneous Non-operating Income (421)	<u>(106,710)</u>	-	<u>(106,710)</u>
16	Total Other Income	<u>4,482,695</u>	<u>4,398,000</u>	<u>8,880,695</u>
17				
18	Interest Charges			
19	Interest on Long-term Debt (427)	5,460,099	13,500,000	18,960,099
20	Amortization of Debt Issuance Expense, Loss on Refunding and Bond Discount (428)	844,170	182,143	1,026,313
21	Amortization of Bond Premium (429)	(1,786,033)		(1,786,033)
21	Other Interest Expense (431)	<u>4,840,717</u>		<u>4,840,717</u>
22	Net Interest Charges	<u>9,358,953</u>	<u>13,682,143</u>	<u>23,041,096</u>
23				
24	Net Income	<u>\$ 34,262,269</u>	<u>\$ (9,284,143)</u>	<u>\$ 24,978,126</u>
25				
26	See notes to Statement of Income			

California Independent System Operator Corporation
Notes to Statement of Income (Unaudited)
December 31, 2008

Line No.	Description	Pro Forma Adjustments
1	Issuance of Bonds	
2	The pro forma adjustments reflecting the issuance of bonds have the following components:	
3		
4	<u>Source and Use of Bond Proceeds</u>	
5	Bond Proceeds - Par Amount	\$ 225,000,000
6	Bond discount	(2,600,000)
7	Net Bond Proceeds	<u>\$ 222,400,000</u>
8		
9	Use of Proceeds	
10	Special Funds - Debt Service Reserve Fund	\$ 17,000,000
11	Special Deposits - Capitalized Interest Fund (Actual through 11/1/2011)	25,800,000
12	Special Deposits - Capitalized Interest Fund (contingency for interest rate differential)	2,100,000
13	Unamortized Debt Expense - Issuance costs	2,500,000
14	Special Funds - Headquarters Facility	160,000,000
15	Special Funds - Software Development	15,000,000
16	Bonds issued	<u>\$ 222,400,000</u>
17	No construction costs funded during period	

California Independent System Operator Corporation
Notes to Statement of Income (Unaudited)
December 31, 2008

Line No.	Description	Pro Forma Adjustments
18	Bond Amortization	
19	The pro forma adjustments reflecting the amortization of bonds have the following components:	
20		
21	Issuance date - Assume January 1, 2009. Actual issuance anticipated to be July 2009.	
22	Amortization date - Assume amortizations of both portions to commence December 31, 2009.	
23	Actual amortization of software portion anticipated to be May 2011 and facilities portion to be May 2012.	
24	Principal reduction - Assumes amortization of software portion over 5 years and facilities portion over 28 years.	
25	Actual amortization of software portion anticipated over 6 years with principle reductions starting in 2011 and ending in 2015.	
26	Actual amortization of facilities portion anticipated over 30 years with principle reductions starting in 2012 and ending in 2039.	
27	Interest rate - estimated all in rate	6.00%
28	Interest cost - Year 1 (line 27 x line 42)	<u>\$ 13,500,000</u>
29	Interest Paid from Special Deposits - Capitalized Interest Fund	<u>\$ 13,500,000</u>
30	Principle reduction	
31	Year 1	\$ 6,204,000
32	Year 2	6,442,000
33	Year 3	6,698,000
34	Year 4	7,004,000
35	Year 5	7,357,000
36	Years 6-10	23,902,000
37	Years 11-15	30,845,000
38	Years 16-20	40,833,000
39	Years 21-25	54,515,000
40	Years 26-28	41,200,000
41	Total	<u>\$ 225,000,000</u>
42	Principle amortization paid from Cash	<u>\$ 6,204,000</u>
43	Unamortized Debt Expense	
44	Method - ratably over 28 years	
45	Expense - Year 1 (line 13 / 28)	<u>\$ 89,286</u>
46	Interest and principal reduction paid from cash account	
47	Bond Discount Amortization - Year 1 (Line 6 / 28)	<u>\$ 92,857</u>
48	Interest on restricted funds	
49	Interest rate earned	2.00%
50	Special Funds - Construction Fund ((line 14 + line 15) x line 50)	<u>\$ 3,500,000</u>
51	Special Funds - Debt Service Reserve Fund (line 10 x line 50)	<u>\$ 340,000</u>
52	Special Deposits - Capitalized Interest fund ((line 11+ line 12) x line 50)	<u>\$ 558,000</u>
53	Assumed no software development costs or facility construction costs occurred.	
54	No adjustment was made to increase GMC revenues to cover the pro forma debt service	

EXHIBIT E

Exhibit E
California Independent System Operator Corporation
Statement of Cash Flows (Unaudited)
For the Year Ended December 31, 2008

Line No.	Account Description	Balance December 31, 2008	Pro Forma Adjustments For Issuance of Bonds	Balance After Pro Forma Adjustments For Issuance	Pro Forma Adjustments For Bond Amortization	Balance After Pro Forma Adjustments for Issuance and Amortization
1	Net Cash Flow from Operating Activities					
2	Net Income	\$ 34,262,269		\$ 34,262,269	\$ (9,284,143)	\$ 24,978,126
3	Noncash Charges (Credits) to Income:					
4	Depreciation and Depletion	12,822,076		12,822,076		12,822,076
5	Amortization of Debt Issuance Expense, Loss on Refunding and Bond Discount	844,170		844,170	182,143	1,026,313
6	Amortization of Bond Premium	(1,786,033)		(1,786,033)		(1,786,033)
6	Net (Increase) Decrease in Receivables	(5,995,927)		(5,995,927)		(5,995,927)
7	Net Increase (Decrease) in Payables and Accrued Expenses	(1,027,948)		(1,027,948)		(1,027,948)
8	Net Increase (Decrease) in Other Deferred Credits	4,874,720		4,874,720		4,874,720
9	Net Cash Provided by (Used In) Operating Activities	<u>43,993,327</u>		<u>43,993,327</u>	<u>(9,102,000)</u>	<u>34,891,327</u>
10						
11	Cash Flows From Investment Activities					
12	Gross Additions to Common Utility Plant	(57,147,216)		(57,147,216)		(57,147,216)
13	Net Proceeds from Sales (Purchases) of Investments	15,801,207		15,801,207		15,801,207
14	Net Cash Provided By (Used In) Investing Activities	<u>(41,346,009)</u>		<u>(41,346,009)</u>		<u>(41,346,009)</u>
15						
16	Cash Flows from Financing Activities					
17	Net Proceeds from Issuance of Long-Term Debt	206,158,489	\$ 219,900,000	426,058,489		426,058,489
18	Decrease in Customer Deposits	32,711,943		32,711,943		32,711,943
19	Payments for Retirement of Long-Term Debt	(189,700,000)		(189,700,000)	(6,204,000)	(195,904,000)
20	(Increase) Decrease in Special Deposits	38,735,926	(27,900,000)	10,835,926	(558,000)	10,277,926
21	Net Decrease (Increase) Other Special Funds	(63,687,047)	(192,000,000)	(255,687,047)	9,660,000	(246,027,047)
22	Net Cash Provided By (Used In) Financing Activities	<u>24,219,311</u>	-	<u>24,219,311</u>	<u>2,898,000</u>	<u>27,117,311</u>
23						
24	Net Increase (Decrease) in Cash and Cash Equivalents	26,866,629	-	26,866,629	(6,204,000)	20,662,629
25						
26	Cash and Cash Equivalents at Beginning of Period	59,967,377		59,967,377		59,967,377
27						
28	Cash and Cash Equivalents at End of Period	<u>\$ 86,834,006</u>	\$ -	<u>\$ 86,834,006</u>	<u>\$ (6,204,000)</u>	<u>\$ 80,630,006</u>
29						
30	See notes to Statement of Cash Flows					

California Independent System Operator Corporation
Notes to Statement of Cash Flows (Unaudited)
December 31, 2008

Line No.	Description	Pro Forma Adjustments
1	Issuance of Bonds	
2	The pro forma adjustments reflecting the issuance of bonds have the following components:	
3		
4	<u>Source and Use of Bond Proceeds</u>	
5	Bond Proceeds - Par Amount	\$ 225,000,000
6	Bond discount	(2,600,000)
7	Net Bond Proceeds	<u>\$ 222,400,000</u>
8		
9	Use of Proceeds	
10	Special Funds - Debt Service Reserve Fund	\$ 17,000,000
11	Special Deposits - Capitalized Interest Fund (Actual through 11/1/2011)	25,800,000
12	Special Deposits - Capitalized Interest Fund (contingency for interest rate differential)	2,100,000
13	Unamortized Debt Expense - Issuance costs	2,500,000
14	Special Funds - Headquarters Facility	160,000,000
15	Special Funds - Software Development	15,000,000
16	Bonds issued	<u>\$ 222,400,000</u>
17	No construction costs funded during period	

California Independent System Operator Corporation
Notes to Statement of Cash Flows (Unaudited)
December 31, 2008

Line No.	Description	Pro Forma Adjustments
18	Bond Amortization	
19	The pro forma adjustments reflecting the amortization of bonds have the following components:	
20		
21	Issuance date - Assume January 1, 2009. Actual issuance anticipated to be July 2009.	
22	Amortization date - Assume amortizations of both portions to commence December 31, 2009.	
23	Actual amortization of software portion anticipated to be May 2011 and facilities portion to be May 2012.	
24	Principal reduction - Assumes amortization of software portion over 5 years and facilities portion over 28 years.	
25	Actual amortization of software portion anticipated over 6 years with principle reductions starting in 2011 and ending in 2015.	
26	Actual amortization of facilities portion anticipated over 30 years with principle reductions starting in 2012 and ending in 2039.	
27	Interest rate - estimated all in rate	6.00%
28	Interest cost - Year 1 (line 27 x line 42)	<u>\$ 13,500,000</u>
29	Interest Paid from Special Deposits - Capitalized Interest Fund	<u>\$ 13,500,000</u>
30	Principle reduction	
31	Year 1	\$ 6,204,000
32	Year 2	6,442,000
33	Year 3	6,698,000
34	Year 4	7,004,000
35	Year 5	7,357,000
36	Years 6-10	23,902,000
37	Years 11-15	30,845,000
38	Years 16-20	40,833,000
39	Years 21-25	54,515,000
40	Years 26-28	41,200,000
41	Total	<u>\$ 225,000,000</u>
42	Principle amortization paid from Cash	<u>\$ 6,204,000</u>
43	Unamortized Debt Expense	
44	Method - ratably over 28 years	
45	Expense - Year 1 (line 13 / 28)	<u>\$ 89,286</u>
46	Interest and principal reduction paid from cash account	
47	Bond Discount Amortization - Year 1 (Line 6 / 28)	<u>\$ 92,857</u>
48	Interest on restricted funds	
49	Interest rate earned	2.00%
50	Special Funds - Construction Fund ((line 14 + line 15) x line 50)	<u>\$ 3,500,000</u>
51	Special Funds - Debt Service Reserve Fund (line 10 x line 50)	<u>\$ 340,000</u>
52	Special Deposits - Capitalized Interest fund ((line 11+ line 12) x line 50)	<u>\$ 558,000</u>
53	Assumed no software development costs or facility construction costs occurred.	
54	No adjustment was made to increase GMC revenues to cover the pro forma debt service	

Exhibit E
California Independent System Operator Corporation
Schedule of Interest Coverage
For the Year Ended December 31, 2008

Line No.	Description	Year Ended December 31, 2008	Pro Forma Adjustments for Bond Amortization	Balance After Pro Forma Adjustments for Amortization
1	Net Income	\$ 34,262,269	\$ (9,284,143)	\$ 24,978,126
2				
3	Add Back Interest Expense:			
4	Interest on Long-term Debt (427)	5,460,099	13,500,000	18,960,099
5	Amortization of Debt Issuance Expense, Loss on Refunding and Bond Discount (428)	844,170	182,143	1,026,313
6	Amortization of Bond Premium (429)	(1,786,033)		(1,786,033)
6	Other Interest Expense (431)	4,840,717		4,840,717
7	Total Interest Expense	<u>9,358,953</u>	<u>13,682,143</u>	<u>23,041,096</u>
8				
9	Income before Interest	<u>\$ 43,621,222</u>	<u>\$ 4,398,000</u>	<u>\$ 48,019,222</u>
10				
11	Total Interest Expense (line 7)	\$ 9,358,953	\$ 13,682,143	\$ 23,041,096
12	Interest capitalized to Utility Plant	4,463,008		4,463,008
13	Total Interest Incurred	<u>\$ 13,821,961</u>	<u>\$ 13,682,143</u>	<u>\$ 27,504,104</u>
14				
15	Computation of Interest Coverage			
16	Interest coverage (line 9 / line 13)	<u>3.16</u>		<u>1.75</u>

California Independent System Operator Corporation
Notes to Schedule of Interest Coverage (Unaudited)
December 31, 2008

Line No.	Description	Pro Forma Adjustments
1	Issuance of Bonds	
2	The pro forma adjustments reflecting the issuance of bonds have the following components:	
3		
4	<u>Source and Use of Bond Proceeds</u>	
5	Bond Proceeds - Par Amount	\$ 225,000,000
6	Bond discount	(2,600,000)
7	Net Bond Proceeds	<u>\$ 222,400,000</u>
8		
9	Use of Proceeds	
10	Special Funds - Debt Service Reserve Fund	\$ 17,000,000
11	Special Deposits - Capitalized Interest Fund (Actual through 11/1/2011)	25,800,000
12	Special Deposits - Capitalized Interest Fund (contingency for interest rate differential)	2,100,000
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14	Special Funds - Headquarters Facility	160,000,000
15	Special Funds - Software Development	15,000,000
16	Bonds issued	<u>\$ 222,400,000</u>
17	No construction costs funded during period	

California Independent System Operator Corporation
Notes to Schedule of Interest Coverage (Unaudited)
December 31, 2008

Line No.	Description	Pro Forma Adjustments
18	Bond Amortization	
19	The pro forma adjustments reflecting the amortization of bonds have the following components:	
20		
21	Issuance date - Assume January 1, 2009. Actual issuance anticipated to be July 2009.	
22	Amortization date - Assume amortizations of both portions to commence December 31, 2009.	
23	Actual amortization of software portion anticipated to be May 2011 and facilities portion to be May 2012.	
24	Principal reduction - Assumes amortization of software portion over 5 years and facilities portion over 28 years.	
25	Actual amortization of software portion anticipated over 6 years with principle reductions starting in 2011 and ending in 2015.	
26	Actual amortization of facilities portion anticipated over 30 years with principle reductions starting in 2012 and ending in 2039.	
27	Interest rate - estimated all in rate	6.00%
28	Interest cost - Year 1 (line 27 x line 42)	<u>\$ 13,500,000</u>
29	Interest Paid from Special Deposits - Capitalized Interest Fund	<u>\$ 13,500,000</u>
30	Principle reduction	
31	Year 1	\$ 6,204,000
32	Year 2	6,442,000
33	Year 3	6,698,000
34	Year 4	7,004,000
35	Year 5	7,357,000
36	Years 6-10	23,902,000
37	Years 11-15	30,845,000
38	Years 16-20	40,833,000
39	Years 21-25	54,515,000
40	Years 26-28	41,200,000
41	Total	<u>\$ 225,000,000</u>
42	Principle amortization paid from Cash	<u>\$ 6,204,000</u>
43	Unamortized Debt Expense	
44	Method - ratably over 28 years	
45	Expense - Year 1 (line 13 / 28)	<u>\$ 89,286</u>
46	Interest and principal reduction paid from cash account	
47	Bond Discount Amortization - Year 1 (Line 6 / 28)	<u>\$ 92,857</u>
48	Interest on restricted funds	
49	Interest rate earned	2.00%
50	Special Funds - Construction Fund ((line 14 + line 15) x line 50)	<u>\$ 3,500,000</u>
51	Special Funds - Debt Service Reserve Fund (line 10 x line 50)	<u>\$ 340,000</u>
52	Special Deposits - Capitalized Interest fund ((line 11+ line 12) x line 50)	<u>\$ 558,000</u>
53	Assumed no software development costs or facility construction costs occurred.	
54	No adjustment was made to increase GMC revenues to cover the pro forma debt service	

EXHIBIT F

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

\$196,970,000

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
Revenue Bonds
(California Independent System Operator Corporation Project)
2008 Series A**

Dated: Date of Delivery**Due: February 1, as shown on inside cover**

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The \$196,970,000 aggregate principal amount of Revenue 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 computer hardware and software systems and other facilities and equipment used to provide operational control services in connection with electric transmission facilities under the operational control of the California Independent System Operator Corporation (the “Corporation”), and other planned capital projects (the “Project”); (ii) refund the Infrastructure Bank’s outstanding revenue bonds as described herein; (iii) fund capitalized interest; (iv) fund a reserve account; and (v) 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 June 1, 2008, 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 June 1, 2008 (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, premium, if any, and interest on the Bonds, which pledge is on a parity with the pledge of such Net Operating Revenues securing certain Parity Obligations as described herein. See “SECURITY FOR THE BONDS—Outstanding Parity Obligations” herein.



The Bonds will be issued as fully registered bonds initially in authorized denominations of \$5,000 or any integral multiple 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 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, premium, if any, and interest on the 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 D – “DTC AND THE BOOK-ENTRY ONLY SYSTEM” herein. Interest on the Bonds will be payable semiannually on February 1 and August 1 each year, commencing on August 1, 2008. Principal, premium, if any, and interest on the Bonds are payable by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the Bonds, as described herein.

The Bonds are not subject to optional redemption prior to maturity. The Bonds are subject to special redemption prior to maturity as described herein.

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

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 Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel to the Infrastructure Bank. Certain legal matters will be passed upon for the Infrastructure Bank by its General Counsel, Brooke Bassett, Esq., for the Corporation by its General Counsel and by its special counsel, Hawkins Delafield & Wood 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 June 19, 2008.

Banc of America Securities LLC**JPMorgan****RBC Capital Markets**

\$196,970,000
CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
Revenue Bonds
(California Independent System Operator Corporation Project)
2008 Series A

MATURITY SCHEDULE

Maturity Date (February 1)	Principal Amount	Interest Rate	Yield	CUSIP[†]
2009	\$31,000,000	4.00%	2.20%	13033WL92
2010	39,100,000	5.00	2.74	13033WM26
2011	42,250,000	5.00	3.10	13033WM34
2012	25,130,000	5.00	3.33	13033WM42
2013	36,025,000	5.00	3.45	13033WM59
2014	23,465,000	5.00	3.58	13033WM67

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

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 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.

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.

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CALIFORNIA INDEPENDENT SYSTEM OPERATOR

Officers

Yakout Mansour, *President and Chief Executive Officer*
Steve B. Berberich, *Vice President of Corporate Services*
James W. Detmers, *Vice President of Operations*
Karen Edson, *Vice President of External Affairs*
Philip Leiber, *Chief Financial Officer and Treasurer*
Nancy Saracino, *General Counsel and Corporate Secretary*

SPECIAL SERVICES

Issuer

California Infrastructure and Economic Development Bank

Bond Counsel

Stradling, Yocca Carlson & Rauth, a Professional Corporation
Sacramento, California

Special Counsel to the California Independent System Operator

Hawkins Delafield & Wood LLP
Sacramento, California

Financial Advisor

Sperry Capital Inc.

Agent of Sale

Treasurer of the State of California

Trustee

Deutsche Bank National Trust Company
New York, New York

Verification Agent

Causey, Demgen & Moore Inc.
Denver, Colorado

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OFFICIAL STATEMENT
relating to
\$196,970,000
California Infrastructure and Economic Development Bank
Revenue Bonds
(California Independent System Operator Corporation Project)
2008 Series A

INTRODUCTION

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

Purpose

This Official Statement, which includes the cover page and Appendices hereto, of the California Infrastructure and Economic Development Bank (the “Infrastructure Bank”) is being furnished to provide certain information concerning the Infrastructure Bank’s Revenue Bonds (California Independent System Operator Corporation Project) 2008 Series A in the principal amount of \$196,970,000 (the “Bonds”). The Bonds are being issued by the Infrastructure Bank under and pursuant to an Indenture of Trust, dated as of June 1, 2008 (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 computer hardware and software systems and other facilities and equipment used to provide operational control services in connection with electric transmission facilities under the operational control of the California Independent System Operator Corporation (the “Corporation”), and other planned capital projects; (ii) refund \$3,900,000 aggregate principal amount of the Infrastructure Bank’s Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2000 Series C (the “Series 2000 Bonds”); (iii) refund \$75,100,000 aggregate principal amount of the Infrastructure Bank’s Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2004 Series A and 2004 Series B (the “Series 2004 Bonds”); (iv) refund \$60,000,000 aggregate principal amount of the Infrastructure Bank’s Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2007 Series A and 2007 Series B (the “Series 2007 Bonds,” and together with the Series 2000 Bonds and the Series 2004 Bonds, the “Prior Bonds”); (v) fund capitalized interest; (vi) fund a reserve account; and (vii) pay costs of issuance of the Bonds. See “PLAN OF FINANCE” herein.

The Corporation

The Corporation is a California nonprofit public benefit corporation organized as directed by the California legislation providing for the restructuring of the electric utility industry in California (Assembly Bill 1890 enacted as Chapter 854 of the California Statutes of 1996, “AB 1890”) and subsequent legislation. The Corporation has received a determination letter from the Internal Revenue Service that it has qualified as a nonprofit corporation described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). The Corporation assumed operational control of the transmission facilities of the three largest investor-owned electric utilities in California in March 1998. Since then, the Corporation has assumed operational control of transmission facilities of ten additional transmission-owning entities, providing open, nondiscriminatory access to such facilities for energy

suppliers. Since 1998, numerous changes have affected the structure of the California energy industry, including legislative, regulatory and competitive factors; however the Corporation's essential mission to provide open access transmission service to consumers remains unchanged. The Corporation is the operator of the transmission grid covering most of California, which is composed of over 25,000 circuit miles of transmission lines. See "THE CORPORATION" and APPENDIX A – "INFORMATION CONCERNING THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION" herein.

Security and Sources of Payment for the 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 June 1, 2008 (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. The Corporation has pledged pursuant to the Loan Agreement 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 Parity Obligations as described herein. See "SECURITY FOR THE BONDS—Outstanding Parity Obligations" herein. The Corporation is not required under the Loan Agreement, nor does it intend, to take steps in order to perfect the pledge of Net Operating Revenues under the Uniform Commercial Code. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS." Since the lien on Net Operating Revenues will not be perfected, and since the Corporation is under no obligation to segregate any such funds, there can be no assurance that the Bondholders will not be treated as general unsecured creditors of the Corporation in the event of its bankruptcy or insolvency. See APPENDIX A – "INFORMATION CONCERNING THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION – Risk Factors – *CAISO Charges and GMC*."

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

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 Account Requirement at 15% of its annual Operating Expenses for purposes of the Grid Management Charge Formula. The Coverage Requirement may be satisfied through the use of any funds of the Corporation legally available for the payment of debt service

on the Bonds and other Parity Obligations. See “SECURITY FOR THE BONDS—Rate Covenant” herein.

Reserve Account

A Reserve Account is established pursuant to the Indenture in an amount equal to the Reserve Account Requirement (as defined in the Indenture). The Reserve Account Requirement for the Bonds shall be \$19,697,000 upon the issuance of the Bonds. See “SECURITY FOR THE BONDS—Reserve Account” herein. Amounts on deposit in the Reserve Account 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.

Continuing Disclosure

The Corporation has agreed, pursuant to a Continuing Disclosure Agreement with the Trustee, dated as of June 1, 2008 (the “Continuing Disclosure Agreement”) to provide certain annual financial information and operating data to each nationally recognized municipal securities information repository, and notice of certain material events to the Municipal Securities Rulemaking Board. See “CONTINUING DISCLOSURE” and APPENDIX F – “PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT” herein for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made. The Continuing Disclosure Agreement is the Corporation’s first undertaking with regard to Rule 15c2-12 promulgated under the Securities and Exchange Act of 1934, as amended.

Other Matters

Brief descriptions of the Infrastructure Bank and the Project, as well as certain provisions of the Bonds, 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 C – “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 computer hardware and software systems and other facilities and equipment used to provide operational control services in connection with electric transmission facilities under the operational control of the Corporation, and other planned capital projects. Such projects are likely to span 2008-2010, and include projects specified by regulators including market design enhancements, other upgrades necessary to ensure the reliable operations of the electric grid including an upgrade related to the energy management system. The Corporation expects to complete its Market Redesign and Technology Upgrade (the “MRTU”) in 2008, which will improve the market design and infrastructure used by the Corporation to fulfill its mission. The MRTU program is in the final stages of simulation testing with market participants. A portion of the

proceeds of the Bonds will provide certain enhancements to the MRTU program, and to provide for other necessary computer system upgrades. The MRTU program received approval from the Federal Energy Regulatory Commission (FERC) in Docket No. ER06-615-000 (and associated dockets). FERC approved the core MRTU program, and also directed the Corporation to implement certain enhancements subsequent to the MRTU program for features that stakeholders viewed as important but which could not be completed on the same schedule as the core MRTU program. These enhancements, and other important capital expenditures are to be completed within one to two years of the start of the MRTU program now scheduled for Fall 2008.

Proceeds of the Bonds may also be used on a temporary basis to fund up to \$18 million of expenditures related to the development of a new Corporation headquarters facility to be located on a 30 acre parcel of land the Corporation currently owns in Folsom, California. Expenditures in 2008 related to the new headquarters project will likely include detailed construction design documents, permits, and some site preparation work. Upon securing permanent financing for the facility anticipated in early 2009, the temporary use of Bond proceeds would be repaid and used for other capital expenditures.

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

Refunding Plan

A portion of the proceeds of the Bonds will be deposited in separate escrow funds established for each series of the Prior Bonds and applied to refund such Prior Bonds (the “Refunded Bonds”) on July 1, 2008, at a redemption price of 100% of the principal amount thereof, plus accrued interest. The obligations of the Corporation under the Loan Agreements executed in connection with the Prior Bonds constitute outstanding Parity Obligations, and will remain outstanding until the redemption of the Prior Bonds on July 1, 2008. The Prior Bonds constitute the only Parity Obligations which the Corporation has outstanding.

The mathematical accuracy of certain computations relating to the adequacy of the moneys deposited in the respective escrow funds to pay when due the redemption price and accrued interest due on the Refunded Bonds on the redemption date thereof will be verified at the time of delivery of the Bonds by an independent verification agent selected by the Corporation. See “VERIFICATION” herein.

The Corporation expects to terminate the Swap Agreements associated with the Prior Bonds concurrently with the issuance of the Bonds and expects to make a termination payment to JPMorgan Chase Bank, N.A. in connection therewith. See “ESTIMATED SOURCES AND USES OF FUNDS” herein.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Bonds, together with other available moneys, are expected to be applied in the estimated amounts as follows:

Estimated Sources:

Principal Amount of Bonds	\$196,970,000
Plus: Original Issue Premium.....	9,188,489
Total Sources	\$206,158,489

Estimated Uses:

Construction Fund ⁽¹⁾	\$ 41,590,000
Reserve Account	19,697,000
Series 2000, 2004 and 2007 Bonds Escrow Funds	140,321,639
Capitalized Interest ⁽²⁾	1,171,502
Costs of Issuance ⁽³⁾	531,983
Swap Agreement Termination Fees	1,825,000
Underwriters' Discount.....	1,021,365
Total Uses	\$206,158,489

⁽¹⁾ In addition to the amounts to be deposited to the Construction Fund set forth in the table above, on July 1, 2008, approximately \$56,058,627 available from the funds held under the indentures securing the Prior Bonds will be transferred to the Construction Fund.

⁽²⁾ Represents interest on a portion of the Bonds through December 31, 2008.

⁽³⁾ Includes legal, financing, consulting 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 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 Bonds are limited obligations of the Infrastructure Bank payable solely from the funds pledged therefor under the Indenture. The Infrastructure Bank makes no representations with respect to the accuracy or completeness of the statements and information set forth in this Official Statement, other than the information set forth in this section and in the subsection entitled "ABSENCE OF LITIGATION—The Infrastructure Bank."

THE CORPORATION

The Corporation is a not-for-profit public benefit corporation incorporated in May 1997 and which assumed operational control of the transmission facilities (also called the transmission lines or transmission systems) of the three largest investor-owned electric utilities in California on March 31, 1998. The Corporation has subsequently assumed operational control of transmission assets of six municipal utilities, two private transmission owning corporations, and a federal power agency. Under its tariff on file with and approved by the Federal Energy Regulatory Commission, the Corporation provides transmission service over, and procures electric energy and capacity necessary to ensure the reliable operation of, the transmission systems that the Corporation operates.

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

THE 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 C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” herein.

General

The Bonds will be issued in the aggregate principal amount set forth on the cover of this Official Statement. The Bonds will be dated their date of delivery and will bear interest at the rates and mature on the dates and in the amounts set forth on the cover page of this Official Statement. Ownership interests in the Bonds will be in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds is payable on August 1, 2008, and semiannually thereafter on February 1 and August 1 of each year.

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, and interest on, the Bonds will be made pursuant to DTC’s rules and procedures. See APPENDIX D – “DTC AND THE BOOK-ENTRY ONLY SYSTEM” herein.

Redemption of the Bonds

Optional Redemption. The Bonds are not subject to optional redemption prior to their respective stated maturities.

Special Redemption. The Bonds are subject to redemption prior to their respective stated maturities at the option of the Corporation in whole or in part on any date, from casualty insurance or condemnation proceeds with respect to the Project received from the Corporation pursuant to the Loan Agreement, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium.

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

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

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

Selection of Bonds to be Redeemed. The principal amount of Bonds and maturities to be redeemed with prepayments by the Corporation pursuant to the Loan Agreement shall be as specified by the Corporation. If less than all the Bonds of any maturity are called for redemption, the Trustee will select the Bonds of such maturities or any portion thereof to be redeemed by lot in such manner as it may determine. For the purpose of any such selection the Trustee will assign a separate number for each minimum Authorized Denomination of each 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 will be in Authorized Denominations. The Trustee will 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, so long as the Bonds are in book-entry form, if less than all of the Bonds of any maturity are to be redeemed, the selection of the Bonds to be redeemed will 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 and the Trustee 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.” See APPENDIX D – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

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, all amounts and securities held by the Trustee under the Indenture (other than the Rebate Fund), 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). Such pledge is subject to the application thereof for the purposes and on the terms and conditions set forth in the Indenture. Pursuant to the Loan Agreement, subject to the provision of the Loan Agreement permitting the application thereof (including, but not limited to, the payment of Operating Costs), 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. Obligations of the Corporation secured by a lien of Net Operating Revenues on a parity with the lien securing the Loan Agreement constitute "Parity Obligations." See "Outstanding Parity Obligations" below. "Net Operating Revenues" means, for any period, an amount equal to the Operating Revenues for that period less Operating Costs for that period. "Operating Revenues" means all revenues received by the Corporation for the account of the Corporation, including, but not limited to the Grid Management Charge (described under "Rate Covenant" below), but excluding any moneys received by the Corporation in trust for third parties. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS."

The Corporation is not required under the Loan Agreement, nor does it intend, to take steps to perfect the pledge of Net Operating Revenues under the Uniform Commercial Code. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS." Since the lien on Net Operating Revenues will not be perfected, and since the Corporation is under no obligation to segregate any such funds, there can be no assurance that the Bondholders will not be treated as general unsecured creditors of the Corporation in the event of its bankruptcy or insolvency. See APPENDIX A – "INFORMATION CONCERNING THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION – Risk Factors – *CAISO Charges and GMC.*"

Financial and operational information of the Corporation, including a discussion of factors that could affect the Bonds and the future financial condition of the Corporation, is included in APPENDIX A – "INFORMATION CONCERNING THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION." Each prospective investor of the Bonds should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision.

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

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 Account Requirement at 15% of its annual Operating Expenses for purposes of the Grid Management Charge Formula. The Coverage Requirement may be satisfied through the use of any funds of the Corporation legally available for the payment of debt service on the Bonds and other Parity Obligations. "Grid Management Charge" means the Corporation's several separate charges for services offered by the Corporation that are intended to recover the Corporation's start-up and development costs and the costs associated with the ongoing operation and maintenance (including financing costs) of the Corporation's controlled grid. "Grid Management Charge Formula" means the formula according to which the Grid Management Charge is calculated, which is set forth in the Tariff and which includes: (i) budgeted annual operating costs, (ii) financing costs and (iii) budgeted annual costs of pay-as-you-go capital expenditures and reasonable coverage of debt service obligations. See APPENDIX A – "INFORMATION CONCERNING THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION" for additional information concerning the Grid Management Charge.

Outstanding Parity Obligations

The obligations of the Corporation under the Loan Agreements executed in connection with the Prior Bonds constitute outstanding Parity Obligations, and will remain outstanding under the respective Indenture until the redemption of the Prior Bonds on July 1, 2008. The Corporation has no other Parity Obligations outstanding.

Additional Parity Obligations

Pursuant to the Loan Agreement, the Corporation shall not create, incur or issue any additional Parity Obligations unless, at the time of such creation, incurrence or issuance, there shall have been filed with the Trustee a certificate of an Authorized Corporation Representative to the effect that the Grid Management Charge Formula, as then in effect, (i) provides for the payment of debt service on the 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%.

Reserve Account

Upon the issuance of the Bonds, there will be deposited from the proceeds of the Bonds in the Reserve Account an amount equal to the Reserve Account Requirement. All amounts in the Reserve Account will be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Bond Fund, or (together with any other funds available) for the payment or redemption of all Outstanding Bonds. Amounts on deposit in the Reserve Account will be valued by the Trustee at their market value, and the Trustee will notify the Corporation of the results of such valuation. If the amount on deposit in the Reserve Account on any day following such valuation is less than 90% of the Reserve Account Requirement, pursuant to the terms of the Loan Agreement, the Corporation has agreed to make the deposits to the Reserve Account necessary to cause the amount on deposit therein to equal the Reserve

Account Requirement. If the amount on deposit in the Reserve Account on any day following such valuation is greater than the Reserve Account Requirement, the excess will be withdrawn from the Reserve Account and transferred to the Bond Fund.

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

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

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

Amendment of Indenture and Loan Agreement

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

Limitations on Remedies

The rights of the Owners 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 Owners 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 Owners 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.

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

FINANCIAL ADVISOR

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

INDEPENDENT ACCOUNTANTS

The financial statements of the Corporation as of December 31, 2007 and 2006 and for the years then ended, included in APPENDIX B to this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing therein.

VERIFICATION

Upon delivery of the Bonds, Causey, Demgen & Moore Inc., independent certified public accountants, will verify, from the information provided to them, the mathematical accuracy as of the date of the closing on the Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits in escrow as listed in the Underwriters' schedules, will be sufficient to pay, when due, the principal, interest and redemption premium payment requirements of the Prior Bonds. Causey, Demgen & Moore Inc. will express no opinion on the

assumptions provided to them, nor as to the exclusion from gross income for federal income tax purposes of interest on the Bonds.

