

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

**California Independent System            )           Docket No. ES21-\_\_\_\_-000  
Operator Corporation                    )**

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

The California Independent System Operator Corporation (“ISO”) files this application for a Commission order authorizing the ISO to issue bonds in a paramount not to exceed \$177 million.<sup>1</sup> This new issuance is designed to enable the ISO to refund approximately \$164 million of Series 2013 bonds issued in 2013, which have a call date of February 1, 2023 and a maximum maturity of 19 years.<sup>2</sup> The ISO has determined that, by issuing new bonds at current interest rates, it can lower annual debt service costs and obtain present value savings over the remaining term of these bonds. The ISO requested, and the Commission approved, a similar authorization in 2013, which allowed the ISO to refund approximately \$200 million of bonds that the ISO issued in 2009.<sup>3</sup>

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

<sup>2</sup> See ISO Report of Securities Issued, Docket No. ES13-29-000 (Dec. 16, 2013) (“2013 Securities Report”).

<sup>3</sup> See California Independent System Operator Corporation’s Application under Section 204 of the Federal Power Act for an Order Authorizing the Issuance of Securities, Docket No. ES13-29-000 (filed June 13, 2013) (“2013 Bond Filing”); *California Independent System Operator Corp.*, 144 FERC ¶ 62,083 (2013) (authorizing the ISO to issue bonds in an amount up to \$210 million). The primary difference between the instant filing and the 2013 Bond Filing is that the ISO also planned to use portions of the proceeds from the 2013 Bond Filing issuance to retire a reserve fund used to pay debt service on the 2009 bonds and to fund ongoing capital expenditures. The issuance for which authorization is requested in the instant filing will go entirely towards paying debt service due on the 2013 bonds.

The new bonds will be structured as taxable fixed-rate bonds with a likely final maturity of February 1, 2039, which matches the maturity date of the ISO's currently outstanding Series 2013 bonds. Other maturity structures are being considered, however, contingent on interest rates and market conditions. Most of the proceeds of the new offering will be deposited into an escrow account to pay debt service due on the outstanding Series 2013 bonds. The balance will be used for the underwriter's discount and other issuance costs.

The ISO respectfully requests that the Commission issue an order on this application no later than January 5, 2021. Obtaining an order by January 5, 2021 will allow the ISO to conduct the issuance in early January 2021, which will minimize the risk of interest rate increases, thereby decreasing the overall cost of this issuance to the ISO and maximizing the savings benefits.

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In addition to the 2013 issuance, the Commission has previously accepted a number of other applications that the ISO has submitted for authorization to issue bonds. *California Independent System Operator Corp.*, 127 FERC ¶ 62,136 (2009) (authorizing the ISO to issue bonds in an amount up to \$225 million); *California Independent System Operator Corp.*, 123 FERC ¶ 62,091 (2008) (authorizing the ISO to issue up to \$215 million in bonds); *California Independent System Operator Corp.*, 118 FERC ¶ 62,250 (2007) (authorizing the ISO to issue up to \$60 million in bonds); *California Independent System Operator Corp.*, 109 FERC ¶ 62,138 (2004) (authorizing the ISO to issue up to \$127 million in bonds); *California Independent System Operator Corp.*, 90 FERC ¶ 62,088 (2000) (authorizing the ISO to issue up to \$297 million in bonds); *California Independent System Operator Corp.*, 83 FERC ¶ 62,039 (1998) (amending earlier letter order to authorize the ISO to issue up to \$310 million in bonds); *California Independent System Operator Corp.*, 81 FERC ¶ 62,220 (1997) (authorizing the ISO to issue up to \$260 million in bonds).

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

**A. The Issuance of New Bonds**

**1. Funding Needs for Refinancing of Series 2013 Bonds**

In 2013, the ISO issued approximately \$192 million in fixed-rate Series 2013 bonds, which have a call date of February 1, 2023 and a maximum maturity of 26 years.<sup>4</sup> The ISO has determined that it can lower annual debt service costs and obtain present value savings over the remaining term of these bonds by issuing new bonds to refund the remaining balance of Series 2013 bonds.

To achieve these savings, the ISO proposes to execute a taxable advance refunding of the Series 2013 bonds by issuing no more than \$177 million in new bonds, as proposed in this application. The ISO will deposit nearly all of the proceeds from the new bond issuance into an escrow account to pay all debt service due on the Series 2013 bonds being refunded, up to and including the call date of the Series 2013 bonds.

Separate from the bond proceeds, the ISO will also deposit into refunding the escrow the principal and interest payment due on February 1, 2021 on the Series 2013 bonds. This amount has already been collected as part of the ISO's 2020 revenue requirement.

**2. Funding Needs for Underwriter's Discount and Other Issuance Costs**

The remaining balance of the proceeds would be used to pay the underwriter's discount and other estimated issuance costs of the new bonds.

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<sup>4</sup> See 2013 Securities Report.

### **3. Anticipated Term of New Bonds**

The ISO anticipates issuing fixed-rate bonds with an expected final maturity of 18 years, *i.e.*, February 1, 2039. However, the ISO is still considering other maturity structures, and will elect a final maturity structure based on prevailing interest rates and market conditions. The amortization schedule of the proposed bond offering will be tailored to facilitate a stable overall revenue requirement for the ISO.

The ISO intends to incorporate the debt service costs for this new bond offering into its Grid Management Charge (“GMC”) for 2022 through 2038.

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

The proposed bond issuance will not impact the GMC rates and fees that will be in effect as of January 1, 2021, which will be established pursuant to the ISO’s FERC-approved GMC rate structure. Due to the contingent nature of this bond offering based on the final results of pricing, the ISO’s 2021 revenue requirement will not reflect the revenue requirement impact of this proposed offering. Instead, the 2021 revenue requirement will continue to collect the debt payments due under the Series 2013 bonds.

Assuming the ISO completes a successful pricing and issuance of this proposed offering in 2021, the effect of this offering will be to reduce the ISO’s revenue requirement relating to debt service relative to the Series 2013 bonds beginning in 2022. The additional debt payments collected from stakeholders from 2021 would be refunded in the 2022 revenue requirement as part of the Operating Costs Reserve Adjustment. The ISO would then include the remaining

debt service for this proposed bond offering in its annual revenue requirement for future years (2022-2038).

## **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  
250 Outcropping Way  
Folsom, California 95630

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

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

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

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

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

Michael Kunselman  
Davis Wright Tremaine LLP  
1301 K Street, N.W., Suite 500 East  
Washington, DC 20005  
Tel: (202) 973-4295  
Fax: (202) 973-4495  
E-mail: [michaekunselman@dwt.com](mailto:michaekunselman@dwt.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 January 5, 2021. Commission approval by January 5 will allow the ISO to conduct the issuance in early January. Issuing the bonds on this schedule will minimize the risks of interest rate increases, thereby decreasing the overall cost of this issuance to the ISO and maximizing the savings benefits.

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

**1. Type and nature of the securities.**

The ISO anticipates using taxable fixed-rate bonds for this offering that will be amortized over 18 years. This will result in level annual debt service and a stable revenue requirement.

**2. Amount of the securities.**

The par amount of the bonds to be issued will not exceed \$177 million, consisting of:<sup>5</sup>

Refunding escrow deposit	\$174.3 million
Underwriter's discount	\$0.5 million
Issuance costs	\$2.2 million
	<hr/>
Total	\$177 million

<sup>5</sup> 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 \$177 million.

**3. Interest or dividend rate.**

Based on a fixed rate offering, the ISO estimates that the all-in interest rate will be approximately 2.4%, based on current market conditions, with a maximum interest rate of 3.3%. This maximum interest rate reflects the highest rate at which the ISO would conduct the issuance requested in this application, and Exhibits C through E and G to this application reflect this rate, although the ISO anticipates that the actual interest rate will be lower. If the ISO issued bonds at this maximum rate, the annual savings would be approximately \$0.5 million per year and total present value savings over the life of the bond would be \$8.3 million.

**4. Dates of issuance and maturity.**

The target issuance date for the bonds is early January 2021. Final maturity of the bonds is anticipated to be February 1, 2039, but as discussed above the ISO may elect a different final maturity date based on prevailing interest rates and other market conditions.

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

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

Moody's: A1

Standard & Poor's: A+

Fitch: A+

The ISO anticipates that the bonds described in this application will be rated in accordance with these existing ratings.

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

The securities are being issued to execute an advance refunding of the ISO's Series 2013 bonds. Most of the proceeds will be deposited into a refunding escrow account to pay all debt service due on the Series 2013 bonds being refunded, up to and including the call date of the Series 2013 bonds – February 1, 2023. The balance of the proceeds will be used for the underwriter's discount and other issuance costs. The refinancing transaction will result in lower annual debt service costs and present value savings over the remaining term of the Series 2013 bonds. All the proceeds of this issuance will be used solely for these purposes.<sup>6</sup>

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<sup>6</sup> The ISO agrees that any bonds issued pursuant to the authorizations requested in this Application will be subject to the four restrictions on secured and unsecured debt specified in *Westar Energy, Inc.*, 102 FERC ¶ 61,186, *order on reh'g*, 104 FERC ¶ 61,018 (2003). First, the proceeds of any debt issued pursuant to this Application which is secured by utility assets will be used for utility purposes. Second, if any utility assets that secure such debt issuances are divested or "spun off," the debt must follow the asset and also be divested or "spun off." Third, if any of the proceeds from unsecured debt are used for non-utility purposes, the debt must follow the non-utility assets. Specifically, if the non-utility assets are divested or "spun off," then a proportionate share of debt must follow the divested or "spun off" non-utility asset. Finally, if utility assets financed by unsecured debt are divested or "spun off" to another entity, then a proportionate share of the debt also must be divested or "spun off."

**(g) State applications.**

No application with respect to this issuance is required to be filed with any state utility regulatory body. After filing this application with the Commission, the ISO anticipates filing an application for issuance through a government entity conduit issuer that is an agency of the State of California. Specifically, the ISO anticipates utilizing the California Statewide Communities Development Authority (“CSCDA”) for this purpose.<sup>7</sup>

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

The ISO’s issuance of the bonds is consistent with its corporate purposes and responsibilities, its operation as an independent transmission system operator, and the public interest. The refinancing of the Series 2013 bonds is a prudent business decision in the current market that will result in significant present value savings.

The ISO will present this proposed bond offering to its Board and will request formal approval of the transaction at the Board’s December 16-17, 2020 meeting. The ISO will provide the Commission with the record of the Board’s approval of the transaction after that meeting as a supplement to this application.

This supplement is expected to be purely informational in nature,

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<sup>7</sup> The CSCDA was created in 1998 under California’s Joint Exercise of Powers Act to provide California local governments with a tool for financing of community-based public benefit projects. See <http://cscda.org/About-Us/>.

and should not alter the information or commitments provided in the instant filing, except for Exhibit B below. The ISO has requested Commission approval of proposed bond issuances prior to obtaining Board approval in a number of previous instances, which approval the ISO subsequently provided to the Commission, and which the Commission then authorized.<sup>8</sup>

**(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 2013. There are no restrictions in the existing bond documents that limit the ISO from this additional bond issuance.

**(j) Summary of rate changes.**

This filing includes financial statements for the period from October 1, 2019 through September 30, 2020. The ISO's updated rates for the 2020 GMC were posted on the ISO Website in December 2019. No changes in the 2020 or 2021 GMC rates are requested or anticipated as a result of the bond offering that is the subject of this application.

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<sup>8</sup> See ISO FPA Section 204 Application, Docket No. ES13-29-000 (June 13, 2013); ISO FPA Section 204 Application, Docket No. ES07-20-000, at 11 (Feb. 9, 2007); ISO FPA Section 204 Application, Docket No. ES08-36-000, at 14 (Mar. 17, 2008); ISO FPA Section 204 Application, Docket No. ES09-26-000, at 11 (Apr. 10, 2009).

## **B. Section 34.4 Requirements**

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

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

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

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

Exhibit C - Projected *Pro Forma* Balance Sheets of the ISO for the twelve months ending September 30, 2020 and Schedule of *Pro Forma* Adjustments<sup>9</sup>

Exhibit D - Projected *Pro Forma* Income Statements for the twelve months ending September 30, 2020

Exhibit E - Projected *Pro Forma* Statements of Cash Flows for the twelve months ending September 30, 2020 and calculation of interest coverage.

Exhibit F - Official Statement for the year 2013 Series bonds

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

As noted above, Exhibits C through E and G have been prepared based on the maximum interest rate at which the ISO would conduct the issuance. As indicated in Exhibit E, the ratios for interest expenses compared to overall

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<sup>9</sup> The ISO's most recent 12-month financial statements were for the period ending December 31, 2019, which is more than four months prior to the date of this application. Therefore, the ISO is including in Exhibits C, D, and E both FERC Form No. 1 12-month data and Form No. 3Q data from the third quarter of 2020. The Commission has accepted financial information in other applications submitted under FPA Section 204 that includes financial data submitted in this manner. See, e.g., FPA Section 204 Application of KCP&L Greater Missouri Operations Company, Docket No. ES12-2-000, at Exhibits C, D, and E (Oct. 6, 2011); FPA Section 204 Application of Kentucky Utilities Company, Docket No. ES11-48-000, at Exhibits C, D, and E (Sept. 21, 2011); FPA Section 204 Application of Louisville Gas and Electric Company, Docket No. ES11-49-000, at Exhibits C, D, and E (Sept. 21, 2011).

revenues, for both the actual and pro-forma calculations, are 5.33 and 7.56 respectively.

**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. As discussed above, after filing this application with the Commission, the ISO anticipates filing an application for issuance through the CSCDA. As such, the Commission should find that this issuance is exempt from the requirements of 18 C.F.R § 34.2(a). The ISO notes that the Commission exempted the ISO's seven previous bond offerings from the requirements of Section 34.2(a).

Although the ISO is entitled to an exemption because a governmental entity will issue the bonds for the benefit of the ISO, the ISO has obtained competitive offers as the regulation requires. In October 2020, the ISO requested financing proposals from RBC Capital Markets, Citigroup Global Markets, Bank of America Merrill Lynch, Morgan Stanley, JPMorgan Chase & Co., UBS Financial Services, and Wells Fargo Securities. Those firms' financing proposals were reviewed by the ISO's Chief Financial Officer and Treasurer and its independent financial advisor Sperry Capital. The ISO selected RBC Capital

Markets to serve as sole manager for the transaction. The ISO is confident that the underwriting fees to be charged represent an attractive option relative to other alternatives in the market. Also, as explained above, the ISO intends to use traditional fixed-rate bonds.

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](http://www.caiso.com).

### **IV. SUPPORTING DOCUMENTS**

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

## V. CONCLUSION

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

- authorize the ISO's proposed bond issuance in an amount not to exceed \$177 million with a maximum interest rate of 3.3%;
- 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 January 5, 2021.

Respectfully submitted,

/s/ Ryan Seghesio  
Ryan Seghesio

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

/s/ Michael Kunselman  
Michael Kunselman

Davis Wright Tremaine LLP

Counsel for the California  
Independent System Operator  
Corporation

Dated: November 5, 2020

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

**California Independent System )  
Operator Corporation )**

**Docket No. ES21-\_\_-000**

**VERIFICATION OF RYAN SEGHESSIO**

The undersigned is Chief Financial Officer and Treasurer for the California Independent System Operator Corporation, has the authority to verify the foregoing Application on behalf of California Independent System Operator Corporation, and has read the foregoing Application and is familiar with the contents thereof. Pursuant to 18 C.F.R. §§ 385.2005(b), the undersigned verifies under penalty of perjury that the foregoing Application is true and correct, to the best of his knowledge, information and belief.



Ryan Seghesio

Executed on: November 5, 2020

# **EXHIBIT A**

State of California



Exhibit A

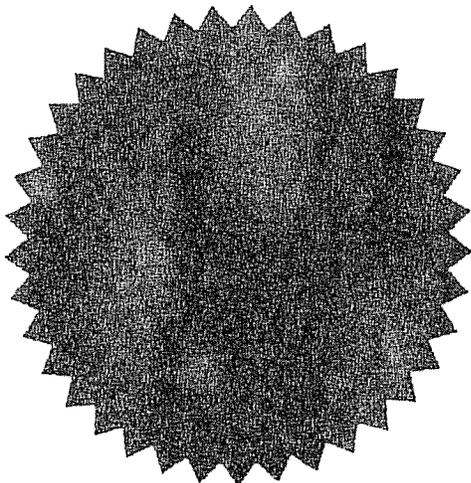
SECRETARY OF STATE

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

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

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

MAY - 6 1997



*Bill Jones*

Secretary of State

2009677

ENDORSED  
FILED

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

MAY - 5 1997

*Bill Jones*  
BILL JONES, Secretary of State

ARTICLES OF INCORPORATION  
OF  
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

I.

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

II.

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

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

III.

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

Gary C. Heath  
1516 Ninth Street  
Sacramento, CA 95814

IV.

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

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

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

V.

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

VI.

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

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

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

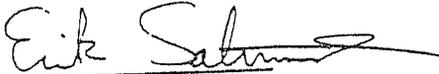
VII.

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

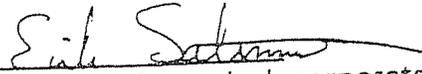
VIII.

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

Dated: May 5, 1997

  
Erik N. Saltmarsh, Incorporator

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

  
Erik N. Saltmarsh, Incorporator

# **EXHIBIT B**

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

# **EXHIBIT C**

Exhibit C  
California Independent System Operator Corporation  
Balance Sheet (Unaudited)  
September 30, 2020

Line No.	Title of Account (FERC Account)	Balance September 30, 2020	Pro Forma Adjustments For Issuance of New Bonds	Pro Forma Adjustments For Repayment of Bonds	Pro Forma Adjustments For Bond Amortization	09/30/2020 Balance After Pro Forma Adjustments
1	<b>ASSETS AND OTHER DEBITS</b>					
2	<b>Utility Plant</b>					
3	Utility Plant (101-106,114)	\$ 677,185,562				\$ 677,185,562
4	Construction Work in Progress (107)	12,847,503				12,847,503
5	Total Utility Plant	690,033,065				690,033,065
6	(Less) Accum. Prov. For Depr. Amor. Depl. (108,110,111,115)	523,010,331				523,010,331
7	Net Utility Plant	167,022,734	-	-	-	167,022,734
8						
9	<b>Other Property and Investments</b>					
10	Nonutility Property (121)	-				-
11	Other Investments (124)	215,508,759				215,508,759
12	Other Special Funds (128)	426,298,606				426,298,606
13	Total Other Property and Investments	641,807,365	-	-	-	641,807,365
14						
15	<b>Current and Accrued Assets</b>					
16	Cash (131)	22,268,789	174,160,969	(182,962,938)	2,443,369	15,910,189
17	Special Deposits (132-134)	43,662				43,662
18	Working Fund (135)	15,074				15,074
19	Customer Accounts Receivable (142)	7,652,179				7,652,179
20	Other Accounts Receivable (143)	196,383				196,383
21	Prepayments (165)	7,904,815				7,904,815
22	Interest and Dividends Receivable (171)	467,203				467,203
23	Accrued Utility Revenues (173)	6,920,254				6,920,254
24	Total Current and Accrued Assets	45,468,359	174,160,969	(182,962,938)	2,443,369	39,109,759
25						
26	<b>Deferred Debits</b>					
27	Unamortized Debt Expense/Loss on Refunding (181)	964,896	2,209,031	(964,896)	(122,724)	2,086,307
28	Clearing Accounts (184)	(1,436,589)				(1,436,589)
29	Miscellaneous Deferred Debits (186)	11,245,137				11,245,137
30	Unamortized Loss on Reacquired Debt	7,552,422	-	12,980,186	(1,140,700)	19,391,908
31	Total Deferred Debits	18,325,866	2,209,031	12,015,289	(1,263,424)	31,286,762
32						
33	TOTAL ASSETS	\$ 872,624,324	\$ 176,370,000	\$ (170,947,648)	\$ 1,179,944	\$ 879,226,620
34	See notes to Balance Sheet					

Exhibit C  
California Independent System Operator Corporation  
Balance Sheet (Unaudited)  
September 30, 2020

Line No.	Title of Account (FERC Account)	Balance September 30 2020	Pro Forma Adjustments For Issuance of New Bonds	Pro Forma Adjustments For Retirement of 2009 Bonds	Pro Forma Adjustments For Bond Amortization	09/30/2020 Balance After Pro Forma Adjustments
36	<b>LIABILITIES AND OTHER CREDITS</b>					
37	<b>Proprietary Capital</b>					
38	Retained Earnings (215, 215.1,216)	\$ 214,782,213	\$ -	\$ -	\$ 1,179,944	\$ 215,962,157
39	Accumulated Other Comprehensive Income (219)	1,046,559				1,046,559
40	Total Proprietary Capital	<u>215,828,772</u>	-	-	1,179,944	<u>217,008,716</u>
41						
42	<b>Long-Term Debt</b>					
43	Bonds (221)	163,380,000	176,370,000	(163,380,000)	-	176,370,000
44	Unamortized Bond Premium (225)	6,213,019	-	(6,213,019)	-	(0)
45	Total Long-Term Debt	<u>169,593,019</u>	<u>176,370,000</u>	<u>(169,593,019)</u>	-	<u>176,370,000</u>
46						
47	<b>Other NonCurrent Liabilities</b>					
48	Accumulated Provision for Pensions and Benefits (228.3)	18,967,549				18,967,549
49	Total Other NonCurrent Liabilities	<u>18,967,549</u>	-	-	-	<u>18,967,549</u>
50						
51	<b>Current and Accrued Liabilities</b>					
52	Accounts Payable (232)	43,001,796				43,001,796
53	Customer Deposits (235)	421,544,218				421,544,218
54	Taxes Accrued (236)	163,863				163,863
55	Interest Accrued (237)	1,354,629		(1,354,629)		-
56	Total Current and Accrued Liabilities	<u>466,064,506</u>	-	<u>(1,354,629)</u>	-	<u>464,709,877</u>
57						
58	<b>Deferred Credits</b>					
59	Other Deferred Credits (253)	2,170,478				2,170,478
60	Total Deferred Credits	<u>2,170,478</u>	-	-	-	<u>2,170,478</u>
61						
62	TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	<u>\$ 872,624,324</u>	<u>\$ 176,370,000</u>	<u>\$ (170,947,648)</u>	<u>\$ 1,179,944</u>	<u>\$ 879,226,620</u>
63						
64	See notes to Balance Sheet					

Exhibit C  
California Independent System Operator Corporation  
Notes to Balance Sheet (Unaudited)  
September 30, 2020

Line No.	Description	Pro Forma Adjustments
1	<b>Issuance of Bonds</b>	
2	The Proforma adjustments reflecting the issuance of bonds have the following components:	
3		
4	<u>Source and Use of Bond Proceeds</u>	
5	Bond Proceeds - Par Amount	\$ 176,370,000
6	Other Sources - Release from 2013 Debt Service Fund	3,284,594
7	Cash defeasance of 2/1/2021 Maturity	5,517,375
8	Bond Proceeds	<u>\$ 185,171,969</u>
9		
10	Refunding of Series 2013 Bonds - Principal	\$ 182,962,938
11	Unamortized Debt Expense - Costs of issuance	1,768,106
12	Unamortized Debt Expense - Underwriter's discount, Letter of credit fees	440,925
13	Bonds issued	<u>\$ 185,171,969</u>
14		
15		
16	<b>Refunding of Series 2013 Bonds</b>	
17	The Proforma adjustments reflecting the retirement of the bonds have the following components:	
18	(Note: Amount to be Refinanced by Series 2020 Bonds)	
19	Series 2013 Bonds Outstanding Balance	\$ 157,985,000
20	Series 2013 Bonds Outstanding Balance due 2/1/2021	5,395,000
21	Series 2013 Bonds Outstanding Balance due 2/1/2021 - Interest	122,375
22	Series 2013 Debt Service Fund Release due 2/1/2021	3,284,594
23	Series 2013 Accrued Interest	1,354,629
24	Series 2013 Bonds Debt Service in Escrow Deposit	19,582,938
25	Unamortized Premium	6,213,019
26	Unamortized Debt Expense	964,896
27	Unamortized Loss on Refunding	7,552,422
28	Interest Expense	8,204,192
29	Amortization of Premium	582,661
30	Amortization of Debt Expense	90,489
31	Amortization of Loss on Refunding	708,271
32		
33	<b>Bond Amortization</b>	
34	The Proforma adjustments reflecting the amortization of bonds have the following components:	
35		
36	Issuance date - Oct 1, 2020 (Actual issuance will be in December 1, 2020 -- 10/1/2020 is assumed for purposes	
37	of this pro-forma statement.	
38	Amortization date - September 30, 2020	
39	Interest rate - all in	3.2663280%
40	Interest cost - Year 1 (line 13 x line 6); paid from cash account	<u>\$ 5,760,823</u>
41	Principal reduction:	
42	Year 1	\$ -
43	Year 2	7,905,000
44	Year 3	8,220,000
45	Year 4	8,320,000
46	Year 5	8,450,000
47	Years 6 - 25	143,475,000
48	Total	<u>\$ 176,370,000</u>
49	Unamortized Debt Expense (Method - ratably over 18 years)	
50	Expense - Year 1 ((line 15 + line 16 + line 17) / 18)	<u>\$ 122,724</u>
51	Loss of Refunding of Series A 2013 Bonds (Method - ratably over 18 years)	
52	Expense - Year 1 only (line 19 + line 20 + line 21 - line 18) /18	<u>\$ 1,140,700</u>

# **EXHIBIT D**

Exhibit D  
California Independent System Operator Corporation  
Statement of Income (Unaudited)  
For the 12-Month Period Ended September 30, 2020

Line No.	Title of Account (FERC Account)	12-Month Period Ended September 30, 2020	Pro Forma Adjustments For Bond Amortization	09/30/2020 Balance After Pro Forma Adjustments
1	<b>Utility Operating Income</b>			
2	Operating Revenues (400)	\$ 246,473,984	\$ -	\$ 246,473,984
3				
4	Operating Expenses			
5	Operating Expenses (401)	166,739,939	-	166,739,939
6	Maintenance Expenses (402)	22,936,106	-	22,936,106
7	Depreciation Expense (403)	25,368,124	-	25,368,124
8	Taxes Other Than Income Taxes (408.1)	250,301	-	250,301
9	Losses from Disposition of Utility Plant (411)	-	-	-
10	Total Utility Operating Expenses	<u>215,294,470</u>	-	<u>215,294,470</u>
11				
12	Net Utility Operating Gain	<u>31,179,514</u>	-	<u>31,179,514</u>
13				
14	<b>Other Income</b>			
15				
16	Interest and Dividend Income (419)	10,309,873	-	10,309,873
17	Miscellaneous Non-operating Income (421)	4,617	-	4,617
18	Other Deductions (426)	(3,000)	-	(3,000)
19	Total Other Income	<u>10,311,490</u>	-	<u>10,311,490</u>
20				
21	<b>Interest Charges</b>			
22	Interest on Long-term Debt (427)	8,204,191	(2,443,369)	5,760,822
23	Amortization of Debt Expense/Loss of Refunding (428)	798,760	680,764	1,479,524
24	Amortization of Bond Premium (429)	(582,661)	582,661	-
25	Other Interest Expense (431)	(464,962)	-	(464,962)
26	Net Interest Charges	<u>7,955,328</u>	<u>(1,179,944)</u>	<u>6,775,384</u>
27				
28	Net Gain	<u>\$ 33,535,676</u>	<u>\$ 1,179,944</u>	<u>\$ 34,715,620</u>
29				
30	See notes to Statement of Income			

Exhibit D  
California Independent System Operator Corporation  
Notes to the Statement of Income (Unaudited)  
September 30, 2020

Line No.	Description	Pro Forma Adjustments
1	<b>Issuance of Bonds</b>	
2	The Proforma adjustments reflecting the issuance of bonds have the following components:	
3		
4	<u>Source and Use of Bond Proceeds</u>	
5	Bond Proceeds - Par Amount	\$ 176,370,000
6	Other Sources - Release from 2013 Debt Service Fund	3,284,594
7	Cash defeasance of 2/1/2021 Maturity	5,517,375
8	Bond Proceeds	<u>\$ 185,171,969</u>
9		
10	Refunding of Series 2013 Bonds - Principal	\$ 182,962,938
11	Unamortized Debt Expense - Costs of issuance	1,768,106
12	Unamortized Debt Expense - Underwriter's discount, Letter of credit fees	440,925
13	Bonds issued	<u>\$ 185,171,969</u>
14		
15		
16	<b>Refunding of Series 2013 Bonds</b>	
17	The Proforma adjustments reflecting the retirement of the bonds have the following components:	
18	(Note: Amount to be Refinanced by Series 2020 Bonds)	
19	Series 2013 Bonds Outstanding Balance	\$ 157,985,000
20	Series 2013 Bonds Outstanding Balance due 2/1/2021	5,395,000
21	Series 2013 Bonds Outstanding Balance due 2/1/2021 - Interest	122,375
22	Series 2013 Debt Service Fund Release due 2/1/2021	3,284,594
23	Series 2013 Accrued Interest	1,354,629
24	Series 2013 Bonds Debt Service in Escrow Deposit	19,582,938
25	Unamortized Premium	6,213,019
26	Unamortized Debt Expense	964,896
27	Unamortized Loss on Refunding	7,552,422
28	Interest Expense	8,204,192
29	Amortization of Premium	582,661
30	Amortization of Debt Expense	90,489
31	Amortization of Loss on Refunding	708,271
32		
33	<b>Bond Amortization</b>	
34	The Proforma adjustments reflecting the amortization of bonds have the following components:	
35		
36	Issuance date - Oct 1, 2020 (Actual issuance will be in December 1, 2020 -- 10/1/2020 is assumed for purposes	
37	of this pro-forma statement.	
38	Amortization date - September 30, 2020	
39	Interest rate - all in	3.2663280%
40	Interest cost - Year 1 (line 13 x line 6); paid from cash account	<u>\$ 5,760,823</u>
41	Principal reduction:	
42	Year 1	\$ -
43	Year 2	7,905,000
44	Year 3	8,220,000
45	Year 4	8,320,000
46	Year 5	8,450,000
47	Years 6 - 25	143,475,000
48	Total	<u>\$ 176,370,000</u>
49	Unamortized Debt Expense (Method - ratably over 18 years)	
50	Expense - Year 1 ((line 15 + line 16 + line 17) / 18)	<u>\$ 122,724</u>
51	Loss of Refunding of Series A 2013 Bonds (Method - ratably over 18 years)	
52	Expense - Year 1 only (line 19 + line 20 + line 21 - line 18) /18	<u>\$ 1,140,700</u>
53		
54	<b>Other</b>	
55	Other Interest Expense is a credit due to an adjustment in December 2019, which reduced the associated liability.	

# **EXHIBIT E**

Exhibit E  
California Independent System Operator Corporation  
Statement of Cash Flows (Unaudited)  
For the 12-Month Period Ended September 30, 2020

Line No.	Account Description	12-Month Period Ended September 30, 2020	Pro Forma Adjustments For Issuance of Bonds	Pro Forma Adjustments For Retirement of 2013 Bonds	Pro Forma Adjustments For Bond Amortization	9/30/2020 Balance After Pro Forma Adjustments
1	Net Cash Flow from Operating Activities					
2	Net Gain (Loss)	\$ 33,535,676	\$ -	\$ (18,228,309)	\$ 1,179,944	\$ 16,487,311
3	Noncash Charges (Credits) to Income:					
4	Depreciation and Depletion	19,462,596				19,462,596
5	Amortization of Debt Expense/Loss on Refunding	798,760			680,764	1,479,524
6	Amortization of Bond Premium	(582,661)			582,661	-
7	Allowance for Funds Used During Construction	785,639				785,639
8	Net Increase in Receivables and Other Assets	8,462,193		12,015,289		20,477,482
9	Net Increase in Payables and Accrued Expenses	(10,957,563)		6,213,019		(4,744,544)
10	Net Increase in Other Deferred Credits	(73,740)				(73,740)
11	Net Cash Provided by Operating Activities	<u>51,430,900</u>	-	-	2,443,369	<u>53,874,269</u>
12						
13	Cash Flows From Investment Activities					
14	Gross Additions to Common Utility Plant	(21,250,454)				(21,250,454)
15	Net Proceeds from Purchases of Investments	(31,938,799)				(31,938,799)
16	Net Cash Used In Investing Activities	<u>(53,189,253)</u>	-	-	-	<u>(53,189,253)</u>
17						
18	Cash Flows from Financing Activities					
19	Net Proceeds from Issuance of Long-Term Debt	-	174,160,969	-	-	174,160,969
20	Increase in Customer Deposits	55,150,167				55,150,167
21	Payments for Retirement of Long-Term Debt	(5,165,000)		(182,962,938)	-	(188,127,938)
22	Decrease (Increase) in Special Deposits	93,712			-	93,712
23	Decrease (Increase) Other Special Funds	12,163,148			-	12,163,148
24	Net Cash Provided By/(Used In) Financing Activities	<u>62,242,027</u>	174,160,969	(182,962,938)	-	<u>53,440,058</u>
25						
26	Net Increase (Decrease) in Cash and Cash Equivalents	60,483,674	174,160,969	(182,962,938)	2,443,369	54,125,074
27						
28	Cash and Cash Equivalents at Beginning of Period	<u>332,322,562</u>	-	-	-	<u>332,322,562</u>
29						
30	Cash and Cash Equivalents at End of Period	<u>\$ 392,806,236</u>	<u>\$ 174,160,969</u>	<u>\$ (182,962,938)</u>	<u>\$ 2,443,369</u>	<u>\$ 386,447,636</u>
31						
32	See notes to Statement of Cash Flows					

Exhibit E  
California Independent System Operator Corporation  
Notes to the Statement of Cash Flows (Unaudited)  
September 30, 2020

Line No.	Description	Pro Forma Adjustments
1	<b>Issuance of Bonds</b>	
2	The Proforma adjustments reflecting the issuance of bonds have the following components:	
3		
4	<u>Source and Use of Bond Proceeds</u>	
5	Bond Proceeds - Par Amount	\$ 176,370,000
6	Other Sources - Release from 2013 Debt Service Fund	3,284,594
7	Cash defeasance of 2/1/2021 Maturity	5,517,375
8	Bond Proceeds	<u>\$ 185,171,969</u>
9		
10	Refunding of Series 2013 Bonds - Principal	\$ 182,962,938
11	Unamortized Debt Expense - Costs of issuance	1,768,106
12	Unamortized Debt Expense - Underwriter's discount, Letter of credit fees	440,925
13	Bonds issued	<u>\$ 185,171,969</u>
14		
15		
16	<b>Refunding of Series 2013 Bonds</b>	
17	The Proforma adjustments reflecting the retirement of the bonds have the following components:	
18	(Note: Amount to be Refinanced by Series 2020 Bonds)	
19	Series 2013 Bonds Outstanding Balance	\$ 157,985,000
20	Series 2013 Bonds Outstanding Balance due 2/1/2021	5,395,000
21	Series 2013 Bonds Outstanding Balance due 2/1/2021 - Interest	122,375
22	Series 2013 Debt Service Fund Release due 2/1/2021	3,284,594
23	Series 2013 Accrued Interest	1,354,629
24	Series 2013 Bonds Debt Service in Escrow Deposit	19,582,938
25	Unamortized Premium	6,213,019
26	Unamortized Debt Expense	964,896
27	Unamortized Loss on Refunding	7,552,422
28	Interest Expense	8,204,192
29	Amortization of Premium	582,661
30	Amortization of Debt Expense	90,489
31	Amortization of Loss on Refunding	708,271
32		
33	<b>Bond Amortization</b>	
34	The Proforma adjustments reflecting the amortization of bonds have the following components:	
35		
36	Issuance date - Oct 1, 2020 (Actual issuance will be in December 1, 2020 -- 10/1/2020 is assumed for purposes	
37	of this pro-forma statement.	
38	Amortization date - September 30, 2020	
39	Interest rate - all in	3.2663280%
40	Interest cost - Year 1 (line 13 x line 6); paid from cash account	<u>\$ 5,760,823</u>
41	Principal reduction:	
42	Year 1	\$ -
43	Year 2	7,905,000
44	Year 3	8,220,000
45	Year 4	8,320,000
46	Year 5	8,450,000
47	Years 6 - 25	143,475,000
48	Total	<u>\$ 176,370,000</u>
49	Unamortized Debt Expense (Method - ratably over 18 years)	
50	Expense - Year 1 ((line 15 + line 16 + line 17) / 18)	<u>\$ 122,724</u>
51	Loss of Refunding of Series A 2013 Bonds (Method - ratably over 18 years)	
52	Expense - Year 1 only (line 19 + line 20 + line 21 - line 18) / 18	<u>\$ 1,140,700</u>

Exhibit E  
California Independent System Operator Corporation  
Schedule of Interest Coverage  
For the 12-Month Period Ended September 30, 2020

Line No.	Description	12-Month Period Ended September 30, 2020	Pro Forma Adjustments For Bond Amortization	9/30/2020 Balance After Pro Forma Adjustments
1	Net Gain	\$ 33,535,676	\$ 1,179,944	\$ 34,715,620
2				
3	Add Back:			
5	Interest on Long-Term Debt	\$ 8,204,191	\$ (2,443,369)	5,760,822
6	Other Interest Expense	(464,962)	-	(464,962)
7	Total Interest Expense	<u>7,739,229</u>	<u>(2,443,369)</u>	<u>5,295,860</u>
8				
9	Income before Interest	<u>\$ 41,274,905</u>	<u>\$ (1,263,425)</u>	<u>\$ 40,011,480</u>
10				
11	Total Interest Expense (line 5 and 6)	<u>\$ 7,739,229</u>	<u>\$ (2,443,369)</u>	<u>\$ 5,295,860</u>
12				
13				
14				
15	Computation of Interest Coverage			
16	Interest coverage (line 9 / line 11)	<u>5.33</u>		<u>7.56</u>

Exhibit E  
California Independent System Operator Corporation  
Notes to the Schedule of Interest Coverage (Unaudited)  
September 30, 2020

Line No.	Description	Pro Forma Adjustments
1	<b>Issuance of Bonds</b>	
2	The Proforma adjustments reflecting the issuance of bonds have the following components:	
3		
4	<u>Source and Use of Bond Proceeds</u>	
5	Bond Proceeds - Par Amount	\$ 176,370,000
6	Other Sources - Release from 2013 Debt Service Fund	3,284,594
7	Cash defeasance of 2/1/2021 Maturity	5,517,375
8	Bond Proceeds	<u>\$ 185,171,969</u>
9		
10	Refunding of Series 2013 Bonds - Principal	\$ 182,962,938
11	Unamortized Debt Expense - Costs of issuance	1,768,106
12	Unamortized Debt Expense - Underwriter's discount, Letter of credit fees	440,925
13	Bonds issued	<u>\$ 185,171,969</u>
14		
15		
16	<b>Refunding of Series 2013 Bonds</b>	
17	The Proforma adjustments reflecting the retirement of the bonds have the following components:	
18	(Note: Amount to be Refinanced by Series 2020 Bonds)	
19	Series 2013 Bonds Outstanding Balance	\$ 157,985,000
20	Series 2013 Bonds Outstanding Balance due 2/1/2021	5,395,000
21	Series 2013 Bonds Outstanding Balance due 2/1/2021 - Interest	122,375
22	Series 2013 Debt Service Fund Release due 2/1/2021	3,284,594
23	Series 2013 Accrued Interest	1,354,629
24	Series 2013 Bonds Debt Service in Escrow Deposit	19,582,938
25	Unamortized Premium	6,213,019
26	Unamortized Debt Expense	964,896
27	Unamortized Loss on Refunding	7,552,422
28	Interest Expense	8,204,192
29	Amortization of Premium	582,661
30	Amortization of Debt Expense	90,489
31	Amortization of Loss on Refunding	708,271
32		
33	<b>Bond Amortization</b>	
34	The Proforma adjustments reflecting the amortization of bonds have the following components:	
35		
36	Issuance date - Oct 1, 2020 (Actual issuance will be in December 1, 2020 -- 10/1/2020 is assumed for purposes	
37	of this pro-forma statement.	
38	Amortization date - September 30, 2020	
39	Interest rate - all in	3.2663280%
40	Interest cost - Year 1 (line 13 x line 6); paid from cash account	<u>\$ 5,760,823</u>
41	Principal reduction:	
42	Year 1	\$ -
43	Year 2	7,905,000
44	Year 3	8,220,000
45	Year 4	8,320,000
46	Year 5	8,450,000
47	Years 6 - 25	143,475,000
48	Total	<u>\$ 176,370,000</u>
49	Unamortized Debt Expense (Method - ratably over 18 years)	
50	Expense - Year 1 ((line 15 + line 16 + line 17) / 18)	<u>\$ 122,724</u>
51	Loss of Refunding of Series A 2013 Bonds (Method - ratably over 18 years)	
52	Expense - Year 1 only (line 19 + line 20 + line 21 - line 18) /18	<u>\$ 1,140,700</u>
53		
54	<b>Other</b>	
55	Other Interest Expense is a credit due to an adjustment in December 2019, which reduced the associated liability.	

# **EXHIBIT F**

**Ratings: Moody's: A1 (Stable)**  
**S&P: A (Stable)**  
**Fitch: AA- (Stable)**

**NEW ISSUE – FULL BOOK-ENTRY ONLY**

*In the opinion of Orrick, Herrington & Sutcliffe, LLP, Special Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2013 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Tax Counsel, interest on the 2013 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Tax Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2013 Bonds. See "TAX MATTERS."*

**\$191,820,000**

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK**  
**Refunding Revenue Bonds**  
**(California Independent System Operator Corporation Project)**  
**Series 2013**

**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 \$191,820,000 aggregate principal amount of Refunding Revenue Bonds (California Independent System Operator Corporation Project) Series 2013 (the "2013 Bonds") are being issued by the California Infrastructure and Economic Development Bank (the "Infrastructure Bank") for the purpose of, together with other funds of the California Independent System Operator Corporation (the "Corporation"), providing funds to: (i) defease all of the California Infrastructure and Economic Development Bank Revenue Bonds (California Independent System Operator Corporation Project) 2009 Series A (the "2009A Bonds"), and (ii) pay costs of issuing the 2013 Bonds. See "THE PLAN OF REFUNDING" herein. The 2013 Bonds are being issued pursuant to an Indenture of Trust (the "2013 Indenture"), dated as of November 1, 2013, between the Infrastructure Bank and U.S. Bank National Association, as trustee (the "Trustee").

In order to refund the 2009A Bonds, the Infrastructure Bank will loan the proceeds of the 2013 Bonds to the Corporation pursuant to a Loan Agreement, dated as of November 1, 2013 (the "2013 Loan Agreement"), by and between the Infrastructure Bank and the Corporation. Pursuant to the 2013 Loan Agreement, the Corporation has pledged its Net Operating Revenues and has granted a deed of trust (the "Deed of Trust") as described herein (see "SECURITY FOR THE 2013 BONDS – Limitations Relating to Remedies under the Deed of Trust – Value upon Foreclosure" herein) to secure its obligation under the 2013 Loan Agreement to make payments equal to principal of and interest on the 2013 Bonds. The Corporation's Net Operating Revenue pledge is on a parity with the pledge of such Net Operating Revenues securing certain Parity Obligations, including the Corporation's obligations to make repayment installments under that certain Loan Agreement, dated as of June 1, 2008, by and between the Infrastructure Bank and the Corporation, entered into in connection with the issuance of the Infrastructure Bank's Revenue Bonds (California Independent System Operator Corporation Project) 2008 Series A, as described herein. See "THE 2013 BONDS—Outstanding Parity Obligations" herein. The 2013 Loan Agreement permits the Corporation to enter into additional Parity Obligations, subject to the conditions set forth therein.