RATINGS

Standard & Poor's and Moody's Investors Service have assigned the Bonds the underlying ratings of "A-" and "A2." Such ratings express only the views of the rating agencies and an explanation of the significance of such ratings and any ratings on any of the Corporation's outstanding obligations may be obtained only from such rating agencies as follows: Standard & Poor's Ratings Services, 55 Water Street, 38th Floor, New York, New York 10041; and Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. There is no assurance that such ratings will continue for any given period of time or that they will not be revised, either downward or upward, or withdrawn entirely by the rating agencies, or either of them, if in their, or its, judgment, circumstances so warrant. Neither the Infrastructure Bank nor the Corporation undertakes any responsibility to oppose any such revision or withdrawal or to inform any 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 \$205,137,124.30 (representing an aggregate principal amount of \$196,970,000.00, plus a net original issue premium of \$9,188,489.30, less \$1,021,365.00 of Underwriters' discount). 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.

Banc of America Securities LLC and J.P. Morgan Securities Inc. serve as Remarketing Agent for one or more series of the Prior Bonds and from time to time have held a substantial portion of such series of Prior Bonds in their respective proprietary accounts. Therefore, a portion of the proceeds of the Series 2008 Bonds may be used to refund Prior Bonds held by such Underwriters in their own respective proprietary accounts.

CONTINUING DISCLOSURE

The Corporation will covenant for the benefit of the Owners of the Bonds to provide certain financial information and operating data relating to the Corporation (the "Annual Report") as provided in the Continuing Disclosure Agreement. The Annual Report will be filed by the Corporation with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by the Corporation with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events by the Corporation is set forth in APPENDIX F – "PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT." The Continuing Disclosure Agreement is the Corporation's first undertaking with regard to Rule 15c2-12 promulgated under the Securities and Exchange Act of 1934, as amended.

TAX MATTERS

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

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

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

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

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

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

On May 19, 2008, the Supreme Court of the United States reversed and remanded a decision of the Court of Appeals of Kentucky which held that the Commerce Clause of the United States Constitution prohibits the Commonwealth of Kentucky from exempting interest on bonds issued by Kentucky and its localities and authorities from Kentucky state income tax while subjecting interest on bonds issued by other states and their localities and authorities to Kentucky state income tax. The Supreme Court held that Kentucky's differential tax scheme is not in violation of the Commerce Clause essentially affirming previously existing law in this area. Purchasers of the Bonds are urged to consult their own tax advisors regarding the impact of this decision with respect to the market price or marketability of the Bonds.

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

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

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

OTHER LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Stradling, Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel. Certain legal matters will be passed upon for the Infrastructure Bank by its General Counsel, Brooke Bassett, Esq.; for the Corporation by its General Counsel and by its special counsel, Hawkins Delafield & Wood LLP; 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
Executive Director

Approved by:

**CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION**

By: /s/ Philip Leiber
Chief Financial Officer and Treasurer

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APPENDIX A

INFORMATION CONCERNING THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

Introduction

General. CAISO is a not-for-profit public benefit corporation incorporated in May 1997 and which assumed operational control of the transmission facilities (also called the transmission lines or transmission systems) of the three largest investor-owned electric utilities in California on March 31, 1998. CAISO has subsequently assumed operational control of transmission assets of six municipal utilities, two private transmission owning corporations, and a federal power agency. Under its tariff (“Tariff”) on file with and approved by the Federal Energy Regulatory Commission (“FERC”), CAISO provides transmission service over, and procures electric energy and capacity necessary to ensure the reliable operation of, the transmission systems that CAISO operates. Certain terms not otherwise defined in this Appendix have the meanings set forth in the Tariff.

CAISO is responsible for the reliable operation of the long-distance, high-voltage power lines under its operational control (the “CAISO Controlled Grid”). CAISO directs the flow of electricity across 25,526 circuit miles of power lines that encompass the CAISO Controlled Grid. CAISO also has reliability responsibilities pursuant to North American Electric Reliability Corporation (“NERC”) and Western Electricity Coordinating Council (“WECC”) requirements for a broader area known as the CAISO balancing authority area. These responsibilities involve the delivery of electricity throughout the CAISO balancing authority area and between the CAISO balancing authority area, neighboring balancing authority areas, and neighboring states, Canada and Mexico. Every five minutes, CAISO forecasts the electricity demand within the balancing authority area, accounts for operating reserves and dispatches the lowest cost power plant unit to meet that demand while allocating limited space on the transmission system. CAISO monitors and controls an estimated 55,000 megawatts of generating capacity from more than 1,400 power plant units.

The CAISO balancing authority area includes approximately eighty percent of California’s total electrical load and serves more than 30 million residents. The CAISO wholesale markets are currently responsible for between two to five percent of the total electrical load of the CAISO balancing authority area, with the balance met through bilateral trades between Market Participants, utility generation, and long-term contracts. More than ninety electric transmission companies and generators participate in CAISO markets, which are used to allocate transmission space, maintain operating reserves and match supply with demand.

CAISO operates day-ahead and hour-ahead markets for transmission congestion and ancillary services and operates a real-time market for balancing energy. CAISO also performs a settlement and clearing function by collecting payments from buyers in these markets and making pass-through payments to sellers of such services.

In addition, CAISO administers Reliability Must-Run (“RMR”) contracts. RMR contracts allow CAISO access to power at contractually agreed-upon prices from generation units which, due to their location and other factors, must be operated at certain times to ensure the reliability of local transmission. CAISO also has the authority to dispatch certain Generating Units under contract to CAISO or individual California utilities as necessary to maintain system reliability. CAISO also performs a settlement and clearing function with regard to these services by collecting payments from users of these services and making pass-through payments to providers.

CAISO intends to implement during 2008 the Market Redesign and Technology Upgrade (“MRTU”) program, a significant initiative to enhance the market and operating rules and related computer systems used by CAISO. This upgrade will include the addition of a day-ahead energy market, and implementation of an enhanced model of the transmission grid, improving the linkage between economic decisions and the operating constraints of the grid. For a description of CAISO’s Market Redesign and Technology Upgrade, see “MRTU Project.”

CAISO conducts a wide range of other activities in connection with the CAISO Controlled Grid. See “Other CAISO Activities.”

In 2000 and 2001, the California energy markets, including those managed by CAISO, experienced severe strains which resulted in high prices, shortages of energy and reserves, rolling blackouts and liquidity problems for many of CAISO’s Market Participants. See “California Energy Crisis and Related Issues.”

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

Operations, Assets and Tariff

Pursuant to Chapter 2.3 of the California Public Utilities Code and orders of the California Public Utilities Commission, CAISO has exclusive authority to exercise the operational control of the electricity transmission systems of the three largest investor-owned electric utilities in California, which are Pacific Gas and Electric Company (“PG&E”), Southern California Edison Company (“SCE”), and San Diego Gas & Electric Company (“SDG&E”). Also, municipal utilities and other private entities may elect to place their transmission systems under the operational control of CAISO. At present, CAISO has operational control of the transmission systems of PG&E, SCE, SDG&E, and of the Cities of Vernon, Pasadena, Anaheim, Azusa, Banning, and Riverside, California, of Atlantic Path 15, LLC and Startrans IO, L.L.C. and, with regard to the Path 15 transmission lines in California, of the Western Area Power Administration, Sierra Nevada Region. CAISO’s operation of these entities’ transmission systems has been authorized by the FERC through FERC’s acceptance of CAISO’s Transmission Control Agreement (the “TCA”) among CAISO and the other parties to the TCA that have placed their transmission systems under CAISO’s operational control (*i.e.*, CAISO Participating Transmission Owners or “PTOs” and FERC’s acceptance of the CAISO Tariff).

Transmission Control Agreement. CAISO does not own any transmissions assets. All transmission assets operated by CAISO are owned by CAISO PTOs, who remain responsible for upgrades and improvements to transmission assets as well as for the construction of new transmission assets in their service territories. CAISO exercises operational control of the transmission facilities that constitute the CAISO Controlled Grid by means of the TCA. The TCA establishes the terms and conditions under which PTOs place certain transmission facilities and entitlements under CAISO's operational control and describes how CAISO and each of the PTOs will discharge its respective duties and responsibilities with respect to the operation of those facilities and entitlements. FERC approved amendments are periodically made to the TCA to add new PTOs and for other purposes. A copy of the current FERC-approved version of the TCA is available at <http://www.caiso.com/docs/2005/10/08/2005100817510214319.html>.

Under the TCA, any PTO may withdraw without penalty from the TCA upon two years' prior written notice to certain designated parties. A PTO may also sell or otherwise dispose of lines or associated facilities forming part of the CAISO Controlled Grid subject to CAISO's prior written consent and the transferee assuming all of the PTO's obligations under the TCA. Under the TCA, the PTOs are responsible for their maintenance of and reliability compliance with respect to their respective transmission facilities under standards established by CAISO.

Tariff. CAISO operates pursuant to a FERC approved Tariff which contains detailed provisions governing all aspects of CAISO's operations, including access to the CAISO Controlled Grid, roles and responsibilities of Market Participants, Scheduling Coordinators and PTOs, system operations, ancillary services, settlements and billing, transmission service and expansion, interconnection of generating units and generating facilities to the CAISO Controlled Grid, transmission rates and charges, market operations, trades between Scheduling Coordinators, day-ahead, hour ahead and real-time markets, firm transmission rights, enforcement protocol, market monitoring and market power mitigation and resource adequacy.

A copy of CAISO's current Tariff is available at <http://www.caiso.com/1f88/1f885c3a290d0.html>. In addition, CAISO will implement a new version of its Tariff in conjunction with CAISO's Market Redesign and Technology Upgrade initiative. A copy of the proposed new version of CAISO's Tariff is available at <http://www.caiso.com/1f88/1f88635d5d190.html>. For a description of CAISO's Market Redesign and Technology Upgrade, see "MRTU Project."

Overview of the CAISO Transmission System

The CAISO Controlled Grid is a long-distance, high-voltage transmission system that delivers wholesale electricity to local utilities for distribution to 30 million Californians. The CAISO balancing authority area is one of the largest in the world, encompassing three quarters of the state and delivering approximately 250-billion kilowatt hours of electricity each year.



CAISO Charges

CAISO Charges - General. CAISO has authority to recover its administrative costs and to reimburse suppliers of capacity, energy, transmission and other related services through the assessment of various charges. CAISO administrative costs are primarily recovered through the Grid Management Charge (“GMC”), which consists of various rates charged to the users of CAISO services. Revenues are also received through contractual payments or other direct reimbursements.

In addition to the GMC, the CAISO collects charges to reimburse suppliers of capacity, energy, transmission and other related services. Except for the GMC, and subject to certain exceptions described herein, all of the foregoing charges are “market-related receipts” and are remitted to the appropriate Market Participants.

CAISO, as the operator of markets for energy and related products serves as the financial clearing agent for buyers and sellers in those markets. Accordingly, CAISO does not take title to the energy and associated products conducted through its markets, but collects funds from buyers and distributes those funds to sellers. In the event of a payment default by buyers, CAISO is not financially obligated to pay sellers; rather sellers bear the shortfall on a pro-rata basis. As a result, energy market transactions are accounted for separately and do not affect the financial results of CAISO. However, under the Tariff CAISO does have a priority claim against any market-related receipts in the event of a payment default by a party billed the GMC. If such a default occurs, CAISO is entitled to collect GMC from market-related receipts, and the resulting shortfall would be borne by net suppliers of energy during the month of the default. CAISO’s

GMC invoices and market suppliers have been paid in full since the energy crisis of 2000-2001. See “California Energy Crisis and Related Matters.” Total collections from Market Participants (including market revenues and GMC) have far exceeded the GMC collections each of the past six years, and have resulted in significant financial coverage that has generally increased over the past six years, as illustrated in the table below. GMC collections include only revenues resulting from assessment of the GMC. Other revenues that may accrue through contractual agreements and direct reimbursements are not included in the figures. The annual coverage ratios shown below are indicative--each “trade month” is financially cleared separately, and as a result, coverage varies by month. See “ - *Funds and Accounts*” below.

Coverage by Market Collections.

\$ in millions	2007	2006	2005	2004	2003	2002
GMC collections*	\$ 186	\$ 184	\$ 206	\$ 227	\$ 254	\$ 224
Market collections**	<u>1,565</u>	<u>1,618</u>	<u>1,433</u>	<u>1,284</u>	<u>1,246</u>	<u>987</u>
Total collections	<u>\$1,751</u>	<u>\$1,802</u>	<u>\$1,639</u>	<u>\$1,511</u>	<u>\$1,500</u>	<u>\$1,211</u>
Coverage (Collections/GMC)	9.4	9.8	8.0	6.7	5.9	5.4

* Includes all Operating Revenues; only Net Operating Revenues are subject to the lien of the Loan Agreement. Amounts presented reflect only cash activity from the monthly clearing of invoices and do not include any adjustments to reflect the accrual basis of accounting.

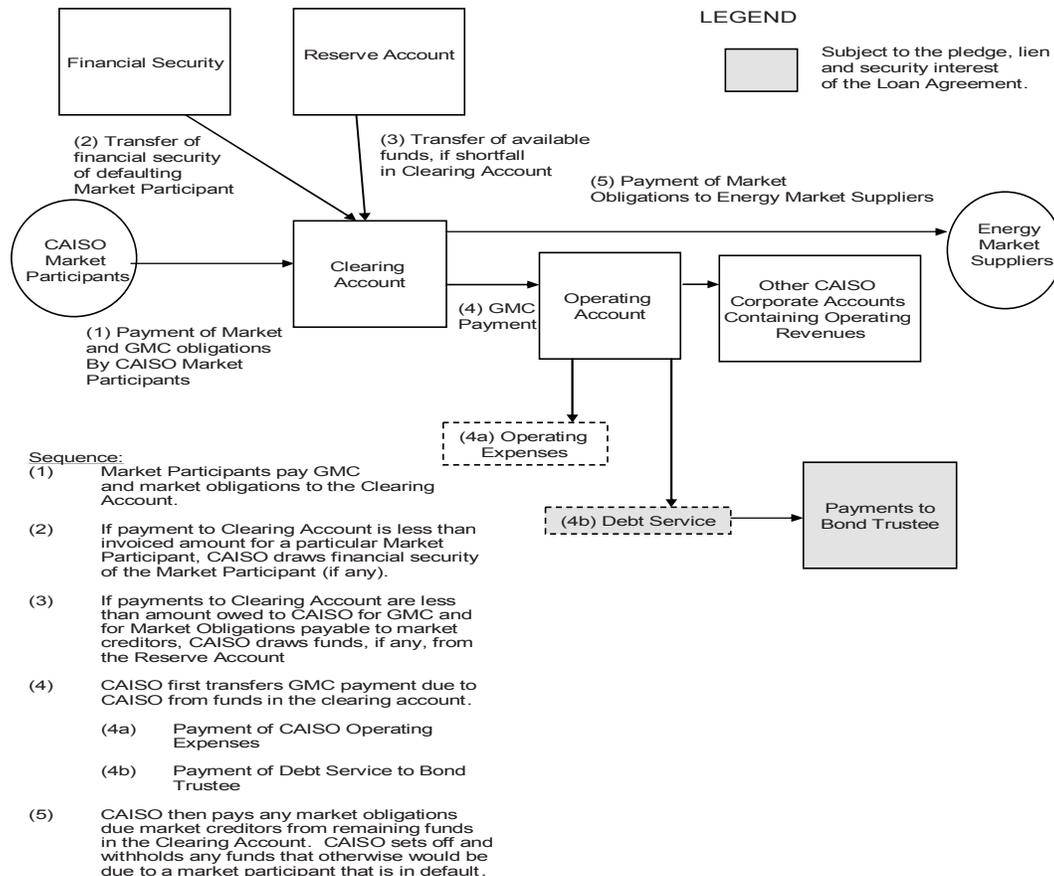
** Not subject to the lien of the Loan Agreement but available at the election of CAISO to pay debt service on Bonds. See “ - *Funds and Accounts*.”

Funds and Accounts. All CAISO charges are initially deposited in certain accounts established by CAISO with a commercial bank pursuant to the Tariff. The Tariff requires CAISO’s establishment of certain accounts, including a Clearing Account, Reserve Account and Surplus Account, and also requires CAISO to establish a Facility Trust Account for each RMR Contract. Amounts in these above named accounts are generally not subject to the lien granted under the Loan Agreement. Payments of both GMC and market related charges by Market Participants are initially deposited into the Clearing Account. If there is a shortfall of GMC in a month due to a payment default by a Market Participant, CAISO has a priority claim against any funds in the Clearing Account to obtain the full amount of the GMC billed for that month. In the event that there are insufficient funds in the Clearing Account, Reserve Account funds are available to clear the Clearing Account. The historical annual coverage ratios available are shown in the table above. CAISO transfers the GMC from the Clearing Account to an Operating Account held with the same commercial bank. CAISO also invests excess funds with brokerage firms, subject to the Investment Policy described under “Investment Policy”. The Operating Account maintained with the commercial bank and the accounts maintained with the brokerage firms contain Operating Revenues. Net Operating Revenues in the Operating Account are subject to the lien granted under the Loan Agreement.

CAISO’s Tariff also provides CAISO with the right to recoup, set-off or recover past-due amounts owed to CAISO by a Market Participant from any amounts that would otherwise currently be paid to a Market Participant. CAISO’s Tariff also requires that a Market Participant pay each invoiced amount owed to CAISO, whether for GMC or market funds, on a gross basis, without offset. Accordingly, a Market Participant that owes GMC funds and is to be paid market

funds on the same due date is required to remit the GMC funds to CAISO first, prior to the CAISO distribution of market funds.

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



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

Market Participant Credit Standards. CAISO’s credit standards for Market Participants are specified in the Tariff, which specifies that each Market Participant in CAISO market must secure its financial obligations with CAISO by maintaining an Unsecured Credit Limit and/or by posting Financial Security acceptable to CAISO, in a total amount that is at all times at least equal to the amount of Estimated Aggregate Liability (“EAL”) calculated by CAISO for the Market Participant. Unsecured Credit Limits may be granted to Market Participants who apply for unsecured credit and supply CAISO with their latest financial statements and other information necessary for the CAISO to conduct its evaluation. The amount of unsecured credit that may be granted is based on a percentage of a Market Participant’s Tangible Net Worth or Net Assets depending on whether the Market Participant is a corporate or governmental entity,

respectively. The approach used to grant unsecured credit limits differs depending on whether the Market Participant is a rated or unrated public or private corporation or a rated or unrated governmental entity. In general, the formula used by CAISO considers available credit ratings and a proprietary estimated credit default probability published by a third party. Each Market Participant that requests unsecured credit from CAISO is subject to a potential reduction of its calculated Unsecured Credit Limit by as much as 100% based on CAISO's assessment of qualitative factors relating to the Market Participant, material changes to the Market Participant's financial condition, adverse media reports, and other factors described in the CAISO Tariff. These reductions may occur at any time but, at a minimum, a Market Participant's Unsecured Credit Limit is reevaluated as new financial information is released. Currently, the maximum Unsecured Credit Limit that an entity may be granted is \$250 million. As of May 2008, five entities qualify for the maximum Unsecured Credit Limit. However, of those five entities, none have had actual obligations approaching the \$250 million limit. The highest obligation in the previous two years of one of these entities was less than 10% of the \$250 million limit. CAISO monitors a Market Participant's ongoing obligations to CAISO and CAISO markets through a weekly evaluation of a Market Participant's EAL. Should a Market Participant's EAL reach 90% of the sum of its Unsecured Credit Limit and any other Financial Security the Market Participant posts, CAISO notifies the Market Participant that additional collateral must be posted. Per the Tariff, such additional collateral is to be posted within five business days of the notification. See "Risk Factors - *Market Participant Concentration*," and customer concentration tables in "*- FERC Process for Revisions to GMC Rates*."

Limitations on Liability. The CAISO Tariff states that CAISO shall not be liable in damages to any Market Participant for any losses, damages, claims, liability, costs or expenses (including legal expenses) arising from the performance or non-performance of its obligations under the CAISO Tariff, except to the extent that they result from negligence or intentional wrongdoing on the part of CAISO. Under the CAISO Tariff effective with MRTU startup, this threshold will increase such that the CAISO will be liable only for gross negligence or intentional wrongdoing. Moreover, as stated in the CAISO Tariff, CAISO shall not be liable to any Market Participant under any circumstances for any consequential or indirect financial loss including but not limited to loss of profit, loss of earnings or revenue, loss of use, loss of contract, or loss of goodwill except to the extent that it results from negligence or intentional wrongdoing on the part of CAISO. CAISO maintains broad-form insurance coverage for errors and omissions, general liability and professional liability related to its services as an independent system operator. Further, FERC has ruled that CAISO has no obligation to advance moneys in connection with energy or ancillary services provided through the markets that CAISO administers, and is only obligated to remit to market participants the amounts that other market participants have paid to the trust accounts established for the benefit of the markets.

Grid Management Charge

Development of CAISO Revenue Requirement. GMC revenues fund substantially all of the costs of CAISO's operations. CAISO establishes such costs in the annual revenue requirement. The Tariff contains procedures to be followed by the CAISO in developing its annual revenue requirement, which is accomplished through an annual budgeting process and culminates in approval of the annual revenue requirement for the subsequent fiscal year by the CAISO Governing Board (also referred to herein as the CAISO Board of Governors, the CAISO

Board, or the Board). The revenue requirement consists of Operating Expenses, Debt Service (including coverage), Cash Funded Capital Expenditures, Other Miscellaneous Expense Recoveries, and any Reserve Transfer amount. Debt Service will include principal and interest on the Series 2008 Bonds. The annual budgeting process includes stakeholder meetings and input on CAISO costs, projects to be considered in the capital budget and suggestions for establishing CAISO priorities in the coming year. Once the CAISO Governing Board has approved the annual budget, CAISO will post the annual revenue requirement (including operating and capital budgets) on the CAISO website, as well as the billing determinant volumes to be used to develop the rate for each component of the GMC.

Development of the GMC Rates and Rate Structure. The CAISO annual revenue requirement serves as the basis for determining GMC rates. Once the revenue requirement is determined, it is allocated to the GMC service charges, which presently number eight: (1) Core Reliability Services - Demand Charge, (2) Core Reliability Services – Energy Exports Charge, (3) Energy Transmission Services Net Energy Charge, (4) Energy Transmission Services Uninstructed Deviations Charge, (5) Forward Scheduling Charge, (6) Congestion Management Charge, (7) Market Usage Charge, and (8) Settlements, Metering, and Client Relations Charge. Each service category is designed to represent a service that CAISO provides for Market Participants and the allocation is developed to identify the cost of providing that service. The allocation of the revenue requirement to each service category includes a debt service component, with the associated 25% coverage factor. GMC rates for different services are assessed through various billing determinants, including peak energy demand, volumetric, transactional or fixed in nature.

GMC rates may change annually or as frequently as quarterly under a defined set of circumstances. The level of GMC rates is revised annually to reflect changes in the revenue requirement and changes in the forecasted billing determinant volumes. Any under or over-collections during a year due to variances in volume estimates or costs are reflected in the subsequent year's GMC rates. Additionally, the Tariff provides that individual GMC rates be adjusted not more than once per quarter in the event that projected annual billing determinant volumes differ by more than five percent from those projections used to set rates. FERC approval is not required for CAISO to implement these quarterly rate changes.

The structure of GMC rates, i.e., the service categories and the method of assessment through billing determinants, is revised periodically to reflect changes in CAISO service offerings and in response to customer requests for more discrete charges for the various services. As described in “- *FERC Process for Revisions to GMC Rates*,” these changes must be approved by FERC prior to implementation. CAISO has filed proposed changes to the GMC structure with the FERC to be effective with the implementation of MRTU. The proposed modifications will affect certain elements of the rate structure and the allocation of the revenue requirement to the GMC service categories. Changes are proposed to assess customers for the use of the new services offered under MRTU and to eliminate charges for services that CAISO will not provide upon implementation of MRTU. No changes are proposed to modify the components of the revenue requirement, including debt service and coverage, to be recovered through the GMC.

FERC Process for Revisions to GMC Rates. The CAISO is obligated by the Federal Power Act to obtain FERC authorization to revise the GMC rate structure. In the absence of such

an application, existing rates continue in effect. To effect a change in the GMC rate in any year, CAISO would ordinarily submit a filing to FERC with a proposed revenue requirement and changes to the rate structure, if any. FERC may accept such rates as proposed, or conduct a hearing to examine whether such proposed rates are “just and reasonable.” Interested parties may intervene or protest the CAISO proposal. If FERC schedules a hearing, the rates are typically permitted to be established and take effect, “subject to refund.” If the rates as proposed are not found to be “just and reasonable,” FERC can require modifications to the rate structure or a return to the previously existing rate structure. In this case, FERC may order refunds to customers. Such refunds may result in reapportionment of costs among customers with no net reduction in collections by CAISO, or may result in a reduction of costs collected by CAISO during a year. As a not-for-profit entity with no shareholders or equity, CAISO has not and does not expect to experience a traditional sanction of regulators--the disallowance of costs deemed to have been imprudently incurred. Any refunds that CAISO might be ordered to pay to customers would be paid from CAISO’s operating reserve and this would result in higher rates charged to customers in the subsequent year.

Under the Federal Power Act, FERC may approve a “formula rate” under which updated costs are applied to an approved formula to calculate GMC charges without the need for a new rate filing. In 2004, CAISO effectively received FERC approval for a formula GMC rate valid through 2006, so long as CAISO’s revenue requirement did not exceed a specified level. In approving the formula rate, FERC also approved tariff provisions that obligated CAISO to post specific documentation in support of its revenue requirement on its website in lieu of a regulatory filing. The Tariff required the posting of certain budget related information and the holding of meetings with stakeholders on the proposed changes in revenue requirement and GMC rates. Before the end of 2006, FERC approved a CAISO request to continue the formula rate in effect, with a minor change, through the earlier of the end of 2007 or the implementation of MRTU. Before the end of 2007, FERC once again approved a CAISO request to continue the formula rate in effect with no changes through the earlier of the end of 2008 or the implementation of MRTU. The MRTU GMC rate design, currently under review at FERC, will, if approved, take effect upon implementation of MRTU and remain in effect through the end of 2009. This Tariff mechanism has reduced the need for annual rate filing submissions to FERC, and has reduced the likelihood of litigation over the level of the revenue requirement and the GMC rate structure. The specified level of revenue requirement in which an annual rate case with FERC would be avoided was set at \$218 million for 2005, \$221.7 for 2006, and \$195 million for 2007 and 2008. The level for 2009 is \$197 million, 2.8 percent above the 2008 revenue requirement of \$192 million. CAISO will endeavor to reach similar rate agreements for future years with stakeholders and FERC, though no assurances can be provided that such agreements will be attained.

GMC revenues are recognized from an accounting standpoint when the related energy transaction takes place. The GMC is currently billed and collected approximately 65 days after each month-end. GMC and other market service billings are dependent upon accurate generation, load and other information, much of which is accumulated through meter data, and some of which are not available to CAISO for up to 65 days. Meter data is subject to estimation by CAISO when data is not submitted timely, and is subject to delayed adjustment when meter data previously submitted is subsequently adjusted under specific circumstances. On occasion,

such adjustments have resulted in revisions to GMC billings after invoices to participants have been issued. In such cases, adjustments are included on subsequent invoices.

CAISO’s largest customers are responsible for a significant portion of GMC revenues. For the years ended December 31, 2007 and 2006, GMC collections were concentrated as follows:

For year ending December 31,	<u>2006</u>	<u>2007</u>
2 largest Market Participants	56%	53%
10 largest Market Participants	78%	77%
25 largest Market Participants	92%	90%

Operating Reserve. CAISO maintains an operating reserve to absorb the financial impact of monthly variances between forecast and actual revenues and expenses. The operating reserve is a component of CAISO’s cash and investment balances. For purposes of establishing the GMC rates, the operating reserve requirement is calculated separately for each GMC service category. The operating reserve is designed to be funded with excess debt service collection annually (CAISO collects in the revenue requirement 125% of required annual debt service—see “ - *Debt Service Coverage*” below), and accumulates until the reserve becomes fully funded (at 15 percent of budgeted annual operating expenses for each service category). At December 31, 2007, the operating reserve for each service category was fully funded. In accordance with the Tariff, any surplus operating reserve balance is applied as a reduction in the revenue requirement for each GMC service category in the following year. Thus, if at year-end the operating reserve balance, calculated separately for each GMC rate service category, exceeds 15% of the subsequent year’s budgeted operating expenses, any surplus operating reserve balance (“Reserve transfer”) is applied as a reduction in the revenue requirement in the following year. If the operating reserve balance falls short of the 15% reserve requirement, CAISO will add an amount to the revenue requirement to make up the short-fall, and such additional collection may be spread over up to two years.

The operating reserve is not maintained in a segregated account, but is a component of CAISO’s Operating Account. These operating reserve amounts are included in the net assets of CAISO. The Tariff allows deficiencies in the operating reserves to be made up over a maximum period of two years.

Debt Service Coverage. The Tariff permits the GMC revenue requirement to include an amount equal to 125 percent of debt service on Bonds and Parity Obligations for deposit in the operating reserve. This coverage is a part of the funding of operating reserves as discussed above.

Section 5.8 of the Loan Agreement requires, as long as the bonds are outstanding, that GMC rates and budgeted revenue requirement are set annually to cover 125 percent of required debt service payments. The following presentation of budgeted revenues and expenses for 2003-2007 shows that the revenue requirement included debt service and required coverage for the debt outstanding in such years. In addition, for each year indicated, the operating reserve, set at 15 percent of operating expenses, was over funded, with the excess (the “Reserve transfer”) used

to reduce the GMC revenue requirement in the subsequent year (See “- *Operating Reserve*”, above).

Condensed Statement of Budgeted Revenues, Expenses and Debt Service Coverage

	2007	2006	2005	2004	2003
	(Unaudited, in millions)				
GMC revenue requirement	\$189.9	\$180.5	\$208.2	\$218.2	\$237.6
Other revenues	<u>5.4</u>	<u>3.7</u>	<u>3.4</u>	<u>1.4</u>	<u>1.4</u>
Operating revenues	195.3	184.2	211.6	219.7	239.0
Interest revenues	<u>2.2</u>	<u>1.5</u>	<u>1.1</u>	<u>0.8</u>	<u>1.3</u>
Total revenues	197.5	185.7	212.7	220.5	240.2
Operations & maintenance expenses (which excludes depreciation and amortization)	(143.8)	(133.9)	(146.8)	(151.7)	(171.8)
Cash funded capital/project expenses	(7.5)	(0.0)	(0.0)	(32.0)	(22.0)
Reserve transfer	<u>25.2</u>	<u>30.3</u>	<u>18.7</u>	<u>17.8</u>	<u>8.3</u>
Net operating revenues available for debt service	71.5	82.0	84.6	54.6	54.7
Debt service (principal and interest)	(57.2)	(65.6)	(67.7)	(43.7)	(43.8)
Debt service coverage (times) *	1.25x	1.25x	1.25 x	1.25 x	1.25 x

Source: CAISO approved budgets / rate filings or postings.

* Actual debt service coverage differs based on variances between actual and budgeted revenues and expenses. Because the Tariff requires that any balance in the operating reserve in excess of the operating reserve requirement be used to reduce budgeted GMC charges, actual debt service coverage may be substantially below the 1.25x budgeted amount.

Claims and Disputes. Since commencement of operations in 1998, CAISO’s GMC rates have been the subject of challenge by various Market Participants in proceedings before FERC. Market Participants have at times challenged the overall level of the revenue requirement, the allocation of the revenue requirement to the GMC service categories, and the billing determinants of the GMC service categories. Each year, FERC has accepted CAISO’s GMC rates, and permitted such rates to go into effect, subject to potential refunds that may be determined through subsequent FERC proceedings. As of December 31, 2007, all of CAISO’s GMC rates are final and are not subject to further refund for any period except 2001. In 2001, CAISO’s GMC was unbundled into three service categories, with separate billing determinants based on load, congestion, and market-related activity. In January 2004, FERC ruled on the 2001 rate filing. The ruling required a refund to 2001 ratepayers of \$1.8 million plus interest, and reallocations of charges among customers for the years 2001-2003. At December 31, 2007 and 2006, accrued interest payable related to the refund totaled \$0.8 million and \$0.6 million, respectively, which is included in the accounts payable and accrued expenses liability amount. The potential reallocation of GMC charges among customers for years 2001-2003 continued to be contested by certain parties through 2008, through the United States Court of Appeals

(District of Columbia Circuit), which in May 2008 affirmed (in No. 04-1090) an earlier FERC decision on this matter.

Market Billing Disputes and Other Claims. As specified in its Tariff, CAISO is not a principal to the transactions in the markets it operates; it is merely an agent on behalf of the Scheduling Coordinators and other Market Participants who purchase energy and ancillary services in those markets. Nevertheless, Market Participants, RMR unit owners and transmission owners occasionally bring claims against CAISO to register disagreements as to information in the settlement statements or billing amounts for market and RMR activity. The CAISO Tariff specifies a dispute resolution process for such claims. Once good faith efforts, known as good faith negotiations (“GFN”), have been made to negotiate and resolve disputes, written claims may be submitted either to mediation or arbitration. There is one material dispute currently in GFN that totals approximately \$1.0 million representing disagreements with CAISO’s financial settlement of market transactions and related Tariff interpretations.

Other disputes, some of which are material in amount, have also been filed with CAISO. CAISO management believes that any settlements or market adjustments relating to these disputes and the matters in GFN will be assessed against the Market Participants, with no liability to CAISO.

There is a material unresolved market-related dispute outstanding for which it is possible that the claim might not be fully resettled against Market Participants and, as such, could result in material liability to CAISO as described below.

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

Financial Information

The selected financial information set forth below has been obtained from CAISO’s audited financial statements prepared under Generally Accepted Accounting Principles. CAISO’s rates are set annually using a modified basis of accounting, with the primary difference being the recovering of debt service costs in the annual revenue requirement instead of depreciation and amortization. Accordingly, the CAISO establishes rates to collect 125% of scheduled annual debt service instead of depreciation and amortization (See “Grid Management

Charge- *Debt Service Coverage*” above). All of the financial data is as of December 31 or for the fiscal year ended December 31, as applicable.