The 2013 Bonds will be issuable as fully registered bonds initially in authorized denominations of \$5,000 or any integral multiple thereof. The 2013 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 2013 Bonds. See APPENDIX D – "DTC AND THE BOOK-ENTRY ONLY SYSTEM" herein. Interest on the 2013 Bonds will be payable semiannually on February 1 and August 1 each year, commencing on February 1, 2014. Principal, premium, if any, and interest on the 2013 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 2013 Bonds, as described herein.

**The 2013 Bonds are subject to optional and mandatory redemption prior to maturity as described herein.**

NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2013 BONDS. THE 2013 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 2013 REVENUES AND THE OTHER FUNDS PROVIDED THEREFOR PURSUANT TO THE 2013 INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR ANY POLITICAL SUBDIVISION THEREOF IS IN ANY MANNER OBLIGATED TO MAKE ANY APPROPRIATION FOR SUCH PAYMENTS. THE INFRASTRUCTURE BANK HAS NO TAXING POWERS.

*The 2013 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 Polsinelli LLP, Bond Counsel to the Infrastructure Bank. Certain tax matters will be passed upon by Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel to the Corporation. Certain legal matters will be passed upon for the Infrastructure Bank by its General Counsel, for the Corporation by its General Counsel and by its special counsel, Orrick, Herrington & Sutcliffe LLP, and for the Underwriters by their counsel, Ashurst LLP. The 2013 Bonds are expected to be available for delivery through the facilities of DTC in New York, New York, on or about November 14, 2013.*

**RBC Capital Markets**

**Citigroup**

Dated: October 10, 2013

**\$191,820,000**  
**California Infrastructure and Economic Development Bank**  
**Refunding Revenue Bonds**  
**(California Independent System Operator Corporation Project)**  
**Series 2013**

**MATURITY SCHEDULE**

**\$95,715,000 Serial Bonds**

<b>Maturity Date (February 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP<sup>†</sup> (13034A)</b>	<b>Maturity Date (February 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP<sup>†</sup> (13034A)</b>
2015	\$4,415,000	2.000%	0.280%	CU2	2021	\$2,895,000	5.000%	2.460%	DT4
2016	650,000	1.000	0.530	CV0	2022	1,750,000	3.000	2.780	DB3
2016	3,850,000	3.000	0.530	DN7	2022	3,890,000	5.000	2.780	DU1
2017	2,200,000	2.000	0.860	CW8	2023	5,885,000	5.000	3.020	DC1
2017	2,425,000	4.000	0.860	DP2	2024	6,180,000	5.000	3.300*	DD9
2018	1,325,000	2.000	1.290	CX6	2025	6,490,000	5.000	3.500*	DE7
2018	3,440,000	5.000	1.290	DQ0	2026	6,810,000	5.000	3.710*	DF4
2019	1,645,000	2.000	1.690	CY4	2027	7,155,000	5.000	3.950*	DG2
2019	3,325,000	5.000	1.690	DR8	2028	7,510,000	5.250	4.050*	DH0
2020	1,450,000	3.000	2.080	CZ1	2029	7,910,000	5.000	4.230*	DJ6
2020	3,715,000	5.000	2.080	DS6	2030	8,300,000	5.000	4.350*	DK3
2021	2,500,000	4.000	2.460	DA5					
	\$37,570,000	5.000%		Term Bonds due February 1, 2034	Yield	4.660%*			CUSIP <sup>†</sup> 13034ADL1
	\$58,535,000	5.000%		Term Bonds due February 1, 2039	Yield	4.900%*			CUSIP <sup>†</sup> 13034ADM9

<sup>†</sup> CUSIP, copyright 2013, is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the Financial Advisor, Infrastructure Bank or the Corporation is responsible for the selection or correctness of the CUSIP numbers set forth herein.

\* Priced to 2/1/2023 par call.

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 2013 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 2013 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.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access website of the MSRB, currently located at [www.emma.msrb.org](http://www.emma.msrb.org). The information contained on such website is not part of this Official Statement and is not incorporated herein.

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 2013 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 2013 Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the 2013 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 2013 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.

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CAUTIONARY STATEMENTS REGARDING  
FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

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

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

**Officers**

Steve B. Berberich, *President and Chief Executive Officer*  
Eric Schmitt, *Vice President of Operations*  
Karen Edson, *Vice President, Policy and Client Services*  
Nancy Saracino, *Vice President, General Counsel and Chief Administrative Officer*  
Keith Casey, *Vice President, Market and Infrastructure Development*  
Petar Ristanovic, *Vice President, Technology*  
Mark Rothleder, *Vice President, Market Quality and Renewable Integration*  
Ryan Seghesio, *Chief Financial Officer and Treasurer*

**SPECIAL SERVICES**

**Issuer**

California Infrastructure and Economic Development Bank

**Bond Counsel to the California Infrastructure and Economic Development Bank**

Polsinelli LLP

**Special Counsel and Special Tax Counsel to the California Independent System Operator Corporation**

Orrick, Herrington & Sutcliffe LLP

**Financial Advisor**

Sperry Capital Inc.

**Agent of Sale**

Treasurer of the State of California

**Trustee**

U.S. Bank National Association

**Verification Agent**

Grant Thornton LLP

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**OFFICIAL STATEMENT**  
relating to  
**\$191,820,000**  
**California Infrastructure and Economic Development Bank**  
**Refunding Revenue Bonds**  
**(California Independent System Operator Corporation Project)**  
**Series 2013**

**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 2013 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 Refunding Revenue Bonds (California Independent System Operator Corporation Project) Series 2013 in the principal amount of \$191,820,000 (the “2013 Bonds”).

The 2013 Bonds are being issued by the Infrastructure Bank under and pursuant to an Indenture of Trust, dated as of November 1, 2013 (the “2013 Indenture”), by and between the Infrastructure Bank and U.S. Bank National Association, as trustee (the “Trustee”), for the purpose of, together with other funds of the California Independent System Operator Corporation (the “Corporation”), providing funds to: (i) defease all of the California Infrastructure and Economic Development Bank Revenue Bonds (California Independent System Operator Corporation Project) 2009 Series A (the “2009A Bonds”); and (ii) pay costs of issuance of the 2013 Bonds. See “THE PLAN OF REFUNDING” 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 thirteen 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. For example, the Corporation now administers auction markets for electricity in the areas served by transmission facilities over which the Corporation has assumed operational control. The Corporation is the operator of the transmission grid covering most of California, which is composed of over 26,000 circuit miles of

transmission lines. See “THE CORPORATION” and APPENDIX A – “CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION” herein.

### **Security and Sources of Payment for the 2013 Bonds**

**2013 Bonds.** In connection with the loan of the proceeds of the 2013 Bonds to the Corporation, the Infrastructure Bank and the Corporation will enter into a Loan Agreement, dated as of November 1, 2013 (the “2013 Loan Agreement”). Pursuant to the 2013 Loan Agreement, the Corporation will be obligated to make certain payments (the “2013 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 2013 Bonds. Subject to the terms and conditions of the 2013 Loan Agreement permitting application thereof for the purposes and on the conditions set forth in the 2013 Loan Agreement (including the payment of Operating Costs), the Corporation has pledged pursuant to the 2013 Loan Agreement its Net Operating Revenues to secure its obligation to make payments of 2013 Repayment Installments, which in turn secure the payment of principal of and interest on the 2013 Bonds. The pledge of Net Operating Revenues is on a parity with the pledge of such Net Operating Revenues securing certain Parity Obligations, including the Corporation’s obligations to make repayment installments (the “2008 Loan Repayments”) under that certain Loan Agreement, dated as of June 1, 2008 (the “2008 Loan Agreement”), by and between the Infrastructure Bank and the Corporation, entered into in connection with the issuance of the Infrastructure Bank’s Revenue Bonds (California Independent System Operator Corporation Project) 2008 Series A (the “2008 Bonds”). See “SECURITY FOR THE 2013 BONDS—Outstanding Parity Obligations” herein. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.” See APPENDIX A – “CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION – Risk Factors – *ISO Charges and GMC.*” The Corporation has additionally granted a deed of trust (the “Deed of Trust”) with respect to the Property (as described herein) to secure its obligations with respect to the 2013 Bonds, as well as any future Parity Obligations issued to refund the 2013 Bonds. The Deed of Trust does not provide any security with respect to the 2008 Bonds or any other Parity Obligations. See “SECURITY FOR THE 2013 BONDS – Limitations Relating to Remedies under the Deed of Trust – Value Upon Foreclosure.”

**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 2013 BONDS. THE 2013 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 2013 REVENUES AND THE OTHER FUNDS PROVIDED THEREFOR PURSUANT TO THE INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR ANY POLITICAL SUBDIVISION THEREOF IS IN ANY MANNER OBLIGATED TO MAKE ANY APPROPRIATION FOR SUCH PAYMENTS. THE INFRASTRUCTURE BANK HAS NO TAXING POWER.**

### **Other Matters**

Brief descriptions of the Infrastructure Bank, as well as certain provisions of the 2013 Bonds, the 2013 Loan Agreement, the 2013 Indenture and certain other documents relating to the 2013 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 2013 Bonds are qualified in their entirety by reference to the definitive form thereof and the information with respect thereto included in

the aforesaid documents. Unless otherwise indicated, capitalized terms not defined herein have the meanings specified in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—Definitions” or if not defined therein, in the Indenture.

### ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 2013 Bonds, together with other funds of the Corporation, are expected to be applied in the estimated amounts as follows:

<b>Estimated Sources:</b>	<u>Total</u>
Principal Amount of 2013 Bonds.....	\$191,820,000.00
Plus: Original Issue Premium.....	10,558,587.85
Plus: Amounts Released from the Reserve Account for the 2009A Bonds and Corporation Contribution .....	<u>8,080,882.26</u>
Total Sources .....	\$210,459,470.11
<b>Estimated Uses:</b>	
Refunding of 2009A Bonds.....	\$208,983,069.09
Costs of Issuance <sup>(1)</sup> .....	<u>1,476,401.02</u>
Total Uses.....	\$210,459,470.11

<sup>(1)</sup> Includes legal, financing, consulting fees, rating agency fees, underwriters’ discount, trustee fees, printing costs and other miscellaneous expenses.

### THE INFRASTRUCTURE BANK

The Infrastructure Bank is a public instrumentality of the State of California and is governed by a five-member board of directors consisting of the Director of the Governor’s Office of Business and Economic Development who serves as the Chairperson, the Director of the State’s Department of Finance, the State Treasurer, the Secretary of the State Transportation Agency, or their respective designees and an appointee of the Governor. The business and affairs of the Infrastructure Bank are managed and conducted by the Executive Director.

The 2013 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 nonprofit public benefit corporation incorporated in May 1997. The Corporation 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 seven municipal utilities, four private transmission owning corporations, one cooperatively owned transmission utility and a federal power agency. Under its tariff on file with and approved by the Federal Energy Regulatory Commission (the “Tariff”), the Corporation provides transmission service over, and procures

electric energy and capacity necessary to ensure the reliable operation of, the transmission systems that the Corporation operates.

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

## **THE 2013 BONDS**

The following is a summary of certain provisions of the 2013 Bonds. Reference is made to the 2013 Bonds for the complete text thereof and to the 2013 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 2013 Bonds will be issued in the aggregate principal amount set forth on the cover of this Official Statement. The 2013 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 2013 Bonds will be in denominations of \$5,000 or any integral multiple thereof. Interest on the 2013 Bonds is payable on February 1, 2014 and semiannually thereafter on February 1 and August 1 of each year.

The 2013 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 2013 Bonds. So long as the 2013 Bonds are held in the book-entry system, DTC or its nominee will be the registered owner of the 2013 Bonds for all purposes of the 2013 Indenture, the 2013 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 2013 Bonds are held in book-entry form through DTC, all payments with respect to principal of, premium, if any, interest on, and Purchase Price of, the 2013 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 2013 Bonds**

***Optional Redemption.*** The 2013 Bonds maturing on or after February 1, 2024 are subject to redemption prior to their respective stated maturities, as a whole or in part on any date on or after February 1, 2023, at the principal amount of the 2013 Bonds to be redeemed, without premium, plus unpaid accrued interest, if any, to the date of redemption, from any moneys received by the Trustee from the Corporation pursuant to the 2013 Loan Agreement and deposited in the Bond Fund, provided in each case that the maturities and the principal amount of 2013 Bonds of each maturity to be redeemed from the amount so prepaid and the redemption date shall be as specified in the Written Request of the Corporation given pursuant to the 2013 Loan Agreement.

***Mandatory Redemption from Sinking Fund Installments.*** The 2013 Bonds maturing on February 1, 2034 are subject to redemption, in part, by lot, from Sinking Fund Installments deposited in the Bond Fund on each February 1, from and after February 1, 2031 at the principal amount of the 2013 Bonds to be redeemed, without premium. Sinking Fund Installments for the 2013 Bonds maturing on February 1, 2034 shall be due on the following dates and in the following amounts:

***Sinking Fund Installment  
Due Date February 1***

2031  
2032  
2033  
2034\*

***Sinking Fund Installment***

\$ 8,715,000  
9,155,000  
9,610,000  
10,090,000

---

\* Maturity.

In the event that 2013 Bonds maturing on February 1, 2034 have been redeemed pursuant to the provisions of the Indenture described under “Optional Redemption” above, the remaining Sinking Fund Installments shall be reduced, in an aggregate amount equal to the principal amount of such 2013 Bonds so redeemed, as directed in writing by an Authorized Corporation Representative, and in the absence of such direction, as proportionately as possible in integral multiples of the applicable Authorized Denominations.

The 2013 Bonds maturing on February 1, 2039 are subject to redemption, in part, by lot, from Sinking Fund Installments deposited in the Bond Fund on each February 1, from and after February 1, 2035 at the principal amount of the 2013 Bonds to be redeemed, without premium. Sinking Fund Installments for the 2013 Bonds maturing on February 1, 2039 shall be due on the following dates and in the following amounts:

***Sinking Fund Installment  
Due Date February 1***

2035  
2036  
2037  
2038  
2039\*

***Sinking Fund Installment***

\$10,595,000  
11,120,000  
11,680,000  
12,265,000  
12,875,000

---

\* Maturity.

In the event that 2013 Bonds maturing on February 1, 2039 have been redeemed pursuant to the provisions of the Indenture described under “Optional Redemption” above, the remaining Sinking Fund Installments shall be reduced, in an aggregate amount equal to the principal amount of such 2013 Bonds so redeemed, as directed in writing by an Authorized Corporation Representative, and in the absence of such direction, as proportionately as possible in integral multiples of the applicable Authorized Denominations.

***Special Redemption.*** The 2013 Bonds are subject to redemption prior to their respective stated maturities at the option of the Corporation in whole or in part (in such amounts and such maturities as may be directed in writing by the Corporation or, in the absence of such direction, in inverse order of maturity, and by lot within a maturity) on any date, from casualty insurance or condemnation proceeds with respect to the Property (as hereinafter defined) received from the Corporation pursuant to the 2013 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 2013 Bonds, by first-class mail, postage prepaid, to the Owners of all 2013 Bonds to be redeemed, at the addresses appearing on the 2013 Bond Register, and other entities specified in the 2013 Indenture, not less than 30 days nor more than 60 days prior to the redemption date. Each notice of redemption of 2013 Bonds will identify the 2013 Bonds to be redeemed and will state the date of such notice, the date of issue of the 2013 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 2013 Bonds are to be redeemed, the distinctive certificate numbers of the 2013 Bonds to be redeemed and, in the case of 2013 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 2013 Bonds under the book-entry system, redemption notices are to be sent to Cede & Co. Notices of redemption are also to be sent to certain information services that disseminate redemption notices and to the Municipal Securities Rulemaking Board.

With respect to any notice of optional redemption of 2013 Bonds pursuant to the provisions of the Indenture described under “Optional Redemption” above, unless upon the giving of such notice such 2013 Bonds shall be deemed to have been paid within the meaning of the Indenture, such notice shall state that such redemption shall be conditioned upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the redemption price of the 2013 Bonds to be redeemed, and that if such amounts shall not have been so received said notice shall be of no force and effect and the Infrastructure Bank shall not be required to redeem such 2013 Bonds. In the event that such notice of redemption contains such a condition and such amounts are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, to the Persons and in the manner in which the notice of redemption was given, that such amounts were not so received.

If upon the expiration of 60 days succeeding any redemption date, any 2013 Bonds called for redemption shall not have been presented to the Trustee for payment, the Trustee shall no later than 90 days following such redemption date send Notice by Mail to the Owner of each 2013 Bond not so presented. Failure to mail the notices required by this paragraph to any Owner, or any defect in any notice so mailed, shall not affect the validity of the proceedings for redemption of any 2013 Bonds nor impose any liability on the Trustee.

***Effect of Redemption; Partial Redemption.*** Notice of redemption having been duly given and amounts for payment of the redemption price being held by the Trustee, the 2013 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 2013 Bonds to be redeemed will cease to accrue, said 2013 Bonds will cease to be entitled to any lien, benefit or security under the 2013 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 2013 Bonds to the redemption date.

Upon surrender of any 2013 Bond redeemed in part only, the Trustee will exchange the 2013 Bond redeemed for a new 2013 Bond of like tenor and in an Authorized Denomination without charge to the Owner in the principal amount of the portion of the 2013 Bond not redeemed. In the event of any partial redemption of a 2013 Bond which is registered in the name of the Nominee, DTC may elect to make a notation on the 2013 Bond certificate which reflects the date and amount of the reduction in principal amount of said 2013 Bond in lieu of surrendering the 2013 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 2013 Indenture in connection with such redemption.

***Selection of 2013 Bonds to be Redeemed.*** The principal amount of 2013 Bonds and maturities to be redeemed with prepayments by the Corporation pursuant to the 2013 Loan Agreement shall be as specified by the Corporation. If less than all the 2013 Bonds of any maturity are called for redemption, the Trustee will select the 2013 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 2013 Bond of a denomination of more than such minimum; provided that following any such selection, both the portion of such 2013 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 2013 Bonds or portions thereof so selected for redemption. Notwithstanding the foregoing, so long as the 2013 Bonds are in book-entry form, if less than all of the 2013 Bonds of any maturity are to be redeemed, the selection of the 2013 Bonds to be redeemed will be made in accordance with customary practices of DTC or the applicable successor depository, as the case may be.

## **SECURITY FOR THE 2013 BONDS**

### **Payments by the Corporation under the 2013 Loan Agreement**

Payment of the principal of, and premium, if any, and interest on the 2013 Bonds will be secured by an assignment by the Infrastructure Bank to the Trustee of all of the 2013 Revenues, all amounts and securities held by the Trustee under the 2013 Indenture (other than the Rebate Fund), and any and all of the Infrastructure Bank's rights and privileges under the 2013 Loan Agreement, including all 2013 Repayment Installments to be made by the Corporation to the Infrastructure Bank under the 2013 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). "2013 Revenues" is defined under the 2013 Indenture to mean (i) all receipts, installment payments and other income or payments derived by the Infrastructure Bank or the Trustee under the 2013 Loan Agreement and the Deed of Trust, (ii) all proceeds with respect to, arising from, or relating to the Property to the extent set forth in the Deed of Trust, (iii) any income or revenue derived from the investment of any money in any fund or account established pursuant to the Indenture (other than the Rebate Fund and any account therein), including all 2013 Repayment Installments and (iv) any other payments made by the Corporation as contemplated by the 2013 Loan Agreement; provided, however, that such term shall not include the amounts payable (including fees and expenses) to the Infrastructure Bank, the Trustee or other persons, as well as other expenses pursuant to the Loan Agreement ("Additional Payments").

Pursuant to the 2013 Loan Agreement, subject to the provision of the 2013 Loan Agreement permitting the application thereof (including, but not limited to, the payment of Operating Costs), the Corporation has pledged its Net Operating Revenues, the Operating Fund, each Account, all money, instruments, investment property, and other property on deposit in or credited to the Operating Fund or any Account, and the proceeds of the foregoing (collectively, the "Collateral"), to secure its obligation to make payments of principal of and interest on the 2013 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 2013 Loan Agreement constitute "Parity Obligations." See "Outstanding Parity Obligations" below. "Net Operating Revenues" means, for any period, an amount equal to the Operating Revenues for that period less Operating Costs for that period. "Operating Revenues" means all revenues received by the Corporation for the account of the Corporation, including, but not limited to the Grid Management Charge (described under "Rate Covenant" below), but excluding any moneys received by the Corporation in trust for third parties. Pursuant to the 2013 Loan Agreement, the Corporation consents and agrees to and shall cause to be filed Uniform Commercial Code financing statements, and shall execute and cause to be sent to and executed by each Depository Bank an account control agreement that perfects the security interest in the deposit accounts or securities accounts of the Corporation constituting the Operating Fund and shall execute and deliver such other documents (including, but not limited to, other control agreements or continuation statements) as may be necessary or reasonably requested by the Infrastructure Bank or the Trustee, in order to perfect or maintain as perfected such security interest or give public notice thereof.

The 2013 Loan Agreement further provides that during any period that the Operating Fund is held in the name and to the credit of the Trustee pursuant to any control agreement, the Corporation shall be entitled to use or withdraw any amounts held in the Operating Fund for the payment of Operating Costs, or which otherwise do not constitute Net Operating Revenues. Further, the 2013 Loan Agreement provides that the Trustee shall provide immediate access to funds through written authorization to the respective bank or transfer funds required by the Corporation held in Trustee's accounts that do not constitute Net Operating Revenues. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS."

Financial and operational information of the Corporation, including a discussion of factors that could affect the 2013 Bonds and the future financial condition of the Corporation, is included in APPENDIX A – "CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION." Each prospective investor of the 2013 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 2013 BONDS. THE 2013 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 2013 REVENUES AND THE OTHER FUNDS PROVIDED THEREFOR PURSUANT TO THE 2013 INDENTURE. NEITHER THE STATE OF CALIFORNIA NOR ANY POLITICAL SUBDIVISION THEREOF IS IN ANY MANNER OBLIGATED TO MAKE ANY APPROPRIATION FOR SUCH PAYMENTS. THE INFRASTRUCTURE BANK HAS NO TAXING POWER.**

#### **Deed of Trust**

To secure the payment of 2013 Repayment Installments, Additional Payments, the performance by the Corporation of its other obligations under the 2013 Loan Agreement and similar obligations relating to Parity Obligations issued to refund the 2013 Bonds, the Corporation has entered into a Deed of Trust with Absolute Assignments of Leases and Rents, Security Agreement and Fixture Filing (the "Deed of Trust"). The Property consists of the Headquarters Facility (as defined below) of the Corporation located on Iron Point Road in Folsom, California. See "THE PROPERTY" below for information about the Property to be encumbered by the Deed of Trust. For a discussion of certain risks associated with the Deed of Trust, see "Limitations Relating to Remedies under the Deed of Trust" herein.

The Deed of Trust provides that the Corporation as trustor under the Deed of Trust is permitted to release portions of the Property from the lien of the Deed of Trust, provided that the Corporation (i) substitutes other real property for the portion of the Property released, or (ii) pays the net proceeds of the sale or other disposition of the portion of the Property released to the Trustee. See "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – CERTAIN PROVISIONS OF THE 2013 DEED OF TRUST" for a description of these release provisions.

#### **Rate Covenant**

The Corporation has covenanted in the 2013 Loan Agreement that, so long as any 2013 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 Debt Service Coverage Requirement with respect to budgeted debt service on the 2013 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 2013A Owners under the 2013 Loan Agreement including, without limitation, ceasing to maintain the Operating Cost Reserve Requirement at 15% of its annual Operating Expenses for purposes of the Grid Management Charge Formula. “Grid Management Charge” means the Corporation’s several separate 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. The Debt Service Coverage Requirement may be satisfied through the use of any funds of the Corporation legally available for the payment of debt service on the 2013 Bonds and other Parity Obligations. Such legally available funds include Operating Revenues (which includes the Grid Management Charge), but are not limited to Operating Revenues, and include funds on deposit in the Corporation’s Operating Reserve. See APPENDIX A – “CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION – Grid Management Charge” for additional information concerning the Grid Management Charge.

### **Outstanding Parity Obligations**

The obligations of the Corporation under the Loan Agreement, dated as of June 1, 2008, by and between the Infrastructure Bank and the Corporation, executed in connection with the Infrastructure Bank’s Revenue Bonds (California Independent System Operator Corporation Project) 2008 Series A, currently outstanding in the aggregate principal amount of \$23,465,000 (the “2008 Bonds”), along with the 2013 Bonds, constitute all current outstanding Parity Obligations. The 2008 Bonds have a final maturity date of February 1, 2014. See “DEBT SERVICE SCHEDULES” herein. The Corporation has no other Parity Obligations outstanding. The Deed of Trust solely secures the Corporation’s obligations with respect to the 2013 Bonds, as well as similar obligations of the Corporation relating to Parity Obligations which may be issued to refund the 2013 Bonds, and does not in any way secure the 2008 Bonds.

### **Additional Parity Obligations**

Pursuant to the 2013 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 2013 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 Debt Service Coverage Requirement with respect to budgeted debt service on the 2013 Bonds, the outstanding Parity Obligations and the Parity Obligations to be created, incurred or issued, of not less than 25%.

### **Amendment of 2013 Indenture and 2013 Loan Agreement**

The 2013 Indenture and the 2013 Loan Agreement may be amended with consent of the Trustee and without consent of any Owners to the extent set forth in the 2013 Indenture. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

### **General Limitations on Remedies**

The rights of the Owners of the 2013 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 2013 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 2013 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

### **Limitations Relating to Remedies under the Deed of Trust**

***Foreclosure.*** There are two methods of foreclosing on a deed of trust under California law, by non-judicial trustee's sale and by judicial sale. Foreclosure of a deed of trust may be accomplished by a non-judicial trustee's sale under the power of sale provision in the deed of trust. Prior to such sale, the trustee under the deed of trust, at the request of the holder of the beneficial interest, must record a notice of default and election to sell and send a copy to the trustor, to any person who has recorded a request for a copy of the notice of default and notice of sale, to any successor in interest of the trustor, to the beneficiary of any junior deed of trust, and to certain other parties discernible from the real property records. The trustee then must wait for the lapse of at least three months after the recording of the notice of default and election to sell before establishing the proposed sale date and giving a notice of sale (in a form mandated by California statutes). The notice of sale must be posted in a public place and published once a week for three consecutive calendar weeks, with the first such publication preceding the trustee's sale by at least 20 days. Such notice of sale must be posted on the property and sent, at least 20 days prior to the trustee's sale, to the trustor, to each person who has requested a copy, to any successor in interest of the trustor, to the beneficiary of any junior deed of trust and to certain other parties discernible from the real property records. In addition, the notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. The trustor, any successor in interest of the trustor in the trust property, or any person having a junior lien or encumbrance of record may, during the statutory reinstatement period ending 5 business days prior to the noticed sale date, cure any monetary default and reinstate the secured indebtedness by paying all amounts then due under the terms of the deed of trust and the obligations secured thereby (exclusive of principal due by virtue of acceleration upon default) plus costs and expenses actually incurred in enforcing the obligation and certain statutorily limited attorneys' and trustee's fees. Following a non-judicial sale, neither the trustor nor any junior lienholder has any right of redemption, and the beneficiary may not ordinarily obtain a deficiency judgment against the trustor. See "Antideficiency Legislation and Certain Other Limitations on Lenders" below.

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

***Value Upon Foreclosure.*** The Headquarters Facility has been designed and built for the Corporation's continued specialized purpose of operating and managing a majority of California's electrical grid, and includes state of the art technology to enhance the operation of the Grid, various "green" elements, back-up energy sources and extensive security features. As a result, the Property may not be readily suitable for other uses by other entities, and it is therefore likely that, for a significant period of time that the Property could not be sold for a price equal to the amount of proceeds of the 2013 Bonds being used to finance its construction or the amount of 2013 Bonds then outstanding. The Corporation has received a Valuation Report dated July 25, 2013 (the "Appraisal") on the Property from CBRE, Inc. (the "Appraiser"), which contains various values for the Property depending on the method of analysis. According to the Appraisal, the value based on an open market sale ("Market Value") of the Property is approximately \$56,000,000, and the value to the Corporation of its use of the facility ("In Use Value") in its day to day activities is approximately \$150,000,000.

The Appraisal can be accessed at <http://munios.com/caif>, and should be read in its entirety in order to understand the meaning and basis of these numbers and related information. The Appraisal is addressed solely to the Corporation and may not be relied upon by any other person to establish an estimated value of the 2013 Bonds or for any other purpose. The estimates of value presented in the Appraisal are no indication of the appraised property's actual market value or of what may be realized upon foreclosure under the Deed of Trust. See "SECURITY FOR THE 2013 BONDS – Limitations Relating to Remedies under the Deed of Trust." Investors should not assume that the disposition of the Property in the event of default would provide sufficient funds to pay the principal of 2013 Bonds outstanding at that time. The Appraisal and the analyses, opinions and conclusions set forth therein, are qualified by the assumptions, qualifications and limitations set forth in the Appraisal. See "APPRAISAL" for further information the Appraisal, including with respect to such assumptions, qualifications and limitations.

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

Another California statute, commonly known as the "one form of action" rule, requires the beneficiary to exhaust its real property security by foreclosure before bringing a personal action against the trustor on the indebtedness. Thus, if the Trustee, the trustee under the Deed of Trust or the Owners of the 2013 Bonds were to file suit or take certain other actions (including set off) to collect the debt secured by the Deed of Trust without first seeking to foreclose the Deed of Trust, they might be precluded from thereafter proceeding under the Deed of Trust, or they may be compelled to first seek to enforce their remedies under the Deed of Trust.

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

Other statutory provisions (such as the federal bankruptcy laws) may have the effect of delaying enforcement of the lien of the Deed of Trust in the event of a default by the Corporation. See "Bankruptcy and Other Factors that Could Affect Security for the 2013 Bonds" below.

## **Bankruptcy and Other Factors that Could Affect Security for the 2013 Bonds**

The ability of the Trustee to enforce the obligations of the Corporation under the 2013 Loan Agreement may be limited by laws relating to bankruptcy, insolvency, reorganization or moratorium and by other similar laws affecting creditors rights, including equitable principles. In addition, the Trustee's ability to enforce such agreements will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion, delay and substantial costs or that otherwise may not be readily available or may be limited.

The various legal opinions to be delivered concurrently with the delivery of the 2013 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights, including equitable principles.

In the event of bankruptcy of the Corporation, the rights and remedies of holders of the 2013 Bonds will be subject to various provisions of the federal Bankruptcy Code. If the Corporation were to file a petition in bankruptcy, or if creditors were to file a petition in bankruptcy against the Corporation, payments made by the Corporation during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of the Corporation's liquidation. Security interests and other liens granted to the Trustee and perfected during such preference period may also be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation, and its property, and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of the Trustee. If the bankruptcy court so ordered, the property of the Corporation could be used for the financial rehabilitation of the Corporation, despite any security interest of the Trustee therein. The rights of the Trustee to enforce its security interest could be delayed during the pendency of the rehabilitation proceeding.

The Corporation could file a plan for the adjustment of its debts in any such proceeding which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

The Trustee's security interest in the 2013 Revenues under the 2013 Indenture may be subordinated to the interest and claims of others in several instances. Some examples of cases of subordination of prior claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or state bankruptcy or insolvency laws that may affect the enforceability of the 2013 Loan Agreement or pledge of 2013 Revenues, (vi) rights of third parties in 2013 Revenues converted to cash and not in the possession of the Trustee or a depository bank, (vii) commingling of proceeds of 2013 Revenues with other moneys of the Corporation not subject

to the security interest in the 2013 Revenues; and (viii) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the California Uniform Commercial Code as from time to time in effect. In addition, certain accounts of the Corporation are not covered by control agreements, and the Trustee's security interest in such accounts may be subordinated to the interests of others.

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## DEBT SERVICE SCHEDULES

The following table sets forth the schedules of debt service for the 2008 Bonds and the 2013 Bonds.

Bond Year (February 1)	2013 Bonds <sup>(3)</sup>			2008 Bonds <sup>(1)</sup>			Total Debt Service <sup>(2)</sup>
	Principal	Interest	Total <sup>(2)</sup>	Principal	Interest	Total <sup>(2)</sup>	
2014	-	\$1,947,666.88	\$1,947,666.88	\$23,465,000	\$586,625.00	\$24,051,625.00	\$25,999,291.88
2015	\$4,415,000	9,105,975.00	13,520,975.00	-	-	-	13,520,975.00
2016	4,500,000	9,017,675.00	13,517,675.00	-	-	-	13,517,675.00
2017	4,625,000	8,895,675.00	13,520,675.00	-	-	-	13,520,675.00
2018	4,765,000	8,754,675.00	13,519,675.00	-	-	-	13,519,675.00
2019	4,970,000	8,556,175.00	13,526,175.00	-	-	-	13,526,175.00
2020	5,165,000	8,357,025.00	13,522,025.00	-	-	-	13,522,025.00
2021	5,395,000	8,127,775.00	13,522,775.00	-	-	-	13,522,775.00
2022	5,640,000	7,883,025.00	13,523,025.00	-	-	-	13,523,025.00
2023	5,885,000	7,636,025.00	13,521,025.00	-	-	-	13,521,025.00
2024	6,180,000	7,341,775.00	13,521,775.00	-	-	-	13,521,775.00
2025	6,490,000	7,032,775.00	13,522,775.00	-	-	-	13,522,775.00
2026	6,810,000	6,708,275.00	13,518,275.00	-	-	-	13,518,275.00
2027	7,155,000	6,367,775.00	13,522,775.00	-	-	-	13,522,775.00
2028	7,510,000	6,010,025.00	13,520,025.00	-	-	-	13,520,025.00
2029	7,910,000	5,615,750.00	13,525,750.00	-	-	-	13,525,750.00
2030	8,300,000	5,220,250.00	13,520,250.00	-	-	-	13,520,250.00
2031	8,715,000	4,805,250.00	13,520,250.00	-	-	-	13,520,250.00
2032	9,155,000	4,369,500.00	13,524,500.00	-	-	-	13,524,500.00
2033	9,610,000	3,911,750.00	13,521,750.00	-	-	-	13,521,750.00
2034	10,090,000	3,431,250.00	13,521,250.00	-	-	-	13,521,250.00
2035	10,595,000	2,926,750.00	13,521,750.00	-	-	-	13,521,750.00
2036	11,120,000	2,397,000.00	13,517,000.00	-	-	-	13,517,000.00
2037	11,680,000	1,841,000.00	13,521,000.00	-	-	-	13,521,000.00
2038	12,265,000	1,257,000.00	13,522,000.00	-	-	-	13,522,000.00
2039	12,875,000	643,750.00	13,518,750.00	-	-	-	13,518,750.00
<b>Total<sup>(2)</sup></b>	<b>\$191,820,000</b>	<b>\$148,161,566.88</b>	<b>\$339,981,566.88</b>	<b>\$23,465,000</b>	<b>\$586,625.00</b>	<b>\$24,051,625.00</b>	<b>\$364,033,191.88</b>

<sup>(1)</sup> The Deed of Trust does not secure the 2008 Bonds.

<sup>(2)</sup> Totals may not add due to rounding.

<sup>(3)</sup> The 2009A Bonds will no longer be outstanding as of delivery of the 2013 Bonds.

## PLAN OF REFUNDING

The 2009A Bonds were previously issued in the aggregate principal amount of \$200,000,000, of which \$192,990,000 principal amount remains outstanding. A portion of proceeds of the 2009A Bonds was applied to: (i) finance the design and construction of a headquarters facility (the “Headquarters Facility”) for the Corporation; and (ii) other planned capital projects, including, but not limited to, the acquisition and development of computer hardware and software systems and the acquisition of office equipment.

Upon issuance and delivery of the Bonds, the Corporation will enter into an Escrow Agreement (the “Escrow Agreement”) with Deutsche Bank National Trust Company (the “Escrow Agent”), pursuant to which the Escrow Agent will acquire and hold in a separate irrevocable trust account (the “Escrow Fund”) created by the Escrow Agreement proceeds of the 2013 Bonds as well as other moneys. Such proceeds and other moneys will be invested in government obligations which will provide funds sufficient to pay the principal of and interest on all of the outstanding 2009A Bonds both on and prior to the redemption date of February 1, 2015.

## **THE PROPERTY**

The Headquarters Facility is located on a 28.91 acre parcel of land that the Corporation currently owns on Iron Point Road in Folsom, California. The land and Headquarters Facility are collectively referred to herein as the “Property.” The Headquarter Facility is an approximately 278,000 square foot office headquarters complex composed of three wings, and includes office space, conference rooms, training rooms, a cafeteria, fitness room, shipping/receiving area, a control center, data center and a mechanical/equipment room. The Headquarters Facility is designed to accommodate 750 employees. The Headquarters Facility was designed with security as a primary goal. The size of the site and the design of the building allow for a layered in depth security system. For additional information on the Headquarters Facility, see “APPENDIX A – CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION – ISO Facilities” attached hereto.

## **APPRAISAL**

The Appraisal of the Property can be accessed at <http://munios.com/caif>, and should be read in its entirety in order to understand the meaning and basis of these numbers and related information. The Appraisal, dated July 25, 2013, was prepared by CBRE, Inc. (the “Appraiser”). The estimates of value presented in the Appraisal are no indication of the appraised property’s actual market value or of what may be realized upon foreclosure under the Deed of Trust. See “SECURITY FOR THE 2013 BONDS – Limitations Relating to Remedies under the Deed of Trust.”

The Appraisal is addressed solely to the Corporation to assist it in establishing an estimated value of the Property and may not be relied upon by any other person to establish an estimated value of the 2013 Bonds or for any other purpose. The Appraisal does constitute a recommendation to any person to purchase or sell the 2013 Bonds.

In connection with the preparation of the Appraisal, the Appraiser may have reviewed the information supplied or otherwise made available to it by the Corporation for reasonableness, has assumed and relied upon the accuracy and completeness of all such information and of all information supplied or otherwise made available to it by any other party, and did not undertake any duty or responsibility to verify independently any of such information. The Appraiser has not made or obtained, nor will it make or obtain, an independent valuation or appraisal of any other assets or liabilities (contingent or otherwise) other than the Property. In determining the approximate market value of the Property, the Appraiser relied on operating and financial data provided by or on behalf of the Corporation. With respect to operating or financial forecasts and other information and data provided to or otherwise reviewed by or discussed with the Appraiser, the Appraiser has assumed that such forecasts and other information and data were reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of the Corporation’s management, board of directors and advisors, as well as any corrections or updates to such forecasts and other information and data.

In performing its analyses, the Appraiser has made numerous other assumptions with respect to industry performance, general business, economic and regulatory conditions and other matters, many of which are beyond the Appraiser's control and the Corporation's control, as well as certain factual matters. For example, the Appraiser assumed that the Corporation has clear and marketable title to the Property, that no title defects exist unless the Appraiser was specifically informed to the contrary, that improvements were made in accordance with law, that no hazardous materials are present or were present previously, that no deed restrictions exist, and that no changes to zoning ordinances or regulations governing use, density or shape are pending or being considered. Furthermore, the Appraiser's analysis, opinions and conclusions are necessarily based upon market, economic, financial and other circumstances and conditions existing prior to the valuation. The foregoing is a summary of the standard assumptions, qualifications and limitations that generally apply to the Appraiser's appraisal reports. In addition, we have agreed to indemnify CBRE against certain liabilities arising out of this engagement.

Caution should be exercised in the evaluation and use of appraisal results. An appraisal is an estimate of market value as of a specified date based upon assumptions and limiting conditions and any extraordinary assumptions specific to the relevant valuation. It is not a precise measure of value but is based on a subjective comparison of related activity taking place in the real estate market. The valuation set forth in the Appraisal is based on various assumptions of future expectations and while the Appraiser's internal forecasts of net operating income for the Property is considered by the Appraiser to be reasonable as of the date of the Appraisal, some of the assumptions may not materialize or may differ materially from actual experience in the future.

The 2013 Bonds will not necessarily trade at values determined solely by reference to the underlying value of the Property.

The intended use and user of the Appraisal are specifically identified in the Appraisal as agreed upon in the contract for services and/or reliance language found in the Appraisal. No other use or user of the Appraisal is permitted by any other party for any other purpose. Dissemination of the Appraisal by any party to non-client, non-intended users does not extend reliance to any other party and the Appraiser will not be responsible for unauthorized use of the Appraisal, its conclusions or contents used partially or in its entirety.

## **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 issuance, sale and delivery of the 2013 Bonds, 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 2013 Bonds, the 2013 Indenture or the 2013 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 issuance, sale and delivery of the 2013 Bonds, 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 2013 Bonds, or the 2013 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 2013 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, 2012 and 2011 and for the years then ended, included in APPENDIX B to this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing therein.

### **RATINGS**

Moody's Investors Service ("Moody's"), Standard & Poor's ("S&P") and Fitch Ratings ("Fitch") have assigned the 2013 Bonds the ratings of "A1," "A," and "AA-," respectively. Such ratings express only the views of the rating agencies and an explanation of the significance of such ratings and any ratings on any of the Corporation's outstanding obligations may be obtained only from such rating agencies as follows: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; Standard & Poor's Ratings Services, 55 Water Street, 39th Floor, New York, New York 10041; and Fitch Ratings Services, One State Street Plaza, New York New York 10004; and . There is no assurance that such ratings will continue for any given period of time or that they will not be revised, either downward or upward, or withdrawn entirely by the rating agencies, or either of them, if in their, or its, judgment, circumstances so warrant. Neither the Infrastructure Bank nor the Corporation undertakes any responsibility to oppose any such revision or withdrawal or to inform any Owner of any such revision or withdrawal. Any such downward revision, suspension or withdrawal of a rating may have an adverse affect on the market price of the 2013 Bonds.

### **UNDERWRITING**

The Underwriters named on the cover page hereof (the "Underwriters") are expected to agree, subject to certain conditions, to purchase the 2013 Bonds from the Infrastructure Bank at a price of \$201,903,469.91 (representing an aggregate principal amount of \$191,820,000, plus an original issue premium of \$10,558,587.85, less \$475,117.94 of Underwriters' discount). The Bond Purchase Contract provides that the Underwriters are obligated to purchase all of the 2013 Bonds if any are purchased. The 2013 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.

### **CONTINUING DISCLOSURE**

The Corporation will covenant for the benefit of the Owners of the 2013 Bonds to provide certain financial information and operating data relating to the Corporation (the “Annual Report”) as provided in the Continuing Disclosure Agreement. The Annual Report will be filed by the Corporation the Municipal Securities Rulemaking Board (the “MSRB”). The notices of certain enumerated events will be filed by the Corporation with the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of material events by the Corporation is set forth in APPENDIX G – “PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT.” The Corporation has not failed to comply in all material respects with any previous undertaking with regard to Rule 15c2-12 promulgated under the Securities and Exchange Act of 1934, as amended, to provide annual reports or notices of enumerated events in the last five years. The Infrastructure Bank has not undertaken any responsibility regarding and has no duty to enforce the Corporation’s continuing disclosure obligations with respect to the 2013 Bonds.