Condensed Balance Sheets (in millions)	2007	2006	2005	2004	2003
Assets					
Current assets					
Cash and cash equivalents	\$220.8	\$153.8	\$222.5	\$324.2	\$300.4
Other current assets	110.9	134.9	151.2	78.4	75.7
Total current assets	331.7	288.7	373.7	402.6	376.1
Fixed assets, net	212.9	165.9	117.1	88.5	66.4
Other noncurrent assets	77.3	34.9	20.5	30.5	14.2
Total assets	<u>\$621.9</u>	<u>\$489.5</u>	<u>\$511.3</u>	<u>\$521.6</u>	<u>\$456.7</u>
Liabilities and Net Assets					
Liabilities					
Current liabilities	\$276.2	\$202.1	\$213.6	\$195.6	\$277.1
Long term debt, net	125.1	116.7	169.6	247.2	159.7
Other noncurrent liabilities	13.1	9.3	8.1	9.8	11.3
Total liabilities	414.4	328.2	391.3	452.6	448.1
Net assets	207.5	161.3	120.0	69.0	8.6
Total liabilities and net assets	<u>\$621.9</u>	<u>\$489.5</u>	<u>\$511.3</u>	<u>\$521.6</u>	<u>\$456.7</u>
Condensed Statements of Revenues, Expenses and Changes in Net Assets (in millions)	2007	2006	2005	2004	2003
Operating revenues	\$200.6	\$189.9	\$214.5	\$225.3	\$254.1
Operating expenses	153.8	148.4	162.4	160.2	199.4
Operating income	46.8	41.5	52.1	65.1	54.7
Other income (expense)	(0.6)	(0.2)	(0.2)	(4.7)	(4.9)
Increase in net assets	46.2	41.3	51.9	60.4	49.8
Net Assets (deficit), beginning of year	161.3	120.0	69.0	8.6	(41.2)
Cumulative effect of change in accounting principle	—	—	(0.9)	—	—
Net Assets, end of year	<u>\$207.5</u>	<u>\$161.3</u>	<u>\$120.0</u>	<u>\$69.0</u>	<u>\$8.6</u>
Operating Expenses (in millions)	2007	2006	2005	2004	2003
Salaries and related benefits	\$83.5	\$73.4	\$77.1	\$77.3	\$72.0
Communications and technology costs	21.5	23.7	29.9	28.6	45.8
Legal and consulting costs	16.6	17.0	20.9	20.6	19.5
Other: leases, facilities and administrative	17.2	16.1	16.5	18.0	22.9
Employee overtime lawsuit	—	—	—	—	15.8
Abandoned software costs	—	1.5	—	—	—
Depreciation and amortization	15.0	16.7	18.0	15.7	23.4
Total operating expenses	<u>\$153.8</u>	<u>\$148.4</u>	<u>\$162.4</u>	<u>\$160.2</u>	<u>\$199.4</u>

Source: Audited financial statements.

Long-term Obligations. All of CAISO’s outstanding long-term borrowings have been through the California Infrastructure and Economic Development Bank (“CIEEDB”). CAISO is obligated under loan agreements with CIEEDB on bonds outstanding (the “Outstanding Bonds”) in the aggregate principal amount of \$139,000,000 as follows, all of which will be refunded by the Series 2008 Bonds:

Outstanding Debt as of May 31, 2008

<u>Issue Title</u>	<u>Outstanding Amount</u>
Variable Rate Demand Revenue Bonds	
Series 2000C	\$ 3,900,000
Series 2004A	50,900,000
Series 2004B	24,200,000
Series 2007A	30,000,000
Series 2007B	<u>30,000,000</u>
Total	<u>\$139,000,000</u>

The CAISO bonds issued in 2000 funded the refinancing of CAISO’s 1998 start-up and development costs, and also provided certain funding for subsequent capital expenditures. The CAISO bonds issued in 2004 and 2007 provided funding for the MRTU project and other capital expenditures consisting primarily of computer hardware and software.

CAISO Capital Plan. CAISO’s current capital plan provides for approximately \$260 million of expenditures over the next five years. CAISO intends to fund approximately \$210 million of this amount through bond proceeds, and \$50 million directly from GMC rate collections.

Approximately \$110 million will be spent for computer hardware and software system and other miscellaneous capital projects, of which approximately \$60 million will be funded from this current bond offering, with the balance to be funded from GMC rate collections. The \$60 million will fund 2008-2009 capital expenditures, as described further below. Such funds may also cover a portion of 2010 capital needs, depending on the timing and extent of spending in each year. Approximately \$150 million is anticipated to be spent to design and build a new CAISO corporate headquarters (subject to CAISO Board approval of the project in early 2009). The building program is anticipated to be primarily funded from the proceeds of a future financing during 2009, with temporary use of a portion of the proceeds from this offering until such funding is available.

Planned 2008/2009 capital expenditures. This bond offering will provide funding for CAISO’s capital expenditures planned for 2008-2009, which include market design enhancements known as the “Market and Performance” or “MAP” initiatives, and upgrades to essential computer system infrastructure and other strategic initiatives. The MAP initiatives include: convergence bidding, scarcity pricing, seasonal competitive path assessment, generation and run time constraints, dispatchable demand response, revised DEC bidding activity rule on final day-ahead schedules, resolving the effect on real-time prices of constrained output generators. Strategic initiatives include the payment acceleration program to reduce the length of

time between an energy trade date and the financial clearing date, which will reduce credit risk and increase resource availability from out-of-state resources.

Interim Funding for New Facility. A portion of 2008 Bonds will be used to fund, on a temporary basis, expenditures related to CAISO's planned new headquarters building. CAISO owns a 30 acre parcel on Iron Point Road in Folsom that was purchased from a portion of the proceeds of the Series 2000C bond offering. 2008 expenditures related to new headquarters project will likely include detailed construction design documents, permits, and some site preparation work. Funds from the current bond offering may be used for these purposes and later reimbursed by proceeds from a planned 2009 permanent facility financing.

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

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

CAISO sponsors the CAISO Retirees Medical Plan, a defined benefit plan, to provide postretirement health care benefits to all employees who retire from CAISO on or after attaining age 60 with at least five years of service and to their spouses, domestic partners and eligible dependents. In 2007, CAISO implemented Statement of Governmental Accounting Standards (SGAS) No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension (OPEB)*" related to its accounting for post-employment benefits associated with the CAISO Retiree Medical Plan. As of December 31, 2007, the annual required contribution or "ARC" was \$2,490,000 and the actuarial accrued liability for benefits was \$12,200,000, all of which was unfunded.

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

Other CAISO Activities

CAISO also performs other important electric industry functions including:

CAISO serves as one of the three Reliability Coordinators for the WECC, and monitors transmission activity for a portion of 14 western states, Alberta, British Columbia and northern Mexico.

CAISO fosters industry collaboration to ensure that California's electricity infrastructure continues to support reliable grid operations and efficient wholesale markets. CAISO analyzes the economic and reliability impacts of transmission congestion and local generation needs and recommend infrastructure improvements. CAISO produces annually a long range plan to quantify load growth and system changes and identify new projects that studies indicate should be built for economic and/or reliability reasons. This broad perspective on transmission planning is intended to improve customer access to clean, efficient generation and increases overall system reliability.

CAISO reduces barriers to renewable energy sources, such as wind and solar power by helping them access the California grid. As such, CAISO helps assist the State of California in reaching its Renewable Portfolio Standard goals, including a target of increasing the renewable portion of California's energy mix to 20 percent by 2010.

CAISO uses demand management programs to call for conservation during peak hours on high-demand days. These programs help CAISO keep supply and demand on the power system in balance.

CAISO provides transparent information about the state of the electric transmission system and prices to assist Market Participants in assessing the economics of their decisions, and to manage the risks of wholesale power transactions and their supply options. Timely and accurate information about these wholesale markets is essential for an effective and competitive marketplace. Concurrently, economists within CAISO's Department of Market Monitoring monitor activity in CAISO markets, through reviewing prices and investigating potential instances of market power abuse.

MRTU Project

In the fall of 2008, the California ISO intends to implement a new market design known as MRTU. MRTU is currently in the final stages of simulation testing with Market Participants. FERC approved MRTU subject to modification, in Docket No. ER06-615-000 and associated dockets. FERC also directed CAISO to develop and implement certain enhancements subsequent to the start-up of MRTU. The *California ISO Market Initiatives Roadmap* identifies and prioritizes the Map initiatives, enhancements to the MRTU platform. The MAP initiatives are to be completed within two years of the start of MRTU scheduled for the fall of 2008. The MRTU project was funded from the Outstanding Series 2004 and 2007 Bonds and directly from CAISO's rate collections. MRTU will replace outdated computer systems and give CAISO new tools to match electrical supply with demand and resolve transmission constraints. MRTU is anticipated to increase grid reliability and reduce costs for California's electricity users, including residents, businesses, and agriculture. The major elements of MRTU are briefly summarized below.

a. Under MRTU, CAISO will conduct a market called the Integrated Forward Market ("IFM") that combines the three main services CAISO uses to operate the CAISO Controlled Grid: energy, ancillary services (operating reserves) and congestion management. Beginning in the day-ahead time frame, the IFM will determine the optimal and least cost use of resources available to meet the scheduled energy requirement and provide necessary reserves, in

a manner that avoids the creation of congestion based on expected grid conditions. Further, CAISO will use the IFM system to make adjustments to day-ahead schedules to address transmission congestion that subsequently occurs on the grid in real time. With the bankruptcy of the Cal PX in 2001, there is currently no centrally organized day-ahead energy market in California. The IFM is expected to result in less reliance on the current, more volatile hour-ahead and real-time markets.

b. Under MRTU, CAISO will implement the Full Network Model (“FNM”), a computer program that models the entire CAISO Controlled Grid and takes into account all known limitations on the grid in predicting how power will actually flow. The FNM will provide a more precise model of the CAISO Controlled Grid than is currently available, allowing CAISO to resolve potential transmission line congestion a day ahead of time, rather than on a real-time basis as is done currently. This enhancement is anticipated to reduce costs to Market Participants and to improve reliability.

c. Under MRTU, CAISO will implement a Locational Marginal Pricing (“LMP”) system that divides California into thousands of points or “nodes,” instead of three main congestion “zones” that are currently used. LMP calculates the price of producing power at a given node and delivering it to another node. LMP prices can vary over time, and distinct prices at the different nodes will be used to determine the most cost-effective use of resources to resolve transmission congestion. LMP will also provide more information about the real cost of delivering power to customers than is possible under the current zonal pricing system, which will allow buyers and sellers to make informed decisions about energy pricing based on the ability to produce and deliver power to where it is needed and, over time, will help to determine the best locations for new generation.

d. MRTU will introduce new market rules and penalties designed to prevent gaming and manipulation by Market Participants.

The MRTU systems are based on a more open architecture than is the case with the current CAISO systems, offering greater flexibility and allowing for more cost-effective technology changes in the future. The MRTU systems are anticipated to be more reliable than the current systems, which mean the MRTU systems will improve grid reliability by improving computer system reliability. CAISO depends on computer technology to help manage loads and resources, and thus improving the effectiveness and minimizing the downtime of its systems enhances the reliability of the CAISO Controlled Grid. Further, MRTU provides the foundation for continuing improvements in the California ISO market design. The MAP initiatives, are further described in the “Financial Information - *CAISO Capital Plan - Planned 2008/2009 capital expenditures.*””

CAISO Facilities

CAISO operates two Control Centers on a continuous basis. CAISO’s main Control Center is a 17,000 square foot center in Folsom, California. A second center in Southern California serves as a fully-functioning operation ready to assume control of the CAISO Controlled Grid if the Folsom center becomes unavailable.

The location, square footage and principal function of the CAISO properties are set forth below:

Facility Location	<u>Own/Lease</u>	<u>Sq. Footage</u>	<u>Purpose</u>
151 Blue Ravine Road, Folsom, CA	Lease	79,000	Control/Office
101-A,B,& C Blue Ravine Road, Folsom, CA	Lease	52,186	Office
110 Blue Ravine Road, Folsom, CA	Lease	17,924	Office
1000 S. Fremont Ave, West Alhambra, CA	Lease	30,539	Control/Office

During 2010-2011 CAISO intends to transition to a new headquarters facility to be constructed on Iron Point Road (between Outcropping Way and Oak Avenue) in Folsom, CA. The new facility will be funded with the proceeds of a future bond offering, and in part, on an interim basis with proceeds from this current bond offering.

Board of Governors and Executive Officers.

Board of Governors. CAISO is governed by a Board of Governors, which is composed of five members appointed by the California governor and confirmed by the California State Senate. Board members serve for staggered three year terms. Additional information on Governance matters are specified in CAISO's bylaws, available on its website www.caiso.com.

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

Dr. Linda Capuano was appointed to the CAISO Board in February 2007 to a term that expires December 2009. She is the former Senior Vice President of Design and Engineering at Solectron Corporation, a leading provider of complete product life cycle services, including product design, new product introduction, supply chain management, manufacturing and aftermarket services. She was previously with Advanced Energy Industries, a global leader in the development and support of technologies critical to high-technology manufacturing processes, where she was Executive Vice President responsible for leading corporate marketing and global sales and services. Dr. Capuano also served as Corporate Vice President, Technology Strategy at Honeywell where she led worldwide engineering strategy. Dr. Capuano has served on the National Academies Committee for Review of the U.S. Climate Change Science Program Strategic Plan, the Department of Energy (DOE) Task Force on Alternative Futures for the DOE National Laboratories and the Advisory Board for the NASA Technology Transfer Center. She holds a Bachelor of Science in chemistry from the State University of New York at Stony Brook, a Bachelor of Science in chemical engineering and a Master of Science in chemistry from the

University of Colorado, and a Master of Science in engineering management and Ph.D. in materials science from Stanford University.

Laura Doll was appointed to the CAISO Board in January 2008 to a term ending December 2010. Ms. Doll has served as the Vice President of Governmental and Public Affairs since 2007 for Woodside Natural Gas Incorporated, based in Santa Monica, California. From 2004 to 2007, she was the Deputy Executive Director for Policy at the California Public Utilities Commission, where she was involved in regulatory policy issues for the state's energy, telecommunications, water and rail transportation industries. From 2001 to 2004, Ms. Doll served as Chief Executive Officer for the California Consumer Power and Conservation Authority, the state agency that was formed in the wake of the California energy crisis to provide backstop municipal revenue bond financing for electric power reserves, energy efficiency and conservation investments, and renewable energy resources in California's electricity market. Ms. Doll had over 14 years experience at Austin Energy, one of the largest public power agencies in the country, ultimately in the position of Chief Administrative Officer. Ms. Doll has been a member of the American Public Power Association and is a former board member of the Utility Photovoltaic Group. Ms. Doll earned a Masters degree from the University of Texas LBJ School of Public Affairs and a Bachelor of Arts from Virginia Polytechnic Institute.

Tim Gage, who served on the CAISO Board of Governor from 2003 to 2005, was reappointed to the Board in February 2007 to a term ending December 2008. Mr. Gage has served as Chair of the CAISO Board Finance Committee and is currently chair of the ADR/Audit Committee. From 1999 to 2003, Mr. Gage served as the Director of the State of California Department of Finance. Since leaving state government, Mr. Gage has worked as a consultant and in 2005 he founded the economics and public policy consulting firm, Blue Sky Consulting Group. Prior to serving as Director of Finance, Mr. Gage held several key finance positions with the California State Legislature, serving as the chief fiscal advisor to Senate President Pro Tempore and as the chief consultant to the Assembly Ways and Means Committee. Mr. Gage earned a Bachelor of Arts degree from Harvard College and a Master Public Policy degree from the Goldman School of Public Policy at the University of California at Berkeley.

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

Mr. Willrich and Ms. Doll serve on the CAISO Board pending confirmation by the California State Senate.

Management and Employees. CAISO, which has approximately 540 full-time employees, is organized into two core divisions, Operations and Market & Infrastructure Planning and three supporting divisions: External Affairs, Legal & Regulatory and Corporate Services. CAISO employees are not represented by any unions or other collective bargaining units.

Yakout Mansour joined CAISO in March 2005, as President and Chief Executive Officer. Mr. Mansour brings more than 30 years of power system experience to his position managing California's open-access high-voltage power grid. Prior to joining CAISO, he served as the Senior Vice President of System Operations and Asset Management for British Columbia Transmission Corporation (BCTC) since its inception in 2003. Mr. Mansour helped chart the course of BCTC as an independent entity and was a major contributor to the development of the transmission business in British Columbia and the Northwest. Previously, at BC Hydro, Mr. Mansour served as Vice President Grid Operations and Inter-Utility Affairs, a functionally separate division responsible for the system operation as well as the development of policies and practices related to inter-utility transmission access and wheeling services in British Columbia. A registered Professional Engineer in the Provinces of British Columbia and Alberta, Mr. Mansour is a Fellow of the Institute of Electrical and Electronics Engineers (IEEE). He has authored or co-authored over 100 papers and special publications for professional institutions. He has been recognized internationally for his groundbreaking developments in electric power system dynamics and holds related patents in both the United States and Canada. The North American Electric Reliability Council (NERC) named Mr. Mansour to the panel that steered the investigation of the August 14, 2003 blackout that affected much of the eastern North America. Mr. Mansour received his Bachelor of Science Degree in Electrical Engineering at the University of Alexandria and a Master of Science in Electrical Engineering at the University of Calgary.

Jim Detmers has been CAISO Vice President Operations since 2001, and is responsible for the reliable operation of the transmission system. Mr. Detmers first joined CAISO in 1997, and played an instrumental role in the start-up of operations, overseeing system installation, process development and initial staffing requirements. He served in various leadership positions over the organization's Engineering and Operations Divisions prior to assuming his current position. Before joining CAISO, Mr. Detmers worked for PG&E in a variety of engineering leadership roles within the Electric Transmission and Distribution Operations area of the corporation. Mr. Detmers received his Bachelor of Science in Electrical Engineering from the California Polytechnic State University, San Luis Obispo. He is an alumnus of the Haas School of Business Executive Development Program and is a Licensed Professional Electrical Engineer in the State of California. Mr. Detmers is a member of the Institute of Electrical and Electronics Engineers and a former board member of the Western Electricity Coordinating Council.

Karen Edson has been Vice President External Affairs since she joined CAISO in December 2005. Ms. Edson is responsible for managing the areas of Customer Service & Industry Affairs, Communications & Public Relations and Government Affairs. Her responsibilities require extensive knowledge of the interests of government policy makers, media representatives and public interest groups as well as entities that participate directly in CAISO

markets. She and her staff play a key role in building and maintaining strategic partnerships for the organization. Reaching out to a diverse body of stakeholders, regulators and policy makers and providing first-rate customer service are her top objectives. Prior to joining CAISO, Ms. Edson served in a number of senior roles within state government, including Commissioner on the California Energy Commission from 1981 to 1984. Her other roles within state government include: Assistant Director of the California Research Bureau in 2004-2005 and Legislative Director for the Governor's Office of Planning and Research from 1977-78. From 1985-2000 she headed a small consulting firm that specialized in energy policy and power plant permitting issues. Ms. Edson earned a Bachelor of Arts from the University of California, Berkeley and completed graduate work at the Haas School of Business. She has served as a board member for environmental and public service organizations and remains active in the Sacramento community.

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

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

Philip Leiber was appointed Chief Financial Officer of CAISO in April, 2008. Mr. Leiber, who joined CAISO in 1997, is also the organization's Treasurer, a position he has held since 2000. He is responsible for the finance and accounting functions of the company, including financial reporting, payables and receivables, budget, GMC rates, treasury, insurance and credit management. Mr. Leiber was previously a manager at Coopers & Lybrand (predecessor firm to PricewaterhouseCoopers) where he performed financial advisory services including mergers and acquisitions due diligence, litigation support, and also auditing and accounting services. While in that role, he was a key member of the external team which was established to design and implement CAISO during the 1997-1998 startup period. A Certified Public Accountant, Mr. Leiber holds a Master's degree in Accounting and Bachelor's degree in Business Administration from the University of Michigan as well as a Master of Science degree in Computer Information Systems from the University of Phoenix.

The Vice President Market & Infrastructure Planning position is currently vacant. An intensive search is currently underway.

California Energy Crisis and Related Issues

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

In early 2000, months before the California energy crisis began, CAISO had been assigned above investment-grade credit ratings from two leading nationally recognized statistical rating organizations. CAISO's credit ratings were downgraded to below investment grade in January 2001, due to concerns about the energy crisis and the subsequent credit rating downgrades of CAISO's two largest market participants, SCE and PG&E. Both SCE and PG&E defaulted on obligations to the Cal PX, which at the time was the scheduling coordinator for most of their activity through CAISO-administered markets. In turn, Cal PX defaulted on its obligations through CAISO-administered markets, and this resulted in short-payments to energy market suppliers in such markets. In March and April 2001, respectively, Cal PX and PG&E both filed for bankruptcy reorganization. (PG&E subsequently emerged from bankruptcy in 2004, but the Cal PX did not.) Since August 2001, with the stabilization of the energy markets through various reforms and structural changes, however, all creditors in the CAISO market have been paid in full.

Throughout the energy crisis, CAISO funded its operations through the GMC billings. Although PG&E, SCE and certain other customers did not pay their GMC bills, CAISO continued to collect its GMC in full each month because GMC billings have a priority claim under the Tariff on any funds received from Market Participants. Accordingly, despite the

payment defaults on GMC and market invoices by certain Market Participants, CAISO continued to meet its payment obligations for debt service and its other corporate obligations on a timely basis, and in full. Certain of those energy market obligations have not yet been satisfied and cleared, and remain subject to ongoing litigation at FERC and in the court system. The “coverage factor” afforded by the market collections above the GMC in recent years is discussed under “Grid Management Charge - *Debt Service Coverage*.”

Since the energy crisis, several corrective measures have been implemented that were designed to address the precipitating factors that led to the 2000/2001 energy crisis. The regulatory environment supports utility cost recovery and market stability through the use of longer-term contracting and less reliance on the spot power markets. This has resulted in substantial improvement in the credit ratings of SCE and PG&E. FERC has undertaken several reforms that are designed to permit it to respond more quickly and effectively to potential market abuses. CAISO has undertaken several market structure enhancements and measures designed to prevent abuses by Market Participants. Finally, new investments in transmission and generation infrastructure have reduced the likelihood of a significant mismatch in energy supply and demand. No major Market Participant has defaulted in its obligation to CAISO since the 2000/2001 energy crisis. While other Market Participants such as Mirant and Calpine have filed for bankruptcy reorganization, such actions have not had an adverse effect on CAISO, its operations or its revenues.

Refund Proceedings before FERC and the U.S. Court of Appeals. The 2000/2001 energy crisis resulted in substantial litigation and claims regarding the energy prices then charged by suppliers to purchasers. In June 2001, FERC issued an order in FERC Docket No. EL00-95 (the “FERC Refund Proceeding”) that established the scope of and methodology for determining refunds for transactions in the real-time electricity markets operated by CAISO and Cal PX between October 2, 2000 and June 20, 2001 (the “Refund Period”). FERC also initiated a hearing in the FERC Refund Proceeding, after which it issued decisions from 2003 through 2006 addressing various aspects of the calculation of refunds and offsets to refunds to be made for the Refund Period. In 2003, FERC ordered mitigation of the market clearing prices in the markets administered by CAISO and Cal PX for the Refund Period. In 2004, pursuant to a FERC directive, CAISO completed a preparatory “rerun” of its settlement systems to correct baseline data and applied mitigated prices to the revised baseline information to arrive at further adjustments to financial transactions settled in 2000 and 2001. In 2007, CAISO completed calculations that applied claims by suppliers to certain FERC approved offsets against the refunds for the costs of natural gas, emissions permits and overall entity revenue shortfalls. CAISO will calculate interest and then make compliance filings to reflect all of its calculations. As of the present date, settlements concerning amounts to be refunded have been concluded and filed with FERC between the California Parties (a coalition of several California governmental entities and the major investor-owned electric utilities in California) and over a dozen suppliers of energy into the CAISO and Cal PX markets during the Refund Period. To date, FERC has approved all of these settlements. Several issues in the FERC Refund Proceeding have been briefed and argued before the U.S. Court of Appeals, and some of those issues have been addressed by that Court.

Proceedings continue at FERC and at the U.S. Court of Appeals on issues concerning the refunds. Except for any effects on generator noncompliance fines described under “Generator

Noncompliance Fines” below, CAISO believes the outcome of these refund proceedings will not have an impact on CAISO because the refunded amounts will be resettled among Market Participants and thus CAISO will not be ultimately responsible for paying any refunded amounts.

Generator Noncompliance Fines. In 2000 and 2001, CAISO billed generator noncompliance fines to Market Participants totaling \$122.1 million. CAISO recognized as revenue the portion of such fines that it believed it would retain after the settlement of various disputes regarding these fines. Through December 31, 2007, CAISO collection of these fines totaled \$60.7 million. Generally, these fines were assessed at twice the highest price paid in CAISO’s markets for energy and were applied against the amount of energy the participating generator failed to supply as directed by CAISO during specific emergency conditions as defined in the Tariff. These fines will be retroactively adjusted as a result of the FERC Refund Proceeding, in which the prices used to calculate the fines are subject to adjustment, with any surplus collections being refunded to Market Participants with interest.

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

In accordance with FERC rulings, CAISO accrues interest on the portion of fines collected in excess of the estimated realizable amount (except as noted below) which are to be refunded to Market Participants when the amounts are ultimately settled. Such interest expense amounted to \$6.2 million and \$4.7 million in 2007 and 2006, respectively. At December 31, 2007 and 2006, accrued interest payable related to these fines totaled \$20.8 million and \$14.6 million, respectively.

The correction of base level transactions included in the preparatory rerun resulted in an upward adjustment to fines amounting to \$20.5 million. The current treatment of interest excludes the calculation of interest on the preparatory rerun corrections, based on the position that interest would only accrue upon the preparatory rerun being invoiced. CAISO believes that preparatory rerun corrections should be eligible for interest from the due date of the original trade month being corrected in the same manner as interest on corrections for mitigated market-clearing prices in the refund rerun. CAISO included this position in a status report that was filed with FERC in March 2007 and intends to request a FERC ruling on this issue in 2008. If approved, the effect would be to reduce interest payable by \$10.2 and \$7.8 million at December 31, 2007 and 2006, respectively. CAISO has not recorded any interest income or receivable relating to this matter since the realization is not assured and has not been approved by FERC.

At December 31, 2007 and 2006, the estimated net realizable amount of fines is \$29.5 million. Included in the current liabilities component of the CAISO balance sheet at December 31, 2007 and 2006, is an estimated refund liability to Market Participants of \$52.0 million and

\$45.8 million representing the difference between the \$60.7 million in collections and the estimated fines to be retained, plus accrued interest.

Legislation and Regulations

From time to time energy legislation is proposed or enacted by the State legislature or the U.S. Congress and regulations or orders promulgated by FERC or the California Public Utilities Commission (the “CPUC”) that may affect CAISO, its operations or its revenues or the Market Participants, PTOs or scheduling coordinators. CAISO actively monitors all legislative and regulatory developments.

Risk Factors

CAISO Charges and GMC. CAISO’s ability to meet its obligations to pay debt service under the Loan Agreement is dependent on the collection of charges imposed by CAISO under its Tariff (primarily the GMC) for various services to Market Participants. CAISO’s GMC rates provide recovery for Operating Expenses and debt service, including principal of and interest on the Bonds CAISO has granted under the Loan Agreement a first lien on the Net Operating Revenues for the benefit of bondholders to secure the payment of the principal of and interest on the Bonds. Net Operating Revenues exclude Operating Expenses as defined in the Loan Agreement. Operating Revenues exclude moneys, in particular “market receipts,” derived from a variety of other charges imposed by CAISO under the Tariff for a variety of services and activities and which are held in certain accounts established pursuant to the Tariff. Accordingly, the lien of the Loan Agreement on Net Operating Revenues is effectively limited to the debt service and coverage components of the GMC. The lien of the Loan Agreement in Net Operating Revenues will not be perfected, as CAISO management did not believe that the administrative costs of such perfection would materially enhance Bondholder security. While CAISO is permitted under the Tariff to access market funds through a priority claim on such amounts in the event the GMC is not paid in full on a monthly basis, such market amounts are not pledged to bondholders or subject to the lien and security interest of the Loan Agreement and CAISO is not contractually obligated to apply such amounts to pay debt service on the Bonds. Consequently, the Trustee’s or a bondholder’s ability to realize on Net Operating Revenues and other CAISO funds upon a CAISO event of default may be limited.

Market Participant Concentration. For the years ended December 31, 2007 and 2006, approximately 53% and 56%, respectively, of GMC revenues were from two Market Participants. Further, ten Market Participants account for 77% of GMC collections and twenty-five Market Participants account for 90% of GMC collections in 2007. Nonpayment of GMC by one of these a Market Participants could result in a shortfall of the GMC. See “California Energy Crisis and Related Matters.” However, CAISO’s priority claim on any market related revenues with the associated coverage that such revenues have historically provided serves to mitigate, to a degree, the risk that non-payment of GMC obligations by one or more Market Participants would result in a shortfall of GMC collections by CAISO. See table of coverage in “CAISO Charges – General.”

Disputes with Market Participants. CAISO has from time to time been involved in disputes with Market Participants primarily for market related charges. Market participants have

also challenged aspects of CAISO GMC rates and methodologies in CAISO managed dispute processes, and in proceedings before FERC. While CAISO management does not believe that existing disputes will have an adverse impact on CAISO, no assurance can be given regarding any future disputes or the effect of any such disputes on CAISO's operations or revenues.

Contractual Risks and Withdrawal. The TCA sets forth PTOs' rights and obligations, including their obligations to transfer to CAISO operational control of their transmission assets, to maintain the assets, and to comply with policies and directives of CAISO. The TCA contractually restricts, to a degree, the ability of a PTO to withdraw from CAISO. In general, a PTO may withdraw from the TCA on two years' prior written notice to the other parties. The TCA, however, only requires that the withdrawing PTO obtain any necessary regulatory approvals for such withdrawal and make a good faith effort to ensure that its withdrawal does not unduly impair CAISO's ability to meet its operational control responsibilities as to the facilities remaining within the CAISO Controlled Grid. A withdrawing PTO has no responsibility for the financial obligations of CAISO, apart from GMC charges levied during the period while the PTO was a participant in CAISO. The majority of transmission facilities transferred to the operational control of CAISO are owned by the California's three largest investor owned utilities, PG&E , SCE, and SDG&E. No assurance can be given that the withdrawal of a PTO representing a significant portion of the transmission facilities transferred to the operational control of CAISO would not adversely affect CAISO's ability to effectively operate as an ISO or CAISO's ability to meet its obligations on the Bonds.

Dependence on Key Personnel. CAISO is managed by a small group of key executive officers and other management personnel. The loss of service of one or more of these key executive officers could have a material adverse effect on CAISO. In addition, the success of CAISO will depend in large part on its ability to attract and retain highly skilled and qualified operations, technical, and other personnel. CAISO is committed to a program to be an "Employer of Choice" by offering a variety of incentives including training, benefits and career development opportunities to attract and retain talent. An inability to attract and retain key personnel on an ongoing basis also could have a material adverse effect on CAISO.

Credit Rating. The credit ratings of CAISO and of the Bonds are dependent in a significant part on the credit ratings of CAISO's major Market Participants who pay the GMC. A substantial downgrade in the credit rating of such customers, especially CAISO's largest customers representing a material portion of the load participating in CAISO, may have a material adverse effect on the credit rating of CAISO, which in turn could materially adversely affect CAISO's business and financial condition and the market value of the Bonds. See " - California Energy Crisis." CAISO maintains appropriate customer credit standards in order to protect the security of the GMC revenue stream and ultimately, CAISO's Credit Rating. Customers who do not meet CAISO's standards for participating with an "Unsecured Credit Limit" are required to post collateral to cover their net obligations to CAISO.

Access to Capital. As a not-for-profit entity, CAISO is entirely debt financed and does not raise equity capital through the issuance of stock or cash contributions from members. In order to assure sufficient resources, CAISO must either apply available cash on hand, collect necessary funding for capital expenditures through its annual GMC revenue requirement, or access debt capital from outside sources on acceptable terms. CAISO can give no assurances

that its current and future capital structure, operating performance or financial condition will permit it to access the capital markets or obtain other debt capital at the times, in the amounts and on the terms necessary for it to successfully carry out its business plan.

FERC Approval Process. CAISO's service offerings, terms of service and business rules are specified in the Tariff. CAISO periodically determines that changes to the Tariff are necessary to respond to the needs of CAISO, Market Participants, scheduling coordinators and the PTOs. Such amendments to the Tariff require authorization by the FERC. Any proposed amendments are subject to a regulatory process administered by FERC, and the outcome of such proceedings may not be favorable to CAISO.

Other Regulatory Risk. While CAISO's rates and charges are not subject to review and approval by the CPUC, various undertakings by the PTOs are subject to review and approval, or may be directly impacted, by a variety of regulatory bodies, including the CPUC, as well as regulatory bodies in other states, the State Energy Resources Conservation and Development Commission (also known as the California Energy Commission or "CEC") and various formalized CAISO stakeholder processes. No assurance can be given that a future adverse regulatory action applicable to a PTO will not have an adverse effect on CAISO's operations or revenues.

MRTU. MRTU is a major CAISO market redesign initiative that is currently anticipated to be implemented during the fall of 2008. CAISO has experienced delays in implementing the project. While the MRTU project is in the final stages of implementation at this time, no assurance can be given that the project will not be delayed further. CAISO does not believe that a delay in the project would have a material effect on CAISO's revenues. CAISO has conducted extensive testing and simulation of the systems with Market Participants to ensure such systems and participants are ready upon the implementation of MRTU. Despite this, the implementation of the MRTU systems could result in various operational difficulties that would need to be addressed by CAISO. CAISO has attempted to foresee and be in a position to appropriately respond to such difficulties through contingency planning. Despite such efforts, CAISO is not able to predict with certainty whether there will be any, or what, problems or disputes may arise as the result of such implementation and the effect on CAISO's operations or revenues.

Risks Associated with the Operation of Transmission Assets. CAISO is required to operate the transmission system in accordance with standards promulgated by the North American Electric Reliability Corporation ("NERC"). NERC, as the nation's designated Electric Reliability Organization, has recently established mandatory reliability standards. Noncompliance with such standards may subject CAISO to monetary penalties in amounts ranging up to \$1 million per violation. FERC has declined to give Regional Transmission Organizations ("RTOs") and Independent System Operators ("ISOs") blanket authority to recover from their market participants monetary penalties that are assessed by NERC. However, FERC has stated that it will entertain filings submitted by RTOs and ISOs requesting authority to recover such monetary penalties from their market participants. At this time, the CAISO has not submitted such a filing pursuant to Section 205 of the FPA. If the CAISO were to submit a filing in which it requested authority to recover monetary penalties it is assessed, and FERC ruled that the penalties should be recovered through the GMC, rather than assigned to the entities

responsible for causing the penalties, this could result in GMC rates that are viewed by customers as excessive, depending on the amount of the penalties.

The transmission assets under CAISO's control are subject to damage from fires, and to outages from similar unforeseen events. They are also subject to capacity limitations, breaches of security, computer viruses, sabotage, break-ins, etc. Any of these occurrences may cause system failures, interruptions in service or reduced capacity

California relies on energy imports from out-of-state utilities to meet total electricity demand at various times during the year, particularly the summer. Such entities may not have spare capacity, or may be unwilling to provide such capacity to California. Each load-serving entity using the CAISO Controlled Grid is responsible for ensuring that it has arranged sufficient energy to meet its customer demand ahead of the operating day. In the event actual demand exceeds expectations, CAISO will attempt to procure available supply to meet such additional demand. At times, system-wide or local shortages can require CAISO-directed curtailment of energy usage (load shedding) to ensure the continued stability of the transmission system. The CAISO directed load shedding on several occasions during the California Electricity Crisis (discussed above) and at other times, but has never incurred associated liability. The CAISO could be liable for load shedding, however, if the CAISO was found negligent or, under MRTU, grossly negligent.

Other challenging operational circumstances include fires, which can damage transmission assets, outages from similar unforeseen events, and possible breaches of security, computer viruses, sabotage, break-ins, etc. Any of these occurrences could cause system failures, interruptions in service, or reduced capacity, and the CAISO could incur liability if it was found negligent or, under MRTU, grossly negligent.

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CORPORATION

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California Independent System Operator Corporation

Financial Statements

December 31, 2007 and 2006

California Independent System Operator Corporation
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December 31, 2007 and 2006

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Report of Independent Auditors

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

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses and changes in net assets and of cash flows present fairly, in all material respects, the financial position of the California Independent System Operator Corporation (the "Company") at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, the Company adopted Governmental Accounting Standards Board Statement of Governmental Accounting Standards 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* which changed the Company's measurement of annual costs and disclosures associated with its post-employment medical plan.

The Management's Discussion and Analysis on pages 2 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

Sacramento, California
April 4, 2008

California Independent System Operator Corporation

Management's Discussion and Analysis

The following discussion and analysis of the California Independent System Operator Corporation (the Company) provides an overview of the Company's financial activities for the years ended December 31, 2007 and 2006. This discussion and analysis should be read in conjunction with the Company's financial statements and accompanying notes, which follow this section.

BACKGROUND

The Company is a not-for-profit public benefit corporation incorporated in May 1997, and is responsible for the operation of the long-distance, high-voltage power lines that deliver electricity throughout most of California (the California Grid) and between the California Grid, neighboring control areas, neighboring states, Canada and Mexico.

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

The Company charges a Grid Management Charge (GMC) to market participants to recover the Company's costs and to provide an operating reserve. The Company's principal objective is to ensure the reliability of the California Grid, while fostering a competitive wholesale marketplace for electrical generation and related services in California. The Company operates pursuant to its Tariff filed with the Federal Energy Regulatory Commission (FERC).

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

Financial Reporting

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

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

Setting of Rates

The GMC is designed to recover the Company's operating, capital expenditure and debt service costs, and to provide for an operating reserve. GMC revenues are recognized when the related energy transaction takes place. All of the Company's receivables are due from entities in the energy industry, comprising utilities, generation owners, financial institutions and other electricity market participants. For the years ended December 31, 2007 and 2006, approximately 53 percent and 56 percent, respectively, of GMC revenues were from two market participants. In the event of a payment default by a market participant, GMC revenues have a priority claim against any market-related receipts.

The 2007 and 2006 unbundled GMC rates were comprised of the following six service categories: core reliability services; energy transmission services; forward scheduling; congestion management; market usage; and settlements, metering and client relations.

California Independent System Operator Corporation Management's Discussion and Analysis

The operating reserve is calculated separately for each GMC service category and accumulates until the reserve becomes fully funded (at 15 percent of budgeted annual operating costs for each rate service category). In accordance with the Tariff, any surplus operating reserve balance is applied as a reduction in the revenue requirement for the following year. These operating reserve amounts are included in the net assets of the Company and are not included in the GMC refund obligations described below. The Tariff requires GMC rates to be adjusted not more than once per quarter in the event that projected annual billing determinant volumes differ by more than five percent from those projections used to set rates. During 2006 and 2007, adjustments were made to certain GMC rates pursuant to these provisions.

The Company believes these provisions provide it sufficient access to resources to meet its financial obligations to debt holders and other creditors.

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

	2007	2006	2005
Pro forma GMC rate per MWh	\$ 0.760	\$ 0.724	\$ 0.839
Estimated volume in millions of MWh	250.00	249.20	248.08

2007 Compared to 2006 – The pro forma bundled GMC rate was \$0.036 higher in 2007 due to a \$9.4 million increase in budgeted revenue requirement and a 0.3 percent increase in transmission volume. This increase in budgeted revenue requirement resulted from a \$9.9 million increase in budgeted operating costs and a \$5.0 million reduction in the revenue credit from the operating reserve, offset by a \$3.0 million reduction in debt service and a \$2.5 million increase in other revenues. The increase in budgeted operating costs was attributable primarily to salary and benefit adjustments and increases in overtime and staffing.

2006 Compared to 2005 - The pro forma bundled GMC rate was \$0.115 lower in 2006, primarily attributable to a \$13 million reduction in budgeted operating costs, a \$12 million increase in the revenue credit from the operating reserve and a 0.5% increase in estimated transmission volumes. The reduction in 2006 operating costs related primarily to a reorganization implemented in the third quarter of 2005.

Liquidity

The Company's rate structure provides for operating reserves which for 2007 and 2006 were fully funded for each service category. In April 2007, the Company issued \$60.0 million of Variable Rate Demand Revenue Bonds (VRDBs or the Bonds). The proceeds of the issuance will be used to fund the completion of the Market Redesign and Technology Upgrade (MRTU) Project described below and to provide funding for other capital projects. There is sufficient unrestricted and restricted cash to conduct the Company's operations and fund the Company's current estimated capital requirements. The Company plans to issue approximately \$60 million of new bonds in 2008.

The Company's Series 2000 Bonds are insured by MBIA Insurance Corporation (MBIA), and the Series 2004 and Series 2007 Bonds are insured by Ambac Assurance Corporation (Ambac). During the first quarter of 2008, concerns about the financial viability of these and other bond insurers given their exposure to sub-prime mortgage debt began to significantly affect the municipal and variable rate bond market, including the Company's VRDBs. A downgrade of the insurers' ratings below "AAA" would affect the marketability of the Bonds, increasing interest expenses to the Company. The Company's bond agreements provide for a mechanism to limit the interest costs to the Company in the event of significant marketability issues with the Bonds. The Company has standby bond purchase agreements with certain banks that obligate the banks to purchase the Bonds if the Bonds are not remarketed in accordance with their terms. In that event, the Company is obligated to pay the banks interest at prime or prime plus 1%, and principal is to be repaid over the lesser of the original amortization schedule or five years. The

California Independent System Operator Corporation Management's Discussion and Analysis

standby bond purchase agreements for the Series 2000, Series 2004 and Series 2007 Bonds expire in April 1, 2009, February 1, 2010 and April 4, 2010, respectively. On February 25, 2008 the rating agency Standard and Poor's (S&P) reaffirmed the bond insurer's "AAA" ratings on both insurers, based on measures to obtain additional capital or otherwise restructure their operations.

The Company has interest rate swaps with similar terms as the related Bonds to hedge, in part, its interest rate exposure on those Bonds. Variable interest rates payable by the Company on the Bonds, and the amount of the variable interest receivable under the swaps fluctuate based on bond market conditions. Under typical market conditions, the variable interest rate received under the swaps approximates, but does not precisely equal, the rate of interest on the Bonds. The relationships between the variable rates indexed in these swap agreements and actual variable interest rates incurred on the Bonds may differ over time. This "basis" risk could result in increased interest expense to the Company. Due to investor concerns about the potential for credit rating downgrades of the bond insurers of the Company's debt, this basis differential became significant in late January 2008, and has persisted throughout March 2008. Accordingly, the Company is exploring potential alternatives to refinance existing debt to reduce this exposure.

Market Redesign and Technology Upgrade (MRTU) Project

The MRTU Project is a significant effort of the Company to improve the reliability and market operations of the California Grid and the information systems that support it. It is a multi-year project currently planned to become operational in the Fall of 2008 depending on the results of market simulations and market participant readiness. It includes major system components such as:

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

The main benefits associated with the MRTU Project are:

- Enhanced Reliability - MRTU provides transparent rules for buyers and sellers in California's wholesale electricity markets where prices will reflect actual costs based on the physical flow of electricity on transmission lines. By creating a day-ahead market and scheduling process, the power flows over the next 24 hours can be modeled according to the actual physical constraints so that risks of shortages and congestion on transmission lines can be assessed and minimized.
- Improved Information - By providing transparent nodal marginal prices that reflect the true cost of energy and transmission, MRTU reveals areas with congested transmission lines so that qualified entities can build new lines or generation resources, with the Company's coordination, to improve efficiency and reliability.

California Independent System Operator Corporation Management's Discussion and Analysis

- Improved Cost Management - The alignment of costs with market participant behavior is expected to lead to increased confidence in the Company-managed markets. The operating signals from LMP and the anticipated more efficient mix of resources identified by the Day-Ahead Market could be important cost management improvements.
- New Robust Technology - Replacing the dated computer infrastructure with new hardware, architecture and systems will provide the Company with greater functionality and flexibility. A new suite of systems should provide more effective and reliable support for grid and market operations.

New Headquarters Facility

The Board has authorized the Company to expend funds of approximately \$10.0 million towards the development of construction plans for a proposed new headquarters and operations facility on land the Company owns in Folsom, California. This phase is expected to be completed in early 2009, at which time the Company plans to commit to construction of the facility and related financing arrangements with completion and occupancy planned for 2011.

Commitments and Contingencies

As part of its Tariff, the Company has a dispute resolution process for market participants, RMR owners and transmission owners to register disagreements about information in the settlement statements or billing amounts for market and RMR activity. In accordance with the provisions of the Tariff, once good faith efforts, known as good faith negotiations (GFN), have been made to negotiate and resolve disputes, written claims may be submitted either to mediation or arbitration. Several disputes, some of which are material in amount, have been filed with the Company, but have not yet reached the GFN stage. To date, all settlements, market adjustments and matters in GFN have been resettled against the market and the Company believes that any settlements or market adjustments relating to current disputes and the matters in GFN would be resettled against the market as permitted by the Tariff.

California Independent System Operator Corporation

Management's Discussion and Analysis

FINANCIAL HIGHLIGHTS

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

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

Condensed Balance Sheets (in millions):

	2007	2006 As Revised	2005 As Revised
<u>Assets</u>			
Current assets	\$ 331.7	\$ 288.7	\$ 373.7
Fixed assets, net	212.9	165.9	117.1
Other noncurrent assets	77.3	34.9	20.5
Total	<u>\$ 621.9</u>	<u>\$ 489.5</u>	<u>\$ 511.3</u>
<u>Liabilities and Net Assets</u>			
Current liabilities	\$ 276.2	\$ 202.1	\$ 213.6
Long-term debt	125.1	116.7	169.6
Other Noncurrent liabilities	13.1	9.3	8.1
Net assets	207.5	161.4	120.0
Total	<u>\$ 621.9</u>	<u>\$ 489.5</u>	<u>\$ 511.3</u>

Accounting Change - In 2007, Company implemented Statement of Governmental Accounting Standards (SGAS) No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension (OPEB)" related to its accounting for post-employment benefits associated with the California ISO Retiree Medical Plan. In adopting the new GASB statement, the Company elected to retroactively apply the standard and calculate a beginning OPEB obligation, the transition liability, as of January 1, 2006 which resulted in an adjustment \$0.9 million to the beginning unrestricted net assets at January 1, 2006. Unrestricted Net Assets as presented above for 2006 and 2005, differ from amounts previously reported, reflecting this \$.9 million adjustment in accordance with the adoption of the standard. Operating expenses for 2006 and 2005 was not materially impacted by the adoption of the standard and accordingly, those amounts are not revised in this MD&A.

California Independent System Operator Corporation Management's Discussion and Analysis

Assets

Current Assets (in millions):

	2007	2006	2005
Cash and cash equivalents	\$ 220.8	\$ 153.8	\$ 222.6
Investments	58.5	90.5	95.5
Accounts receivable and other assets	52.4	44.4	55.6
Total	<u>\$ 331.7</u>	<u>\$ 288.7</u>	<u>\$ 373.7</u>

2007 Compared to 2006 - Current assets amounted to \$331.7 million at December 31, 2007, an increase of \$43.0 million during the year. Current assets make up about 54 percent of the Company's assets, approximately 5 percent less than the previous year. Cash and cash equivalents increased by \$67.0 million in 2007 while short term investments decreased by \$32.0 million as the Company realigned its investment portfolio in response to concerns about credit risk and volatility in the financial markets. Increases in cash, cash equivalents and investments primarily related to proceeds from the issuance of bonds of \$59.2 million and increases in pass-through fees due to others of \$12.0 million, market participant security deposits of \$44.6 million, market funds pending settlement of \$5.9 million and large generator interconnection project (LGIP) study deposits of \$8.6 million. Decreases in cash, cash equivalents and investments primarily related to draws from the bond construction fund for capital expenditures of \$58.0 million and a transfer to long term investments of \$39.9 million. Accounts receivable and other assets increased by \$8.0 million due primarily to a supplemental increase in certain GMC rates for the fourth quarter of 2007 to offset lower volumes during the year.

2006 Compared to 2005 - Current assets amounted to \$288.7 million at December 31, 2006, a decrease of \$85.0 million during the year. Current assets make up about 59 percent of the Company's assets, approximately 14 percent less than the previous year. Cash and cash equivalents decreased by \$68.8 million and short-term investments decreased by \$5.0 million. Decreases in cash, cash equivalents and investments primarily related to draws from the bond construction fund for capital expenditures of \$64.7 million, a reduction of market participant security deposits of \$20.0 million and a reduction in investments of \$5.0 million. Increases in cash, cash equivalents and investments primarily related to market funds pending settlement of \$8.7 million. Accounts receivable and other assets decreased by \$11.2 million due primarily to lower GMC rates in effect during 2006 compared to 2005.

Fixed Assets, net (in millions):

	2007	2006	2005
Net assets in service	\$ 33.1	\$ 28.5	\$ 31.2
MRTU work-in-progress	155.9	123.1	58.9
Land and other work-in-progress	23.9	14.3	27.0
Total	<u>\$ 212.9</u>	<u>\$ 165.9</u>	<u>\$ 117.1</u>

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

California Independent System Operator Corporation Management's Discussion and Analysis

2006 Compared to 2005 - The Company has invested approximately \$165.9 million in fixed assets and work-in-progress, net of accumulated depreciation, at December 31, 2006. Net fixed assets were about 34 percent of the Company's assets, approximately 11 percent more than the previous year. During 2006, the Company capitalized approximately \$65.5 million of additions to fixed assets, including additions to work-in-progress. The primary increase was due to the 2006 costs of approximately \$48.4 million for the MRTU Project described above.

Other Noncurrent Assets (in millions):

	2007	2006	2005
Investments	\$ 70.4	\$ 30.5	\$ 18.0
Other assets	6.9	4.4	2.5
Total	<u>\$ 77.3</u>	<u>\$ 34.9</u>	<u>\$ 20.5</u>

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

2006 Compared to 2005 - Other noncurrent assets amounted to \$34.9 million at December 31, 2006, an increase of \$14.4 million during the year. The primary component is long-term investments which increased by \$12.5 million primarily due to increased investment in U.S. governmental agency securities.

Liabilities

Current Liabilities (in millions):

	2007	2006	2005
Accounts payable and accrued expenses	\$ 15.0	\$ 13.1	\$ 14.6
Accrued salaries and compensated absences	19.9	17.8	15.6
Current portion of long-term debt	64.6	71.7	77.6
Due to market participants	122.9	51.9	62.9
Generator non-compliance fines refund obligation	52.0	45.8	41.1
GMC refund obligation	1.8	1.8	1.8
Total	<u>\$ 276.2</u>	<u>\$ 202.1</u>	<u>\$ 213.6</u>

2007 Compared to 2006 - Current liabilities amounted to \$276.2 million at December 31, 2007, an increase of \$74.1 million during the year. Amounts due to market participants increased by \$71.0 million primarily related to increases in pass-through fees due to others of \$3.2 million, market participant security deposits of \$44.5 million, market funds pending settlement of \$14.7 million and LGIP deposits of \$8.6 million. Generator noncompliance fines refund obligation increased \$6.2 million representing accrued interest on the refund.

2006 Compared to 2005 - Current liabilities amounted to \$202.1 million at December 31, 2006, a decrease of \$11.5 million during the year. Amounts due to market participants decreased by \$11.0

California Independent System Operator Corporation Management's Discussion and Analysis

million primarily related to a reduction of market participant security deposits of \$20.0 million offset by an increase in market funds pending settlement of \$8.7 million. Generator noncompliance fines refund obligation increased \$4.7 million representing accrued interest on the refund.

Long-Term Debt (in millions):

	Principal	Interest	Total
<u>Debt Service Requirements</u>			
2008	\$ 50.7	\$ 5.5	\$ 56.2
2009	32.8	4.0	36.8
2010	51.7	2.2	53.9
2011	19.0	1.4	20.4
2012	15.3	0.8	16.1
2013	20.2	0.1	20.3
Total	<u>\$ 189.7</u>	<u>\$ 14.0</u>	<u>\$ 203.7</u>

Debt service requirements above reflect scheduled maturities of long-term debt at December 31, 2007. Interest includes both variable and fixed rate interest. Variable interest for future periods is calculated using the rates in effect at year-end. The Company has scheduled debt maturities to facilitate a level bundled GMC rate.

As of December 31, 2007, the Company had an underlying rating of "BBB+ (with positive outlook)" from S&P and "A2 (with stable outlook)" by Moody's. All of the Company's Bonds are insured and are rated "AAA/A-1+" by S&P and "AA/VMIG 1" by Moody's. The Company has standby bond purchase agreements with certain banks that obligate the banks to purchase the Bonds if the Bonds are not remarketed in accordance with their terms. In that event, the Company is obligated to pay the banks interest at prime or prime plus 1%, and principal is to be repaid over the lesser of the original amortization schedule or five years. The amounts presented as the current portion of long-term debt on the balance sheets include the amounts that would be payable by the Company to the banks if the standby bond purchase agreement repayment obligations were in effect on the entire outstanding balance of the Bonds.

2007 Compared to 2006 - At December 31, 2007, the Company had \$125.1 million (net of current portion) of outstanding VRDBs issued through the California Infrastructure and Economic Development Bank (CIEDB). Proceeds of the Bonds were utilized to finance a portion of the costs of the Company's MRTU Project, other capital projects and operating systems, a portion of the Company's start-up costs, working capital needs and facility expansion. Long-term debt makes up about 20 percent of the Company's liabilities and net assets, approximately 4 percent less than the previous year. The increase in long-term debt was primarily attributable to the issuance of new bonds less scheduled amortization payments.

2006 Compared to 2005 - At December 31, 2006, the Company had \$116.7 million (net of current portion) of outstanding VRDBs issued through the CIEDB. Proceeds of the Bonds were utilized to finance a portion of the costs of the Company's MRTU Project, other capital projects and operating systems, a portion of the Company's start-up costs, working capital needs and facility expansion. Long-term debt makes up about 24 percent of the Company's liabilities and net assets, approximately 9 percent less than the previous year. Long-term debt decreased by \$52.9 million during 2006 due to scheduled amortization payments.

California Independent System Operator Corporation Management's Discussion and Analysis

Other Noncurrent Liabilities (in millions):

	2007	2006 As Revised	2005 As Revised
Derivative liability	\$ 1.4	\$ -	\$ 0.4
Other liabilities	11.7	9.3	7.7
Total	<u>\$ 13.1</u>	<u>\$ 9.3</u>	<u>\$ 8.1</u>

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

2006 Compared to 2005 - Other noncurrent liabilities amounted to \$9.3 million at December 31, 2006, an increase of \$1.2 million during the year. The increase was attributable to an increase in the post-employment medical benefit plan obligation, due mostly to service costs and an actuarial loss.

Net Assets (in millions):

	2007	2006 As Revised	2005 As Revised
Invested in capital assets, net of related debt	\$ 81.5	\$ 32.4	\$ 2.5
Restricted	43.5	51.1	50.4
Unrestricted	82.5	77.8	67.1
Total	<u>\$ 207.5</u>	<u>\$ 161.3</u>	<u>\$ 120.0</u>

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

2006 Compared to 2005 - Net assets invested in capital assets, net of related debt amounted to \$32.4 million at December 31, 2006, an increase of \$29.9 million during the year. The increase was attributable to the increased capitalized cost of the MRTU Project. Restricted net assets amounted to \$51.1 million at December 31, 2006, a slight increase from the year prior. Unrestricted net assets amounted to \$77.8 million at December 31, 2006, an increase of \$9.8 million during the year, due primarily to surplus of revenues over expenses in 2006.

California Independent System Operator Corporation Management's Discussion and Analysis

Changes in Net Assets

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

	2007	2006	2005
Operating revenues	\$ 200.6	\$ 189.9	\$ 214.5
Operating expenses	<u>153.8</u>	<u>148.4</u>	<u>162.4</u>
Operating income	46.8	41.5	52.1
Other income (expenses)	<u>(0.6)</u>	<u>(0.2)</u>	<u>(0.2)</u>
Total	<u>\$ 46.2</u>	<u>\$ 41.3</u>	<u>\$ 51.9</u>

Operating Revenues

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

2006 Compared to 2005 - Operating revenues were \$189.9 million in 2006, a decrease from 2005 of \$24.6 million primarily attributable to a lower GMC rate in 2006. As described under Setting of Rates above the lower GMC rate was primarily attributable to a reorganization implemented in the third quarter of 2005.

Operating Expenses and Percentages (dollars in millions):

	2007	2006	2005
Salaries and related benefits	\$ 83.5	\$ 73.4	\$ 77.1
Communication and technology costs	21.5	23.7	29.9
Legal and consulting costs	16.6	17.0	20.9
Other: leases, facilities and administrative	17.2	16.1	16.5
Abandoned software costs	-	1.5	-
Depreciation and amortization	15.0	16.7	18.0
Total	<u>\$ 153.8</u>	<u>\$ 148.4</u>	<u>\$ 162.4</u>
Salaries and related benefits	54.3 %	49.5 %	47.5 %
Communication and technology costs	14.0	16.0	18.4
Legal and consulting costs	10.8	11.5	12.9
Other: leases, facilities and administrative	11.2	10.8	10.2
Abandoned software costs	-	1.0	-
Depreciation and amortization	9.8	11.2	11.0
Total	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

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

California Independent System Operator Corporation Management's Discussion and Analysis

2006 Compared to 2005 - Operating expenses were \$148.4 million in 2006, \$14.0 million lower than 2005. The decrease from 2005 is primarily attributable to the 2005 reorganization and related reduction in employees, new technology contracts and reduced legal costs.

Other Income (Expense) (in millions):

	2007	2006	2005
Interest income	\$ 13.1	\$ 10.1	\$ 9.1
Interest expense	(11.9)	(11.1)	(13.1)
Change in derivative valuation	(1.8)	0.8	3.8
Total	<u>\$ (.6)</u>	<u>\$ (0.2)</u>	<u>\$ (0.2)</u>

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

2006 Compared to 2005 - Interest income was \$1.0 million higher in 2006 compared to 2005 due primarily to higher interest rates. Interest expense was \$.2.0 million lower in 2006 versus 2005 due to lower debt balances. The change in derivative liability in 2006 was due to lower interest rates at year end compared to 2005.

California Independent System Operator Corporation
Balance Sheets
December 31, 2007 and 2006

(\$ in thousands)

	2007	2006 (As Revised See Note 2)
Assets		
Current assets:		
Cash and cash equivalents, including restricted amounts	\$ 220,775	\$ 153,803
Accounts receivable	49,327	41,363
Short-term investments, including restricted amounts	58,516	90,536
Other current assets	3,067	3,003
Total current assets	<u>331,685</u>	<u>288,705</u>
Noncurrent assets:		
Long-term investments, unrestricted	70,396	30,509
Fixed assets, net	212,927	165,907
Other assets	6,898	3,963
Derivative asset	-	372
Total noncurrent assets	<u>290,221</u>	<u>200,751</u>
Total assets	<u>\$ 621,906</u>	<u>\$ 489,456</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 14,959	\$ 13,113
Accrued salaries and compensated absences	19,946	17,771
Current portion of long-term debt	64,600	71,670
Due to market participants	122,919	51,860
Generator noncompliance fines refund obligation	52,003	45,848
GMC refund obligation	1,800	1,800
Total current liabilities	<u>276,227</u>	<u>202,062</u>
Noncurrent liabilities:		
Long-term debt, net of current portion	125,100	116,730
Derivative liability	1,378	-
Employee retirement plan obligations	11,718	9,356
Total noncurrent liabilities	<u>138,196</u>	<u>126,086</u>
Total liabilities	<u>414,423</u>	<u>328,148</u>
Commitments and contingencies (Notes 11, 12 and 13)		
Net assets		
Invested in capital assets, net of related debt	81,429	32,369
Restricted	43,545	51,132
Unrestricted	82,509	77,807
Total net assets	<u>207,483</u>	<u>161,308</u>
Total liabilities and net assets	<u>\$ 621,906</u>	<u>\$ 489,456</u>

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

California Independent System Operator Corporation
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2007 and 2006

(\$ in thousands)

	2007	2006 (As Revised See Note 2)
Operating revenues:		
Grid management charge	\$ 194,831	\$ 183,827
Other revenues	5,795	6,078
Total operating revenues	<u>200,626</u>	<u>189,905</u>
Operating expenses:		
Salaries and related benefits	83,508	73,434
Equipment leases and facility costs	9,433	8,636
Communications, technology and temporary staffing contracts	21,475	23,680
Legal and consulting services	16,573	16,972
Training, travel and professional dues	3,752	3,127
Insurance, administrative and other expenses	4,077	4,360
Abandonment of software	66	1,500
Depreciation and amortization	14,978	16,678
Total operating expenses	<u>153,862</u>	<u>148,387</u>
Income from operations	<u>46,764</u>	<u>41,518</u>
Other income (expense):		
Interest income	13,144	10,124
Interest expense	(13,733)	(10,341)
Total other income (expense)	<u>(589)</u>	<u>(217)</u>
Change in net assets	46,175	41,301
Net assets, beginning of year	161,308	120,941
Cumulative effect of change in accounting principle	-	(934)
Net assets, end of year	<u>\$ 207,483</u>	<u>\$ 161,308</u>

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

California Independent System Operator Corporation
Statements of Cash Flows
Years Ended December 31, 2007 and 2006

(\$ in thousands)

	2007	2006
Cash flows from operating activities:		
Receipts from scheduling coordinators	\$ 186,867	\$ 195,970
Other receipts	5,795	6,078
Payments to employees	(79,099)	(69,778)
Payments to vendors/others	(56,487)	(59,868)
Receipts from market participants	163,222	52,586
Payments to market participants	(92,163)	(63,675)
Net cash provided by operating activities	<u>128,135</u>	<u>61,313</u>
Cash flows from noncapital financing activities:		
Repayment of bonds	(14,000)	(13,500)
Interest on debt	(1,328)	(1,565)
Net cash used in noncapital financing activities	<u>(15,328)</u>	<u>(15,065)</u>
Cash flows from capital and related financing activities:		
Purchases and development of fixed assets	(59,747)	(64,868)
Proceeds from issuance of bonds	59,168	-
Repayment of bonds	(44,700)	(45,300)
Interest on debt	(6,117)	(6,459)
Net cash used in capital financing activities	<u>(51,396)</u>	<u>(116,627)</u>
Cash flows from investing activities:		
Purchases of investments	(161,021)	(112,997)
Sales and maturities of investments	153,154	105,412
Interest received	13,428	9,234
Net cash provided by in investing activities	<u>5,561</u>	<u>1,649</u>
Net increase (decrease) in cash and cash equivalents, restricted and unrestricted	66,972	(68,730)
Cash and cash equivalents, restricted and unrestricted, beginning of year	153,803	222,533
Cash and cash equivalents, restricted and unrestricted, end of year	<u>\$ 220,775</u>	<u>\$ 153,803</u>

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

California Independent System Operator Corporation
Statements of Cash Flows
Years Ended December 31, 2007 and 2006

(\$ in thousands)

	2007	2006
Supplemental information:		
Cash paid for interest	\$ 7,057	\$ 7,855
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	\$ 46,764	\$ 41,518
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Abandonment of software	66	1,500
Depreciation and amortization	14,978	16,678
Changes in operating assets and liabilities:		
Accounts receivable and other assets	(10,920)	10,311
Accounts payable and other accrued expenses	6,188	2,395
Due from/(to) market participants	71,059	(11,089)
Net cash provided by operating activities	<u>\$ 128,135</u>	<u>\$ 61,313</u>
Supplemental disclosure of noncash financing and investing activities		
Amortization of bond issuance costs	\$ (505)	\$ (471)
Write-off of discontinued project	66	(1,500)
Change of valuation of derivative financial instruments	(1,750)	811
Generator fines interest included in interest expense	(6,155)	(4,771)

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

California Independent System Operator Corporation

Notes to Financial Statements

1. Organization and Operations

The Company, a not-for-profit public benefit corporation incorporated in May 1997, is responsible for the operation of the long-distance, high-voltage power lines that deliver electricity throughout the California Grid and between the California Grid, neighboring control areas, neighboring states, Canada and Mexico. The Company charges a GMC to market participants to recover the Company's costs and to provide an operating reserve. The Company's principal objective is to ensure the reliability of the California Grid, while fostering a low-cost wholesale marketplace for electrical generation and related services in California. The Company operates pursuant to its Tariff filed with the FERC.

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

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

2. Summary of Significant Accounting Policies

Method of accounting

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

Use of estimates

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

Cash and cash equivalents

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

California Independent System Operator Corporation

Notes to Financial Statements

and cash equivalents restricted by the Tariff for market participants include amounts held in escrow, funds pending settlement, amounts due to others and deposits. Cash and cash equivalents restricted for debt service include amounts held by a bond trustee under an indenture agreement for scheduled repayments of bond principal and for a debt service reserve fund.

Accounts receivable and revenue recognition

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

The 2007 and 2006 GMC rates were comprised of the following six service categories: core reliability services; energy transmission services; forward scheduling; congestion management; market usage; and settlements, metering and client relations.

The operating reserve is calculated separately for each GMC service category and accumulates until the reserve becomes fully funded (at 15 percent of budgeted annual operating costs for each rate service category). At December 31, 2007, the operating reserve for each service category was fully funded. In accordance with the Tariff, any surplus operating reserve balance is applied as a reduction in revenue requirements in the following year. These operating reserve amounts are included in the net assets of the Company and are not included in the GMC refund obligations described below. The Tariff requires GMC rates to be adjusted not more than once per quarter in the event that billing determinant volumes differ by more than five percent from those projections used to set rates. During 2006 and 2007, adjustments were made to certain GMC rates pursuant to these provisions.

Generator noncompliance fines

From December 8, 2000 through June 30, 2001, the Company assessed noncompliance fines on participating generators that failed to fully comply with dispatch instructions when the Company was seeking to prevent an imminent or threatened system emergency. In accordance with the Tariff, these fines are retained by the Company. The Company recorded the net realizable amount of such fines as revenue when the underlying noncompliance event occurred, and adjusts such amounts in recognition of evolving factors affecting the ultimate recognition of the fines charged. During 2007 and 2006 there were no adjustments to generator fine revenues.

Investments

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

Fixed assets

Fixed assets are recorded at cost. Depreciation is computed on the straight-line method over the assets' estimated useful lives. Most of the Company's investment in fixed assets consists of

California Independent System Operator Corporation

Notes to Financial Statements

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

Other assets

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

Compensated absences

The Company accrues vacation leave when the employee earns the right to the benefit. The Company does not record sick leave or other leave as a liability until it is taken by the employee, since there are no cash payments for sick leave or other leave made when employees terminate or retire. At December 31, 2007 and 2006, the total accrued liability for vacation was \$5.5 million and \$4.9 million, respectively.

GMC refund obligation

GMC refund obligation consists of previously collected GMC revenue to be refunded to market participants, generally as a result of GMC settlement agreements as described in Note 13.

Income taxes

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

Fair value of financial instruments

The carrying values reported on the balance sheet for current assets and liabilities, and long-term debt approximate fair value. Investments are carried at fair value.

All derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. The Company's interest rate swaps are accounted for as derivative instruments.

Interest rate swap agreements

The Company enters into interest rate swap agreements to modify the effective rate of interest on outstanding debt. Interest expense is reported net of the swap payments received or paid as a component of interest expense in the statements of revenues, expenses and changes in net assets.

Net Assets

The Company classifies its net assets into three components:

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

California Independent System Operator Corporation

Notes to Financial Statements

Concentration of credit risk

Financial instruments that subject the Company to credit risk consist primarily of accounts receivable relating to GMC billings due from market participants. All of the Company's receivables are due from entities in the energy industry, comprising utilities, generation owners, and other electricity market participants. For the years ended December 31, 2007 and 2006, approximately 53 percent and 56 percent, respectively, of GMC revenues were from two market participants. GMC revenues have a priority claim against any market-related receipts.

Implementation of GASB Statement No. 45

In 2007, Company implemented Statement of Governmental Accounting Standards (SGAS) No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension (OPEB)" related to its accounting for post-employment benefits associated with the California ISO Retiree Medical Plan. Previous accounting on this plan was in accordance with Statement of Financial Accounting Standards (SFAS) 106. SGAS No. 45 establishes standards of accounting and financial reporting for OPEB expense and related OPEB liabilities or assets. OPEB arises from an exchange of salaries and benefits for employee services rendered. It refers to post-employment benefits other than pension benefits such as post-employment healthcare benefits.

In adopting the new GASB statement, the Company elected to retroactively apply the standard and calculate a beginning OPEB obligation, the transition liability, as of January 1, 2006. The liability was calculated by applying the applicable provisions of SGAS Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers". As a result of the implementation, the Company recognized an adjustment of \$0.9 million to the beginning net assets at January 1, 2006, which is the net increase in its OPEB liability as of that date.

Most of the actuarial assumptions and methods were unchanged as a result of the change in accounting principle. The primary change impacting the Company's accounting for its post-employment medical benefit plan relates to the discount rate applied to its benefit obligation. The change in accounting did not have a material effect on net 2006 expense associated with the plan, and as such, plan expense as previously reported has not been adjusted in these financial statements.

3. Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments

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

Credit risk

To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, the Company limits investments to those rated by a nationally recognized rating agency of "A-1" (or equivalent) or better for commercial paper and "A" (or equivalent) or better for medium-term notes. For repurchase agreements, the Company requires that collateral be valued at least at 100% of the invested amount and that the valuation be adjusted at least quarterly. The counterparty to the agreement has to be a primary dealer of the Federal Reserve Bank of New York.