### **TAX MATTERS**

At the closing of the 2013 Bonds, Special Tax Counsel is expected to deliver its opinion, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, that interest on the 2013 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Special Tax Counsel also is expected to deliver its opinion that interest on the 2013 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Tax Counsel is expected to observe that interest on the 2013 Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering its opinion, Special Tax Counsel will rely on the opinions of Bond Counsel as to the validity of the 2013 Bonds and the due authorization and issuance of the 2013 Bonds. A complete copy of the proposed form of opinion of Special Tax Counsel is set forth in Appendix F—“PROPOSED FORM OF OPINION OF SPECIAL TAX COUNSEL.”

To the extent the issue price of any maturity of the 2013 Bonds is less than the amount to be paid at maturity of such 2013 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2013 Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the 2013 Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the 2013 Bonds is the first price at which a substantial amount of such maturity of the 2013 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2013 Bonds accrues daily over the term to maturity of such 2013 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2013 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2013 Bonds. Beneficial Owners of the 2013 Bonds should consult their

own tax advisors with respect to the tax consequences of ownership of 2013 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2013 Bonds in the original offering to the public at the first price at which a substantial amount of such 2013 Bonds is sold to the public.

2013 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2013 Bonds. The Infrastructure Bank and the Corporation have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2013 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2013 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2013 Bonds. The opinion of Special Tax Counsel assumes the accuracy of these representations and compliance with these covenants. Special Tax Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to the attention of Special Tax Counsel after the date of issuance of the 2013 Bonds may adversely affect the value of, or the tax status of interest on, the 2013 Bonds. Accordingly, the opinion of Special Tax Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Tax Counsel is expected to deliver its opinion that interest on the 2013 Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the 2013 Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Special Tax Counsel is expected to express no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2013 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation, to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration’s proposed 2014 budget includes a legislative proposal which, for tax years beginning after December 31, 2013, would limit the exclusion from gross income of interest on obligations like the 2013 Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2013 Bonds. Prospective purchasers of the 2013 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Tax Counsel is expected to express no opinion.

The opinion of Special Tax Counsel is expected to be based on current legal authority, cover certain matters not directly addressed by such authorities, and represent Special Tax Counsel’s judgment

as to the proper treatment of the 2013 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Special Tax Counsel cannot give and is not expected to give any opinion or assurance about the future activities of the Infrastructure Bank or the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Infrastructure Bank and the Corporation will covenant, however, to comply with the requirements of the Code.

Special Tax Counsel’s engagement with respect to the 2013 Bonds will end with the issuance of the 2013 Bonds, and, unless separately engaged, Special Tax Counsel is not obligated to defend the Infrastructure Bank, the Corporation or the Beneficial Owners regarding the tax-exempt status of the 2013 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Infrastructure Bank, the Corporation and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Infrastructure Bank or the Corporation legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2013 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2013 Bonds, and may cause the Infrastructure Bank, the Corporation or the Beneficial Owners to incur significant expense.

#### **VERIFICATION**

In connection with the issuance of the 2013 Bonds and the refunding of the 2009A Bonds, Grant Thornton LLP, independent certified public accountants, will verify the mathematical accuracy of: (a) certain computations demonstrating the sufficiency of the Escrow Fund, including the moneys deposited therein and the anticipated receipts from the Escrow Fund investments, to pay the principal or redemption price of and interest on all 2009A Bonds, when due; and (b) certain computations of the yield on the 2013 Bonds and the Escrow Fund to be relied upon by Special Tax Counsel for purposes of its opinion to the effect that the interest on the 2013 Bonds is excluded from gross income for federal income tax purposes. Such verification will be based in part on schedules and information provided by the Underwriter with respect to the foregoing computations.

#### **OTHER LEGAL MATTERS**

Legal matters incident to the authorization and issuance of the 2013 Bonds are subject to the approving opinion of Polsinelli LLP, Bond Counsel to the Infrastructure Bank. A complete copy of the proposed form of opinion of Bond Counsel is contained in Appendix E appended hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. The opinion of Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel, as to the status of the interest on the 2013 Bonds for federal income tax purposes will be in substantially the form appended hereto in Appendix F—“PROPOSED FORM OF OPINION OF SPECIAL TAX COUNSEL.” Certain legal matters will be passed upon for the Infrastructure Bank by its General Counsel; for the Corporation by its General Counsel and by its special counsel, Orrick, Herrington & Sutcliffe LLP; and for the Underwriters by their counsel, Ashurst LLP.



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## APPENDIX A

### CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

*Capitalized terms not defined herein shall have the meanings ascribed to such terms in the forepart of this Official Statement. Prospective purchasers of the 2013 Bonds should review and evaluate all of the information presented in this Appendix A including, but not limited to, a discussion of risk factors herein.*

#### **Introduction**

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

The ISO is responsible for the reliable operation of the long-distance, high-voltage power lines under its operational control (the “ISO Grid”). The ISO manages the flow of electricity across approximately 26,000 miles of power lines that encompass the ISO Grid. The ISO also has reliability responsibilities pursuant to North American Electric Reliability Corporation (“NERC”) and Western Electricity Coordinating Council (“WECC”) requirements for a broader area known as the ISO balancing authority area (the “ISO Balancing Area”). This involves the delivery of electricity between the ISO Balancing Area and neighboring balancing authority areas, neighboring states, Canada and Mexico. Every five minutes, the ISO forecasts the electricity load within the ISO Balancing Area and dispatches the most cost-effective power supply resources to meet demand and to respond to unforeseen changes in grid conditions as needed. The ISO monitors or oversees the dispatch of an estimated 60,000 megawatts of generating capacity associated with approximately 760 power plants.

The ISO Balancing Area includes approximately 80% of California’s total electrical load and approximately 30 million residents. Approximately 150 companies participate in the ISO markets.

The ISO administers wholesale markets comprised of day-ahead and real time markets for energy and ancillary services, as well as an hour-ahead scheduling process which arranges for purchase and sale of energy at the interconnections between the ISO and adjacent balancing areas. The ISO also settles transactions for the wholesale markets that it operates, receiving payments from buyers in these markets, and then paying the sellers.

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

***The ISO Market.*** On March 31, 2009, the ISO implemented its market redesign and technology upgrade (the “ISO Market”) project, previously referred to as the MRTU project. FERC approved the ISO Market in Docket No. ER06-615-000 and associated dockets. The ISO Market was funded from previous bond issuances and directly from ISO rate collections. The ISO Market significantly enhanced the market rules and processes by incorporating a detailed model of the ISO Grid to align market prices and other results with the operating needs and constraints of the ISO Grid. This upgrade also included the opening of a day-ahead energy market (which had been absent in California since the 2001 bankruptcy of the California Power Exchange (“CalPX”)) and the installation of new computer systems for executing the new market rules and processes. These features make the economic activities and outcomes of the market and the operation of the ISO Grid more transparent by aligning them with each other to an extent not possible under the ISO’s previous market structure. The ISO Market thus increases grid reliability and reduce costs for electricity users. A summary of the ISO Market major elements is below.

- a) The Day Ahead Market consists of three components performed sequentially to prepare for the next day’s ISO Grid operation in the most cost-effective manner. The first component is “market power mitigation,” which identifies opportunities under current grid conditions for specific resources to exploit their grid locations to raise local prices excessively, and if necessary mitigates their submitted bid prices to be more consistent with actual costs. Next, the Integrated Forward Market, which is the central component of the Day Ahead Market, combines the three main services required to operate the ISO Grid: balancing energy supply and demand, procuring ancillary services (also referred to as reserve capacity), and performing congestion management. Third, the Residual Unit Commitment process compares the amount of supply resources scheduled by the Integrated Forward Market against the hour-by-hour forecast of the next day’s demand and, if there is a shortfall, identifies additional resources to be ready to respond the next day when needed. Through the above three components, the Day Ahead Market system determines the optimal and most cost-effective use of resources to meet the next day’s energy requirements and to provide necessary reserves in a manner that avoids creating congestion or other operational issues. In particular, by incorporating a new day-ahead energy market to fill the void left by the 2001 bankruptcy of CalPX, the ISO Market is designed to result in less reliance on the hour-ahead and real-time markets compared to the prior market design, which tended to be more volatile.
- b) The Real Time Market, which the ISO conducts during the operating day and within each operating hour, makes adjustments to resource operating levels and may even change the mix of resources that are on-line, to address changes in demand and other system conditions that occur in real time, while avoiding transmission congestion and maintaining reliable operation of the ISO Grid.

- c) The Full Network Model is a computer system that more precisely models the entire ISO Grid and takes into account all known grid operating limits and requirements, so that the ISO Market outcomes will be consistent with how power will actually flow. This alignment of market results with grid operating requirements makes the ISO Market vastly superior to the prior market structure, by enabling the ISO to resolve potential congestion both in day-ahead and in real-time through automated, economic mechanisms that send price signals to supply resources to operate in a manner that supports reliable operation. This is designed to reduce costs to market participants as well as improve reliability.
- d) The Locational Marginal Pricing paradigm, which is an outcome of using the Full Network Model in conjunction with the Day Ahead and Real Time Markets, uses over 3,000 points or “pricing nodes” and calculates the price of delivering one additional unit of power to each node by producing it and transmitting it in the most cost-effective manner, considering the capabilities and current conditions of the ISO grid. Distinct nodal prices reveal the most cost-effective use of resources to balance demand while resolving transmission congestion by setting higher prices in areas where generating resources can easily deliver their output to serve load and much lower or even negative prices in areas where increased generation will cause congestion. Thus, in concert with eliminating congestion on the grid, the ISO Market accurately determines the cost of managing congestion and reflects that cost transparently in the locational energy price differentials, so that generating resources at the various locations are paid in accordance with the impact of their generation on the grid. This capability was not possible under the previous zonal pricing system, which established prices without regard to the potential congestion caused by inefficient use of resources. Thus the ISO Market enables buyers and sellers to make informed decisions about energy pricing based on the ability to produce and deliver power to where it is needed and will, over time, help identify the preferred areas to build new generation.
- e) The ISO Market systems use an open architecture that offers greater flexibility and allows for more cost-effective technology upgrades in the future. Thus far the systems comprising the ISO Market have proven to be more flexible for incorporating new market enhancements and more reliable than the prior ones, thereby improving overall grid reliability and cost-effectiveness for electricity consumers.

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

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

The ISO’s ability to meet its obligations to pay debt service under the 2013 Loan Agreement is dependent on the collection of charges under its Tariff. The ability to collect such

charges may be influenced by various factors, many of which are outside the ISO's control. See "Risk Factors."

***The Energy Imbalance Market.*** The ISO is developing plans to enhance the ISO Market by providing Energy Imbalance Market ("EIM") services across a footprint that exceeds the geographic boundaries of the current ISO Balancing Area. The EIM will allow balancing authorities throughout the West to participate in a real-time energy market operated by the ISO. The EIM will dispatch power supply resources cost-effectively based on their economic bids.

In early 2013, PacifiCorp and the ISO entered into a memorandum of understanding for the ISO to provide EIM services in the balancing authority areas administered by PacifiCorp primarily covering portions of six states, including part of Northern California. FERC accepted an agreement to implement the EIM with PacifiCorp on June 28, 2013. The ISO continues to pursue an active stakeholder process designed to allow additional balancing authority areas in the West to take advantage of the ISO's EIM services in the future.

### **Operations, Assets and Tariff**

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

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

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

the transmission owner's obligations under the TCA. Under the TCA, the PTOs are responsible for the maintenance of their assets.

If a PTO withdraws its transmission facilities from the ISO operational control, such withdrawal could pose a significant risk to the ISO's ability to secure revenues. In order to minimize such risk, the ISO continuously improves its operations to ensure that a PTO would not find it advantageous to leave the ISO. Examples of these continuous efforts are evidenced by two achievements. First, annual RMR costs charged to PTOs have decreased by approximately \$140.2 million since 2008. Secondly, the new ISO Market improved the ISO's credibility in the region, and increased incentives to remain and participate in the ISO's markets. In addition, the ISO has emphasized customer focus throughout the organization with significantly improved stakeholder processes and commitment to the timeliness and quality of customer issue resolution. See "Introduction – The ISO Market" and "Risk Factors – Contractual Rights and Withdrawal" herein.

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

A copy of the ISO's current Tariff is available at <http://www.caiso.com/rules/Pages/Regulatory/Default.aspx>.

### **Overview of the ISO Transmission System**

The ISO Grid is a long-distance, high-voltage transmission system. The ISO Grid delivers wholesale electricity to local utilities for distribution to approximately 30 million Californians and is one of the largest wholesale electric grids in the world, encompassing three quarters of the state of California and transmitting approximately 307-billion kilowatt hours of electricity each year.



## The ISO Charges

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

In addition to the GMC, the ISO also settles transactions for the wholesale markets that it operates. The ISO imposes market settlement charges (the “Market Settlement Charges”) on buyers of capacity, energy, transmission and other related services and products, and issues equal credits to the suppliers. On a weekly basis, net debtors remit payment for net Market Settlement Charges into an ISO bank account, from which the ISO makes payment to the net creditors. Except for the GMC, and subject to certain exceptions described herein, the foregoing payments are “market-related receipts” (the “Market-Related Receipts”) and are remitted by the ISO to the appropriate market participants.

In the event of a payment default by market debtors, the ISO does not bear the risk of loss; rather market participants bear the shortfall on a pro-rata basis. As a result, and because market transactions are reported on a net basis, the market transactions do not directly affect the ISO's financial results. Moreover, in the event of a payment default by a party billed for the GMC, the Tariff grants the ISO a priority claim against any Market-Related Receipts. If such a default occurs, the ISO is entitled to collect the GMC from Market-Related Receipts, and the resulting shortfall would be borne by market participants. Since the inception of the ISO, all GMC invoices have been paid in full either directly or through market funds. There have been no material defaults since the energy crisis of 2000-2001. See "California Energy Crisis and Related Issues."

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

***Coverage of GMC by Total Market Settlement Collections***

Unaudited, \$ in millions	2012	2011	2010	2009	2008
GMC collections*	\$ 190	\$ 190	\$ 201	\$ 202	\$ 195
Market-Related Receipts**	<u>3,057</u>	<u>2,182</u>	<u>1,911</u>	<u>1,429</u>	<u>811</u>
Total Market Settlement Collections (MSC)	<u>\$3,247</u>	<u>\$2,372</u>	<u>\$2,112</u>	<u>\$1,631</u>	<u>\$1,006</u>
Coverage (MSC/GMC)	17.1	12.5	10.5	8.1	5.2

\* GMC collections are included in Operating Revenues (as defined in the 2013 Loan Agreement); only Net Operating Revenues are subject to the lien of the 2013 Loan Agreement. Amounts presented reflect only cash activity from the weekly clearing of invoices and do not include any adjustments to reflect the accrual basis of accounting.

\*\* Includes all invoices other than GMC invoices that are issued to market participants and are payable through the Market Clearing Account. These include invoices for market charges, transmission charges, and FERC fees. Although the collections on these invoices are not subject to the lien of the 2013 Loan Agreement, they are available to pay GMC invoices. See "Funds and Accounts" below.

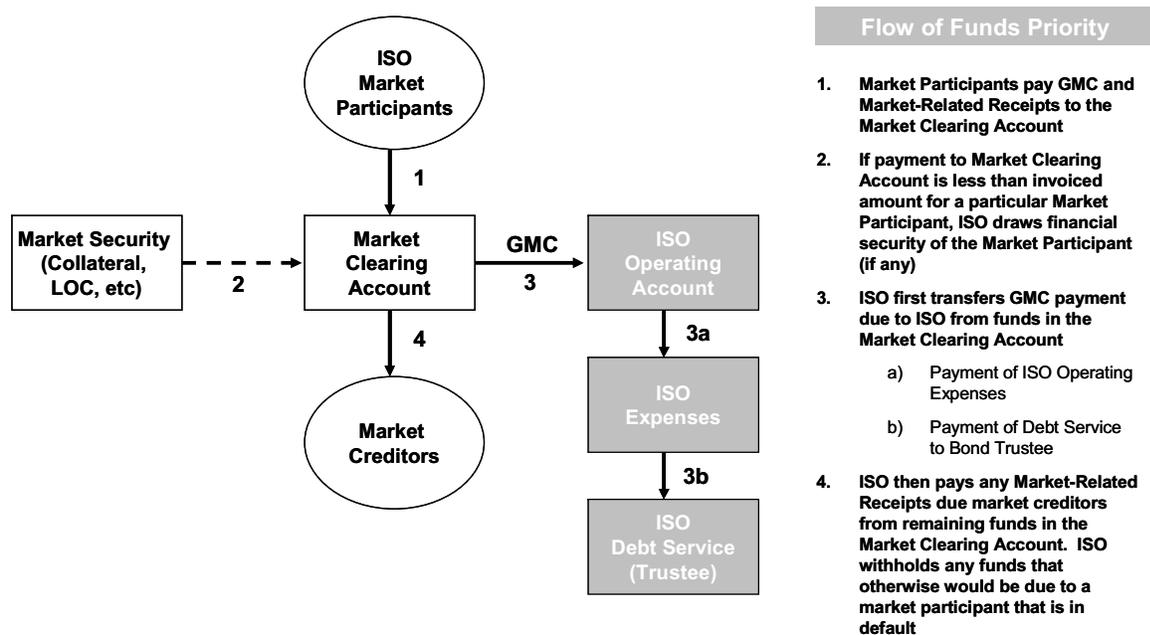
***Funds and Accounts.*** All GMC and Market-Related Receipts are required to be initially deposited in certain ISO bank account established with a commercial bank, including a market clearing account (the "Market Clearing Account"). Amounts in these accounts are generally not subject to the lien granted under the 2013 Loan Agreement. Payments of GMC and Market-Related Receipts by market participants are initially deposited into the Market Clearing Account. If a market participant defaults on its GMC obligation, the ISO can nevertheless collect the full amount of the GMC billed for that month because the ISO has a priority claim against any funds in the Market Clearing Account, including Market-Related Receipts and any financial security posted by the defaulting market participant. The historical annual coverage ratios of total Market Collections to GMC collections available are shown in the table above. The ISO transfers the GMC funds from the Market Clearing Account to an Operating Account held with the same

commercial bank (the “ISO Operating Account”). The ISO also invests excess funds in securities that are held at a custody bank, subject to the investment policy described under “Investment Policy.”

The ISO Operating Account maintained with the commercial bank and the custody accounts maintained at the custodian contain Operating Revenues. Only Net Operating Revenues in the ISO Operating Account are subject to the lien granted under the 2013 Loan Agreement.

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

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



**Market Participant Credit Standards.** The ISO’s credit standards for market participants are specified in the Tariff. The Tariff provides that each market participant must secure its financial obligations to the ISO by maintaining an unsecured credit limit ("Unsecured Credit Limit") and/or by posting financial security. The total of a market participant’s Unsecured Credit Limit and its posted financial security must equal or exceed the market participant’s Estimated Aggregate Liability (“EAL”) at all times. A particular market participant’s Congestion Revenue Right holdings (“CRRs”) can impact a market participant’s EAL

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“Accounts” as defined under the Loan Agreement includes all of the collective accounts of the ISO Operating Account that the ISO maintains at various commercial banks, as well as the above referenced custody accounts held at the custody bank.

calculations and therefore, whether a market participant has additional collateral posting requirements. CRRs are financial instruments that enable market participants to reduce their congestion-related price risk when delivering or selling energy on the ISO Grid. A CRR provides an economic hedging mechanism against congestion charges that can be transacted by market participants separately from transmission service. These instruments are considered derivative financial instruments for accounting purposes, which would require presentation at fair value if they were recognized as assets and liabilities of the ISO. A market participant holding a portfolio of CRRs that has a negative revenue stream (meaning that the portfolio is incurring charges rather than earning revenues) will result in an increase to the market participant's EAL if there is insufficient revenue to offset the negative revenue stream. The resulting increase to a market participant's EAL could result in a collateral call if the market participant does not have a sufficient amount of collateral posted. Recent ISO credit policy enhancements require all CRR obligations to be backed by a secured form of collateral which is designed to mitigate CRR default risk.

Consistent with its role in facilitating other market transactions, the ISO facilitates the allocation, auctioning and ultimate settlement of CRRs in its market, but as described under "ISO Charges – General" above, the ISO does not bear the risk of loss in the event of a payment default. Any market defaults are allocated to market participants. As a result, CRR transactions do not directly affect the ISO's financial results. However, unlike other market transactions, CRRs can be outstanding for extended periods of time. At December 31, 2012, the average life of the ISO's CRRs was 3.2 years and there are a total of 62 CRR holders. The estimated net fair value of both the CRR assets and liabilities as of December 31, 2012 was \$789.4 million related to a total of 834,012 megawatts, which vary in length from one month to several years. The value of each megawatt of CRR is a function of numerous factors including the length of period the CRR covers. While these amounts are not presented in the statements of net position in the ISO's audited financial statements, their estimated net fair value is disclosed in such financial statements for informational purposes given their longer term nature. For a further discussion, see Note 7 to the ISO's December 31, 2012 and 2011 financial statements in APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CORPORATION."

Unsecured Credit Limits may be granted to market participants who apply for unsecured credit and supply the ISO with their latest financial statements and other information necessary for it to conduct an evaluation. The amount of Unsecured Credit Limit is based on a percentage of a market participant's tangible net worth or net assets depending on whether such participant is a corporate or governmental entity, respectively. The approach used to grant Unsecured Credit Limits differs depending on whether the market participant is a rated or unrated public or private corporation or a rated or unrated governmental entity. In general, the ISO uses a formula that considers available credit ratings and credit ratings published by Moody's KMV based on their proprietary Estimated Default Frequency. Each market participant that requests an Unsecured Credit Limit is subject to a potential reduction of its calculated Unsecured Credit Limit by as much as 100% based on the ISO's assessment of qualitative factors relating to the market participant, material changes to the market participant's financial condition and other factors described in the Tariff. A market participant's Unsecured Credit Limit undergoes reevaluation as new financial information becomes available, and reductions may occur at any time. Currently, the maximum Unsecured Credit Limit that an entity could receive is \$50 million. As of September 25, 2013, 18 market participants qualify for the maximum Unsecured Credit Limit.