California Independent System Operator Corporation

Notes to Financial Statements

Interest rate risk

It is the policy of the Company to diversify its overall investment portfolio. Portfolio diversification is employed as a way to control interest rate risk, by limiting investment maturities as a means of managing exposure to fair value losses arising from increases in interest rates. Investments are diversified as to maturities and as to kind of investment to reduce the risk of loss, which might result from over concentration of assets in a specific maturity, in a specific kind of investment, or from a specific issuer. Of the Company's total portfolio at December 31, 2007 and 2006, all of the Company's cash and cash equivalents have maturities of 90 days or less. The remaining investments have a maximum maturity of five years.

Concentration of credit risk

This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Company's investment policy limits investments by asset class. In 2007 and 2006, investments with issuers comprising more than 5% of the Company's portfolio are noted below:

	2007	2006
Wells Fargo (Uncollateralized GIC)	10%	-
Federal National Mortgage Association (FNMA)	5%	5%
Morgan Stanley (Collateralized Forward Delivery Agreements and Corporate Note)	-	7%
Financial Security Assurance (FSA) GIC	-	7%
JPMorgan (Collateralized Forward Delivery Agreement and Uncollateralized GIC)	-	6%
Federal Home Loan Bank (FHLB)	-	6%

Custodial credit risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Company will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party. The Company does not have a formal policy for custodial credit risk for deposits or investments. The Company's primary custodial risk at December 31, 2007 and 2006, respectively, is associated with the following types of investments (in thousands):

Investment Type	2007	2006
Federal Agency Securities	\$ 46,696	\$ 32,357
Corporate Notes	21,165	38,902
GICs	40,854	808
Uninsured bank deposits	2,586	-
Total	<u>\$ 111,301</u>	<u>\$ 72,067</u>

California Independent System Operator Corporation
Notes to Financial Statements

Summary of Balances

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

Description	Credit Rating	Remaining Maturities (in Years)			Total Fair Value
		Less than 1	1 - 5	More than 5	
Cash and cash equivalents					
Unrestricted					
Deposit overdrafts		\$ (451)	\$ -	\$ -	\$ (451)
Money market funds	<i>Unrated</i>	77	-	-	77
Money market funds	<i>Aaa/AAAm &/or NAIC* Approved</i>	60,342	-	-	60,342
		<u>59,967</u>	<u>-</u>	<u>-</u>	<u>59,967</u>
Restricted					
Deposits		220	-	-	220
Money market funds	<i>Aaa/AAAm &/or NAIC* Approved</i>	160,588	-	-	160,588
		<u>160,808</u>	<u>-</u>	<u>-</u>	<u>160,808</u>
Total cash and cash equivalents		<u>220,775</u>	<u>-</u>	<u>-</u>	<u>220,775</u>
Investments					
Short-term investments					
Unrestricted					
FNMA	<i>AAA /Aaa</i>	3,502	-	-	3,502
GIC	<i>Not Rated**</i>	418	-	-	418
		<u>3,920</u>	<u>-</u>	<u>-</u>	<u>3,920</u>
Restricted					
Forward delivery agreements	<i>AAA/Aaa</i>	20,160	-	-	20,160
GIC	<i>Not Rated**</i>	34,435	-	-	34,435
		<u>54,595</u>	<u>-</u>	<u>-</u>	<u>54,595</u>
Total short-term investments		<u>58,516</u>	<u>-</u>	<u>-</u>	<u>58,516</u>
Long-term investments					
Unrestricted					
Preferred and common stock	<i>N/A</i>	-	-	37	37
FFCA****	<i>AAA /Aaa</i>	-	8,029	-	8,029
FNMA	<i>AAA /Aaa</i>	-	15,560	-	15,560
FHLMC***	<i>AAA /Aaa</i>	-	10,050	-	10,050
FHLB	<i>AAA /Aaa</i>	-	9,554	-	9,554
Corporate notes	<i>A-/A3 or better</i>	-	21,165	-	21,165
		<u>-</u>	<u>64,359</u>	<u>37</u>	<u>64,396</u>
Restricted					
GIC		-	6,000	-	6,000
		<u>-</u>	<u>6,000</u>	<u>-</u>	<u>6,000</u>
Total long-term investments		<u>-</u>	<u>70,359</u>	<u>37</u>	<u>70,396</u>
Total investments		<u>58,516</u>	<u>70,359</u>	<u>37</u>	<u>128,912</u>
Total cash, cash equivalents and investments		<u>\$ 279,291</u>	<u>\$ 70,359</u>	<u>\$ 37</u>	<u>\$ 349,687</u>

* National Association of Insurance Commissioners

** Counterparty rating is AAA

*** Federal Home Loan Mortgage Corporation

****Federal Farm Credit Bank

California Independent System Operator Corporation
Notes to Financial Statements

At December 31, 2006, the Company's cash, cash equivalents and investments consist of the following (in thousands):

Description	Credit Rating	Remaining Maturities (in Years)			Total Fair Value
		Less than 1	1 - 5	More than 5	
Cash and cash equivalents					
Unrestricted					
Deposit overdrafts		\$ (4,724)	\$ -	\$ -	\$ (4,724)
Money market funds	<i>Unrated</i>	446	-	-	446
Money market funds	<i>Aaa/AAAm &/or NAIC Approved</i>	72,331	-	-	72,331
		<u>68,053</u>	<u>-</u>	<u>-</u>	<u>68,053</u>
Restricted					
Deposit overdrafts		(40)	-	-	(40)
Money market funds	<i>Aaa/AAAm &/or NAIC Approved</i>	85,790	-	-	85,790
		<u>85,750</u>	<u>-</u>	<u>-</u>	<u>85,750</u>
Total cash and cash equivalents		<u>153,803</u>	<u>-</u>	<u>-</u>	<u>153,803</u>
Investments					
Short-term investments					
Unrestricted					
FHLB	<i>AAA /Aaa</i>	9,465	-	-	9,465
Corporate notes	<i>A-/A3 or better</i>	31,750	-	-	31,750
GIC	<i>Not Rated*</i>	380	-	-	380
		<u>41,595</u>	<u>-</u>	<u>-</u>	<u>41,595</u>
Restricted					
Forward delivery agreements	<i>AAA/Aaa</i>	29,910	-	-	29,910
GIC	<i>Not Rated*</i>	19,031	-	-	19,031
		<u>48,941</u>	<u>-</u>	<u>-</u>	<u>48,941</u>
Total short-term investments		<u>90,536</u>	<u>-</u>	<u>-</u>	<u>90,536</u>
Long-term investments - unrestricted					
Preferred and common stock	<i>N/A</i>	-	-	36	36
FNMA	<i>AAA /Aaa</i>	-	14,919	-	14,919
FHLMC	<i>AAA /Aaa</i>	-	1,498	-	1,498
FHLB	<i>AAA /Aaa</i>	-	6,476	-	6,476
Corporate notes	<i>A-/A3 or better</i>	-	7,152	-	7,152
GIC	<i>Not Rated*</i>	-	428	-	428
Total long-term investments		<u>-</u>	<u>30,473</u>	<u>36</u>	<u>30,509</u>
Total investments		<u>90,536</u>	<u>30,473</u>	<u>36</u>	<u>121,045</u>
Total cash, cash equivalents and investments		<u>\$ 244,339</u>	<u>\$ 30,473</u>	<u>\$ 36</u>	<u>\$ 274,848</u>

* Counterparty rating is AAA

California Independent System Operator Corporation

Notes to Financial Statements

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

	2007	2006
Unrestricted funds, operating account	\$ 128,284	\$ 140,157
Restricted funds:		
Market participants	122,913	51,860
Debt service	61,960	63,697
Capital expenditures	36,530	19,134
Total	<u>\$ 349,687</u>	<u>\$ 274,848</u>

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

	2007	2006
Security deposits	\$ 52,939	\$ 8,426
Market funds pending settlement	36,428	21,717
Pass-through fees due to others	22,931	19,674
LGIP deposits	10,615	2,043
Total amounts restricted for market participants	<u>\$ 122,913</u>	<u>\$ 51,860</u>

Cash and cash equivalents restricted for market participants consist of amounts held by the Company to be remitted to market participants or others on their behalf. Security deposits are amounts received from those market participants required to post security deposits for their transactions in the Company's markets. Market funds pending settlement consist of amounts collected during the settlement and clearing function that will pass through to market participants in subsequent periods of which \$26.5 million is being held pending resolution of the FERC refund case (Note 13). Pass-through fees due to others consist of amounts collected from market participants that will be paid to market participants for summer reliability, startup costs and emission costs.

In June 2006, as a result of a FERC order, the Company took over the responsibility of conducting LGIP studies. The project sponsors, which are the owners of the generating plants that are planned to be connected to the California Grid, are required to make a deposit before any studies are performed. The deposits will be applied against actual expenses that are incurred by the Company once the studies are initiated. At any time, the project sponsors can withdraw from the studies and have the right to any remaining unapplied deposits.

California Independent System Operator Corporation

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4. Fixed Assets

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

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

California Independent System Operator Corporation

Notes to Financial Statements

Changes in the Company's fixed assets for the year ended December 31, 2006, are as follows (in thousands):

	2005	Additions and Transfers In	Deletions and Transfers Out	2006
Nondepreciable fixed assets:				
Land	\$ 9,380	\$ -	\$ -	\$ 9,380
Work-in-progress, MRTU	58,902	49,881	(1,500)	107,283
Work-in-progress, other	17,594	17,163	(14,055)	20,702
	<u>85,876</u>	<u>67,044</u>	<u>(15,555)</u>	<u>137,365</u>
Depreciable fixed assets:				
Information systems:				
Scheduling infrastructure, scheduling applications and balance of business systems	130,059	5,692	-	135,751
Metering and data acquisition and other systems	72,782	3,611	-	76,393
Energy management system	12,129	4,511	(150)	16,490
Leasehold improvements	13,362	43	-	13,405
Furniture and fixtures	9,315	198	(80)	9,433
	<u>237,647</u>	<u>14,055</u>	<u>(230)</u>	<u>251,472</u>
Less: accumulated depreciation	<u>(206,420)</u>	<u>(16,678)</u>	<u>168</u>	<u>(222,930)</u>
	<u>31,227</u>	<u>(2,623)</u>	<u>(62)</u>	<u>28,542</u>
Total fixed assets, net	<u>\$ 117,103</u>	<u>\$ 64,421</u>	<u>\$ (15,617)</u>	<u>\$ 165,907</u>

Work-in-progress includes capitalized interest of \$5.2 million and \$2.9 million at December 31, 2007 and 2006, respectively. The MRTU Project is composed of several components, which are transferred to depreciable fixed assets as they are put into production.

5. Employee Note Receivable

During 2005, the Company provided \$500,000 in financing to an officer of the Company in connection with the purchase of his primary residence. The loan is collateralized by a subordinated deed of trust on the property, accrues interest at 6.5 percent per annum, compounded annually, and requires annual payments of \$38,000 for the first two years and \$68,000 per year thereafter. Portions of the note may be forgiven by the Company based on the officer's continuing employment as set forth in the employment agreement. The balance due at December 31, 2007 and 2006 of \$511,839 and \$518,304, respectively, including accrued interest, is included in other assets in the accompanying balance sheets.

California Independent System Operator Corporation

Notes to Financial Statements

6. Generator Noncompliance Fines

In 2000 and 2001, the Company billed generator noncompliance fines to market participants totaling \$122.1 million. Through December 31, 2007, collection of these fines totaled \$60.7 million.

Generally, these fines were assessed at twice the highest price paid in the Company's markets for energy and were applied against the amount of energy the participating generator failed to supply as directed by the Company during specific emergency conditions as defined in the Tariff. These fines will be retroactively adjusted as a result of the FERC Refund Case, as described in Note 13, in which the prices used to calculate the fines are subject to adjustment, with any surplus collections being refunded to market participants with interest.

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

In accordance with FERC rulings, the Company accrues interest on the portion of fines collected in excess of the estimated realizable amount (except as noted below) which are to be refunded to market participants when the amounts are ultimately settled. Such interest expense amounted to \$6.2 million and \$4.7 million in 2007 and 2006, respectively. At December 31, 2007 and 2006, accrued interest payable related to these fines totaled \$20.8 million and \$14.6 million, respectively.

The correction of base level transactions included in the preparatory rerun resulted in an upward adjustment to fines amounting to \$20.5 million. The current treatment of interest excludes the calculation of interest on the preparatory rerun corrections, based on the position that interest would only accrue upon the preparatory rerun being invoiced. The Company believes that preparatory rerun corrections should be eligible for interest from the due date of the original trade month being corrected in the same manner as interest on corrections for mitigated market-clearing prices in the refund rerun. The Company included this position in a status report that was filed with FERC in March 2007 and intends to request a FERC ruling on this issue in 2008. If approved, the effect would be to reduce interest payable by \$10.2 and \$7.8 million at December 31, 2007 and 2006, respectively. The Company has not recorded any interest income or receivable relating to this matter since the realization is not assured and has not been approved by FERC.

At December 31, 2007 and 2006, the estimated net realizable amount of fines is \$29.5 million. Included in current liabilities at December 31, 2007 and 2006, is an estimated refund liability to market participants of \$52.0 million and \$45.8 million representing the difference between the \$60.7 million in collections and the estimated fines to be retained, plus accrued interest.

California Independent System Operator Corporation
Notes to Financial Statements

7. Long-term Debt

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

	2007	2006
CIEDB Variable Rate Demand Revenue Bonds		
Series 2007, 2.86% - 3.86%, with maturities through 2013	\$ 60,000	\$ -
Series 2004, 2.90% - 3.83%, with maturities through 2010	84,400	103,400
Series 2000, 2.95% - 3.85%, with maturities through 2009	<u>45,300</u>	<u>85,000</u>
Total long-term debt	189,700	188,400
Less: current portion	<u>(64,600)</u>	<u>(71,670)</u>
Total long-term debt, less current portion	<u>\$ 125,100</u>	<u>\$ 116,730</u>

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

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

Summarized activity of long-term debt for the year ended December 31, 2006, is as follows (in thousands):

	Beginning of Year	Payments	End of Year
CIEDB Variable Rate Demand Revenue Bonds			
Series 2004	\$ 124,100	\$ (20,700)	\$ 103,400
Series 2000	<u>123,100</u>	<u>(38,100)</u>	<u>85,000</u>
Total long-term debt	<u>\$ 247,200</u>	<u>\$ (58,800)</u>	<u>\$ 188,400</u>

California Independent System Operator Corporation

Notes to Financial Statements

Scheduled future debt service payments as of December 31, 2007 are as follows (in thousands):

	Principal	Interest	Total
2008	\$ 50,700	\$ 5,357	\$ 56,057
2009	32,800	3,881	36,681
2010	51,700	2,177	53,877
2011	19,000	1,384	20,384
2012	15,300	801	16,101
2013	20,200	63	20,263
	<u>\$ 189,700</u>	<u>\$ 13,663</u>	<u>\$ 203,363</u>

Long-term debt and related agreements

In April 2007, the Company issued \$60.0 million of VRDBs (the Series 2007 Bonds) through the CIEDB. The proceeds of the Series 2007 Bonds are being used to finance the completion of MRTU Project and other capital projects.

The Company's Series 2000, Series 2004 and Series 2007 Bonds bear interest in one of several variable rate options selected by the Company, which during 2007 and 2006 was a weekly rate, with interest rates ranging from 2.90 percent to 3.40 percent and 3.70 percent to 3.82 percent, respectively. The maximum rate of interest any of the Bonds may bear is 12% per annum.

The Bonds are backed by a pledge of the Company's revenues and operating reserves. After each weekly rate reset period, the Bonds can be put by the bondholders to the Remarketing Agents (Agents). Additional credit assurance is provided to bondholders through standby bond purchase agreements provided by banking syndicates, which can be drawn upon in the event of default of the Bonds, or to reimburse the Agents who act as dealers for the Bonds. In the event the Agents are unable to remarket tendered Bonds, draws under the standby bond purchase agreements may be made. In the event draws are made on the standby bond purchase agreements, amounts are repaid by the Company to the banks in equal quarterly installments over five years. The amounts presented as the current portion of long-term debt on the balance sheets include the amounts that would be payable by the Company to the banks if the standby bond purchase agreement repayment obligations were in effect on the entire outstanding balance of the Bonds. The standby bond purchase agreements for the Series 2000, Series 2004 and Series 2007 Bonds expire on April 1, 2009, February 1, 2010 and April 5, 2010, respectively. The Bonds are further supported by bond insurance, effective for the term of the Bonds, which is not subject to cancellation provided that annual insurance payments are made.

Overall interest expense recorded by the Company related to long-term debt includes the amounts paid on the Bonds, payments and receipts under the Swaps (see Note 8 below), bond remarketing costs, bond insurance and liquidity costs and amortization of bond issuance costs.

8. Interest Rate Swap Agreements

The Company entered into interest rate swap agreements (the Swaps) to reduce interest rate risk on the Company's debt obligations. Concurrent with the issuance of the Bonds, the Company entered into variable-to-fixed rate Swaps with a financial institution. The notional amount of the Swaps is related to a portion of the Series 2000 Bonds and Series 2004 Bonds and the notational amount of the Series 2007 Bonds. The terms of the Swaps are equal to the maturity of the Bonds.

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Notes to Financial Statements

Under the Series 2000 Bonds swap, which had a notional amount of \$27.0 million and \$52.6 million at December 31, 2007 and 2006, respectively, the Company pays the swap counterparty a fixed rate of 4.82 percent. In return, the counterparty pays the Company variable interest at the Bond Market Association Municipal Swap Index Rate.

Under the Series 2004 Bonds swap, which had a notional amount of \$50.6 million and \$62.0 million at December 31, 2007 and 2006, respectively, the Company pays the swap counterparty a fixed rate of 2.60 percent. In return, the counterparty pays the Company variable rate interest at sixty percent of the US Dollar London Interbank Offered Rate (LIBOR) reference rate plus 0.32 percent.

Under the Series 2007 Bonds swap, which had a notional amount of \$60.0 million at December 31, 2007, the Company pays the swap counterparty a fixed rate of 3.47%. In return the counterparty pays the Company variable rate interest at Securities Industry and Financial Markets Association Municipal Swap Index Rate.

Variable interest rates payable by the Company on its Bonds, and the amount of the variable interest receivable under the swaps fluctuate based on bond market conditions. During 2007 and 2006, the variable interest rate received under the swaps approximates, but does not precisely equal, the rate of interest on the Bonds. The relationships between the variable rates indexed in these swap agreements and actual variable interest rates incurred on the Bonds may differ over time. Due to investor concerns about the potential for credit rating downgrades of the bond insurers of the Company's debt, the basis differential has resulted in increased interest expense to the Company beginning in late January 2008, and has persisted throughout March 2008. Accordingly, the Company is exploring potential alternatives to refinance existing debt to reduce this exposure.

The Company is exposed to risk of nonperformance if the counterparty defaults or if the swap agreements are terminated. The Company monitors the risk of default of the swap counterparty and does not anticipate nonperformance. The fair value of the Swaps at December 31, 2007 and 2006, was a net (payable) receivable of approximately (\$1.4) million and \$0.4 million, respectively, and is recorded on the balance sheet as a derivative (liability) asset, respectively. The changes in the fair value of the Swaps of \$1.8 million and \$0.8 million for the years ended December 31, 2007 and 2006, respectively, are included as reductions to interest expense on the statements of revenues, expenses, and changes in net assets.

9. Fair Value of Financial Instruments

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

Investments

The fair values of investments, including cash equivalents, are based upon quoted market prices.

Long-term debt

The fair value of long-term debt, which includes the short-term portion, approximates its cost basis. The Company's Bond interest rates are adjusted on a weekly basis so the Bonds can be sold at par value which is their carrying value.

Interest rate swap agreements

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

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Notes to Financial Statements

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

	Recorded Value	Fair Value
Investments, including cash and cash equivalents	\$ 340,979	\$ 340,979
Long-term debt	(189,700)	(189,700)
Interest rate swap	(1,378)	(1,378)

The fair values of the Company's financial instruments as of December 31, 2006, are presented below (in thousands):

	Recorded Value	Fair Value
Investments, including cash and cash equivalents	\$ 274,848	\$ 274,848
Long-term debt	(188,400)	(188,400)
Interest rate swap	372	372

10. Employee Benefit Plans

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

	2007	2006 (As Revised See Note 2)
Executive pension restoration plan	\$ 722	\$ 647
Post-retirement medical benefit plan	10,206	8,116
Supplemental executive retirement plan	369	225
Executive savings plan	421	368
Total employee retirement plan obligations	<u>\$ 11,718</u>	<u>\$ 9,356</u>

Retirement savings benefits plan

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

Employees may elect to contribute up to 50 percent of their eligible compensation to the Retirement Plan, subject to statutory limitations. The Company makes matching contributions up to the first 6 percent of employees' eligible compensation and an additional contribution equal to 5 percent of

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eligible compensation for employees with less than five years of service, or 7 percent for employees who had at least five years but not more than ten years of service. An additional contribution of 1 percent of eligible compensation is also made by the Company for each increment of five years of service after the employees' tenth year anniversary. All matching contributions are subject to statutory limitations.

Employees' contributions to the Retirement Plan for 2007 and 2006 were \$6.5 million and \$5.3 million, respectively. The Company's contributions to the Retirement Plan for 2007 and 2006 were \$6.5 million and \$5.0 million, respectively.

Executive pension restoration plan

The Company sponsors the Executive Pension Restoration Plan, a non-qualified defined contribution plan, which allows certain officers of the Company to make contributions in excess of the 401(k) contribution limits set forth by IRS regulations. As defined in the plan document the Company makes matching contributions up to 6 percent of the officers' eligible compensation, as well as retirement contributions of 5 percent of the officers' eligible compensation for officers with less than five years of service, or 7 percent for officers who had at least five years but not more than ten years of service and an additional contribution of 1 percent of eligible compensation is also made by the Company for each increment of five years of service after the officer's tenth year anniversary.

The contributions and earnings thereon are held in a trust and the balances as of December 31, 2007 and 2006, were \$722,000 and \$647,000, respectively and are included in Other Assets and with a corresponding liability in Employee Retirement Plan Obligations. The Company recognized expenses for contributions of \$244,000 and \$160,000 in 2007 and 2006, respectively.

Post-employment medical benefit plan

Plan description

The Company sponsors the California ISO Retiree Medical Plan, a defined benefit plan, to provide post-employment health care benefits to all employees who retire from the Company on or after attaining age 60 with at least five years of service and to their spouses, domestic partners and eligible dependents. Employees who meet these requirements will be entitled to the coverage previously elected under the Company medical program until age 65. At age 65, the retiree may transfer into an approved Medicare Plus Choice HMO or a PPO plan, both of which provide health care coverage comparable to benefits under an HMO or PPO. This election also applies to the retiree's covered spouse/domestic partner or dependent. Prior to the retiree reaching age 65, when the retiree's covered spouse/domestic partner or dependent reaches age 65 and becomes eligible for Medicare benefits, the spouse/domestic partner or dependent would transition to either Medicare or the approved Medicare Plus Choice HMO or a PPO plan. The Company pays a portion of the premium for the employee's spouse, domestic partner and eligible dependents. There are 20 employees and 8 retirees eligible to receive benefits pursuant to the plan as of December 31, 2007.

Funding policy

The Company currently contributes a portion of the cost of current premiums for eligible retired plan members and their spouses. For the year ended December 31, 2007, the Company contributed \$37,500 to the plan while total member contributions totaled \$20,800.

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

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

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

	2007	2006
Annual required contribution	\$ 2,490	\$ 1,702
Interest on net OPEB obligation	447	378
Adjustment to annual required contribution	(809)	(684)
Annual OPEB cost	<u>2,128</u>	<u>1,396</u>
Contributions made	(38)	(24)
Increase in net OPEB obligation	<u>2,090</u>	<u>1,372</u>
Net OPEB obligation, beginning of year	8,116	6,744
Net OPEB obligation, end of year	<u>\$ 10,206</u>	<u>\$ 8,116</u>

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2005	\$ 1,507	1.3%	\$ 6,744
2006	1,396	1.7%	8,116
2007	2,127	2.9%	10,206

Funding status and funding progress

As of December 31, 2007, the actuarial accrued liability for benefits was \$12.2 million, all of which was unfunded. The covered payroll (the percentage of the unfunded actuarial accrued liability over the total payroll covered by the plan) was 18%.

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

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Required supplemental information for the Plan is presented below for the three most recent years for which the Company has available data:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2006	\$ -	\$ 5,733	\$ 5,733	0%	\$ 66,371	9%
1/1/2007	-	9,463	9,463	0%	60,700	16%
1/1/2008	-	12,225	12,225	0%	68,381	18%

Actuarial methods and assumptions

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

The following assumptions were utilized in the calculation of annual pension cost:

Retirement age for active members – The rates at which participants with at least 5 years of service retire are shown below:

Age	Percent Retiring During the Year
60	15%
61	8%
62	25%
63	15%
64	10%
65	100%

Marital status – Those currently electing spousal coverage in active status are assumed to have spousal coverage at retirement. Male spouses are assumed to be 3 years older than female spouses.

Mortality – Life expectancies are based on the RP-2000 Mortality Tables published by the Society of Actuaries for males and females. Scale AA is used to project rates to 2007.

Turnover – Non-group specific age-based turnover consistent with low turnover groups were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits paid.

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Healthcare cost trend – The expected annual rate of increase for medical plan costs and retiree contributions are shown below:

Year	Annual Rate of Increases
2007	9.0%
2008	8.0%
2009	7.0%
2010	6.0%
2011 and after	5.0%

Health insurance premiums – 2006 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Discount Rate - Based on the expected returns on the Company's long-term investment portfolio, a discount rate of 5.5% was used.

Costing method - Costs were determined using the Projected Unit Credit Actuarial Cost Method. The annual normal cost is equal to the present value of the portion of the projected benefit attributable to service during the upcoming year, and the accumulated post-employment benefit obligation (APBO) is equal to the present value of the portion of the projected benefit attributable to service before the valuation date. Service from hire date through the expected full eligibility date is counted in allocating costs.

Amortization Period – The ARC is calculated using an amortization period of fifteen years, using level dollar open method.

Supplemental executive retirement plan

The Company sponsors the California ISO Supplemental Executive Retirement Plan (SERP Plan), a non-qualified defined benefit plan intended to provide selected executives of the Company with target retirement benefits based upon an executive's average earnings for the three consecutive years in the last five years of service that compensation was the highest and total number of years of service with the Company. The target benefit is to be offset by other retirement benefits, including those provided by the Company, and by any distributions from this plan made to pay the beneficiary's share of federal, state and local taxes. The Company accounts for the SERP Plan in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Governments*.

The activity and related obligations associated with the plan during 2007 and 2006 is as follows (in thousands):

	2007	2006
Obligation, beginning of year	\$ 225	\$ 93
Current period actuarially determined cost	144	132
Obligation, end of year	<u>\$ 369</u>	<u>\$ 225</u>

The Company recognized expenses of \$144,000 and \$132,000 in 2007 and 2006, respectively in connection with this plan. The plan is unfunded.

Executive savings plan

The Company sponsors the Executive Savings Plan, a non-qualified defined contribution plan under section 457(b) of the IRS Code. The Company contributes a percentage of each officer's annual base compensation to the plan. Officers may elect to make voluntary contributions, subject to

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statutory limitations. The contributions and earnings thereon are held in a trust and the balance as of December 31, 2007 and 2006 was \$422,000 and \$368,000, respectively and is included in Other Assets and with a corresponding liability in Employee Retirement Plan Obligations. The officers' contribution to the Executive Savings Plan for both 2007 and 2006 was \$8,000. The Company recognized expenses of \$98,000 and \$108,000 in 2007 and 2006, respectively, in connection with this plan. In 2007, an officer withdrew \$76,000 from the plan.

11. Insurance Programs and Claims

The Company is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Company participates in various commercial and mutual insurance plans that provide coverage for most claims in excess of specific dollar thresholds, which range from \$10,000 to \$1.0 million per claim. Primary insurance policies have coverage limits set based on the Company's assessment of reasonable exposure within that risk category, with consideration of insurance types and coverage limits for comparable entities. Additionally, the Company maintains Excess Liability coverage that provides umbrella coverage for certain exposures to a limit of \$135.0 million. Miscellaneous losses below insurance deductibles are expensed as incurred. In 2007 and 2006, the Company has not experienced any claims in excess of the coverages described above.

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

12. Lease and Contract Commitments

The Company has long-term operating leases and service contracts expiring at various dates through 2012, providing telecommunication equipment and services, information system equipment and services, systems infrastructure and office facilities of the Company.

The following are the future minimum payments under these agreements (in thousands):

2008	\$	12,791
2009		9,174
2010		6,301
2011		2,960
2012		2,557
	\$	<u>33,783</u>

Lease and service contract costs of approximately \$12.7 million and \$13.1 million were charged to operating expense in 2007 and 2006, respectively.

California Independent System Operator Corporation

Notes to Financial Statements

13. Contingencies and Settlements

GMC

The Company's GMC rates are subject to FERC regulation. Since commencement of operations in 1998, the Company's GMC rates and methodologies have been the subject of challenge by various market participants in proceedings before FERC. Each year FERC has accepted the Company's GMC rates subject to potential refunds that may be determined through subsequent FERC proceedings. As of December 31, 2007, all of the Company's GMC rates are final and are not subject to further refund for any period except 2001 as described below.

In 2001, the Company's GMC was unbundled into three service categories, with separate billing determinants based on load, congestion, and market-related activity. In January 2004, FERC ruled on the 2001 rate filing. The ruling provided a refund to 2001 ratepayers of \$1.8 million plus interest. At December 31, 2007 and 2006, accrued interest payable related to the refund totaled \$0.8 million and \$0.6 million, respectively, which is included in the accounts payable and accrued expenses liability amount. FERC further ruled that certain transactions for 2001 through 2003 be afforded limited exemptions from parts of the GMC. In response, the Company filed a method to reallocate approximately \$5.9 million plus interest among ratepayers. This reallocation will have no financial impact on the Company. In November 2005, FERC affirmed its previous decisions, but ordered the Company to file revised data. In February 2007, the Company filed revised data consistent with the order. A party has protested that filing. The Company is awaiting the Commission's final determination in the matter.

In connection with a settlement with SDG&E regarding GMC transactions on certain shared ownership facilities between 2001 through 2004, SDG&E paid the Company \$7.1 million including interest, through GMC adjustments to regular invoices in March and April 2007. The amounts are included in Grid Management Charges on the Statement of Revenues, Expenses, and Changes in Net Assets for 2007.

The FERC Refund Case

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

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

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

California Independent System Operator Corporation

Notes to Financial Statements

Market billing disputes in good faith negotiations

As part of its Tariff, the Company has a dispute resolution process for market participants, RMR owners and transmission owners to register disagreements as to information in the settlement statements or billing amounts for market and RMR activity. In accordance with the provisions of the Tariff, once good faith efforts, known as a GFN, have been made to negotiate and resolve disputes, written claims may be submitted either to mediation or arbitration. There is one dispute in GFN that totals approximately \$1.0 million representing disagreements with the Company's financial settlement of market transactions and related Tariff interpretations.

Other disputes, some of which are material in amount, have been filed with the Company. Management believes that any settlements or market adjustments relating to these disputes and the matters in GFN would be resettled against the market with no liability to the Company.

There are two material unresolved market-related disputes outstanding at December 31, 2007 for which it is possible that the claim might not be fully resettled against market participants and, as such, could result in material liability to the Company as described below.

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

Public Utility District No. 2 of Grant County, Washington (Grant County) has brought an action in federal court against the Company, Southern California Edison Corporation, and SDG&E, as well as a claim in the bankruptcy of the Cal PX, both of which seek payment of unpaid sales of energy during November and December 2000 amounting to \$18.3 million plus interest. Grant County was one of many market participants that were not paid in full due to the bankruptcy of the Cal PX. Management believes the Company has operated within its FERC approved Tariff, and in particular that the obligation to pay Grant County rests with the Cal PX (the defaulting scheduling coordinator) and not the Company. In November 2004, FERC ruled to this effect in favor of the Company, and the Cal PX did not challenge that ruling. As there are funds in both the Cal PX and PG&E bankruptcies held for the ultimate settlement of the claims in those bankruptcies, and because of FERC's ruling described above, management does not believe this matter will ultimately result in a liability of the Company, and accordingly, no liability has been accrued in the accompanying financial statements.

Indemnification

The Company's by-laws require its annual financial statements to include disclosures about certain payments made to or on behalf of officers and Board members. There were no payments by the Company on behalf of any Board member in 2007. In 2006 payments of \$17,000 for legal fees were made in connection with a Board member's response to allegations by an employee of the Company and the associated threatened action. The Board member is required to repay these amounts to the Company in the event it is determined that he is not entitled to indemnification.

California Independent System Operator Corporation

Notes to Financial Statements

Other matters

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

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APPENDIX C

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

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

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

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

“Additional Payments” means certain amounts (but not including Repayment Installments) payable to the Infrastructure Bank, the Trustee or other Persons, as more particularly set forth in the Loan Agreement.

“Agreement” or “Loan Agreement” means the Loan Agreement, of even date with the Indenture, between the Infrastructure Bank and the Corporation 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.

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

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

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

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

“Authorized Infrastructure Bank Representative” means the Chair of the Infrastructure Bank, the Executive Director of the Infrastructure Bank, or any person who at the time and from time to time may be designated by the Chair of the Infrastructure Bank by written certificate furnished to the Trustee and the Corporation, as a person authorized to act on behalf of the Infrastructure Bank.

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

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

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

“Bond Debt Service” means, for any period of time, the sum of (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 Installments 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 Installments during such period.

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

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

“Bond Register” means the registration books for the ownership of Bonds maintained by the Trustee 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 which is not a Saturday, a Sunday, a day on which banks located in the city in which the Principal Corporate Trust Office of the Trustee is required or authorized to be closed or a day on which the New York Stock Exchange is closed.

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

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

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

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

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

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

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

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

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated as of June 1, 2008, between the Corporation and the Trustee, as originally executed or as it may from time to time be supplemented or amended.

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

“Costs” means, with respect to the Project, the sum of the items, or any such item, of the cost of the acquisition, construction, installation, furnishing, equipping, reconstruction, repair, alteration, improvement and extension of the Project to the extent permitted by the Act, including reimbursement of the Corporation for amounts expended for such costs and also including interest accruing in whole or in part on the Bonds prior to the Completion Date, but will not include any Costs of Issuance.

“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 which is 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. For debt service obligations which bear interest at a variable rate, the Corporation will reasonably estimate the amount thereof, thereof, taking into account any swap or other financial agreements which the Corporation may enter into from time to time.

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

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

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

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

“Escrow Agreement” means each of the Escrow Agreements, dated as of June 1, 2008, between the Trustee, as escrow agent for the Prior Bonds and the Corporation relating to the 2000 Series Bonds, the 2004 Series Bonds and 2007 Series Bonds, respectively.

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

“Existing Parity Obligations” means the 2000 Loan Agreement, the 2004 Loan Agreement, and the 2007 Loan Agreement.