The ISO monitors market participants' ongoing obligations to wholesale markets through a daily evaluation of their estimated aggregate liability. Should the liability reach 90% of the Unsecured Credit Limit and any other deposited financial security, the ISO notifies the market participant that they may wish to post additional collateral. Once liabilities exceed 100% of a market participant's Unsecured Credit Limit and any other deposited financial security, the market participant is notified that they must post additional collateral within two business days of the notification. During the time that a collateral notification remains uncured, the market participant would be unable to place bids into the CRR and convergence bidding markets. See "Risk Factors – Market Participant Concentration" and the customer concentration tables in "FERC Process for Revisions to GMC Rates."

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

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

## **Grid Management Charge**

***Development of the ISO Revenue Requirement.*** GMC revenues fund substantially all of the costs of the ISO's operations, which are established in the annual revenue requirement. The Tariff contains procedures for the ISO to follow in developing the revenue requirement, which includes an annual budgeting process and culminates in approval by the Governing Board (also referred to herein as the "ISO Board of Governors", the "ISO Board" or the "Board") for the subsequent fiscal year. The revenue requirement consists of ISO Operating Costs, ISO Financing Costs, ISO Cash-Funded Capital and Project Costs, ISO Other Costs and Revenues and ISO Operating Cost Reserve adjustment (as defined below under "ISO Operating Reserve"). Debt service includes principal and interest on all outstanding indebtedness of the ISO, including the ISO's obligation to make payments of principal and interest with respect to the Series 2008 Bonds (as defined below) and the Series 2013 Bonds. The budgeting process includes stakeholder meetings which provide input on ISO costs, potential capital budget projects and ISO priorities in the coming year. Once the Board approves the budget, the ISO posts the annual revenue requirement (including operating and capital budgets) and rates on its website. The ISO also posts the billing determinant volumes used to develop the rate for each GMC component.

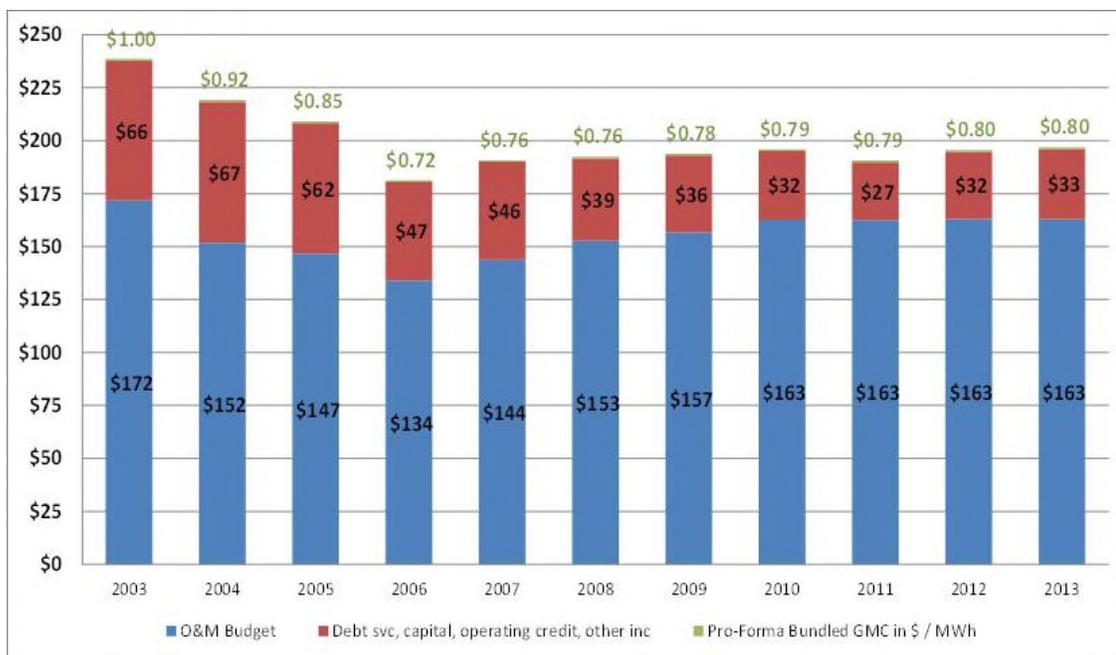
***Development of the GMC Rates and Rate Structure.*** The ISO annual revenue requirement serves as the basis for determining GMC rates. Once the revenue requirement is determined, it is allocated among the three service categories: (1) Market Services; (2) System Operations; and (3) Congestion Revenue Rights Services. The allocation of the revenue requirement to each service category includes a component reflecting 125% of the allocated debt

service. See “Debt Service Coverage” below. GMC rates for the different services are assessed through various billing determinants, including scheduled energy and energy flows and other volumetric, transactional or fixed amounts.

GMC rates are revised at least annually to reflect changes in the revenue requirement and changes in the forecasted billing determinant volumes. See “FERC Process for Revisions to GMC Rates” below. GMC rates may be adjusted not more than once per quarter if projected annual billing determinant volumes differ by more than 2% from volumes used to set rates or \$1.0 million in estimated annual GMC revenues. Neither FERC nor ISO Board approval is required for the ISO to implement these quarterly changes.

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

ISO Management remains committed to a stable revenue requirement and GMC rates as highlighted in the following graph:



**ISO Operating Reserve.** The ISO maintains an operating reserve (the “ISO Operating Reserve”) to absorb the financial impact of monthly variances between forecasted and actual revenues and expenses. The ISO Operating Reserve is a component of the ISO’s cash and investment balances. For purposes of establishing the GMC rates, the ISO Operating Reserve requirement is calculated separately for each service category. The ISO Operating Reserve is annually funded using excess debt service collections (the ISO collects in the revenue requirement 125% of required annual debt service — see “Debt Service Coverage” below), and accumulates the excess until the ISO Operating Reserve becomes fully funded at 15% of

budgeted annual operating expenses for each service category. As of December 31, 2012, the ISO Operating Reserve for each service category was fully funded. In accordance with the Tariff, any surplus ISO Operating Reserve balance exceeding 15% of budgeted annual operating costs for each rate service category is applied as a reduction in the revenue requirement for each service category in the following year. If the ISO Operating Reserve balance fails to meet the 15% reserve requirement, the ISO will increase the revenue requirement to make up any shortfall, which may be spread out over two years.

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

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

Under the FPA, FERC may approve a “formula rate” which considers updated costs in recalibrating the GMC without the need for the ISO to make a new rate filing. In 2004, the ISO received FERC approval for a Tariff that contained both a formula GMC rate and a revenue requirement “cap.” The combination of the GMC formula rate and revenue cap allows GMC rates to remain in effect for specified periods of time so long as the cap is not exceeded. In approving the formula rate and revenue requirement cap, FERC added provisions requiring the ISO to post on its website specific documentation in support of its revenue requirement in lieu of a regulatory filing. The Tariff requires publishing certain budget related information and holding stakeholder meetings to discuss proposed changes in the revenue requirement and GMC rates. See “Development of the GMC Rates and Rate Structure” above. This Tariff mechanism has reduced the need for annual rate filing submissions to FERC and has reduced the likelihood of litigation over the level of the revenue requirement and the GMC rate structure. Since 2004, the ISO has received additional FERC approval to continue to operate under the formula rate and revenue requirement cap mechanisms, without the need for annual rate adjustments, and the ISO intends to seek further approval of these mechanisms upon the expiration of the current time period which is January 1, 2015.

In December 2012, FERC approved the current GMC rate service components that were modified to reflect the costs associated with design of the ISO Market, with a revenue requirement cap of \$199 million. This rate structure will remain in effect through the end of 2014.

From an accounting standpoint, GMC revenues are realized when the related energy transactions take place. The GMC is billed weekly and collected approximately 9 days after each trade week. GMC and other market service billings are dependent upon accurate generation, load and other information, much of which is gathered using meter data, some of which are not available to the ISO for up to 65 days. When meter data is not submitted timely, it is subject to estimation by the ISO. Adjustments are made to the estimates when actual meter data subsequently becomes available under specific circumstances. When adjustments result in revisions to GMC billings after invoices have been issued to participants, the adjustments are reflected on subsequent invoices.

The ISO’s largest customers are responsible for a significant portion of GMC revenues. Since it commenced operation, the ISO’s two largest customers have been PG&E and SCE. For the three Fiscal Years ended December 31, 2012, GMC collections were allocated among such customers as follows:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
2 largest market participants	56%	58%	58%
10 largest market participants	79%	80%	81%
25 largest market participants	91%	92%	92%

***Debt Service Coverage Requirement.*** The Tariff permits the GMC revenue requirement to include an amount equal to 125% of debt service on 2013 Bonds and Parity Obligations. Consistent with the Tariff, Section 5.8 of the 2013 Loan Agreement requires, as long as the 2013 Bonds are outstanding, that GMC rates and budgeted revenue requirement are set annually to cover 125% of required debt service payments. This coverage is a part of the funding of the ISO Operating Reserve as discussed above.

The following presentation of budgeted revenues and expenses for the Fiscal Years ended 2008-2012 shows the revenue requirement included debt service and required coverage for the outstanding debt. In addition, for each year indicated, the ISO Operating Cost Reserves, set at 15% of operating expenses, was over funded, with the ISO Operating Cost Reserves excess used to reduce the GMC revenue requirement in the subsequent year. See “ISO Operating Reserve”, above.

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

Unaudited, \$ in millions	2012	2011	2010	2009	2008
GMC revenues	\$194.8	\$189.8	\$195.1	\$193.0	\$191.6
Other revenues	<u>5.5</u>	<u>4.3</u>	<u>4.3</u>	<u>3.8</u>	<u>5.6</u>
Operating revenues	200.3	194.1	199.4	196.8	197.2
Interest revenues	<u>2.9</u>	<u>2.6</u>	<u>3.8</u>	<u>2.3</u>	<u>2.2</u>
Total revenues	203.2	196.7	203.2	199.1	199.4
Operations & maintenance expenses (which excludes depreciation and amortization)	(163.0)	(162.5)	(162.7)	(156.7)	(152.7)
Cash funded capital project expenses	(17.0)	(23.5)	(15.0)	-	(8.5)
ISO Operating Reserve transfer	<u>23.1</u>	<u>33.0</u>	<u>35.5</u>	<u>17.0</u>	<u>21.2</u>
Net operating revenues plus ISO Operating Reserve transfer available for debt service	<u>\$46.3</u>	<u>\$43.7</u>	<u>\$61.0</u>	<u>\$59.4</u>	<u>\$59.4</u>
Debt service (principal and interest)	<u>\$37.0</u>	<u>\$35.0</u>	<u>\$48.8</u>	<u>\$47.4</u>	<u>\$47.6</u>
Debt service coverage (times) **	1.25	1.25	1.25	1.25	1.25

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

\* Totals are adjusted for rounding.

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

**Claims and Disputes.** Since commencement of operations in 1998, the ISO's GMC has been challenged by various market participants in proceedings before FERC. Market participants have at times protested the allocation of the ISO's revenue requirement among GMC service categories and the billing determinants used to establish the rates for each of the GMC service categories. Currently, all past GMC rates are final and are not subject to further refund.

**Market Disputes.** As part of its Tariff and applicable contracts, the ISO has dispute resolution processes for market participants, transmission owners and RMR owners to register disagreements regarding information reflected in the settlement statements or billing amounts for market and RMR activity. Market disputes are addressed in the normal course of operations, some of which result in adjustments to previously issued settlement statements. When adjustments are made, the adjustment amounts are reallocated to market participants based on the allocation methodology related to the charge code being adjusted, with no net cost or credit being realized by the ISO. With respect to pending market disputes at December 31, 2012, including those that have escalated to good faith negotiations, Management believes that any settlements or market adjustments would be resettled against the market with no liability to the ISO.

## **Financial Information**

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

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<b>Condensed Statements of Net Position (in millions)</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$376.2	\$450.2	\$382.5	\$443.0	\$298.3
Other current assets	<u>45.4</u>	<u>41.6</u>	<u>96.5</u>	<u>110.7</u>	<u>80.2</u>
Total current assets	421.6	491.8	479.0	553.7	378.5
Fixed assets, net	252.6	303.9	351.3	289.8	257.3
Other noncurrent assets	<u>113.5</u>	<u>94.9</u>	<u>101.4</u>	<u>152.5</u>	<u>70.7</u>
Total assets	<u>\$787.5</u>	<u>\$890.6</u>	<u>\$931.7</u>	<u>\$996.0</u>	<u>\$706.5</u>

### **Liabilities and Net Position**

<b>Liabilities</b>					
Current liabilities	\$392.1	\$420.9	\$385.9	\$401.6	\$279.8
Long term debt, net	218.6	259.2	289.3	333.7	173.4
Other noncurrent liabilities	<u>21.7</u>	<u>19.4</u>	<u>17.5</u>	<u>14.2</u>	<u>12.5</u>
Total liabilities	632.4	699.5	692.7	749.5	465.7
Net position	<u>155.1</u>	<u>191.1</u>	<u>239.0</u>	<u>246.5</u>	<u>240.8</u>
Total liabilities and net position	<u>\$787.5</u>	<u>\$890.6</u>	<u>\$931.7</u>	<u>\$996.0</u>	<u>\$706.5</u>

### **Condensed Statements of Revenues, Expenses and Changes in Net Position (in millions)**

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Operating revenues	\$209.0	\$194.6	\$211.9	\$208.3	\$200.7
Operating expenses	<u>232.5</u>	<u>231.2</u>	<u>215.6</u>	<u>213.1</u>	<u>161.8</u>
Operating income	(23.5)	(36.6)	(3.7)	(4.8)	38.9
Other income (expense)	<u>(12.5)</u>	<u>(11.3)</u>	<u>(3.8)</u>	<u>10.5</u>	<u>(5.6)</u>
Increase in net position	(36.0)	(47.9)	(7.5)	5.7	33.3
Net Position, beginning of year	<u>191.1</u>	<u>239.0</u>	<u>246.5</u>	<u>240.8</u>	<u>207.5</u>
Net Position, end of year	<u>\$155.1</u>	<u>\$191.1</u>	<u>\$239.0</u>	<u>\$246.5</u>	<u>\$240.8</u>

<b>Operating Expenses (in millions)</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Salaries and related benefits	\$105.4	\$105.1	\$102.9	\$107.4	\$ 91.6
Communications and technology costs	20.0	20.3	18.8	20.9	23.9
Legal and consulting costs	23.1	15.9	16.2	18.3	15.7
Other: leases, facilities and administrative	10.7	13.9	16.8	17.3	17.8
Lease termination and loss on retirement of assets	(0.3)	6.6	-	6.4	-
Depreciation and amortization	<u>73.6</u>	<u>69.4</u>	<u>60.9</u>	<u>42.8</u>	<u>12.8</u>
Total operating expenses	<u>\$232.5</u>	<u>\$231.2</u>	<u>\$215.6</u>	<u>\$213.1</u>	<u>\$161.8</u>

See "Management's Discussion and Analysis" in the ISO's December 31, 2012 and 2011 financial statements in APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CORPORATION" for a discussion of certain results.

Source: Audited financial statements.

***Long-term Obligations.*** All of the ISO's outstanding long-term borrowings have been issued through the California Infrastructure and Economic Development Bank ("CIEDB"). In addition to the 2009A Bonds described in the forepart of the Official Statement, the ISO is obligated under a loan agreement with CIEDB with respect to bonds outstanding in the aggregate principal amount of \$23,465,000 as of August 1, 2013 representing the current outstanding principal amount of CIEDB's Revenue Bonds (California Independent System Operator Corporation) 2008 Series A (the "2008 Bonds").

The 2008 Bonds were issued in June 2008 as fixed rate revenue bonds, bearing interest at rates between four percent and five percent maturing through February 1, 2014. The proceeds of the 2008 Bonds were used to refund all of the ISO's variable rate demand bond obligations outstanding at the time of issuance, fund a debt service reserve fund and pay certain 2008 Bond issuance costs. The remaining proceeds funded computer hardware and software systems upgrades, facilities, equipment and other capital expenditures.

***The ISO Capital Plan.*** The ISO's current capital plan provides for expending approximately \$120 million over the next five years on computer hardware and software systems and other miscellaneous capital projects, of which approximately \$26 million will be funded from prior bond offerings, and approximately \$94 million from the internally generated funds.

With the lease on the ISO's backup facility expiring in 2017, the ISO is currently reviewing possible sites to acquire and build a replacement facility. Although no site has been acquired, the potential costs for such a project are currently estimated to be in the \$20-25 million range. These forecasted amounts are included in the five-year estimates above.

***Other Planned 2013 through 2015 Capital Expenditures.*** Capital expenditures planned for Fiscal Years 2013 through 2015 include ISO Market enhancements, upgrades to essential computer system infrastructure and other strategic initiatives. Future projects include: implementing 15-minute scheduling and settlement, contingency modeling enhancements, resource interconnection management system changes, new outage management system, and additional enhancements to the enterprise model management system. Strategic initiatives include: implementing an energy imbalance market (EIM), improving systems and operation tools, improving forecasting, incorporating distributed resources, enhancing technology foundation and renewable integration and smart grid studies.

***Pension Benefits and Other Post Employment Benefits.*** The ISO sponsors a defined contribution retirement plan, the ISO Retirement Savings Benefits Plan (the "Retirement Plan") that is subject to the provisions of the Employee Retirement Income Security Act of 1974 and covers substantially all employees. The Retirement Plan is administered by the ISO with the assistance of a third party.

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

In addition, the ISO sponsors the ISO Retirees Medical Plan, a defined benefit plan that provides post-employment health care benefits to all eligible employees who retire from the ISO

on or after attaining age 60. The required years of service to qualify for plan benefits is five years for employees currently employed and ten years for employees hired after 2012. Plan benefits are available to eligible retirees and to their spouses, domestic partners and eligible dependents, as provided for under the terms of the plan. The ISO's annual OPEB cost for the ISO Retirees Medical Plan is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*". The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 15 years (using the level dollar open method). The ARC is adjusted for the amortized amount of the discounted present value (ordinary annuity) of the balance of the net OPEB obligation at the beginning of the year. For the years ended December 31, 2012 and 2011, the annual required contributions were \$4,310,000 and \$3,720,000 respectively. The net post employment benefit obligation at December 31, 2012 and 2011 was \$20,046,000 and \$17,966,000, respectively. At January 1, 2013 and 2012, the unfunded accumulated postretirement benefit obligation for benefits was \$13,482,000 and \$17,384,000 respectively. The ISO currently funds an amount equal to the actuarially determined liability attributable to those eligible to receive benefits pursuant to a tax-exempt voluntary employees' beneficiary association trust. Trust assets amounted to \$6.6 million as of December 31, 2012.

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

***Investment Policy.*** The ISO's investment policy, which has been approved by its Board, restricts investments to certain obligations: those which are issued by, or explicitly guaranteed by, the United States Government, debt obligations issued by government sponsored enterprises and supranational agencies, municipal and state obligations, corporate debt obligations, bank obligations, repurchase and other types of investment agreements, fixed income mutual funds, and money market funds. The ISO's investment policy includes restrictions relating to maximum amounts per asset class as a percentage of the total portfolio, maturities not to exceed five years, and minimum credit ratings (A-1 (or equivalent) for short-term obligations and A- (or equivalent) for long-term obligations at the time of purchase by at least two of S&P, Moody's or Fitch). The ISO's investment of bond related proceeds is also subject to the restrictions established in the Indenture of Trust and other bond related documents.

### **Other ISO Activities**

The ISO also performs other essential functions in addition to, and to support its management of, ISO Balancing Area grid and market operation. In several ways the ISO collaborates with other industry participants to ensure that California's electricity infrastructure continues to support reliable grid operation and efficient wholesale markets. Each year the ISO conducts a transmission planning process in conjunction with its participating transmission owners and with stakeholder consultation, resulting in a long-range plan to identify transmission facilities that will be needed in the future to mitigate anticipated reliability concerns, to provide

economic benefits and, beginning in 2011, to support public policy mandates such as California's requirement for 33 percent renewable energy by 2020. This broad perspective on transmission planning helps improve customer access to clean, efficient generation and increases overall system reliability.

The ISO also conducts structured procedures for interconnecting new generating resources to the ISO grid. The procedures include engineering studies to determine the impacts a new generator will have on the ISO Grid and to establish each new generator's cost responsibilities for mitigating any identified problems. In 2012, the ISO completely overhauled these procedures to enable them to deal with the large volume of new generator applications submitted in response to California's renewable energy mandate. The ISO then made additional modifications to its transmission planning study processes to streamline the process for distributed generating resources (i.e., resources interconnected to a utility's distribution system rather than directly to the ISO Grid) to obtain deliverability status in order to provide resource adequacy capacity.

Through the above activities the ISO reduces barriers to renewable energy resources, such as wind and solar power, by ensuring its rules and procedures fairly treat those resources in their efforts to interconnect to the ISO Grid and meet other ISO milestones required for their participation in procurement processes, which in turn facilitates project financing for these projects. This is instrumental in assisting the State of California in reaching its renewable portfolio standard goal of 33 percent by 2020, as well as achieving future goals now under consideration by state and federal legislators.

Following the California Electricity Crisis of 2000-2001 the ISO worked closely with the CPUC to design the resource adequacy program, which is formally administered by the CPUC to ensure that load-serving entities procure sufficient supply capacity to meet ISO system peak demand plus a reserve margin, as well as meet ISO operating requirements in transmission constrained areas of the ISO Grid under stressed system conditions. On an annual basis the ISO performs studies to determine capacity needs in the local areas, which are then used by the CPUC to establish procurement requirements for its jurisdictional load serving entities. The resource adequacy program and the redesign of the ISO Market, described earlier, are the two fundamental elements of the California electricity sector that were implemented to address the conditions that allowed the crisis to occur.

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

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

Other initiatives are further described in the "Financial Information – The ISO Capital Plan: Planned 2013/2014 Capital Expenditures."

## **ISO Facilities**

The ISO currently operates two control centers on a year round 24 hour, seven day a week basis. The main control center is located in an approximately 278,000 square foot facility in Folsom, California with the data center and control room space of approximately 25,500 square feet. The data center is designed for compliance with NERC CIP by separating out production and nonproduction systems and networks. The control room is designed for enhanced usability with an 85-foot video display wall that provides the operators with accurate, timely and convenient information to reliably run the electrical grid for the state of California. A second approximately 31,000 square feet fully functioning control center is in Southern California and is ready to assume control of the ISO Grid if needed.

## **Board of Governors and Executive Officers.**

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

**Robert Foster** joined the Board in March 2010 and was reappointed in January 2013 to a term that expires December 2015. Mr. Foster was elected Chair of the Board in May 2011. Mr. Foster is also the mayor of Long Beach, first elected in 2006. Until his election as Long Beach mayor, Mr. Foster served as a trustee to the California State University system and was appointed chair of the U.S. Conference of Mayors – Environmental Committee while elected to the group’s Advisory Board in 2009. Before taking up public service, Mr. Foster was President of Southern California Edison from 2002 to 2006 and served as Senior Vice President of External Affairs from 1996 to 2002 for SCE and its parent Edison International. He held several positions with Edison, including Vice-President of Public Affairs (1993-1996), Sacramento Regional Vice President (1986-1992) and an operations executive (1984-1986). Prior to joining Edison, Mr. Foster owned Foster Consulting (1978-1984) and was Deputy Executive Director of the California Energy Commission (1975-1978) where he led the work in establishing statewide energy efficiency standards, many of which are still in force today. Mr. Foster is a graduate of San Jose State University with a degree in public administration.

**Angelina Galiteva** was appointed to the Board in May 2011 to a term that expires December 2013. Ms. Galiteva is currently President for NEOptions, Inc., a renewable energy and new technology product design and project development firm. Her industry experience includes serving as Executive Director of the Los Angeles Department of Water and Power and head of its Green LA, Environmental Affairs and New Product Development Organization. While at the municipal utility, she was responsible for strategic positioning and the environmental compliance departments. Her career includes working with the ISO and CalPX on their initial launches and she also worked as a power analyst for the New York Power Authority. Ms. Galiteva graduated from Pace University School of Law with a Juris Doctor degree in 1993 and a LL.M. degree in 1994 in Environmental and Energy Law. She specialized in electric utility strategic policy analysis and decision making focusing on pending industry transition and deregulation issues.

**Ashutosh Bhagwat** was appointed to the Board in May 2011 to a term ending December 2013. Mr. Bhagwat is Professor of law at the University of California at Davis School of Law. From 1994 to 2011, he served as Professor of law at the University of California, Hastings College of Law in San Francisco. He has taught courses in antitrust, regulated industries, administrative and constitutional law. From 1992 to 1994, he was an associate at the law firm of Sidley & Austin. He also served as a law clerk to U.S. Supreme Court Justice Anthony Kennedy (1991-1992) and Judge Richard Posner of the U.S. Court of Appeals, Seventh Circuit (1990-1991). Mr. Bhagwat received his undergraduate degree from Yale University, graduating summa cum laude with Honors in History in 1986. He was awarded a Juris Doctor with Honors degree in 1990 from the University of Chicago Law School, where he was the Articles Editor of the University of Chicago Law Review.

**Richard Maullin** was reappointed to the Board in January 2012 for a term ending December 2014. Mr. Maullin has held high-level state government and corporate leadership positions since the 1960s. Currently, he is a founding partner and president of Fairbank, Maslin, Maullin, Metz & Associates, an opinion research and consulting firm. Previously, he was president and chief executive officer of MCR Geothermal Corporation (1980-1985). Mr. Maullin also served as chairman of the California Energy Commission (1975-1979) and as California Deputy Secretary of State (1971-1974). Mr. Maullin was awarded bachelor, master and doctorate degrees in political science from the University of California, Los Angeles. In addition to membership in various professional organizations, he serves on the Board of Directors of the Los Angeles Regional Hillel Council. He also has taught international relations at UCLA and is the current President of the Friends of the Vilnius Yiddish Institute at Vilnius University in Lithuania.

**David Olsen** was reappointed to the Board in January 2013 for a term ending December 2015. Mr. Olsen is Managing Director of Western Grid Group. He served as coordinator of California's Renewable Energy Transmission Initiative from 2007 to 2010, leading a diverse stakeholder group charged with developing a roadmap for integrating renewable resources. From 2005 to 2007, he helped coordinate the Tehachapi Collaborative Study Group, and in 2004-2005, led the Imperial Valley Study Group. He served as President of Clipper Windpower Development Company from 2001 to 2003. From 1996 to 1999, as CEO and President of Patagonia Inc., he led the company to become one of the first corporations to get its electricity from wind and solar power. Earlier, Mr. Olsen led development of wind, solar, geothermal and hydroelectric power projects in more than 20 countries, as Vice President of Magma Power Company from 1988 to 1995, founder and President of Peak Power Corporation and CEO/President of Northern Power Systems from 1984 to 1988. In 2000, he led creation of the California Climate Action Registry, the first state registry of greenhouse gases and foundation for The Climate Registry that now includes 31 states. Mr. Olsen served on the board of directors of the Center for Energy Efficiency and Renewable Technologies from 1991 to 2012, and as its Chair 1994-1996. He was a founding member of the Business Council for Sustainable Energy and has served on many power industry trade associations including the American Wind Energy Association, Independent Energy Producers, Geothermal Energy Association, National Hydropower Association, Nevada Geothermal Council, Northwest Electric Light & Power Association and the World Geothermal Congress.

**Management and Employees.** As of December 31, 2012, ISO had 588 full-time employees who are organized into seven divisions: Market and Infrastructure Development, Policy and Client Services, Technology, Market Quality and Renewable Integration, General Counsel and Chief Administrative Officer, Operations and Human Resources. ISO employees are not represented by any unions or other collective bargaining units.

**Steve Berberich** is currently the President and Chief Executive Officer. Prior to that Mr. Berberich served as the Vice President and Chief Operating Officer. He has also served as the Vice President of Corporate Services/Interim Chief Financial Officer and Treasurer. He joined the organization as Vice President Information Technology in 2005, and was promoted to his current position in June 2011. Mr. Berberich has more than twenty years of technology and financial experience, most recently as Vice President of Business Development at CapGemini — one of the largest global firms specializing in management consulting, technology services and outsourcing services. Previously, he held various management positions with TXU Energy, most recently as Vice President of Information Technology, where he was significantly involved with implementing the deregulated electricity market in Texas. Mr. Berberich, who holds a Bachelor of Science degree in finance and a Master of Business Administration degree from the University of Tulsa, serves on the Executive Committee of the Center for MIS Studies for the University of Oklahoma.

**Eric Schmitt** was appointed Vice President, Operations on September 1, 2011. Mr. Schmitt is a 30-year power industry veteran with a unique blend of experience in operations, technology, business and environmental program management. He most recently served as Senior Vice President at Science Applications International Corporation (SAIC), based in Dallas, Texas. Mr. Schmitt also held leadership positions with Capgemini Americas where he served as Global Nuclear Power Center of Excellence Leader. Other recent positions include Director, Technology Strategy and Planning for Dallas-based TXU (now Luminant) and an array of technical and management positions at TU Electric, Power Generation and Florida Power & Light. Mr. Schmitt has held a variety of technical and management positions within the industry, including significant responsibilities in nuclear production, operations, technical support, environmental, chemistry, training, quality assurance, information technology, technology and governance. Also, he has consulted at various power stations and is a certified senior nuclear reactor operator. As a consultant, Mr. Schmitt worked with clients on three continents assisting them with business process and technology challenges. Mr. Schmitt's education includes a Master of Business Administration from University of Texas and a Master of Science from Florida Institute of Technology. He earned a Bachelor of Science from University of Notre Dame.

**Karen Edson** currently serves as the Vice President, Policy and Client Services. She joined the ISO as Vice President External Affairs in December 2005. With responsibility for managing the areas of customer service and industry affairs, communications and public relations, and government affairs, Ms. Edson performs a key role in building and maintaining strategic partnerships for the organization. She serves the outreach and education needs of a diverse body of stakeholders, regulators and policy makers as well as internal and external communications. Prior to joining the ISO, Ms. Edson served in a number of senior roles within state government, including Commissioner on the California Energy Commission from 1981 to 1984. Her other roles within state government include Assistant Director of the California

Research Bureau in 2004-2005 and Legislative Director for the Governor's Office of Planning and Research from 1977 to 1978. From 1985-2000 she headed a small consulting firm that specialized in energy policy and power plant permitting issues. Ms. Edson earned a Bachelor of Arts degree from the University of California, Berkeley, and completed graduate work at the Haas School of Business. She has served as a board member for environmental and public service organizations and remains active in the Sacramento community.

**Nancy Saracino** currently serves as the Vice President, General Counsel and Chief Administrative Officer. Ms. Saracino joined the ISO in June 2007 as Vice President, General Counsel and Corporate Secretary. Ms. Saracino oversees all compliance, governance and control functions for the ISO and serves as the chief legal officer and representative for the corporation in legal and regulatory matters, audit and compliance issues. She also advises the Board of Governors on the application of federal, state and local law and provides guidance and advice on governance and corporate issues. In addition, Ms. Saracino oversees the Accounting, Treasury and Credit, Financial Planning, and Vendor Management departments. Prior to joining the ISO, Ms. Saracino was Chief Counsel and subsequently Chief Deputy Director of the California Department of Water Resources, positions to which she was appointed by Governor Arnold Schwarzenegger. As Chief Deputy, Ms. Saracino assisted the Director in overseeing the supervision and management of the Department and for developing and implementing policy for the protection, conservation and management of the state water supply. In 2006, Ms. Saracino participated in the National Leadership Summit for a Sustainable America, which reviewed the nation's sustainable development goals in light of the effects of climate change and developed a five-year action plan. She also served as a steering committee member for the California Sustainability Alliance. Ms. Saracino earned her Juris Doctor degree from King Hall School of Law at the University of California, Davis, and has a Bachelor of Arts degree in economics from the University of California, Davis.

**Keith Casey, Ph.D.** is Vice President, Market and Infrastructure Development, a capacity in which he has served since 2009. He is responsible for developing market design and infrastructure policies and overseeing the transmission planning and generation interconnection process to ensure all of these critical functions evolve to effectively address the changing needs of the industry and facilitate California's transition to a greener and smarter electric grid. Part of the organization's start-up team in 1997, Dr. Casey served as Director, ISO Department of Market Monitoring, from 2005 to 2009 and played a key role in designing a new market and monitoring program that guards against manipulation and fosters healthy competition. He also helped develop a new method for assessing the economic benefits of proposed transmission expansion projects and served as an expert witness in state and federal regulatory proceedings on market analysis and the economic justification for key transmission expansion projects. Dr. Casey also serves on the Western Electricity Coordinating Council Board of Directors. Dr. Casey received his bachelor's degree in economics from the University of California San Diego. He has a master's degree in economics from the University of Maine and earned his doctorate in agricultural and resource economics with a specialization in environmental economics from the University of California Davis.

**Petar Ristanovic** is Vice President, Technology. He joined the ISO in 2010 with more than 25 years of experience in the electric utility industry. Besides overseeing all technology

functions for the ISO, Mr. Ristanovic also leads the Program Management Office, Physical and Information Security. Mr. Ristanovic's career includes developing strategies for technology use, introducing new technologies and power system applications, developing and deploying advanced IT solutions and system architectures, and implementing large-scale complex utility control centers. Mr. Ristanovic came to the ISO from Siemens Energy Automation. During his tenure with Siemens, he held numerous key positions within the development, sales, product marketing and delivery organizations. Most recently, he has served as Siemens EA Solutions Global Innovation Manager responsible for control center products and technologies. Prior to Siemens, Mr. Ristanovic worked at the Electric Institute Nikola Tesla, Belgrade, developing and implementing advanced power system applications. He holds a Master of Science degree in Electrical Engineering from the University of Belgrade, Serbia, where he also earned his Bachelor of Science degree in Electrical Engineering.

**Mark Rothleder** is Vice President, Market Quality and Renewable Integration at the California Independent System Operator Corporation and is leading the ISO's renewable integration work. Mr. Rothleder has held several critical positions at the ISO after joining the grid operator as one of its first employees in 1997. He is now the longest serving ISO employee. Before being named vice president, he was Executive Director of Market Analysis and Development. His previous positions included Principal Market Developer and Director of Market Operations. In spring 2009, Mr. Rothleder led a multifunctional team in designing and implementing market rules and software modifications related to the ISO New Market. Since joining the ISO over fifteen years ago, Mr. Rothleder has worked extensively on implementing and integrating the approved market rules for California's competitive wholesale energy and reserves markets. Mr. Rothleder is a registered Professional Electrical Engineer in the state of California and holds a B.S. degree in Electrical Engineering from the California State University, Sacramento. He has taken post-graduate coursework in Power System Engineering from Santa Clara University and earned an M.S. in Information Systems from the University of Phoenix. Prior to joining the ISO, Mr. Rothleder worked for eight years in the electric transmission department of Pacific Gas and Electric Company, where his responsibilities included operations engineering, transmission planning and substation design.

**Ryan Seghesio** is Chief Financial Officer and Treasurer. He joined the ISO in March 2010 and has over 20 years of experience in finance. Mr. Seghesio oversees the financial functions of the ISO including: Treasury and Credit, Accounting, and Financial Planning and Analysis. Prior to joining the ISO, Mr. Seghesio served in a number of senior roles at Oracle Corporation, most recently as the Assistant Treasurer where he oversaw global cash and investment management, foreign exchange, and global bank relationships. Previously, he held positions at the City of Sacramento Treasurer's Office and Dean Witter Reynolds. Mr. Seghesio is a Certified Treasury Professional (CTP) and holds a Bachelor of Science degree in finance and a Master of Business Administration degree from the California State University, Sacramento.

### **California Energy Crisis and Related Issues**

In 2000 and 2001, the California energy markets, including those managed by the ISO, experienced severe strains that resulted in high prices, shortages of energy and reserves, rolling blackouts and liquidity problems for many market participants. A confluence of factors created the California energy crisis: a retail customer rate freeze under which the state's largest investor-

owned utilities were required to procure power at prices that exceeded their collections from customers; lack of forward contracting by the investor-owned utilities; divestiture of utility-owned generating plants without any requirements on the buyers to sell energy back to the utilities at contracted prices; regulatory and political inaction; a flawed initial market structure; abuses of market rules by certain market participants; significant energy demand growth; tight energy supplies due to a poor hydroelectric water season; and energy demand growth in neighboring states leaving less power available for import into California.

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

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

Since the energy crisis, several steps have been taken and measures implemented to address the factors that led to the energy crisis, the most important of which were the implementation of the new ISO Market and the resource adequacy program. The regulatory environment supports utility cost recovery and market stability through using longer-term contracts and relying less on the spot power markets. These approaches enabled SCE and PG&E to improve their credit ratings substantially. FERC has undertaken several reforms to enable it to respond more quickly and effectively to potential market abuses. In addition, the ISO put in place several market structure enhancements and measures designed to prevent market abuses. Finally, new investments in transmission and generation infrastructure have reduced the likelihood of a significant mismatch in energy supply and demand. Since the 2000-2001 energy crisis, all creditors in the ISO markets have been paid in full, and all trade months have been cleared. While market participants such as Mirant, Enron, PG&E Energy Trading, Lehman Brothers and Calpine have filed for bankruptcy reorganization, such actions have not had a material adverse effect on the ISO, its operations or its revenues.

***The FERC Refund Case.*** As described above during 2000 and 2001, the California energy markets, including those managed by the ISO, experienced high prices, shortages of

energy and reserves, rolling blackouts and liquidity problems for many market participants. Several of them, including CalPX, filed for bankruptcy. Purchasers of energy during this period sought refunds at FERC. In a proceeding that is still ongoing, FERC has issued a series of orders related to mitigating the clearing prices in markets administered by the ISO and the CalPX for the period from October 2, 2000 through June 20, 2001 (the “FERC Refund Case”). Most of the ISO’s market participants have settled their liability arising from the FERC Refund Case and related proceedings. Management believes the ultimate outcome of the FERC Refund Case will have no material financial impact on the ISO as these refund amounts are funded and will ultimately be resettled among market participants, except for the Generator Noncompliance Fines, as described in below.

***Generator Noncompliance Fines.*** In 2000 and 2001, the ISO billed generator noncompliance fines to market participants totaling \$122.1 million of which the ISO collected \$60.7 million. Generally, these fines were assessed at a rate corresponding to twice the highest price paid in the ISO’s markets for energy. Because the prices for this period are being adjusted as a result of the FERC Refund Case, as described above, the amount of the fines to be retained by the ISO is being reduced, with any surplus collections being refunded with interest to market participants. The ISO accrues interest in accordance with FERC rulings on the portion of fines collected in excess of the estimated realizable amount, which is to be refunded to market participants when the amounts are settled. The ultimate settlement of fines is expected after the conclusion of the proceedings in the FERC Refund Case and the financial settlement of CalPX.

Based on estimates of the mitigated energy prices, the ISO recorded fine revenues between the years 2000 to 2004 totaling \$29.5 million, resulting in a refund liability of \$31.2 million. On December 31, 2010, in connection with a settlement agreement that was approved by FERC the ISO distributed \$43.9 million to the settling parties thereby reducing its refund liability.

In 2012, the ISO increased its estimated generator noncompliance liability based on updated information it obtained related to interest and other factors that will serve to reduce the estimated amount of generator fine proceeds the ISO will ultimately retain, which consequently increases the generator fine collections that will be returned to market participants. The final settlement of generator noncompliance fines will occur after the conclusion of the FERC Refund Case, which is expected to involve shortfalls in interest and principal in connection with prior settlements between the California parties and suppliers. Based on current estimates obtained in 2012 from parties involved in these proceedings, the ISO updated its estimate of the proportionate allocation of these shortfalls to the ISO which resulted in an overall increase in the estimated liability of \$2.2 million and recognition of interest expense in the same amount in 2012.

The ISO estimates the remaining liability (including interest) related to generator noncompliance fines to be \$2.8 million as of December 31, 2012.

There are significant uncertainties associated with the final settlement of generator noncompliance fines. While management’s estimated liability at December 31, 2012 is based on the best information available, adjustments are likely to occur in the future to the estimated liability associated with interest and other shortfalls that will be incurred by the CalPX and

allocated to the ISO in connection with final disposition of the funds and obligations arising from the events of 2000 and 2001.

## **Legislation and Regulations**

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

## **2011 Power Outage**

On September 8, 2011, an 11-minute system disturbance occurred in the Pacific Southwest, leading to cascading power outages and leaving approximately 2.7 million customers without power in Southern California, Arizona and Northern Mexico. Service was restored in Southern California early the next morning. FERC and NERC conducted a joint inquiry into the outages and, on May 1, 2012, they issued a joint report with their analysis and conclusions as to the causes of the events. The report includes recommendations to help industry operators prevent similar outages in the future, but does not address potential reliability violations or an assessment of responsibility of the parties involved. Management believes it is possible that penalties could be assessed against the entities involved in the events of September 8, 2011 which could include the ISO. To the extent that any material penalties were assessed against the ISO, Management believes that it is probable that it would be able to obtain authorization from FERC to recover those penalties from market participants through the penalty allocation request and approval process set forth in the Tariff.

## **San Onofre Nuclear Generating Station**

On June 7, 2013, SCE, one of the ISO's largest market participants and the majority owner and operator of the San Onofre Nuclear Generating Station (SONGS), announced that a decision was reached to permanently retire SONGS Units 2 and 3 and to seek approval to start the decommissioning activities for the entire SONGS facility. Power produced from SONGS had previously provided approximately 17% of the power produced by SCE. Prior to this announcement, the ISO had assumed in its 2013 summer assessment the unavailability of SONGS units 2 and 3 and no supply coming from the Huntington Beach units 3 and 4 (but with conversion to synchronous condensers for voltage control), the current alternative units that SCE will employ following the retirement of SONGS Units 2 and 3, as well as an increase in electricity peak demand by more than two percent as compared to the previous year due to the growing economy. In the 2013 summer assessment, the ISO notes that the ISO Grid reliability risks to southern Orange and San Diego counties are "marginally more challenging" for the summer of 2013 based on these assumptions but are still within planning standards. SONGS Units 2 and 3 had been shut down since January 2012 and the future of SONGS had been uncertain since the shutdown of the units. Now that the uncertainty over the future of SONGS has been settled, the ISO is confident by working closely with state energy agencies, utilities and stakeholders the right resource mix of transmission, generation and other technologies to replace SONGS power will be developed and put into place that will provide for reliable operations in

the local SONGS area (Orange and San Diego counties) for the foreseeable future. In the short term, however, heat waves complicated by higher than expected power plant outages in key areas of Southern California or transmission limitations triggered by wildfires or other reasons could challenge ISO Grid reliability, especially in the areas affected by the decommissioning of SONGS. During these peak periods, the ISO will solicit customers to participate in local demand response and conservation programs to help out during rapidly changing ISO Grid conditions. Management believes that the decommissioning of SONGS does not adversely affect the ISO's ability to operate effectively as a system operator or the ISO's ability to meet its 2013 Loan Agreement obligations.