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

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

“Government Obligations” means any of the following:

- (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 charges for services offered by the Corporation that are intended to recover the Corporation’s start-up and development costs and the costs associated with the ongoing operation and maintenance (including financing costs) of the Corporation’s controlled grid.

“Grid Management Charge Formula” means the formula according to which the Grid Management Charge is calculated, which is set forth in the Tariff and which includes: (i) budgeted annual operating costs, (ii) financing costs and (iii) budgeted annual costs of pay-as-you-go capital expenditures and reasonable coverage of debt service obligations.

“Information Services” means Financial Information, Incorporated’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Municipal News Report; and Kenny S&P, 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or no such services, as the Corporation may designate in a Certificate of the Corporation delivered to the Trustee and the Infrastructure Bank.

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

“Interest Payment Date” means each February 1 and August 1, commencing August 1, 2008.

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

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

Export-Import Bank;

Rural Economic Community Development Administration;

U.S. Maritime Administration;

Small Business Administration;

U.S. Department of Housing & Urban Development (PHAs);

Federal Housing Administration; and

Federal Financing Bank.

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

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

Obligations of the Resolution Funding Corporation (REFCORP)

Senior debt obligations of the Federal Home Loan Bank System

(3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by Standard & Poor's and maturing not more than 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 with any bank, insurance company, broker-dealer or corporation if:

(a) at the time of such investment, (i) such bank has an unsecured, uninsured and unguaranteed obligation rated Aa2 or better by Moody's and AA or better by Standard & Poor's, or (ii) such insurance company or corporation has an unsecured, uninsured and unguaranteed rating or claims paying ability rated AAA by Moody's and AAA by Standard & Poor's; or such bank or broker-dealer has an unsecured, uninsured and unguaranteed obligation rated A2 or better by Moody's and A or better by Standard & Poor's provide that such broker-dealer or bank also

collateralize the obligation under the investment agreement with U.S. Treasuries, GNMA's, FNMA's or FHLMC's; and

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

"Issue Date" means June 19, 2008.

"Loan 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.

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

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

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

"Nominee" has the meaning specified in the Indenture.

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

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

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

"Operating Fund" means the ISO's accounts # 12334-25417, 12338-26207, 12336-25416, 12332-25418 and 12332-26540 maintained by the Corporation at Bank of America's office located at 555 Capitol Mall, Suite 150, Sacramento, California 94814-56503 and the ISO's account #26877 maintained by the Corporation at Deutsche Bank National Trust Company, 60 Wall Street, 27th Floor, New York, New York 10005, account 504224291 maintained by the Corporation at UBS Financial Services Inc. 1610 Aden Way, Suite 200, Sacramento, California 95815, account 12716536

maintained by the Corporation at Wells Fargo Institutional Securities, LLC, 400 Capital Mall, Sacramento, CA 95814 and account 4 501147840-00 maintained by the Corporation at Mellon Financial Markets LLC, One Mellon Bank Center, Pittsburg, PA 15230. The Corporation will be permitted to amend the definition of Operating Fund to add different bank and brokerage accounts therein.

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

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

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

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

- (a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (b) Bonds in lieu of or in substitution for which other Bonds will have been authenticated and delivered by the Trustee pursuant to the Indenture; and
- (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.

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

“Parity Obligations” means, collectively, (1) the Existing Parity Obligations, (2) the Loan Agreement, and (3) 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.

“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.

“Prior Bonds” means the 2000 Series Bonds, the 2004 Series Bonds and the 2007 Series Bonds.

“Prior Trustee” will mean Deutsche Bank National Trust Company in its capacity as trustee for the Prior Bonds.

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

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

“Principal Installment Date” means any date on which any Bonds mature.

“Project” means the land, improvements, computer and telecommunications hardware and software systems and other facilities and equipment used to provide operational control services in connection with electric transmission facilities, generally described in Exhibit A to the Agreement.

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

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

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

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

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

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

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

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

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

“Reserve Account Requirement” means as of any date of calculation, an amount which will be equal to the least of (a) 10% of the proceeds of the Bonds, (b) maximum annual debt service with respect to the Series Bonds Outstanding, or (c) 125% of average annual debt service with respect to the Bonds. Annual debt service and average annual debt service, for purposes of this definition, will be calculated on the basis of 12 month periods as specified in the Tax Certificate.

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

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

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

“Revenues” means all receipts, installment payments and other income derived by the Infrastructure Bank or the Trustee under the Loan 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 Rebate Fund and any account therein), including all Repayment Installments, and any other payments made by the Corporation as contemplated by the Loan Agreement; provided, however, that such term will not include Additional Payments.

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

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

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

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

“SID” means the state information depository, if any, of the State recognized by the Securities and Exchange Commission pursuant to Rule 15c2-12. As of the Issue Date there is no SID.

“Standard & Poor’s” means Standard & Poor’s Ratings Service, a Division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a nationally-recognized statistical rating organization, then the

term “Standard & Poor’s” will be deemed to refer to any other nationally-recognized statistical rating organization selected by the Infrastructure Bank following consultation with the Corporation.

“State” means the State of California.

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

“Tariff” means the Corporation Tariff and Pro Forma Agreements as posted from time to time pursuant to an order of the Federal Energy Regulatory Commission. References contained in the Agreement to specific sections of the Tariff will mean the Tariff as posted on June 3, 2008.

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

“Tax-Exempt” means, with respect to interest on any obligations of a state or local government, including the 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.

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

“Trustee” means Deutsche Bank National Trust Company, a national banking association organized under the laws of the United States of America, and its successors and assigns or any successor Trustee appointed pursuant to the 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 Project” means the project financed with the proceeds of the 2000 Series Bonds, as described in the 2000 Indenture.

“2000 Series Bonds” means the California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2000 Series A, 200 Series B, and 2000 Series C authorized and issued pursuant to the 2000 Indenture.

“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 Project” means the project financed with the proceeds of the 2004 Series Bonds, as described in the 2004 Indenture.

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

“2007 Construction Fund” means the 2007 Construction Fund established pursuant to the Indenture.

“2007 Indenture” means that certain Indenture of Trust, dated as of April 1, 2007, by and between the Infrastructure Bank and Deutsche Bank National Trust Company, as trustee.

“2007 Loan Agreement” means that certain Loan Agreement, dated as of April 1, 2007, by and between the Infrastructure Bank and the Corporation.

“2007 Project” means the project financed with the proceeds of the 2007 Series Bonds, as described in the 2007 Indenture.

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

“2008 Construction Fund” means the 2008 Construction Fund established pursuant to the Indenture.

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

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

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

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE OF TRUST

Number, Gender and Variants. The singular form of any word used in the Indenture, including the terms defined above, will include the plural, and vice versa. The use in the Indenture of a word of any gender will include all genders. The terms defined above will include all variants of the defined terms.

The Bonds

Execution of Bonds. The Bonds will be signed in the name and on behalf of the Infrastructure Bank with the manual or facsimile signature of its Chair or Executive Director. The

Bonds will then be delivered to the Trustee for authentication by the Trustee. In case any official who will have signed any of the Bonds will cease to be such official before the Bonds so signed or attested will have been authenticated or delivered by the Trustee or issued by the Infrastructure Bank, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issuance, will be as binding upon the Infrastructure Bank as though those who signed and attested the same had continued to be such officials of the Infrastructure Bank. Also, any Bond may be signed on behalf of the Infrastructure Bank by such persons as on the actual date of the execution of such Bond will be the proper officials although on the nominal date of such Bond any such person will not have been such official.

Only such of the Bonds as will bear thereon a certificate of authentication in the form recited in Exhibit A of the Indenture, as applicable, manually executed by the Trustee, will be valid or obligatory for any purpose or entitled to the benefits of the Indenture, and such certificate of the Trustee will be conclusive evidence that the Bonds so authenticated have been duly authenticated and delivered under the Indenture and are entitled to the benefits of the Indenture. Upon authentication of any Bond, the Trustee will set forth on such Bond the date of such authentication.

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 Trustee required to be kept pursuant to the provisions of the Indenture, by the Person in whose name it is registered, in person or by its duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any Bond will be surrendered for registration of transfer, the Infrastructure Bank will execute and the Trustee will authenticate and deliver a new Bond or Bonds of the same tenor and in Authorized Denominations. No registration of transfer of Bonds will 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 fifteen (15) days next preceding the date on which the Trustee gives any notice of redemption, nor will any registration of transfer of Bonds called for redemption be required.

Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds of the same tenor and in Authorized Denominations. The Trustee will require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange, and there will be no other charge to any Owners for any such exchange. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer and exchange will be paid by the Corporation. No exchange of Bonds will 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 fifteen (15) days next preceding the date on which the Trustee gives notice of redemption, nor will any exchange of Bonds called for redemption be required.

Bond Register. The Trustee will keep or cause to be kept at its Principal Corporate Trust Office the Bond Register which will be sufficient for the registration of ownership and the registration of transfer of ownership of the Bonds. The Bond Register will at all times, during regular business hours, be open to inspection by any Owner or such Owner's agent duly authorized in writing, the Infrastructure Bank or the Corporation; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Bond Register, ownership of the Bonds as provided in the Indenture.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond will become mutilated, the Infrastructure Bank, upon the request and at the expense of the Owner of said Bond, will execute, and the Trustee will 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 Trustee of the Bonds so mutilated. Every mutilated Bond so surrendered to the Trustee will be cancelled by it and destroyed and, upon the written request of the Infrastructure Bank, a certificate evidencing such destruction will be delivered to the Infrastructure Bank, with a copy to the Corporation. If any Bond issued under the Indenture will be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Infrastructure Bank, the Corporation and the Trustee, and if such evidence be satisfactory to them and indemnity satisfactory to them will be given by or on behalf of the Owner of such lost, destroyed or stolen Bond, the Infrastructure Bank, at the expense of the Owner, will execute, and the Trustee will 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 will have matured, instead of issuing a substitute Bond the Trustee 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 Trustee. Any Bond issued under the provisions of this paragraph in lieu of any Bond mutilated or alleged to be lost, destroyed or stolen will 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 will be at any time enforceable by anyone, and will 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 will establish the “2008 California Independent System Operator Corporation Construction Fund” (the “2008 Construction Fund”) and the “2007 California Independent System Operator Construction Fund (the “2007 Construction Fund” and, collectively, the “Construction Funds”). The Trustee will establish within the Construction Funds such accounts and subaccounts as are specified upon written direction from an Authorized Corporation Representative as may be necessary or convenient to carry out the purposes of the Tax Certificate.

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

Each such requisition will be sufficient evidence to the Trustee of the facts stated therein and the Trustee will have no duty to confirm the accuracy of such facts. Upon receipt of each such requisition, signed by an Authorized Corporation Representative, the Trustee will 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 2008 Construction Fund or the payments of Costs of the 2007 Project from the 2007 Construction Fund, or provision having been made for payment of such Costs not yet due by retaining sufficient amounts to pay such Costs in the applicable Construction Fund or otherwise as directed in such certificate, the Trustee

will transfer any remaining balance in the applicable Construction Fund (together, in the case of the delivery of a certificate pursuant to the Agreement with respect to the 2008 Construction Account, with any remaining amounts on deposit in the Capitalized Interest Account in the Bond Fund) into the Bond Fund. Upon such transfer the applicable Construction Fund will be closed.

(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 Funds will be transferred to the the Bond Fund, and all moneys in the Bond Fund will be used to pay or redeem Bonds.

Costs of Issuance Fund. The Trustee will establish the Costs of Issuance Fund (the “Costs of Issuance Fund”). The moneys in the Costs of Issuance Fund will be held by the Trustee in trust and applied to the payment of Costs of Issuance, upon a requisition filed with the Trustee in the form attached to the Indenture as Exhibit C, signed by an Authorized Corporation Representative. All payments from the Costs of Issuance Fund will be reflected in the Trustee’s regular accounting statements. Any amounts remaining in the Costs of Issuance Fund six months following the Issue Date of the Bonds will be transferred to the 2008 Construction Fund and applied as provided in the Indenture.

Pledge and Assignment; Establishment of Funds

Pledge and Assignment.

(a) Subject to the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues, and all amounts and securities in the funds held by the Trustee under the Indenture (other than the Rebate Fund), are irrevocably pledged to the punctual payment of the principal of and interest on the Bonds. Said pledge will constitute a first lien on the Revenues and the other assets pledged therefor pursuant to the Indenture for the payment of the Bonds in accordance with the terms of the Indenture. All Revenues and the other assets pledged under the Indenture will be held in trust for the benefit of the Owners from time to time of the Bonds but will nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

(b) The Infrastructure Bank transfers, assigns and sets over to the Trustee all of the Revenues and any and all rights and privileges, other than the Reserved Rights, it has under the Loan Agreement, including, without limitation, the right to collect and receive directly all of the Revenues and the right to hold and enforce any security interest; and any Revenues collected or received by the Infrastructure Bank will be deemed to be held, and to have been collected or received by the Infrastructure Bank as the agent of the Trustee and will forthwith be paid by the Infrastructure Bank to the Trustee. No rights of the Infrastructure Bank under the Tax Certificate, including those referenced in the Loan Agreement, are assigned to the Trustee. The assignment under the Indenture is to the Trustee solely in its capacity as Trustee under the Indenture and subject to the provisions of the Indenture and in taking or refraining from taking any action under the Loan Agreement pursuant to such assignment, the Trustee will be entitled to the protections and limitations from liability afforded it as Trustee under the Indenture. The Trustee also will 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 Loan Agreement and any other security agreement with respect to the Loan Agreement, the Project, or the Bonds, other than the Tax Certificate, 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.

(c) The Borrower may at its sole discretion from time to time deliver to the Trustee such additional or other security which is permitted by the Indenture to secure the payment of the principal of and interest on the Bonds and any such additional or other security delivered by the Corporation will be pledged to such payment, provided that there is delivered to the Trustee and the Infrastructure Bank 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 any of the Bonds.

(d) The Bonds will not constitute a debt or liability of the State or any political subdivision thereof other than the limited obligation of the Infrastructure Bank payable solely from Revenues and the other amounts pledged therefor under the Indenture, or 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 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 Owner or Beneficial Owner of any Bond will have any right to demand payment of the principal of, 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. The issuance of the Bonds will 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.

Notwithstanding anything contained in the Indenture, the Infrastructure Bank will 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 and Additional Payments, 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 only by the Revenues and the other assets pledged for such payment under the Indenture.

Bond Fund. Upon the receipt thereof, the Trustee will deposit all Revenues in California Independent System Operator Corporation Series 2008 Bond Fund” (the “Bond Fund”), which the Trustee will establish and maintain and hold in trust, and which will be disbursed and applied only as hereinafter authorized. Except as provided in the Indenture, moneys in the Bond Fund will be used solely for the payment of the principal of and interest on the Bonds as the same will become due whether at maturity or upon redemption or acceleration.

The Trustee will deposit in the Bond Fund from time to time, upon receipt thereof, all Repayment Installments received by the Trustee from or on behalf of the Corporation for deposit in the Bond Fund, any income received from the investment of moneys on deposit in the Bond Fund and any other Revenues, including any prepayment amounts received under the Loan Agreement from or for the account of the Corporation.

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

Except to the extent such moneys are required to be held for the payment of principal of or interest on the Bonds then due and payable or to effect the defeasance of Bonds pursuant to the

Indenture, 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 or both) exists thereunder, on the fifth day after each Interest Payment Date, the Trustee, unless otherwise instructed by the Corporation, will return to the Corporation (free and clear of the pledge and lien of the Indenture) any moneys then on deposit in the Bond Fund or will deposit such funds in the Rebate Fund if so instructed by the Corporation.

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

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

<i>Payment Date</i>	<i>Amount</i>
August 1, 2008	\$257,346.38
February 1, 2009	\$927,989.19

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

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

Any interest, profit or loss on any investments of moneys in any fund or account established under the Indenture will be credited or charged to the respective fund or account from which such investments are made. The Trustee may sell or present for redemption any obligations so purchased whenever it will be necessary in order to provide moneys to meet any payment, and the Trustee will

not be liable or responsible for any loss, fee, tax or other charge resulting from any investment, reinvestment or liquidation under the Indenture. Unless otherwise directed by the Corporation, the Trustee may make any investment permitted under the Indenture through or with its own commercial banking or investment departments.

The Infrastructure Bank and the Corporation by its execution of the Tax Certificate acknowledge 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 pursuant to the Indenture.

Amounts Remaining in Funds. The Trustee, unless otherwise instructed by the Corporation, will transfer to the Corporation (free and clear of the pledge and lien of the Indenture) all 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 will have been made as provided in the Indenture, (ii) the fees, charges and expenses of the Trustee due and owing in accordance with the Agreement and the Indenture and (iii) all other amounts required to be paid under the Loan Agreement and the Indenture, including the Rebate Requirement.

Application of Reserve Account.

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

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

(c) In lieu of maintaining and depositing moneys in the Reserve Account, the Corporation may deposit with the Trustee a letter of credit, subject to the requirements of the Indenture. Any such letter of credit will permit the Trustee to draw amounts thereunder for deposit in the Reserve Account which, together with any moneys on deposit in, or surety bond policy available to fund, the Reserve Account, are not less than the Reserve Account Requirement and which may be applied to any purpose for which moneys in the Reserve Account may be applied. The Trustee will make a drawing on such letter of credit (i) whenever moneys are required for the purposes for which Reserve Account moneys may be applied, and (ii) prior to any expiration or

termination thereof; provided, however, that no such drawing need be made if other moneys or an irrevocable surety bond are available in the Reserve Account in the amount of the Reserve Account Requirement.

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

(e) The right of the Corporation to utilize a letter of credit or surety bond pursuant to the Indenture is subject to the condition that, at the time of the deposit of the letter of credit or surety bond, the unsecured obligations of the issuer of the letter of credit or provider of the surety bonds are rated not lower than Aa/AA by Moody's and S&P and that prior to the deposit of such letter of credit or surety bond, each of the rating agencies then rating the Series 2008 Bonds or any Parity Bonds at the request of the Corporation is notified of such proposed withdrawal and the deposit of such letter of credit or surety bond will not result in a withdrawal or downgrading of the Series 2008 Bonds.

Covenants of the Issuer

Payment of Principal and Interest. The Infrastructure Bank will punctually pay, but only out of Revenues and the other assets pledged therefor pursuant to the Indenture, the principal of and interest on 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 will be made by the Trustee as provided in the Indenture. When and as paid in full, all Bonds will be delivered to the Trustee and will forthwith be cancelled by the Trustee, who will 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 will 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 will 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 will be extended or funded, whether or not with the consent of the Infrastructure Bank, such claim for interest so extended or funded will 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 will not have been so extended or funded.

Preservation of Revenues. The Infrastructure Bank will not waive any provision of the Loan 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 Loan Agreement assigned to the Trustee under the Indenture, or the Trustee's enforcement of any such rights

thereunder, without the prior written consent of the Trustee. The Trustee may give such written consent, and may itself take any such action, or consent to any Amendment, only in accordance with the provisions of the Indenture.

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

Arbitrage Covenants; Rebate Fund.

(a) 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.

(b) The Trustee will establish and maintain a fund separate from any other fund established and maintained under the Indenture designated “California Independent System Operator Corporation Series 2008 Rebate Fund” (called the “Rebate Fund” in the Indenture). Within the Rebate Fund, the Trustee will maintain such accounts as will 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 will 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 of America, and none of the Corporation, the Infrastructure Bank nor the Owners will have any rights in or claim to such moneys. All amounts deposited into or on deposit in the Rebate Fund will be governed by the Indenture, by the Loan Agreement and by the Tax Certificate. The Trustee will 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 will not be required to take any actions thereunder in the absence of written directions from the Corporation.

(c) Upon receipt of the Corporation’s written instructions, the Trustee will remit part or all of the balances in the Rebate Fund to the United States of America, 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 Loan Agreement will be withdrawn and remitted to the Corporation upon its written request.

(d) Notwithstanding any provision of the Indenture, the obligation of the Corporation to pay the Rebate Requirement to the United States of America and to comply with all

other requirements of the Indenture, the Loan Agreement and the Tax Certificate will survive the defeasance or payment in full of the Bonds.

(e) Notwithstanding any of the applicable provisions of the Indenture the Loan Agreement, if the Corporation will provide to the Infrastructure Bank and the Trustee an Opinion of Bond Counsel that any specified action required under applicable provisions of the Indenture or the Loan 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 will be deemed to be modified to that extent.

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

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

Default

Events of Default; Acceleration; Waiver of Default.

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

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

(ii) Failure to make due and punctual payment of the principal of any Outstanding Bond when such payment will have become due and payable, whether at the stated maturity thereof, or upon the maturity thereof by declaration;

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

(iv) 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, will have been given to the Infrastructure Bank and the Corporation by the Trustee, or to the Infrastructure Bank, the Corporation and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding;

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

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

(b) Upon the occurrence and continuation of an Event of Default the Trustee, may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding, will, by notice in writing delivered to the Corporation, with copies of such notice being sent to the Infrastructure Bank, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest will thereupon become and be immediately due and payable. Notwithstanding the foregoing, the Trustee will not be required to take any action upon the occurrence and continuation of an Event of Default under paragraph (a)(iii) or (a)(iv) 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 Indenture, the Trustee will immediately declare all indebtedness payable under the Loan Agreement with respect to the Bonds to be immediately due and payable in accordance with the Loan Agreement and may exercise and enforce such rights as exist under the Loan Agreement.

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

Institution of Legal Proceedings by Trustee. If one or more of the Events of Default under the Indenture will happen and be continuing, the Trustee in its sole discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction in its sole discretion therefor (including with respect to any expenses or liability the Trustee may incur) will, proceed to protect or enforce its rights or the rights of the Owners under the Act or under the 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 in the Indenture granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee will deem most effectual in support of any of its rights or duties under the Indenture.

Application of Moneys Collected by Trustee. Any moneys collected by the Trustee from the Corporation, and any moneys in the Bond Fund, on or after the occurrence of an Event of Default will be applied in the order following, at the date or dates fixed by the Trustee and, in the case of

distribution of such moneys on account of principal or interest, upon presentation of the Bonds, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

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

Second: In case none of the principal of the Outstanding Bonds will 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.

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

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

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

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

Trustee Appointed Agent for Owners. The Trustee is appointed the agent and attorney of the Owners 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, will 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 Owners of the Bonds, it will have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee will not, unless there no longer continues an Event of Default under the Indenture, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been

filed with it a written request signed by the Owners of at least a majority in principal amount of the 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 will be brought in its name as Trustee of an express trust for the equal and ratable benefit of the Owners, subject to the provisions of the Indenture.

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

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

The right of any Owner to receive payment of the principal of and interest on such Bond out of Revenues, as provided in the Indenture and such Bond, 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, will not be impaired or affected without the consent of such Owner, notwithstanding the foregoing provisions of the Indenture.

The Trustee

Duties, Immunities and Liabilities of Trustee. The Trustee will, 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 Trustee at all times will, perform such duties and only such duties as are specifically set forth in the Indenture. The Trustee will, 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 will be construed to relieve the Trustee 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 will at all times be determined solely by the express provisions of the Indenture; the Trustee will 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 will be implied into the Indenture which are adverse to the Trustee; and

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

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

(ii) the Trustee will have the power to negotiate and enter into intercreditor agreements with respect to the common security for the payment of the Bonds;

(iii) the Trustee will not be personally liable with respect to any action taken, permitted or omitted by it in good faith in accordance with the direction of the Owners 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 exercising any trust or power conferred upon the Trustee under the Indenture; and

(iv) in the absence of bad faith on the part of the Trustee, the Trustee 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, 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, the Trustee, will 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 thereunder by or through attorneys, agents or receivers, and will be entitled to advice of counsel concerning all matters of trust and concerning its duties thereunder and the Trustee will not be responsible for any misconduct or negligence on the part of any attorney or agent appointed with due care by it thereunder.

None of the provisions contained in the Indenture will require the Trustee 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 Loan Agreement will not be construed as a duty or obligation under the Indenture.

The Trustee agrees to accept and act upon instructions or directions pursuant to the Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee will have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate will be amended and replaced whenever a person is to be added or deleted from the listing. If the Corporation elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method), the Trustee's understanding

of such instructions will be deemed controlling. If the Trustee determines that any such instruction or direction is ambiguous, the Trustee will confirm such instruction or direction with the Corporation. Absent the Trustee's negligence or willful misconduct, the Trustee will not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. Absent the Trustee's negligence or willful misconduct, the Corporation agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

The Trustee will not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

The Trustee will not be liable in connection with the performance of its duties under the Indenture except for its own negligence or willful misconduct.

Right of Trustee to Rely upon Documents, Etc. Except as otherwise provided in the Indenture:

(a) The Trustee may rely and will be protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, direction, demand, election or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Any notice, request, direction, election, order or demand of the Infrastructure Bank mentioned in the Indenture will be deemed to be sufficiently evidenced by an instrument signed in the name of the Infrastructure Bank by an Authorized Infrastructure Bank Representative, and any resolution of the Infrastructure Bank will be evidenced to the Trustee by a Certified Resolution.

(c) The Trustee may consult with counsel of its selection (who may include its own counsel or counsel for the Infrastructure Bank or Bond Counsel) and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance with the opinion of such counsel.

(d) Whenever in the administration of the trusts of the Indenture the Trustee will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a Certificate of the Infrastructure Bank; and such Certificate of the Infrastructure Bank will, in the absence of negligence or bad faith on the part of the Trustee, be full warrant to the Trustee, for any action taken or suffered by it under the provisions of the Indenture upon the faith thereof.

(e) The Trustee will have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

(f) The Trustee will not be deemed to have knowledge of an Event of Default under the Indenture, under the Loan Agreement or any other document related to the Bonds unless it will have actual knowledge at its Principal Corporate Trust Office.

(g) Before taking any action under the Indenture the Trustee may require indemnity satisfactory to the Trustee be furnished from any expenses and to protect it against any liability it may incur under the Indenture.

(h) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

Trustee Not Responsible for Recitals. The Trustee assumes no responsibility for the correctness of the recitals contained in the Indenture except (with respect to the Trustee) for the Certificate of Authentication thereon. The Trustee makes no representations as to the validity or sufficiency of the Indenture or of the Bonds. The Trustee will not be accountable for the use or application by the Infrastructure Bank or the Corporation of any of the Bonds authenticated or delivered under the Indenture or of the proceeds of such Bonds except to the extent specifically provided in the Indenture.

Right of Trustee to Acquire Bonds. The Trustee and its officers and directors may acquire and hold, or become the pledgee of, Bonds and otherwise deal with the Infrastructure Bank in the manner and to the same extent and with like effect as though it were not Trustee under the Indenture.

Moneys Received by Trustee to Be Held in Trust. Subject to the provisions of the Indenture, all moneys received by the Trustee will, until used or applied as provided in the Indenture, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law or as otherwise provided in the Indenture.

Compensation and Indemnification of Trustee. The Trustee will be entitled to reasonable compensation for all services rendered by the Trustee in the execution of the trusts created and in the exercise and performance of any of the powers and duties under the Indenture of the Trustee, which compensation will not be limited by any provision of law in regard to the compensation of a trustee of an express trust, and the Loan Agreement will require the Corporation to pay or reimburse the Trustee, upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee, in accordance with any of the provisions of the Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. If any property, other than cash, will at any time be held by the Trustee, subject to the Indenture, or any Supplemental Indenture, as security for the Bonds, the Trustee, if and to the extent authorized by a receivership, bankruptcy or other court of competent jurisdiction or by the instrument subjecting such property to the provisions of the Indenture as such security for the Bonds, will be entitled (but not required) to make advances for the purpose of preserving such property or of discharging tax liens or other prior liens or encumbrances thereon. The Loan Agreement will also require the Corporation to provide certain indemnification to the Trustee. Notwithstanding the foregoing, prior to seeking indemnity the Trustee will make timely payments of principal of and

interest on the Bonds with moneys on deposit in the Bond Fund as provided in the Indenture, and will accelerate the payment of principal on the Bonds without seeking indemnification from the Infrastructure Bank, the Corporation, or any Owner. Upon the occurrence and continuance of an Event of Default under the Indenture, and subject to the Indenture, the Trustee will have a lien prior to the Bonds as to all property and funds held by it for any amount owing to it or any predecessor Trustee pursuant to the Indenture or the Loan Agreement and the rights of the Trustee to compensation for its services and to payment or reimbursement for its costs, expenses, or advances will have priority over the Bonds in respect of all property or funds held or collected by the Trustee as such and other funds held in trust by the Trustee for the benefit of the Owners of particular Bonds; provided, however, that neither the Trustee nor any predecessor Trustee will have any lien or claim against any moneys on deposit in the Rebate Fund for payment of any such compensation, reimbursement or other amounts.

When the Trustee incurs expenses or renders services in connection with an Event of Default specified in the Loan Agreement and the Indenture, such expenses (including the reasonable charges and expenses of its counsel and agents) and the compensation for such services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law. The provisions under the caption "Compensation and Indemnification of Trustee" will survive the termination of the Indenture and the resignation or removal of the Trustee.

Qualifications of Trustee. There will at all times be a Trustee under the Indenture which will be a 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 seventy-five million dollars (\$75,000,000), subject to supervision or examination by federal or state authority. If such corporation or banking association publishes 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 the Indenture the combined capital and surplus of such corporation or banking association will 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 will cease to be eligible in accordance with the provisions of the Indenture, the Trustee will resign immediately in the manner and with the effect specified in the Indenture.

Resignation and Removal of Trustee and Appointment of Successor Trustee.

(a) The Trustee may at any time resign by giving written notice to the Infrastructure Bank, the Corporation and by giving Notice by Mail to the Owners of such resignation. The Trustee will 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, will promptly appoint a successor Trustee by an instrument in writing. If no successor Trustee will have been so appointed and have accepted appointment within forty-five (45) days after the giving of such notice of resignation by the Trustee, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, or any Owner who has been a bona fide Owner 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. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, appoint a successor Trustee.

(b) In case at any time either of the following will occur:

(i) the Trustee will cease to be eligible in accordance with the provisions of the Indenture and will fail to resign after written request therefor by the Infrastructure Bank, or by any Owner who has been a bona fide Owner for at least six (6) months, or

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

then, in any such case, the Infrastructure Bank may remove the Trustee, and, with the advice of the Corporation, appoint a successor Trustee by an instrument in writing. Upon any removal of the Trustee, any outstanding fees and expenses of such former Trustee will be paid in accordance with the Indenture.

(c) The Infrastructure Bank, in the absence of an Event of Default, or the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding may, with the advice of the Corporation, at any time, the Infrastructure Bank will, remove the Trustee, and, with the advice of the Corporation, appoint a successor Trustee, by an instrument or concurrent instruments in writing signed by the Infrastructure Bank or such Owners, as the case may be.

(d) Any resignation or removal of the Trustee, and appointment of a successor Trustee, pursuant to any of the provisions of the Indenture will become effective only upon acceptance of appointment by the successor Trustee as provided in the Indenture.

Acceptance of Trust by Successor Trustee. Any successor Trustee appointed as provided in the Indenture will execute, acknowledge and deliver to the Infrastructure Bank, the Corporation and to its predecessor Trustee an instrument accepting such appointment under the Indenture, and thereupon the resignation or removal of the predecessor Trustee will become effective and such successor Trustee, without any further act, deed or conveyance, will 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 therein; but, nevertheless, on the Written Request of the Infrastructure Bank or the request of the successor Trustee, the Trustee ceasing to act will execute and deliver an instrument transferring to such successor Trustee, upon the trusts therein expressed, all the rights, powers and trusts of the Trustee so ceasing to act. Upon request of any such successor Trustee, the Infrastructure Bank will 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 will, 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 will accept appointment as provided in the Indenture unless at the time of such acceptance such successor Trustee will be eligible under the provisions of the Indenture.

Upon acceptance of appointment by a successor Trustee as provided in the Indenture, the successor Trustee will give the Owners, 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.

Merger or Consolidation of Trustee. Any corporation or banking association into which the Trustee may be merged or with which it may be consolidated, or any corporation or banking association resulting from any merger or consolidation to which the Trustee will be a party, or any corporation or banking association succeeding to all or substantially all of the corporate trust business of the Trustee, will be the successor of the Trustee under the Indenture without the execution or filing of any paper or any further act on the part of any of the parties to the Indenture, anything therein to the contrary notwithstanding, provided that such successor Trustee will be eligible under the provisions of the Indenture.

Accounting Records and Reports; Financing Statements. The Trustee will keep proper books of record and account in accordance with accounting standards in which complete and correct entries will be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the Revenues and the proceeds of the Bonds received by the Trustee. Such records will specify the account or fund to which each investment (or portion thereof) held by the Trustee is to be allocated and will set forth, in the case of each Investment Security, (a) its purchase price, (b) its value at maturity or its sale price, as the case may be, (c) the amounts and dates of any payments to be made with respect thereto and (d) such documentation and evidence as is required to be obtained by the Corporation to establish that the requirements of the Tax Certificate have been met. Such records will be open to inspection by the Infrastructure Bank, the Corporation, and by any Owner at any reasonable time during regular business hours on reasonable notice. The Trustee will furnish to the Corporation and, upon request, the Infrastructure Bank, monthly statements of all investments made by the Trustee and all funds and accounts held by the Trustee. The Trustee will maintain such records for six years following the discharge of all Outstanding Bonds.

The Trustee will furnish to any Owner who may make written request therefor a copy of the most recent audited financial statements of the Corporation that are in the possession of the Trustee. The Trustee will have no responsibility or liability with respect to the Corporation's failure to provide such statements, and the Trustee will not be required to compel the Corporation to provide any such statements.

The Trustee will not be responsible for the preparation or filing of any UCC financing statements or continuation statements under the Indenture.

Tax Certificate. The Trustee covenants and agrees that it will comply with all written instructions of the Corporation given in accordance with the Tax Certificate and will take any and all action as may be necessary in accordance with such written instructions. The Trustee acknowledges receipt of the Tax Certificate and acknowledges that the provisions of the Tax Certificate are incorporated in the Indenture by reference as provided in the Indenture. The Trustee will not be accountable for the use by the Corporation of the proceeds of the Bonds. The Trustee understands that as the tax payer only the Infrastructure Bank has a right to representation before the Internal Revenue Service in any examination or audit.

Appointment of Co-Trustee. In the event the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies in the Indenture granted to the Trustee or hold title to the properties, in trust, as therein granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional institution as a separate co-Trustee. In the absence of an Event of Default under the Indenture, the appointment of any such separate co-Trustee will be subject to the

approval of the Infrastructure Bank, following consultation with the Corporation. The following provisions of the Indenture are adapted to these ends.

(a) In the event that the Trustee appoints an additional institution as a separate co-Trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, interest or lien expressed or intended by the Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto will be exercisable by and vest in such co-Trustee but only to the extent necessary to enable such co-Trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such co-Trustee will run to and be enforceable by either of them. Such co-Trustee may be removed by the Trustee at any time, with or without cause.

Should any instrument in writing from the Infrastructure Bank be required by the co-Trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing will, on request, be executed, acknowledged and delivered by the Infrastructure Bank. In case any co-Trustee, or a successor, will become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such co-Trustee, so far as permitted by law, will vest in and be exercised by the Trustee until the appointment of a successor to such co-Trustee.

Modification of Indenture, Documents

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

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

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision contained in the 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;

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

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

(h) to change Exhibit A to the Loan Agreement in accordance with the provisions thereof and of the Tax Certificate;

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

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

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

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

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

Upon receipt by the Trustee of: (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 the applicable terms of the Indenture; (iii) in the case of a Supplemental Indenture, will, upon the execution and delivery thereof, be a valid and binding agreement of the Infrastructure Bank; (iv) will not adversely affect the Tax-Exempt status of interest on the Bonds; and (v) will not materially adversely affect the interests of the Owners of the Bonds; and (3) evidence of the consent of, as required by the Indenture, the Owners, as aforesaid, the Trustee will join with the Infrastructure Bank in the execution of such Supplemental Indenture or will consent to such Amendment; provided, however, that (i) the Trustee will not be obligated to enter into any such Supplemental Indenture which affects the Trustee’s own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its sole discretion, but will not be obligated to, enter into such Supplemental Indenture; and (ii) the Trustee will not enter into such Supplemental Indenture or consent to any Amendment of any Document without first obtaining the Corporation’s written consent thereto.

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

Promptly after the execution by the parties thereto of any Supplemental Indenture or Amendment as provided in the Indenture, the Trustee will mail a notice (prepared by the Corporation) setting forth in general terms the substance of such Supplemental Indenture or such Amendment to the Rating Agencies and each Owner at the address contained in the Bond Register.

Any failure of the Trustee to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture or such Amendment.

Effect of Supplemental Indenture or Amendment. Upon the execution of any Supplemental Indenture or any Amendment to the Loan Agreement pursuant to the provisions of the Indenture or the Loan Agreement, as the case may be, will be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture and the Loan Agreement of the Infrastructure Bank, the Trustee, the Corporation and all Owners of Outstanding Bonds will thereafter be determined, exercised and enforced under the Indenture and under the Loan Agreement subject in all respects to such Supplemental Indentures and Amendments, and all the terms and conditions of any such Supplemental Indenture or Amendment will be part of the terms and conditions of the Indenture or the Loan 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 applicable 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 will 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 Owners of the Bonds then Outstanding, upon surrender for cancellation of such Bonds in equal aggregate principal amounts.

Notice to Rating Agency. The Trustee will give to each Rating Agency notice of any Supplemental Indenture, notice of any Amendment made to the Loan Agreement, notice of any redemption, purchase or defeasance of all of the Bonds, notice of any successor Trustee under the Indenture, and notice of any Events of Default pursuant to the Indenture. 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 will be paid and discharged in any one or more of the following ways:

(a) by the payment of the principal of and interest on all Bonds as and when the same become due and payable; or

(b) by providing for the payment of the principal of and interest on all Bonds as provided in the Indenture; or

(c) by the delivery to the Trustee, for cancellation by it, of all Bonds;

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

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

Discharge of Liability on Particular Bonds.

(a) Any Bond or a portion thereof will be deemed to be paid within the meaning of the Indenture when payment of the principal of 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) will have been provided for by (i) irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment money and/or nonprepayable, noncallable Government Obligations as provided in the Indenture; and (ii) if such Bond or portion thereof is to be redeemed prior to the maturity thereof, notice of such redemption will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for giving such notice.

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

(c) Upon the deposit with the Trustee, in trust, at or before maturity or the redemption date, as applicable, of money and/or nonprepayable, noncallable Government Obligations as provided in the 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, will be deemed to be paid under the Indenture, will no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such money and/or Government Obligations deposited with the Trustee for such purpose, and all liability of the Infrastructure Bank and the Corporation in respect of such Bond, or the applicable portion thereof, will cease, terminate

and be completely discharged, except that the Infrastructure Bank and the Corporation will remain liable for the payment of the principal of and interest on such Bond, or the applicable portion thereof, but only from, and the Owners will thereafter be entitled only to payment (without interest accrued thereon after such redemption date or maturity date) out of, the money and/or Government Obligations deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the 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 will be:

(a) An amount of money 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 will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice, the amount of money to be deposited or held will be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) nonprepayable, noncallable Government Obligations, the principal of and the interest on which when due will provide money at the times and in the amounts sufficient, together with the other moneys held by the Trustee for such purpose (as evidenced by an Accountant's Report) to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the 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 will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice; provided, in each case, that the Trustee will have been irrevocably instructed (by the terms of the 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 will not be responsible for verifying the sufficiency of money and Government Obligation deposited with the Trustee to provide for the payment of the principal of and interest on Bonds pursuant to the Indenture but may conclusively rely for all purposes of the Indenture on an Accountant's Report as to such sufficiency.

Miscellaneous

Successors and Assigns of Infrastructure Bank. All the covenants, stipulations, promises and agreements in the Indenture contained, by or on behalf of the Infrastructure Bank, will bind and inure to the benefit of its successors and assigns, whether so expressed or not. If any of the powers or duties of the Infrastructure Bank will thereafter be transferred by any law of the State, and if such transfer will relate to any matter or thing permitted or required to be done under the Indenture by the Infrastructure Bank, then the body or official of the State who will succeed to such powers or duties will act and be obligated in the place and stead of the Infrastructure Bank as provided in the Indenture.

Limitation of Rights. Nothing in the Indenture or in the Bonds expressed or implied is intended or will be construed to give to any Person other than the Infrastructure Bank, the Trustee,

the Corporation and the Owners of the Bonds any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein or contained in the Indenture; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the Infrastructure Bank, the Trustee, the Corporation, and the Owners of the Bonds.

Waiver of Notice. Whenever in the Indenture the giving of notice to a Person is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Separability of Invalid Provisions. In case any one or more of the provisions contained in the Indenture or in the Bonds will for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provision of the Indenture, but the Indenture will be construed as if such invalid or illegal or unenforceable provision had never been contained in the Indenture.

Evidence of Rights of Owners.

(a) Any request, consent or other instrument required by the Indenture to be signed and executed by Owners may be in any number of concurrent writings of substantially similar tenor and may be signed or executed by such Owners in person or by agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, will be sufficient for any purpose of the Indenture and will be conclusive in favor of the Trustee, the Trustee and the Infrastructure Bank if made in the manner provided in the Indenture.

(b) The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument or writing acknowledged to him or her the execution thereof. The fact and the date of execution of any request, consent or other instrument may also be proved in any other manner which the Trustee may deem sufficient. The Trustee may nevertheless, in its discretion, require further proof in cases where it may deem further proof desirable.

(c) The ownership of Bonds will be proved by the Bond Register.

(d) Any request, consent or vote of the Owner will bind every future Owner of the same Bond and the Owner issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Infrastructure Bank in pursuance of such request, consent or vote.

(e) Except as otherwise provided in the Indenture, in determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are: (i) owned by the Infrastructure Bank, by the Corporation or by any other direct or indirect obligor on the Bonds, or (ii) by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Infrastructure Bank or any other direct or indirect obligor on the Bonds other than the

Guarantor, or in the case of the Corporation its member and the directors, officers and subsidiaries of each the Corporation, the member, or the subsidiary, or in the case of the Guarantor its directors and officers (each a “Controlling Person”), will be disregarded and deemed not to be Outstanding for the purpose of any such determination, provided that, for the purpose of determining whether the Trustee will be protected in relying on any such demand, request, direction, consent or waiver, only Bonds which the Trustee knows to be so owned will be disregarded. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this subsection (e) if the pledgee will certify to the Trustee the pledgee’s right to vote such Bonds and that the pledgee is not a Controlling Person. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel will be full protection to the Trustee. Upon request of the Trustee, the Infrastructure Bank and the Corporation will each specify in a certificate to the Trustee those Bonds disqualified by its ownership or by the ownership of a Controlling Person pursuant to the Indenture and the Trustee may conclusively rely on such certificate.

(f) In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Owners upon such notice and in accordance with such rules and regulations, including the right of the Owners to be represented and vote by proxy, as the Trustee considers fair and reasonable for the purpose of obtaining any such action.

Waiver of Personal Liability. No member, officer, official, agent or employee of the Infrastructure Bank, and no officer, official, agent or employee of the State or any department, board or agency of the State will be individually or personally liable for the payment of the principal or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds; but nothing contained in the Indenture will relieve any such member, officer, official agent or employee from the performance of any official duty provided by law or by the Indenture.

Governing Law; Venue. The Indenture will 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 will be enforceable in the State, and any action arising out of the Indenture will be filed and maintained in the Sacramento County Superior Court, Sacramento, California, unless the Infrastructure Bank waives this requirement.

Execution in Several Counterparts. The Indenture may be executed in any number of counterparts and each of such counterparts will for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Infrastructure Bank and the Trustee will preserve undestroyed, will together constitute but one and the same instrument.

Continuing Disclosure. Pursuant to the Loan Agreement, the Corporation will, at any time required by Rule 15c2-12, undertake the continuing disclosure requirements for the Bonds as promulgated under S.E.C. Rule 15c2-12, as it may from time to time thereafter be amended or supplemented, and the Infrastructure Bank will have no liability to the Owners of the Bonds or any other Person with respect to such disclosure matters. Notwithstanding any other provision of the Indenture, failure of the Corporation to comply with the requirements of Rule 15c2-12 applicable to the Bonds, as it may from time to time thereafter be amended or supplemented, will not be considered an Event of Default under the Indenture or under the Loan Agreement; however, the Trustee may (and, at the written request of the Owners of at least 25% aggregate principal amount of Outstanding Bonds and upon receipt of indemnity satisfactory to the Trustee, will) or any Owner or beneficial owner (within the meaning of Rule 15c2-12) of any Bonds may take such actions as may

be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under the Loan Agreement.

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 in trust for the payment of the principal of, or interest on, any Bonds remaining unclaimed for two (2) 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), will then be repaid to the Corporation upon its written request, and the Owners of such Bonds will thereafter be entitled to look only to the Corporation for payment thereof, and all liability of the Infrastructure Bank and the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Corporation as aforesaid, the Trustee will (at the request and cost of the Corporation) first give notice by mail to each affected Owner, which notice will be 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 Owners of the Bonds in respect of which such moneys were deposited will 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).

Moneys Held for Particular Bonds. Except as otherwise provided in the Indenture, the amounts held by the Trustee for the payment of the interest, principal, or redemption price due on any date with respect to particular Bonds which are deemed paid in accordance with the Indenture will be set aside on its books and held in trust by it for the Owners entitled thereto.

SUMMARY OF CERTAIN PROVISIONS OF THE 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 and to refinance the costs of the 2000 Project, the 2004 Project and the 2007 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 underwriters thereof pursuant to the Purchase Contract. 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 will, 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 will be deemed at all times a part of the fund from which such investments were made, and the interest accruing thereon and any profit or loss realized therefrom will, except as otherwise provided in the Indenture, be credited or charged to such fund.

Agreement to Acquire Project and 2007 Project. The Corporation agrees that it will acquire the. Project and the 2007 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 and the 2007 Project, substantially in accordance with the description of the Project and the 2007 Project

attached to the Agreement as Exhibit A, including any and all supplements, amendments and additions or deletions thereto or therefrom, it being understood that the approval of the Infrastructure Bank will not be required for changes in such descriptions which do not substantially alter the purpose and description of the Project and the 2007 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 will complete the 2007 Project within one year of the Agreement, and to ensure that the Project and the 2007 Project are 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 or the 2007 Project, and such alteration or change either substantially alters the purpose and description of the Project or the 2007 Project from that contained in Exhibit A to the Agreement, the Infrastructure Bank will enter into, and will instruct the Trustee to consent to, such amendment or supplement as will 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 or the 2007 Project, as applicable, 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 Funds to or on behalf of the Corporation only to pay the Costs of the Project and the 2007 Project (and not for Costs of Issuance).

All moneys remaining in the Construction Funds after the Completion Date of the Project or the 2007 Project, as applicable, will 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 or the 2007 Project is completed, the Authorized Corporation Representative, on behalf of the Corporation, will evidence the Completion Date with respect to the Project or the 2007 Project, as applicable, by providing a certificate to that effect to the Trustee stating the Costs of the Project or 2007 Project. Notwithstanding the foregoing, such certificate may state that it is given without prejudice to any rights of the Corporation against third parties for any claims or for the payment of any amount not then due and payable which exists at the date of such certificate or which may subsequently exist.

At the time such certificate is delivered to the Trustee, moneys remaining in the applicable Construction Fund, including any earnings resulting from the investment of such moneys, will be used as provided in the Indenture.

In the event the moneys in the applicable Construction Fund available for payment of the Costs of the Project or the 2007 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 applicable Construction Fund moneys sufficient to pay, any costs of completing the Acquisition of the Project or the 2007 Project in excess of the moneys available for such purpose in the applicable Construction Fund. The Infrastructure Bank makes no express or implied warranty that the moneys deposited in the Construction Funds, and available for payment of the Costs of the 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 and the 2007 Project. The Corporation agrees that if, after exhaustion of the moneys in the Construction Funds, the Corporation should pay, or deposit moneys in the Construction Funds for the payment of, any portion of the costs of the Acquisition of the Project and the 2007 Project pursuant to the provisions of the Agreement, it will not be entitled to any reimbursement therefor from the Infrastructure Bank, from the Trustee or from the Holders of any of the Bonds, nor will 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, and refinancing the costs of the 2000 Project, the 2004 Project and the 2007 Project. Pursuant to said covenant and agreement, the Infrastructure Bank will issue 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 the Bonds to finance a portion of the Costs of the Project, and to refinance the costs of the 2000 Project, the 2004 Project and the 2007 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.

(a) 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 will have been fully paid or provision for the payment thereof will 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 Agreement will at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon redemption or acceleration) and premium, if any, then payable on the Bonds; provided that any amount held by the Trustee in the Bond Fund (except for the Reserve Account) on any due date for a Repayment Installment under the Agreement will be credited against the Repayment Installment due on such date, to the extent available for such purpose; and provided further that, subject to the provisions of

the Agreement, if at any time the available amounts held by the Trustee in the Bond Fund are sufficient to pay all of the principal of and interest and premium, if any, on the Outstanding Bonds as such payments become due, the Corporation will be relieved of any obligation to make any further payments with respect to the Bonds under the provisions of the Agreement. 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 will forthwith pay such deficiency as a Repayment Installment under the Agreement.

(b) The Corporation agrees that, so long as any of the Bonds remain Outstanding, all of the Operating Revenues will be deposited as soon as practicable upon receipt in a fund designated as the "Operating Fund" which the Corporation will establish and maintain, subject to the provisions of the Agreement, in an account or accounts at such banking institution or institutions as the Corporation will from time to time designate in writing to the Trustee for such purpose (the "Depository Bank(s)"). Subject only to the provisions of the Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein (including but not limited to the payment of Operating Costs), the Corporation pledge, grants a first lien on and grants a security interest in the Net Operating Revenues to the Infrastructure Bank (for the benefit of the Holders from time to time of the Outstanding Bonds), to secure the payment of the principal of and interest on the Bonds and the performance by the Corporation of its other obligations under the Agreement. The pledge of and lien on the Net Operating Revenues made by the Agreement will rank *pari passu* with any pledge of and lien on Net Operating Revenues securing Parity Obligations.

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

(i) Interest Deposits. The Corporation has agreed that it will deposit with the Trustee five Business Days preceding each Interest Payment Date an amount equal to the amount of the interest payable on the Bonds on such Interest Payment Date less any amounts then on deposit in the Bond Fund available to pay the interest on the Bonds payable on such Interest Payment Date.

(ii) Principal Deposits. The Corporation has agreed that it will deposit with the Trustee five Business Days preceding each Principal Installment Date an amount equal to the amount of the Principal Installment payable on the Bonds on such Principal Installment Date less any amounts then on deposit in the Bond Fund available to pay such Principal Installments on such Principal Installment Date.

(iii) In the event amounts on deposit in the Reserve Account are valued below 90% of the Reserve Account Requirement, the Corporation will forthwith pay the amount of such deficiency to the Trustee upon written notice from the Trustee.

(d) The Corporation also agrees to pay to the Trustee until the principal of; premium, if any, and interest on the Bonds will have been fully paid or provision for the payment thereof will have been made as required by the Indenture, (i) the annual fee of the Trustee for its ordinary services rendered as trustee, and its ordinary expenses incurred under the Indenture, as and when the same become due, (ii) the reasonable fees, charges and expenses of the Trustee for the necessary extraordinary services rendered by it and extraordinary expenses (including reasonable

attorneys' fees) incurred by it under the Indenture, as and when the same become due, (iii) the cost of printing any Bonds required to be furnished by the Infrastructure Bank, and (iv) any fees required to be paid to the Infrastructure Bank in connection with the issuance of the Bonds. The Corporation agrees that the provisions of paragraph (d) will survive the discharge of the Indenture and the retirement of the Bonds or the resignation or removal of the Trustee.

(e) The Corporation also agrees to pay to the Infrastructure Bank, (i) its fees and reasonable expenses in connection with the loan to the Corporation under the Agreement, the Bonds, the Indenture, the Tax Certificate or any other documents contemplated by the Agreement or thereby, including without limitation reasonable expenses incurred by the Attorney General of the State or any attorneys representing the Infrastructure Bank (including attorneys that are employees of the infrastructure Bank) in connection with any litigation, investigation or matter that may at any time be instituted or any other questions or matter involving such loan or the Bonds, the Indenture or any other documents contemplated by the Agreement or thereby, including the Tax Certificate, and (ii) an annual fee of \$500, payable on September 1 of each year or portion thereof in which Bonds are Outstanding, commencing September 1, 2008. The Corporation also agrees to pay, within twenty (20) days after receipt of request for payment thereof, all expenses required to be paid by the Corporation under the terms of the Purchase Contract, including exhibits thereto, executed by it in connection with the sale of the Bonds.

(f) Any rebate or other amount requirements to be paid pursuant to the Tax Certificate.

(g) In the event the Corporation should fail to make any of the payments required by the Agreement, such payments will continue as obligations of the Corporation until such amounts will have been fully paid. The Corporation agrees to pay such amounts, together as to items required in paragraphs (a) through (e) with interest thereon until paid, to the extent permitted by law, at 10% per annum.

(h) The Corporation warrants and represents that (i) it has deposited sufficient moneys pursuant to the Escrow Agreements to pay, on July 1, 2008, the principal, redemption price and interest with respect to the Series 2000 Bonds, the Series 2004 Bonds and the Series 2007 Bonds; (ii) after payment of such principal, redemption price and interest, the Series 2000 Bonds, Series 2004 Bonds and Series 2007 Bonds will no longer be outstanding in accordance with the 2000 Indenture, the 2004 Indenture, and the 2007 Indenture, respectively; and (iii) the Existing Parity Obligations will thereby be discharged .

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 will be absolute and unconditional, irrespective of any defense or any rights of setoff, recoupment or counterclaim it might otherwise have against the Infrastructure Bank or any other Person, and during the term of the Agreement, the Corporation will pay absolutely the payments to be made on account of the loan as prescribed in the Agreement and all other payments required thereunder, 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 will have been fully paid, or provision for the payment thereof will 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.

Assignment of infrastructure Bank's Rights. As security for the payment of the Bonds, the Infrastructure Bank will assign to the Trustee the Infrastructure Bank's rights, but not its obligations, under the Agreement, including the right to receive payments thereunder except Reserved Rights; and the Infrastructure Bank thereby directs the Corporation to make the payments required by the Agreement directly to the Trustee. The Corporation assents to such assignment and agrees to make such payments directly to the Trustee without defense or setoff by reason of any dispute between the Corporation and the Infrastructure Bank or the Trustee.

Amounts Remaining in Funds. It is agreed by the parties to 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 will have been made as provided in the Indenture, (ii) the fees, charges and expenses of the Trustee, due and owing in accordance with the Agreement and the Indenture (iii) Any rebate or other amount requirements to be paid pursuant to the Tax Certificate, and (iv) all other amounts required to be paid under the Agreement, the Tax Certificate and the Indenture, will be applied as provided in the Indenture.

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 or the Trustee and the duly authorized agents of any of them will 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 such 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 and the Trustee and their respective authorized agents by the Agreement may be exercised only after the party seeking such access will have given reasonable advance notice and executed release of liability (which release will not limit any of the Corporation's obligations under the Agreement) agreements if requested by the Corporation in the form then currently used by the Corporation. Nothing contained in the Agreement or in any other provision of the Agreement will be construed to entitle the Infrastructure Bank or the Trustee or any agent of any of such parties to any information or inspection involving the confidential know-how of the Corporation or any computer software.

Corporation's Maintenance of Its Existence; Assignments.

The Corporation agrees that during the term of the Agreement and so long as any Bond is Outstanding, it will maintain its corporate existence as an organization described in Section 501(c)(3) of the Code, will not dissolve or otherwise dispose of all or substantially all of its assets, and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; provided, that the Corporation may, without violating the agreements contained

in 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 is an organization described in Section 501(c)(3) of the Code; and (iii) assumes in writing all of the obligations of the Corporation under the Agreement.

Notwithstanding the foregoing, as a condition precedent to any consolidation, merger, sale or other transfer, the Trustee and the Infrastructure Bank will receive (A) an Opinion of Bond Counsel to the effect that such merger, consolidation, sale or other transfer will not in and of itself affect the Tax-Exempt status of interest on the Bonds; (B) an Opinion of Counsel reasonably acceptable to the Infrastructure Bank to the effect that after such merger, consolidation, sale or other transfer, the Loan Agreement is a valid and binding obligation of the surviving, resulting or transferee Person, enforceable according to its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally, or by the application of equitable principles if equitable remedies are sought, and the security interest created in the Loan Agreement will not be adversely affected by such sale or other transfer; and (C) evidence from each of the Rating Agencies then rating the Series 2008 Bonds that such merger will not result in a withdrawal or downgrading of their respective ratings on the Series 2008 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 Agreement, 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 will be subject to each of the following conditions:

(i) No such assignment will relieve the Corporation from primary liability for any of its obligations under the Agreement, and the Corporation will 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 will 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 will assume the obligations of the Corporation under the Agreement to the extent of the interest assigned.

(iii) The Corporation will, within thirty (30) days after delivery thereof, furnish or cause to be furnished to the Infrastructure Bank and the Trustee a true and complete copy of every such assignment together with an instrument of assumption.

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

Records and Financial Statements of Corporation. The Corporation will, within 120 days after the close of each fiscal year, submit to the Trustee, and, if requested, to the Infrastructure Bank audited financial statements with respect to the Corporation for such fiscal year. The Trustee will have no duty to review such financial statements. The Trustee will be permitted (but will have no duty) at all reasonable times upon reasonable notice during the term of the Agreement to examine the books and records of the Corporation with respect to the Project, subject to the limitations expressed in the Agreement. The Corporation will maintain all records required in the Agreement and the Tax Certificate until four years after no Bonds are Outstanding.

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 will 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, will 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 Agreement will 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 will be and remain Tax-Exempt, and to that end the covenants and agreements of the Infrastructure Bank and the Corporation in the Agreement 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 Corporation is of the opinion that for purposes of paragraph (b) 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, or the Corporation will so instruct the Trustee in writing and the Trustee will comply with such written instructions.

Without limiting the generality of the foregoing, the Corporation and the Infrastructure Bank agree that there will 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. Such covenant will 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 will 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 will 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 will 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 acknowledges having read the Indenture and agrees to perform all duties imposed on it by such Indenture, by the Agreement and by the Tax Certificate. Insofar as the Indenture and the Tax Certificate impose duties and responsibilities on the Corporation, they are specifically incorporated in the Agreement by reference.

(d) Notwithstanding any provision of the Agreement, the Indenture or any provision of the Tax Certificate, if the Corporation will provide to the Infrastructure Bank and the Trustee an Opinion of Bond Counsel that any specified action required under the Agreement, 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 Agreement, the Indenture and the provisions of the Tax Certificate; and the covenants contained in the Agreement, the Indenture and the Tax Certificate will be deemed to be modified to that extent.

Continuing Disclosure. The Corporation will comply with the continuing disclosure requirements for the Bonds as promulgated under Rule 15c2-12, as it may from time to time thereafter be amended or supplemented. Notwithstanding any other provision of the Agreement, failure of the Corporation to comply with the requirements of Rule 15c2-12 applicable to the Bonds, as it may from time to time thereafter be amended or supplemented, will not be considered an Event of Default under the Agreement or under the Indenture; however, the Trustee may (and, at the written request of the applicable Remarketing Agent or the Holders of at least 25% aggregate principal amount of Outstanding Bonds and upon receipt of indemnity satisfactory to the Trustee, will) or any Bondholder or Beneficial Owner of any Bond may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations pursuant to the Agreement.

Rate Covenant. The Corporation agrees that, so long as any Bonds remain Outstanding, for each year it will establish a Grid Management Charge in accordance with the Grid Management Charge Formula which will include in its budgeted revenue requirements a Coverage Requirement with respect to budgeted debt service on the Bonds and any Parity Obligations of not less than 25% and will not take any action to modify the Grid Management Charge Formula in any manner which would adversely affect the security afforded the Bondholders under the Agreement including, without limitation, ceasing to maintain the Reserve Requirement at 15% of its annual Operating Costs for purposes of the Grid Management Charge Formula. The Coverage Requirement may be satisfied through the use of any funds of the Corporation legally available for the payment of debt service on the Bonds and other Parity Obligations.

Parity Obligations. The Corporation will not create, incur, or issue any Parity Obligations unless, at the time of such creation, incurrence or issuance, there will have been filed with the Trustee a certificate of an Authorized Corporation Representative to the effect that the Grid Management Charge Formula, as then in effect, (i) provides for the payment of debt service on the 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%.

Insurance.

So long as any Bonds remain Outstanding, the Corporation will maintain or cause to be maintained with respect to the Project, with insurance companies or by means of self-insurance, insurance of such type, against such risks and in such amounts as are customarily carried by facilities located in the State of a nature similar to the Project, which insurance will include property damage, fire and extended coverage, public liability and property damage liability insurance.

The Corporation will at all times also maintain worker's compensation coverage as required by the laws of the State.

Investments. The Corporation, by written request, may direct the investment by the Trustee of moneys in the funds and accounts established pursuant to the Indenture, subject to the limitations

set forth in the Indenture. The Corporation covenants that it will not direct the Trustee to make any investments and itself will not make any investments of the proceeds of the Bonds, or any other funds in any way pledged to the security of or reasonably expected to be used to pay the Bonds, which would cause any of the Bonds to be “arbitrage bonds” subject to federal income taxation by reason of Section 103(b)(2) of the Code. The Corporation will not purchase any obligations of the Infrastructure Bank, pursuant to an arrangement, formal or informal, in an amount related to the amount of the loans made to the Corporation under the Loan Agreement.

Purchase of Bonds. The Corporation agrees that it will not purchase, and it will cause any guarantor or affiliate of the Corporation not to purchase, Bonds.

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 will be taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority, the Corporation will nevertheless be obligated to continue to pay the amounts specified in the Agreement, to the extent not prepaid in accordance with the Agreement.

Damage to or Condemnation of Facilities. In the event any portion of the Project is (i) taken from the Corporation by eminent domain, or (ii) damaged or destroyed, the Corporation will transfer to the Trustee, and the Trustee will apply, the Net Proceeds of any condemnation award, or insurance received as a result of such taking or casualty, to the prepayment of Repayment Installments and to the redemption of Bonds as provided in the Indenture; provided, that the Corporation need not transfer to the Trustee, and the Trustee need not apply, the amount of any such proceeds if the Corporation delivers a Written Certificate to the Trustee to the effect that (1) the Net Proceeds of such insurance or condemnation award, together with other moneys on hand and available to the Corporation for such purpose are sufficient to repair or replace the damaged, destroyed or condemned portion of the Project, (2) the Corporation will apply such moneys promptly to the replacement or repair of such portion of the Project and (3) during the period prior to completion of such repair or replacement, the Corporation’s ability to comply with its Repayment Installment obligations under the Agreement will not be materially adversely affected.

Events of Default and Remedies

Events of Default. Any one of the following which occurs will constitute an Event of Default pursuant to the 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 within three days of the day when such payment was 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 will specify such failure and request that it be remedied, unless the infrastructure Bank and the Trustee will agree in writing to an

extension of such time period; provided, however, that if the failure stated in the notice cannot be corrected within such period, the Infrastructure Bank and the Trustee will not unreasonably withhold their consent to an extension of such time period if corrective action is instituted within such period and diligently pursued until the default is corrected;

(c) the Corporation's application for or consent to the appointment of a receiver, trustee, liquidator or custodian of the Corporation, or of all or a substantial part of its property, or the commencement by the Corporation of a voluntary case or other proceeding seeking liquidation, reorganization or other such relief under any bankruptcy, insolvency or other similar law; now or thereafter in effect, or the Corporation's consent to any such relief or to the taking of possession of its property by another party in any such involuntary case or other proceeding commenced against it; or

(d) the occurrence of an Event of Default under the Indenture.

The provisions of paragraph (b) above are subject to the limitation that the Corporation will not be deemed in default if and so long as the Corporation is unable to carry out its agreements under the Agreement, other than its agreements to make payments, by reason of strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Corporation; it being agreed that the settlement of strikes, lockouts and other industrial disturbances will be entirely within the discretion of the Corporation, and the Corporation will not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Corporation, unfavorable to the Corporation. Such limitation will not apply to any default under paragraphs (a), (c) or (d) above, or any agreement to make payments.

Remedies on Default. Whenever any Event of Default will have occurred and will continue:

(a) The Trustee, by notice in writing delivered to the Corporation (with copies of such notice being sent to the Infrastructure Bank) may declare the unpaid balance of the loan payable under 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 paragraph (a) above, however, are subject to the condition that if, at any time after the loan will have been so declared due and payable, and before any judgment or decree for the payment of the moneys due will have been obtained or entered as thereafter provided, there will have been deposited with the Trustee a sum sufficient to pay all the principal of the 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) will have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will have been made therefor, then, and in every such case, the 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, 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 will extend to or will affect any subsequent default, or will impair or exhaust any right or power consequent thereon.

In case the Trustee or the Infrastructure Bank will have proceeded to enforce its rights under the Agreement and such proceedings will have been discontinued or abandoned for any reason or will have been determined adversely to the Trustee or the Infrastructure Bank, then, and in every such case, the Corporation, the Trustee and the Infrastructure Bank will be restored respectively to their several positions and rights under the Agreement, and all rights, remedies and powers of the Corporation, the Trustee and the Infrastructure Bank will continue as though no such action had been taken (provided, however, that any settlement of such proceedings duly entered into by the Infrastructure Bank, the Trustee or the Corporation will not be disturbed by reason of 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 in the Agreement upon or reserved to the Infrastructure Bank or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy will be cumulative and will be in addition to every other remedy given under the Agreement or now or thereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power or will 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 Agreement, it will not be necessary to give any notice, other than such notice as may be therein expressly required. Such rights and remedies as are given the Infrastructure Bank under the Agreement will also extend to the Trustee,

and the Trustee and the Holders of the Bonds will be deemed third party beneficiaries of all covenants and agreements therein contained.

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 will be limited to the particular breach so waived and will not be deemed to waive any other breach under the Agreement.

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

APPENDIX D

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning The Depository Trust Company (“DTC”), New York, New York, and DTC’s book-entry system has been obtained from DTC and the Corporation takes no responsibility for the completeness or accuracy thereof. The Corporation cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the 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, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the 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 Bonds may wish to take certain steps to augment 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 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 the notices be provided directly to them.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 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 Corporation or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been provided by DTC, and none of the Corporation, the Infrastructure Bank or the Trustee take any responsibility for the accuracy thereof.

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APPENDIX E

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation., Bond Counsel to the Infrastructure Bank, 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

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 \$196,970,000 aggregate principal amount of California Infrastructure and Economic Development Bank Revenue Bonds (California Independent System Operator Corporation Project) 2008 Series A (the “Bonds”), issued pursuant to the provisions of the Bergeson-Peace Infrastructure and Economic Development Bank Act of the State of California (constituting Division 1 of Title 6.7 of the Government Code of the State of California, commencing with Section 63000), and an Indenture of Trust, dated as of June 1, 2008 (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 June 1, 2008 (the “Agreement”), between the Infrastructure Bank and the Corporation. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

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

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

result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Agreement and the Tax Certificate may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth therein, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the exclusion of interest on the Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Infrastructure Bank. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against instrumentalities and agencies of the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the 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.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

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

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

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

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

5. Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. Interest on the Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

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

7. The amount by which a Bondowner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bondowner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bondowner realizing a taxable gain when a Bond is sold by the Bondowner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Bondowner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium. We express no opinion

regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Yours truly,

APPENDIX F

PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated as of June 1, 2008 by and between California Independent System Operator Corporation (the “Borrower”) and Deutsche Bank National Trust Company, as Trustee (the “Trustee”) under an Indenture of Trust dated as of June 1, 2008 (the “Indenture”) between California Infrastructure and Economic Development Bank (the “Issuer”) and the Trustee, is executed and delivered in connection with the issuance of the Issuer’s \$196,970,000 principal amount Revenue Bonds (California Independent System Operator Corporation Project), 2008 Series A (the “Bonds”). The proceeds of the Bonds are being loaned by the Issuer to the Borrower pursuant to a Loan Agreement dated as of June 1, 2008 between the Issuer and the Borrower (the “Loan Agreement”). Capitalized terms used in this Agreement which are not otherwise defined in the Indenture shall have the respective meanings specified in Article IV hereof. Pursuant to Section 5.7 of the Loan Agreement, the parties agree as follows:

ARTICLE I

The Undertaking

Section 1.1. Purpose; No Issuer Responsibility or Liability. This Agreement is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule. The Borrower and the Trustee acknowledge that the Issuer has undertaken no responsibility, and shall not be required to undertake any responsibility, with respect to any reports, notices or disclosures required by or provided pursuant to this Agreement, and shall have no liability to any person, including any holder of the Bonds, with respect to any such reports, notices or disclosures.

Section 1.2. Annual Financial Information. (a) The Borrower shall provide Annual Financial Information with respect to each fiscal year of the Borrower, commencing with the fiscal year ending December 31, 2008, by no later than 150 days after the end of the respective fiscal year, to (i) each NRMSIR, (ii) the SID, (iii) the Issuer, and (iv) the Trustee.

(b) The Borrower shall provide, in a timely manner, notice of any failure of the Borrower to provide the Annual Financial Information by the date specified in subsection (a) above, in each case to (i) either the MSRB or each NRMSIR, (ii) the SID, (iii) the Issuer and (iv) the Trustee.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof, the Borrower shall provide Audited Financial Statements, when and if available, to (i) each NRMSIR, (ii) the SID, (iii) the Issuer, and (iv) the Trustee.

Section 1.4. Material Event Notices. (a) If a Material Event occurs, the Borrower shall provide, in a timely manner, notice of such Material Event to (i) either the MSRB or each NRMSIR, (ii) the SID, (iii) the Issuer, and (iv) the Trustee.

(b) Any such notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) The Trustee shall promptly advise the Borrower and the Issuer whenever, in the course of performing its duties as Trustee under the Indenture, the Trustee has actual notice of an occurrence which, if material, would require the Borrower to provide notice of a Material Event hereunder; provided, however, that the failure of the Trustee so to advise the Borrower or the Issuer shall not constitute a breach by the Trustee of any of its duties and responsibilities under this Agreement or the Indenture.

(d) Each Material Event Notice relating to the Bonds shall include the CUSIP numbers of the Bonds to which such Material Event Notice relates or, if the Material Event Notice relates to all bond issues of the Issuer including the Bonds, such Material Event Notice need only include the CUSIP number of the Issuer.

Section 1.5. Additional Disclosure Obligations. The Borrower acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Borrower and that, under some circumstances, compliance with this Agreement without additional disclosures or other action may not fully discharge all duties and obligations of the Borrower under such laws.

Section 1.6. Additional Information. Nothing in this Agreement shall be deemed to prevent the Borrower from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Material Event hereunder, in addition to that which is required by this Agreement. If the Borrower chooses to do so, the Borrower shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Material Event hereunder.

Section 1.7. No Previous Non-Compliance. The Borrower represents that this is the first undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE II

Operating Rules

Section 2.1. Reference to Other Filed Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Borrower provides Annual Financial Information (but not Material Event notices) by specific reference to documents (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID or (2) filed with the SEC, or (ii) if such document is a “final official statement” as defined in paragraph (f)(3) of the Rule, available from the MSRB.

Section 2.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 2.3. Filing with Certain Dissemination Agents or Conduits. The Borrower may satisfy its obligations hereunder to file any notice, document or information with a NRMSIR or SID (i) solely by transmitting such filing to the Texas Municipal Advisory Council (the “MAC”) as provided at <http://www.disclosureusa.org> unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004, or (ii) by filing the same with any dissemination agent or conduit, including any “central post office” or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such NRMSIR or SID, to the extent permitted by the SEC or SEC staff or required by the SEC. For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the agent or conduit has received an interpretive letter, which has not been withdrawn, from the SEC staff to the effect that using the agent or conduit to transmit information to the NRMSIRs and the SID will be treated for purposes of the Rule as if such information were transmitted directly to the NRMSIRs and the SID.

Section 2.4. Transmission of Information and Notices. Unless otherwise required by law and, in the Borrower’s sole determination, subject to technical and economic feasibility, the Borrower shall employ such methods of information and notice transmission as shall be requested or recommended by the recipients of the Borrower’s information and notices.

Section 2.5. Fiscal Year. (a) The Borrower’s current fiscal year is January 1 - December 31, and the Borrower shall promptly notify (i) each NRMSIR, (ii) the SID, (iii) the Issuer, and (iv) the Trustee in writing of each change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

ARTICLE III

Effective Date, Termination, Amendment and Enforcement

Section 3.1. Effective Date, Termination. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The Borrower’s and the Trustee’s obligations under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Bonds.

(c) If the Borrower’s obligations under the Loan Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Agreement in the same manner as if it were the Borrower, and thereupon the original Borrower shall have no further responsibility hereunder.

(d) This Agreement, or any provision hereof, shall be null and void in the event that (1) the Borrower delivers to the Trustee an opinion of Counsel, addressed to the Borrower, the Issuer and the Trustee, to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Bonds,

whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) the Borrower delivers copies of such opinion to (i) each NRMSIR, (ii) the SID, and (iii) the Issuer. The Borrower shall so deliver such opinion within one Business Day after delivery thereof to the Trustee.

Section 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Borrower or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Borrower shall have delivered to the Trustee an opinion of Counsel, addressed to the Borrower, the Issuer and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) the Borrower shall have delivered to the Trustee an opinion of Counsel or a determination by a person, in each case unaffiliated with the Issuer or the Borrower (such as bond counsel or the Trustee) and acceptable to the Borrower, addressed to the Borrower, the Issuer and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Indenture with consent of holders of Bonds pursuant to the Indenture as in effect at the time of the amendment, and (5) the Trustee shall have delivered copies of such opinion(s) and amendment to (i) each NRMSIR, (ii) the SID and (iii) the Issuer. The Trustee shall so deliver such opinion(s) and amendment within one Business Day after receipt by the Trustee.

(b) In addition to subsection (a) above, this Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the Borrower shall have delivered to the Trustee an opinion of Counsel, addressed to the Borrower, the Issuer and the Trustee, to the effect that performance by the Borrower and the Trustee under this Agreement as so amended will not result in a violation of the Rule and (3) the Borrower shall have delivered copies of such opinion and amendment to (i) each NRMSIR, (ii) the SID and (iii) the Issuer. The Borrower shall so deliver such opinion and amendment within one Business Day after receipt by the Trustee.

(c) In addition to subsections (a) and (b) above, this Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) the Borrower shall have delivered to the Trustee an opinion of Counsel, addressed to the Borrower, the Issuer and the Trustee, to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of Staff, of the SEC, and (2) the Borrower shall have delivered copies of such opinion and amendment to (i) each NRMSIR, (ii) the SID and (iii) the Issuer. The Borrower shall so deliver such opinion and amendment within one Business Day after delivery thereof to the Trustee.

(d) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(e) If an amendment is made pursuant to Section 3.2 (a) hereof to the accounting principles to be followed by the Borrower in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Agreement and shall be entitled to enforce the rights of the Trustee under this Agreement to the extent the Trustee shall fail or refuse or shall be unable to take any enforcement action hereunder. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and in subsection (b) of this Section.

(b) The obligations of the Borrower to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding Bonds, or by the Trustee on behalf of the holders of Outstanding Bonds, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the holders of Outstanding Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, who shall have provided the Trustee with adequate security and indemnity. The holders' and Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Borrower's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by the Borrower or the Trustee to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Indenture, and the rights and remedies provided by the Indenture upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Agreement

addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV

Definitions

Section 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) “Annual Financial Information” means, collectively, (i) updated versions of the following financial information and operating data contained in Appendix A to the Official Statement, for each fiscal year of the Borrower, as follows:

(a) the financial information and operating data appearing under the caption “**CAISO Charges - Coverage of Market Collections**”;

(b) a description of CAISO’s largest customers of the type appearing in the final paragraph under the caption “**Grid Management Charge - FERC Process for Revisions to GMC Rates**”;

(c) the financial information appearing in the table headed “**Financial Information - Condensed Balance Sheets**”;

(d) the financial information appearing in the table headed “Outstanding Debt” under the caption “**Financial Information - Long-term Obligations**”; and

(e) a description of the annual required contribution and actuarial accrued liability for post employment benefits of the type appearing in the final paragraph under the caption “**Financial Information - Pension Benefits and Other Post Employment Benefits**”.

and (ii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(c) and (d) of this Agreement. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in Section 4.1(1)(i) hereof of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided. As and to the extent that the financial information and operating data described in Section 4.1(1)(i) hereof are included in the Borrower’s audited financial statements, they need not be separately reported.

(2) “Audited Financial Statements” means the annual financial statements, if any, of the Borrower, audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that pursuant to Section 3.2(a) hereof, the Borrower may from time to time, if required by Federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(a) hereof shall include a reference to the specific Federal or State law or regulation describing such accounting principles, or other description thereof.

(3) “Counsel” means Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws.

(4) “GAAP” means generally accepted accounting principles as prescribed from time to time by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties or responsibilities of either of them.

(5) “Material Event” means any of the following events with respect to the Bonds, whether relating to the Borrower or otherwise, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bond;
- (vii) modifications to rights of Bondholders;
- (viii) Bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds; and
- (xi) rating changes.

(6) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

(7) “NSMSIR” means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the

purposes referred to in the Rule. NRMSIRs currently are identified on the SEC website at <http://www.sec.gov/consumer/nrmsir.htm>.” The last sentence is not required, but may be inserted for the convenience of the persons charged with compliance.

(8) “Official Statement” means the Official Statement dated June 4, 2008 of the Issuer relating to the Bonds.

(9) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(10) “SEC” means the United States Securities and Exchange Commission.

(11) “SID” means, at any time, a then-existing, state information depository, if any, as operated or designated as such by or on behalf of the State of California for the purposes referred to in the Rule. As of the date of this Agreement, there is no SID.

(12) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

(13) “Underwriters” means the Banc of America Securities LLC, J.P. Morgan Securities Inc. and RBC Capital Markets as underwriters of the Bonds.

ARTICLE V

Miscellaneous

Section 5.1. Duties, Immunities and Liabilities of Trustee. The Trustee shall have only such duties under this Agreement as are specifically set forth in this Agreement, and the Borrower agrees to indemnify and save the Trustee, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Trustee’s negligence or willful misconduct in the performance of its duties hereunder. Such indemnity shall be separate from and in addition to that provided to the Trustee under the Indenture. The obligations of the Borrower under this Section shall survive resignation or removal of the Trustee and payment of the Bonds.

Section 5.2. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives, all as of the date first above written.

CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION

By: _____
An Authorized Representative

DEUTSCHE BANK NATIONAL TRUST
COMPANY, as Trustee

By: _____
An Authorized Representative

EXHIBIT A
to Continuing Disclosure Agreement

Filing information relating to the Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission (subject to change):

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
[http://www.bloomberg.com/markets/
rates/municontacts.html](http://www.bloomberg.com/markets/rates/municontacts.html)
E-mail: [Munis@Bloomberg.com](mailto: Munis@Bloomberg.com)

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
[http://www.disclosuredirectory.standardandpoors.
com](http://www.disclosuredirectory.standardandpoors.com)
E-mail: [nrmsir_repository@sandp.com](mailto: nrmsir_repository@sandp.com)

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
<http://www.dpcdata.com>
E-mail: [nrmsir@dpcdata.com](mailto: nrmsir@dpcdata.com)

Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street
New York, New York 10038
Phone: (212) 771-6999; (800) 689-8466
Fax: (212) 771-7390
<http://www.interactivedata-prd.com>
E-mail: [NRMSIR@interactivedata.com](mailto: NRMSIR@interactivedata.com)

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EXHIBIT G

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California Independent System Operator
Series 2009
Rates as of March 23, 2009

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SOURCES AND USES OF FUNDS

California Independent System Operator
Series 2009
Rates as of March 23, 2009

Sources:	Series 2009A	Series 2009B	Total
Bond Proceeds:			
Par Amount	208,750,000.00	16,250,000.00	225,000,000.00
Net Premium/OID	-3,193,845.55	556,113.60	-2,637,731.95
	<u>205,556,154.45</u>	<u>16,806,113.60</u>	<u>222,362,268.05</u>
Uses:	Series 2009A	Series 2009B	Total
Project Fund Deposits:			
Headquarters Project	160,000,000.00		160,000,000.00
Capital Expenditures		15,000,000.00	15,000,000.00
	<u>160,000,000.00</u>	<u>15,000,000.00</u>	<u>175,000,000.00</u>
Other Fund Deposits:			
Capitalized Interest through 11/1/2011	25,776,097.56		25,776,097.56
Debt Service Reserve Fund	15,325,525.00	1,625,000.00	16,950,525.00
	<u>41,101,622.56</u>	<u>1,625,000.00</u>	<u>42,726,622.56</u>
Delivery Date Expenses:			
Cost of Issuance	927,777.78	72,222.22	1,000,000.00
Underwriter's Discount	1,381,298.75	107,526.25	1,488,825.00
	<u>2,309,076.53</u>	<u>179,748.47</u>	<u>2,488,825.00</u>
Other Uses of Funds:			
Additional Proceeds	2,145,455.36	1,365.13	2,146,820.49
	<u>205,556,154.45</u>	<u>16,806,113.60</u>	<u>222,362,268.05</u>

BOND SUMMARY STATISTICS

California Independent System Operator
Series 2009
Rates as of March 23, 2009

Dated Date	07/01/2009
Delivery Date	07/01/2009
Last Maturity	05/01/2039
Arbitrage Yield	5.899220%
True Interest Cost (TIC)	5.962974%
Net Interest Cost (NIC)	5.941291%
All-In TIC	6.006179%
Average Coupon	5.842885%
Average Life (years)	18.637
Duration of Issue (years)	10.830
Par Amount	225,000,000.00
Bond Proceeds	222,362,268.05
Total Interest	245,014,058.35
Net Interest	249,140,615.30
Total Debt Service	470,014,058.35
Maximum Annual Debt Service	19,035,725.00
Average Annual Debt Service	15,754,661.17
Underwriter's Fees (per \$1000)	
Average Takedown	6.000000
Other Fee	0.617000
Total Underwriter's Discount	6.617000
Bid Price	98.165975

Bond Component	Par Value	Price	Average Coupon	Average Life
Serial Bonds	76,005,000.00	101.470	5.122%	8.321
Term Bond Maturing in 2030	44,780,000.00	97.933	5.875%	18.499
Term Bond Maturing in 2039	104,215,000.00	97.285	6.000%	26.220
	225,000,000.00			18.637

	TIC	All-In TIC	Arbitrage Yield
Par Value	225,000,000.00	225,000,000.00	225,000,000.00
+ Accrued Interest			
+ Premium (Discount)	-2,637,731.95	-2,637,731.95	-2,637,731.95
- Underwriter's Discount	-1,488,825.00	-1,488,825.00	
- Cost of Issuance Expense		-1,000,000.00	
- Other Amounts			
Target Value	220,873,443.05	219,873,443.05	222,362,268.05
Target Date	07/01/2009	07/01/2009	07/01/2009
Yield	5.962974%	6.006179%	5.899220%

BOND PRICING

California Independent System Operator
Series 2009
Rates as of March 23, 2009

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Call Date	Call Price	Premium (-Discount)	Takedown
Series 2009A, Serial Bonds:									
	05/01/2010		4.000%	2.000%	101.642				6.000
	05/01/2011		3.500%	2.660%	101.490				6.000
	05/01/2012	3,410,000	4.000%	2.940%	102.858			97,457.80	6.000
	05/01/2013	3,550,000	4.000%	3.400%	102.135			75,792.50	6.000
	05/01/2014	3,690,000	5.000%	3.810%	105.202			191,953.80	6.000
	05/01/2015	3,875,000	5.000%	4.070%	104.037	05/01/2014	100.000	156,433.75	6.000
	05/01/2016	4,070,000	5.250%	4.320%	104.011	05/01/2014	100.000	163,247.70	6.000
	05/01/2017	4,280,000	5.250%	4.510%	103.175	05/01/2014	100.000	135,890.00	6.000
	05/01/2018	4,505,000	5.250%	4.700%	102.346	05/01/2014	100.000	105,687.30	6.000
	05/01/2019	4,745,000	5.250%	4.930%	101.354	05/01/2014	100.000	64,247.30	6.000
	05/01/2020	4,990,000	5.000%	5.130%	98.922			-53,792.20	6.000
	05/01/2021	5,240,000	5.000%	5.250%	97.809			-114,808.40	6.000
	05/01/2022	5,505,000	5.250%	5.400%	98.616			-76,189.20	6.000
	05/01/2023	5,790,000	5.375%	5.520%	98.601			-81,002.10	6.000
	05/01/2024	6,105,000	5.500%	5.670%	98.301			-103,723.95	6.000
		59,755,000						561,194.30	
Series 2009A, Term Bond Maturing in 2030:									
	05/01/2025	6,440,000	5.875%	6.050%	97.933			-133,114.80	6.000
	05/01/2026	6,820,000	5.875%	6.050%	97.933			-140,969.40	6.000
	05/01/2027	7,220,000	5.875%	6.050%	97.933			-149,237.40	6.000
	05/01/2028	7,645,000	5.875%	6.050%	97.933			-158,022.15	6.000
	05/01/2029	8,090,000	5.875%	6.050%	97.933			-167,220.30	6.000
	05/01/2030	8,565,000	5.875%	6.050%	97.933			-177,038.55	6.000
		44,780,000						-925,602.60	
Series 2009A, Term Bond Maturing in 2039:									
	05/01/2031	9,070,000	6.000%	6.200%	97.285			-246,250.50	6.000
	05/01/2032	9,615,000	6.000%	6.200%	97.285			-261,047.25	6.000
	05/01/2033	10,190,000	6.000%	6.200%	97.285			-276,658.50	6.000
	05/01/2034	10,800,000	6.000%	6.200%	97.285			-293,220.00	6.000
	05/01/2035	11,450,000	6.000%	6.200%	97.285			-310,867.50	6.000
	05/01/2036	12,135,000	6.000%	6.200%	97.285			-329,465.25	6.000
	05/01/2037	12,865,000	6.000%	6.200%	97.285			-349,284.75	6.000
	05/01/2038	13,635,000	6.000%	6.200%	97.285			-370,190.25	6.000

BOND PRICING

California Independent System Operator
 Series 2009
 Rates as of March 23, 2009

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Call Date	Call Price	Premium (-Discount)	Takedown
Series 2009A, Term Bond Maturing in 2039:									
	05/01/2039	14,455,000	6.000%	6.200%	97.285			-392,453.25	6.000
		<u>104,215,000</u>						<u>-2,829,437.25</u>	
Series 2009B, Serial Bonds:									
	05/01/2010		4.000%	2.000%	101.642				6.000
	05/01/2011	3,005,000	3.500%	2.660%	101.490			44,774.50	6.000
	05/01/2012	3,110,000	4.000%	2.940%	102.858			88,883.80	6.000
	05/01/2013	3,235,000	4.000%	3.400%	102.135			69,067.25	6.000
	05/01/2014	3,365,000	5.000%	3.810%	105.202			175,047.30	6.000
	05/01/2015	<u>3,535,000</u>	5.000%	4.020%	105.045			<u>178,340.75</u>	6.000
		16,250,000						556,113.60	
		<u>225,000,000</u>						<u>-2,637,731.95</u>	

Dated Date	07/01/2009	
Delivery Date	07/01/2009	
First Coupon	05/01/2010	
Par Amount	225,000,000.00	
Original Issue Discount	<u>-2,637,731.95</u>	
Production	222,362,268.05	98.827675%
Underwriter's Discount	<u>-1,488,825.00</u>	-0.661700%
Purchase Price	220,873,443.05	98.165975%
Accrued Interest		
Net Proceeds	<u>220,873,443.05</u>	

BOND DEBT SERVICE

California Independent System Operator
Series 2009
Rates as of March 23, 2009

Period Ending	Principal	Coupon	Interest	Debt Service
05/01/2010			10,513,208.33	10,513,208.33
05/01/2011	3,005,000	3.500%	12,615,850.00	15,620,850.00
05/01/2012	6,520,000	4.000%	12,510,675.00	19,030,675.00
05/01/2013	6,785,000	4.000%	12,249,875.00	19,034,875.00
05/01/2014	7,055,000	5.000%	11,978,475.00	19,033,475.00
05/01/2015	7,410,000	5.000%	11,625,725.00	19,035,725.00
05/01/2016	4,070,000	5.250%	11,255,225.00	15,325,225.00
05/01/2017	4,280,000	5.250%	11,041,550.00	15,321,550.00
05/01/2018	4,505,000	5.250%	10,816,850.00	15,321,850.00
05/01/2019	4,745,000	5.250%	10,580,337.50	15,325,337.50
05/01/2020	4,990,000	5.000%	10,331,225.00	15,321,225.00
05/01/2021	5,240,000	5.000%	10,081,725.00	15,321,725.00
05/01/2022	5,505,000	5.250%	9,819,725.00	15,324,725.00
05/01/2023	5,790,000	5.375%	9,530,712.50	15,320,712.50
05/01/2024	6,105,000	5.500%	9,219,500.00	15,324,500.00
05/01/2025	6,440,000	5.875%	8,883,725.00	15,323,725.00
05/01/2026	6,820,000	5.875%	8,505,375.00	15,325,375.00
05/01/2027	7,220,000	5.875%	8,104,700.00	15,324,700.00
05/01/2028	7,645,000	5.875%	7,680,525.00	15,325,525.00
05/01/2029	8,090,000	5.875%	7,231,381.26	15,321,381.26
05/01/2030	8,565,000	5.875%	6,756,093.76	15,321,093.76
05/01/2031	9,070,000	6.000%	6,252,900.00	15,322,900.00
05/01/2032	9,615,000	6.000%	5,708,700.00	15,323,700.00
05/01/2033	10,190,000	6.000%	5,131,800.00	15,321,800.00
05/01/2034	10,800,000	6.000%	4,520,400.00	15,320,400.00
05/01/2035	11,450,000	6.000%	3,872,400.00	15,322,400.00
05/01/2036	12,135,000	6.000%	3,185,400.00	15,320,400.00
05/01/2037	12,865,000	6.000%	2,457,300.00	15,322,300.00
05/01/2038	13,635,000	6.000%	1,685,400.00	15,320,400.00
05/01/2039	14,455,000	6.000%	867,300.00	15,322,300.00
	225,000,000		245,014,058.35	470,014,058.35

BOND DEBT SERVICE

California Independent System Operator
Series 2009A
Headquarters Project

Period Ending	Principal	Coupon	Interest	Debt Service
05/01/2010			9,926,562.50	9,926,562.50
05/01/2011			11,911,875.00	11,911,875.00
05/01/2012	3,410,000	4.000%	11,911,875.00	15,321,875.00
05/01/2013	3,550,000	4.000%	11,775,475.00	15,325,475.00
05/01/2014	3,690,000	5.000%	11,633,475.00	15,323,475.00
05/01/2015	3,875,000	5.000%	11,448,975.00	15,323,975.00
05/01/2016	4,070,000	5.250%	11,255,225.00	15,325,225.00
05/01/2017	4,280,000	5.250%	11,041,550.00	15,321,550.00
05/01/2018	4,505,000	5.250%	10,816,850.00	15,321,850.00
05/01/2019	4,745,000	5.250%	10,580,337.50	15,325,337.50
05/01/2020	4,990,000	5.000%	10,331,225.00	15,321,225.00
05/01/2021	5,240,000	5.000%	10,081,725.00	15,321,725.00
05/01/2022	5,505,000	5.250%	9,819,725.00	15,324,725.00
05/01/2023	5,790,000	5.375%	9,530,712.50	15,320,712.50
05/01/2024	6,105,000	5.500%	9,219,500.00	15,324,500.00
05/01/2025	6,440,000	5.875%	8,883,725.00	15,323,725.00
05/01/2026	6,820,000	5.875%	8,505,375.00	15,325,375.00
05/01/2027	7,220,000	5.875%	8,104,700.00	15,324,700.00
05/01/2028	7,645,000	5.875%	7,680,525.00	15,325,525.00
05/01/2029	8,090,000	5.875%	7,231,381.26	15,321,381.26
05/01/2030	8,565,000	5.875%	6,756,093.76	15,321,093.76
05/01/2031	9,070,000	6.000%	6,252,900.00	15,322,900.00
05/01/2032	9,615,000	6.000%	5,708,700.00	15,323,700.00
05/01/2033	10,190,000	6.000%	5,131,800.00	15,321,800.00
05/01/2034	10,800,000	6.000%	4,520,400.00	15,320,400.00
05/01/2035	11,450,000	6.000%	3,872,400.00	15,322,400.00
05/01/2036	12,135,000	6.000%	3,185,400.00	15,320,400.00
05/01/2037	12,865,000	6.000%	2,457,300.00	15,322,300.00
05/01/2038	13,635,000	6.000%	1,685,400.00	15,320,400.00
05/01/2039	14,455,000	6.000%	867,300.00	15,322,300.00
	208,750,000		242,128,487.52	450,878,487.52

BOND DEBT SERVICE

California Independent System Operator
Series 2009B
Capital Expenditures

Period Ending	Principal	Coupon	Interest	Debt Service
05/01/2010			586,645.83	586,645.83
05/01/2011	3,005,000	3.500%	703,975.00	3,708,975.00
05/01/2012	3,110,000	4.000%	598,800.00	3,708,800.00
05/01/2013	3,235,000	4.000%	474,400.00	3,709,400.00
05/01/2014	3,365,000	5.000%	345,000.00	3,710,000.00
05/01/2015	3,535,000	5.000%	176,750.00	3,711,750.00
	16,250,000		2,885,570.83	19,135,570.83

PROJECT FUND

California Independent System Operator
Series 2009
Rates as of March 23, 2009

Date	Deposit	Interest	Principal	Scheduled Draws	Balance
05/01/2010	175,000,000	1,738,459.96	98,016,712.04	99,755,172.00	76,983,287.96
05/01/2011		992,554.10	76,983,287.96	77,975,842.06	
	175,000,000	2,731,014.06	175,000,000.00	177,731,014.06	

Yield To Receipt Date: 2.0000000%
Arbitrage Yield: 5.8992197%
Value of Negative Arbitrage: 5,045,474.62

RESERVE FUND

California Independent System Operator
Series 2009
Rates as of March 23, 2009

Capitalized Interest through 11/1/2011 (CAPI)

Date	Deposit	Interest @ 2%	Principal	Debt Service Reserve Fund	Scheduled Draws	Balance
05/01/2010	25,776,097.56	431,032.04	9,048,535.98	446,994.48	9,926,562.50	16,727,561.58
05/01/2011		279,346.58	11,096,135.04	536,393.38	11,911,875.00	5,631,426.54
05/01/2012		56,314.27	5,631,426.54	268,196.69	5,955,937.50	
	25,776,097.56	766,692.89	25,776,097.56	1,251,584.55	27,794,375.00	

Yield To Receipt Date: 1.9906657%
Arbitrage Yield: 5.8992197%
Value of Negative Arbitrage: 1,412,524.71

RESERVE FUND

California Independent System Operator
Series 2009
Rates as of March 23, 2009

Debt Service Reserve Fund (DSRF)

Date	Deposit	Interest	Principal	Capitalized Interest through 11/1/2011	Debt Service	Balance
05/01/2010	16,950,525	474,077.81		-446,994.48	-27,083.33	16,950,525
05/01/2011		568,893.38		-536,393.38	-32,500.00	16,950,525
05/01/2012		568,893.38		-268,196.69	-300,696.69	16,950,525
05/01/2013		568,893.38			-568,893.38	16,950,525
05/01/2014		568,893.38			-568,893.38	16,950,525
05/01/2015		568,893.38	1,625,000		-2,193,893.38	15,325,525
05/01/2016		536,393.38			-536,393.38	15,325,525
05/01/2017		536,393.38			-536,393.38	15,325,525
05/01/2018		536,393.38			-536,393.38	15,325,525
05/01/2019		536,393.38			-536,393.38	15,325,525
05/01/2020		536,393.38			-536,393.38	15,325,525
05/01/2021		536,393.38			-536,393.38	15,325,525
05/01/2022		536,393.38			-536,393.38	15,325,525
05/01/2023		536,393.38			-536,393.38	15,325,525
05/01/2024		536,393.38			-536,393.38	15,325,525
05/01/2025		536,393.38			-536,393.38	15,325,525
05/01/2026		536,393.38			-536,393.38	15,325,525
05/01/2027		536,393.38			-536,393.38	15,325,525
05/01/2028		536,393.38			-536,393.38	15,325,525
05/01/2029		536,393.38			-536,393.38	15,325,525
05/01/2030		536,393.38			-536,393.38	15,325,525
05/01/2031		536,393.38			-536,393.38	15,325,525
05/01/2032		536,393.38			-536,393.38	15,325,525
05/01/2033		536,393.38			-536,393.38	15,325,525
05/01/2034		536,393.38			-536,393.38	15,325,525
05/01/2035		536,393.38			-536,393.38	15,325,525
05/01/2036		536,393.38			-536,393.38	15,325,525
05/01/2037		536,393.38			-536,393.38	15,325,525
05/01/2038		536,393.38			-536,393.38	15,325,525
05/01/2039		536,393.38	15,325,525		-15,861,918.38	
	16,950,525	16,191,985.83	16,950,525	-1,251,584.55	-31,890,926.28	

Yield To Receipt Date: 3.4564843%
Arbitrage Yield: 5.8992197%
Value of Negative Arbitrage: 5,440,872.46

NET DEBT SERVICE

California Independent System Operator
Series 2009
Rates as of March 23, 2009

Period Ending	Total Debt Service	Debt Service Reserve Fund	Capitalized Interest through 11/1/2011	Net Debt Service
05/01/2010	10,513,208.33	27,083.33	9,926,562.50	559,562.50
05/01/2011	15,620,850.00	32,500.00	11,911,875.00	3,676,475.00
05/01/2012	19,030,675.00	300,696.69	5,955,937.50	12,774,040.81
05/01/2013	19,034,875.00	568,893.38		18,465,981.62
05/01/2014	19,033,475.00	568,893.38		18,464,581.62
05/01/2015	19,035,725.00	2,193,893.38		16,841,831.62
05/01/2016	15,325,225.00	536,393.38		14,788,831.62
05/01/2017	15,321,550.00	536,393.38		14,785,156.62
05/01/2018	15,321,850.00	536,393.38		14,785,456.62
05/01/2019	15,325,337.50	536,393.38		14,788,944.12
05/01/2020	15,321,225.00	536,393.38		14,784,831.62
05/01/2021	15,321,725.00	536,393.38		14,785,331.62
05/01/2022	15,324,725.00	536,393.38		14,788,331.62
05/01/2023	15,320,712.50	536,393.38		14,784,319.12
05/01/2024	15,324,500.00	536,393.38		14,788,106.62
05/01/2025	15,323,725.00	536,393.38		14,787,331.62
05/01/2026	15,325,375.00	536,393.38		14,788,981.62
05/01/2027	15,324,700.00	536,393.38		14,788,306.62
05/01/2028	15,325,525.00	536,393.38		14,789,131.62
05/01/2029	15,321,381.26	536,393.38		14,784,987.88
05/01/2030	15,321,093.76	536,393.38		14,784,700.38
05/01/2031	15,322,900.00	536,393.38		14,786,506.62
05/01/2032	15,323,700.00	536,393.38		14,787,306.62
05/01/2033	15,321,800.00	536,393.38		14,785,406.62
05/01/2034	15,320,400.00	536,393.38		14,784,006.62
05/01/2035	15,322,400.00	536,393.38		14,786,006.62
05/01/2036	15,320,400.00	536,393.38		14,784,006.62
05/01/2037	15,322,300.00	536,393.38		14,785,906.62
05/01/2038	15,320,400.00	536,393.38		14,784,006.62
05/01/2039	15,322,300.00	15,861,918.38		-539,618.38
	470,014,058.35	31,890,926.28	27,794,375.00	410,328,757.07

NET DEBT SERVICE

California Independent System Operator
Series 2009A
Headquarters Project

Period Ending	Total Debt Service	Debt Service Reserve Fund	Capitalized Interest through 11/1/2011	Net Debt Service
05/01/2010	9,926,562.50		9,926,562.50	
05/01/2011	11,911,875.00		11,911,875.00	
05/01/2012	15,321,875.00	268,196.69	5,955,937.50	9,097,740.81
05/01/2013	15,325,475.00	536,393.38		14,789,081.62
05/01/2014	15,323,475.00	536,393.38		14,787,081.62
05/01/2015	15,323,975.00	536,393.38		14,787,581.62
05/01/2016	15,325,225.00	536,393.38		14,788,831.62
05/01/2017	15,321,550.00	536,393.38		14,785,156.62
05/01/2018	15,321,850.00	536,393.38		14,785,456.62
05/01/2019	15,325,337.50	536,393.38		14,788,944.12
05/01/2020	15,321,225.00	536,393.38		14,784,831.62
05/01/2021	15,321,725.00	536,393.38		14,785,331.62
05/01/2022	15,324,725.00	536,393.38		14,788,331.62
05/01/2023	15,320,712.50	536,393.38		14,784,319.12
05/01/2024	15,324,500.00	536,393.38		14,788,106.62
05/01/2025	15,323,725.00	536,393.38		14,787,331.62
05/01/2026	15,325,375.00	536,393.38		14,788,981.62
05/01/2027	15,324,700.00	536,393.38		14,788,306.62
05/01/2028	15,325,525.00	536,393.38		14,789,131.62
05/01/2029	15,321,381.26	536,393.38		14,784,987.88
05/01/2030	15,321,093.76	536,393.38		14,784,700.38
05/01/2031	15,322,900.00	536,393.38		14,786,506.62
05/01/2032	15,323,700.00	536,393.38		14,787,306.62
05/01/2033	15,321,800.00	536,393.38		14,785,406.62
05/01/2034	15,320,400.00	536,393.38		14,784,006.62
05/01/2035	15,322,400.00	536,393.38		14,786,006.62
05/01/2036	15,320,400.00	536,393.38		14,784,006.62
05/01/2037	15,322,300.00	536,393.38		14,785,906.62
05/01/2038	15,320,400.00	536,393.38		14,784,006.62
05/01/2039	15,322,300.00	15,861,918.38		-539,618.38
	450,878,487.52	30,076,342.95	27,794,375.00	393,007,769.57

NET DEBT SERVICE

California Independent System Operator
Series 2009B
Capital Expenditures

Period Ending	Total Debt Service	Debt Service Reserve Fund	Net Debt Service
05/01/2010	586,645.83	27,083.33	559,562.50
05/01/2011	3,708,975.00	32,500.00	3,676,475.00
05/01/2012	3,708,800.00	32,500.00	3,676,300.00
05/01/2013	3,709,400.00	32,500.00	3,676,900.00
05/01/2014	3,710,000.00	32,500.00	3,677,500.00
05/01/2015	3,711,750.00	1,657,500.00	2,054,250.00
	19,135,570.83	1,814,583.33	17,320,987.50

EXHIBIT H

Exhibit H		
California Independent System Operator Corporation		
2010 Preliminary Capital Project Listing		
Project ID	Project Name	Estimated Project Size
173	Computer Direct Purchases - Hardware, Software & Office Equipment - Annual Request 2009	Large
316	2009 Facilities Leasehold Improvements & Furniture Purchase - Annual Request 2009	Small
354	Implement single outage Management Capability - Multi-Year Project	Medium
393	Market Services Required Enhancements	Medium
427	MQS Enhancements to Automate Manual Workarounds	Medium
429	Capitalized labor for portion of Project Office	Medium
439	Integration of Renewable Resources - IRRP	Medium
472	Demand Response Program	Medium
476	MAP 2: Market and Performance FERC Mandated and Stakeholder Market Enhancements	Large
477	MAP 3 Market and Performance FERC and Stakeholder Market Enhancements	Medium
482	Data Warehouse Design and Implementation	Medium
2010 Preliminary Capital Project Total		\$15,000,000
Estimated Project sizes		
Large Projects greater than \$1 million		
Medium Projects greater than \$500 thousand up to \$1 million		
Small Projects up to \$500 thousand		