## **Risk Factors**

***ISO Charges and GMC.*** The ISO's ability to meet its obligation to pay debt service under the 2013 Loan Agreement is dependent on the collection of charges imposed by the ISO under its Tariff (primarily the GMC) for various services provided by the ISO to market participants. The GMC rates are designed to provide recovery of operating expenses and debt service, including principal of and interest on the 2013 Bonds. Under the 2013 Loan Agreement the ISO has granted a first lien on the Net Operating Revenues to secure the payment of the principal of and interest on the 2013 Bonds. Net Operating Revenues are Operating Revenues less Operating Expenses as defined in the 2013 Loan Agreement. Operating Revenues exclude moneys, in particular Market-Related Receipts, derived from a variety of other market ISO charges for a variety of services and activities that are held in certain accounts established pursuant to the Tariff. Accordingly, the lien of the 2013 Loan Agreement on Net Operating Revenues is effectively limited to the debt service and coverage components of the GMC. While the ISO is permitted under the Tariff to access market funds through a priority claim on such amounts in the event the GMC is not paid in full on a monthly basis, such market amounts are not pledged to holders of the 2013 Bonds or subject to the lien and security interest of the 2013 Loan Agreement and the ISO is not contractually obligated to apply such amounts to pay debt service on the 2013 Bonds. Consequently, the ability of trustee for the 2013 Bonds or a holder of the 2013 Bonds to realize on Net Operating Revenues and the other ISO funds upon an ISO event of default may be limited.

***Market Participant Concentration.*** For the years ended December 31, 2012, 2011 and 2010, approximately 56%, 58% and 58%, respectively, of GMC revenues were from two market participants. Further, 10 market participants accounted for approximately 79% of GMC collections and 25 market participants accounted for approximately 91% of GMC collections in 2012. Nonpayment of GMC by one of these market participants could result in a significant shortfall of the GMC revenue requirement. See "California Energy Crisis and Related Issues." The ISO's unperfected priority claim on any Market-Related Receipts with the associated coverage that such revenues have historically provided serves to mitigate, to a degree, the risk that non-payment of GMC obligations by one or more market participants would result in a shortfall of GMC collections by the ISO. See table of coverage in "The ISO Charges – General."

***Disputes with Market Participants.*** The ISO has from time to time been involved in disputes with market participants about market transactions. Some of these disputes involve the application of GMC to the market participants. These disputes are pursued in the managed dispute processes and in proceedings before FERC. While the ISO management does not believe

that existing disputes will have an adverse impact on the ISO, no assurance can be given regarding any future disputes or the effect of any such disputes on the ISO's operations or revenues.

***Contractual Risks and Withdrawal.*** The TCA sets forth PTO rights and obligations, including their obligations to transfer to the ISO operational control of their transmission assets, to maintain those transmission assets and to comply with policies and directives of the ISO. To a degree, the TCA contractually restricts the ability of a PTO to withdraw from the ISO. If any one of California's three major investor-owned electric utilities, PG&E, SCE, or SDG&E, were to withdraw from the TCA, the impact would be material to the ISO. The ISO has no reason to believe that any load-serving entity is planning to withdraw from the TCA. However, if a load-serving entity that is a PTO such as PG&E, SCE, or SDG&E did decide to withdraw, it would have to satisfy the withdrawal requirements of the TCA. The TCA ordinarily requires a PTO to give the ISO two years' advance notice before withdrawing, and obtain FERC approval. The only exception to the two-year notice requirement would be if an event occurs that threatens the tax-exempt status or tax-exempt financing of a PTO, in which case the PTO may withdraw immediately. No assurance can be given that the withdrawal of a PTO representing a significant portion of the transmission facilities transferred to ISO operational control would not occur or would not adversely affect the ISO's ability to operate effectively as a system operator or the ISO's ability to meet its 2013 Bond obligations.

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

***Credit Rating.*** The credit ratings of the ISO and of the 2013 Bonds are dependent in a significant part on the credit ratings of the ISO's major market participants who pay the GMC. A substantial downgrade in the credit rating of such customers, particularly the ISO's largest customers representing a material portion of the load participation in the ISO, may have a material adverse effect on the credit rating of the ISO, which in turn could materially and adversely affect the ISO's business and financial condition and the market value of the 2013 Bonds. See "California Energy Crisis and Related Issues" above. The ISO maintains appropriate customer credit standards in order to protect the GMC revenue stream security and ultimately, the ISO's ability to make full and timely payments in respect of the 2013 Bonds. Customers who do not meet ISO Unsecured Credit Limit standards are required to post collateral to cover their net ISO obligations.

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

access the capital markets or obtain other debt capital at the times, in the amounts and on the terms necessary for the ISO to carry out its business plan successfully.

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

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

***Risks Associated with the Operation of Transmission Assets.*** The ISO is required to operate the transmission system in accordance with standards promulgated by the NERC, the nation's designated Electric Reliability Organization. Noncompliance with such standards may subject the ISO to monetary penalties in amounts ranging up to \$1 million per violation per day. FERC has not granted independent system operators blanket authority to recover from their market participants' monetary penalties assessed by NERC. However, FERC has stated that it will entertain filings submitted by independent system operators pursuant to Section 205 of the FPA requesting authority to recover such monetary penalties. At this time, the ISO has not submitted such a filing. If the ISO were to submit a filing requesting authority to recover assessed monetary penalties, and if FERC were to rule that the penalties should be recovered through the GMC rather than assigned to the entities responsible for causing the penalties, this could result in GMC rates that are viewed by market participants as excessive.

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

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

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE CORPORATION**

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# **California Independent System Operator Corporation**

**Financial Statements**

**December 31, 2012 and 2011**



# California Independent System Operator Corporation

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December 31, 2012 and 2011

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of the California Independent System Operator Corporation, which comprise the statements of net position as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California Independent System Operator Corporation at December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

The accompanying management's discussion and analysis on pages 3 through 11 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*PricewaterhouseCoopers LLP*

Sacramento, CA  
April 4, 2013

# California Independent System Operator Corporation

## Management's Discussion and Analysis

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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, 2012 and 2011. This discussion and analysis should be read in conjunction with the Company's financial statements and accompanying notes, which follow this section.

### Background

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

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

The Company operates a day-ahead market for all twenty-four hours of the next operating day, and a real-time market for each operating hour. This market structure is the vehicle for providing open-access transmission service to users of the transmission grid, clearing energy bids and offers for short-term energy purchases and sales, performing economic dispatch to maintain continuous supply-demand balance and manage grid congestion, and procuring reserve capacity or ancillary services to maintain reliable operation under unexpected changes in grid conditions. The Company also performs a settlement and clearing function by charging and collecting payments from users of these services and paying providers of such services.

The Board of Governors (the Board) of the Company is appointed by the California Governor and subject to confirmation by the California State Senate. A full Board is comprised of five members.

### 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).

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 in the statements of net position. Except for the retention of restricted assets noted above, financial statements reflect a net reporting of market activities wherein the financial statements do not include the revenues and expenses, cash flows, and assets and liabilities associated with the market transactions it facilitates.

### Revenue and Rates

The Company charges a Grid Management Charge (GMC) to market participants to recover the Company's operating costs, capital expenditures and debt service costs, and to provide for an operating reserve.

The GMC was restructured in 2012 and is comprised of the following three service categories: market services, system operations and congestion revenue rights services. In 2011 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

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The following table summarizes the pro forma bundled GMC rate based on the budgeted revenue requirement divided by the estimated control area transmission volume. As reflected below, the GMC rate has been stable for the past three years.

	2012	2011	2010
Revenue requirement in millions	\$ 194.8	\$ 189.8	\$ 195.1
Estimated transmission volume in millions of MWh	242.4	240.0	246.0
Pro forma GMC rate per MWh	0.804	0.791	0.793

### Liquidity

The Company sets its annual revenue requirement at a level to cover three major expense groups: operations and maintenance budget, debt service, and capital projects budget. Those costs are offset by the miscellaneous revenue budget, which is primarily interest income and fees collected outside of the GMC.

Per the tariff, the operations and maintenance budget contains an operating reserve, which is based on 15% of the current year's operating and maintenance costs. Furthermore, the tariff requires the collection of a 25% debt service reserve based on the debt service to be paid during the year. The Company's operating and debt service reserves were fully funded in 2012 and 2011.

In July 2009, the Company issued \$200.0 million of fixed rate bonds primarily for the construction of the Company's new facility in Folsom, California. The construction of the new facility was completed near the end of 2010. The new facility was occupied in January 2011. The remaining proceeds of the 2009 bonds are being used to fund computer hardware and software systems, equipment, and other planned capital projects. As of December 31, 2012, \$13.1 million of these proceeds remain unspent for capital projects.

### The Market

The Company continues to develop market enhancements to increase reliability, efficiency and provide accuracy of market results in the future. These enhancements increase the functionality and flexibility of the market system to meet the on-going needs of market participants.

# California Independent System Operator Corporation

## Management's Discussion and Analysis

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### Financial Highlights

#### Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position

The financial statements provide both short-term and long-term information about the Company's financial status. The statements of net position 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 statements of net position 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 position 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 Statements of Net Position (in millions)

	2012	2011	2010
<b>Assets</b>			
Current assets	\$ 421.6	\$ 491.8	\$ 479.0
Fixed assets, net	252.4	303.9	351.3
Other noncurrent assets	113.5	94.9	101.4
	<u>\$ 787.5</u>	<u>\$ 890.6</u>	<u>\$ 931.7</u>
<b>Liabilities and Net Assets</b>			
Current liabilities	\$ 392.1	\$ 420.9	\$ 385.9
Long-term debt, net of current portion	218.5	259.2	289.3
Other noncurrent liabilities	21.8	19.4	17.5
Net position	155.1	191.1	239.0
	<u>\$ 787.5</u>	<u>\$ 890.6</u>	<u>\$ 931.7</u>

#### Assets

##### Current Assets (in millions)

	2012	2011	2010
Cash and cash equivalents	\$ 376.2	\$ 450.2	\$ 382.5
Short-term investments	27.8	22.8	61.8
Accounts receivable and other assets	17.6	18.8	34.7
	<u>\$ 421.6</u>	<u>\$ 491.8</u>	<u>\$ 479.0</u>

#### 2012 Compared to 2011

As of December 31, 2012, current assets amounted to \$421.6 million reflecting a decrease of \$70.2 million during the year. This decrease is largely due to the decrease in cash and cash equivalents of \$74.0 million caused by decreases in the collateral held for market participants and in deposits from market participants for generator interconnection studies.

# California Independent System Operator Corporation

## Management's Discussion and Analysis

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### *2011 Compared to 2010*

As of December 31, 2011, current assets amounted to \$491.8 million reflecting an increase of \$12.8 million during the year. This increase is largely due to increased cash and cash equivalents caused by increased collateral and market deposits. Accounts receivable and other assets decreased by \$15.9 million largely due to a continued shorter GMC collection period resulting from the implementation of weekly settlements, and lower generation interconnection project receivables.

### **Fixed Assets, net (in millions)**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net assets in service	\$ 247.8	\$ 297.6	\$ 232.7
Work-in-progress	4.6	6.3	118.6
	<u>\$ 252.4</u>	<u>\$ 303.9</u>	<u>\$ 351.3</u>

### *2012 Compared to 2011*

Total fixed assets, net of accumulated depreciation, decreased in 2012 by \$51.5 million compared to 2011. The decrease is primarily due to the current year depreciation expense of \$73.6, offset by new assets placed in service of \$23.8 million. Work in-progress decreased by \$1.7 million compared to 2011 due to the completion of capital projects during the year.

### *2011 Compared to 2010*

Total fixed assets, net of accumulated depreciation, decreased in 2011 by \$47.4 million compared to 2010. Net assets in service increased in 2011 compared to 2010 by \$64.9 million due to the placement in service of completed assets and the remaining two wings of the new headquarters of \$94.5 million, partially offset by higher depreciation expense. Work in-progress decreased by \$112.3 million compared to 2010 due to the placement in service of the remaining two wings of the new headquarters and other projects of \$126.8 million, partially offset by \$22.1 million in new projects.

### **Other Noncurrent Assets (in millions)**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Long-term investments	\$ 107.6	\$ 90.0	\$ 94.5
Other assets	5.9	4.9	6.9
	<u>\$ 113.5</u>	<u>\$ 94.9</u>	<u>\$ 101.4</u>

### *2012 Compared to 2011*

Other noncurrent assets increased by \$18.6 million in 2012. This change is largely attributable to increased investments amounting to \$17.6 million during the year due to transfers of cash and cash equivalents to long-term securities and to higher prepayment amounts at the end of 2012.

### *2011 Compared to 2010*

Other noncurrent assets decreased by \$6.5 million in 2011. This change is largely attributable to decreased investments amounting to \$4.5 million during the year due to the use of bond funds for construction of the new building and to lower prepayment amounts at the end of 2011.

# California Independent System Operator Corporation

## Management's Discussion and Analysis

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### Liabilities

#### Current Liabilities (in millions)

	2012	2011	2010
Accounts payable and accrued expenses	\$ 15.3	\$ 18.6	\$ 24.5
Accrued salaries and compensated absences	27.1	25.9	26.2
Current portion of long-term debt	39.6	28.6	42.2
Due to market participants	307.2	347.2	292.2
Generator noncompliance fines refund obligation	2.9	0.6	0.8
	<u>\$ 392.1</u>	<u>\$ 420.9</u>	<u>\$ 385.9</u>

#### 2012 Compared to 2011

Current liabilities at December 31, 2012, amounted to \$392.1 million, a decrease of \$28.8 million during the year. This decrease is primarily due to lower amounts of collateral held for market participants, reduced amounts of generator interconnection study deposits as a result of studies being completed, and the distribution of forfeited study deposits that were previously pending Federal Energy Regulatory Commission approval. These decreases were offset by a higher liability amount for the current portion of long-term debt of \$11.0 million.

#### 2011 Compared to 2010

Current liabilities at December 31, 2011, amounted to \$420.9 million, an increase of \$35.0 million during the year. This increase is primarily due to increased amounts of collateral held for market participants as a result of increased market activity and because of forfeited study deposits held pending Federal Energy Regulatory Commission approval. This was offset by a lower liability amount for the current portion of long-term debt of \$13.6 million, and a reduction of \$5.9 million in accounts payable and accrued expenses because of reduced expenditures.

#### Long-Term Debt (in millions)

Summarized activity of long-term debt for the year ended December 31, 2012, is as follows:

	Beginning of Year	Payments	End of Year
CIEDB Revenue Bonds, Series 2008	\$ 84.6	\$ (25.1)	\$ 59.5
CIEDB Revenue Bonds, Series 2009	200.0	(3.5)	196.5
Total long-term debt	<u>\$ 284.6</u>	<u>\$ (28.6)</u>	<u>\$ 256.0</u>

# California Independent System Operator Corporation

## Management's Discussion and Analysis

Summarized activity of long-term debt for the year ended December 31, 2011, is as follows:

	Beginning of Year	Payments	End of Year
CIEDB Revenue Bonds, Series 2008	\$ 126.9	\$ (42.3)	\$ 84.6
CIEDB Revenue Bonds, Series 2009	200.0	-	200.0
Total long-term debt	<u>\$ 326.9</u>	<u>\$ (42.3)</u>	<u>\$ 284.6</u>

Debt service requirements below reflect scheduled maturities of long-term debt at December 31, 2012. Interest is calculated using the stated fixed rate of the bonds. As of December 31, 2012, the Company had an underlying rating of A from S&P, A1 by Moody's and A+ by Fitch. Fitch rates the Company's outstanding 2009 Series A bonds at AA- due to the additional support of the pledged deed of trust on the Company's primary building.

	Principal	Interest	Total
<b>Debt service requirements (in millions)</b>			
2013	\$ 39.6	\$ 13.2	\$ 52.8
2014	27.1	11.6	38.7
2015	3.8	10.9	14.7
2016	4.0	10.7	14.7
2017	4.1	10.6	14.7
2018-2039	177.4	142.4	319.8
	<u>\$ 256.0</u>	<u>\$ 199.4</u>	<u>\$ 455.4</u>

### 2012 Compared to 2011

At December 31, 2012 the Company had \$256.0 million of outstanding bonds issued through the California Infrastructure and Economic Development Bank (CIEDB). The decrease in long-term debt is attributable to scheduled debt payments on the 2009 and 2008 series bonds in the amount of \$28.6 million in 2012.

### 2011 Compared to 2010

At December 31, 2011 the Company had \$284.6 million of outstanding bonds issued through the California Infrastructure and Economic Development Bank (CIEDB). The decrease in long-term debt is attributable to scheduled debt payments on the 2008 series bonds in the amount of \$42.3 million in 2011.

### Other Noncurrent Liabilities (in millions)

	2012	2011	2010
Employee retirement plan obligations	\$ 21.8	\$ 19.4	\$ 17.5
	<u>\$ 21.8</u>	<u>\$ 19.4</u>	<u>\$ 17.5</u>

### 2012 Compared to 2011

Other noncurrent liabilities amounted to \$21.8 million at December 31, 2012, an increase of \$2.4 million during the year as a result of net increases in employee retirement plan obligations attributable to the excess of plan costs over current year funding.

# California Independent System Operator Corporation

## Management's Discussion and Analysis

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### *2011 Compared to 2010*

Other noncurrent liabilities amounted to \$19.4 million at December 31, 2011, an increase of \$1.9 million during the year as a result of increases in employee retirement plan obligations attributable to the excess of plan costs over current year funding.

### **Net Position (in millions):**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net investment in capital assets	\$ 35.6	\$ 72.9	\$ 95.9
Unrestricted	<u>119.5</u>	<u>118.2</u>	<u>143.1</u>
Total	<u>\$ 155.1</u>	<u>\$ 191.1</u>	<u>\$ 239.0</u>

### *2012 Compared to 2011*

Net investment in capital assets at December 31, 2012, totaled \$35.6 million, a decrease of \$37.3 million during the year. This change is attributable to the decrease in unspent debt proceeds and debt service payments. The unrestricted component of the net position amounted to \$119.5 million at December 31, 2012, a slight increase of \$1.3 million during the year.

### *2011 Compared to 2010*

Net investment in capital assets at December 31, 2011, totaled \$72.9 million, a decrease of \$23.0 million during the year. This change is attributable to the decrease in unspent debt proceeds. Unrestricted component of the net position amounted to \$118.2 million at December 31, 2011, a decrease of \$24.9 million during the year. The decrease is primarily due to the change in net assets partially offset by the changes in net investment in capital assets.

### **Changes in Net Position**

#### **Condensed Statement of Revenues, Expenses and Changes in Net Position (in millions):**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Operating revenues	\$ 209.0	\$ 194.6	\$ 211.9
Operating expenses	<u>232.5</u>	<u>231.2</u>	<u>215.6</u>
Operating loss	(23.5)	(36.6)	(3.7)
Other income (expenses), net	<u>(12.5)</u>	<u>(11.3)</u>	<u>(3.8)</u>
	<u>\$ (36.0)</u>	<u>\$ (47.9)</u>	<u>\$ (7.5)</u>

### **Operating Revenues**

#### *2012 Compared to 2011*

Total operating revenues increased during the year by \$14.4 million. This is primarily due to an \$8.8 million increase in the GMC due to slightly higher volumes and average GMC rates. Additionally, higher revenues from generator interconnection studies were recognized in 2012 as a result of increased activity with studies conducted by transmission owners.

## California Independent System Operator Corporation

### Management's Discussion and Analysis

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#### 2011 Compared to 2010

Total operating revenues decreased during the year by \$17.3 million. This is primarily due to a \$15.7 million decrease in the GMC, the Company's primary operating revenue. The decrease is the result of an overall lower revenue requirement in 2011 compared to 2010, and collections of GMC revenues in 2010 being higher than the revenue requirement for that year, which did not recur in 2011.

#### Operating Expenses and Percentages (dollars in millions):

	2012	2011	2010
Salaries and related benefits	\$ 105.4	\$ 105.1	\$ 102.9
Communication and technology costs	20.0	20.3	18.8
Legal and consulting costs	23.1	15.9	16.2
Other: leases, facilities and other administrative costs	10.7	13.9	16.8
Lease termination and loss on retirement of assets	(.3)	6.6	-
Depreciation and amortization	73.6	69.4	60.9
	<u>\$ 232.5</u>	<u>\$ 231.2</u>	<u>\$ 215.6</u>
Salaries and related benefits	45 %	45 %	48 %
Communication and technology costs	9	9	9
Legal and consulting costs	10	7	7
Other: leases, facilities and other administrative costs	5	6	8
Lease termination and loss on retirement of assets	0	3	0
Depreciation and amortization	31	30	28
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

#### 2012 Compared to 2011

Operating expenses were \$1.3 million higher for the year ended December 31, 2012, as compared to the year ended December 31, 2011. This increase is comprised of \$7.2 million in higher legal and consulting costs as a result of increased expense reimbursements for generator interconnection studies and \$4.2 million of increased depreciation related to hardware and software placed in service. The increases were partially offset by the non-recurring lease termination charge of \$6.6 million in 2011, which did not occur in 2012, and a \$3.2 million decrease in lease, facilities and other administrative costs.

#### 2011 Compared to 2010

Operating expenses were \$15.6 million higher for the year ended December 31, 2011, as compared to the year ended December 31, 2010. This increase is comprised of \$8.5 million of increased depreciation related to hardware and software placed in service and a full year of depreciation of the Company's new headquarters. Other increases were \$6.6 million of lease termination and loss on retirement of assets primarily related to the unrecoverable lease and termination costs of the abandoned facilities.

Total labor costs increased in 2011 by \$2.2 million due mostly to annual performance-based merit increases. Communications and technology costs increased by \$1.5 million due to required additional software maintenance contracts. These increases were offset by decreases in all other operating expenditures in the amount of \$3.2 million in 2011.

## California Independent System Operator Corporation

### Management's Discussion and Analysis

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#### Other Income (Expense), Net (in millions):

	2012	2011	2010
Interest income	\$ 3.0	\$ 2.9	\$ 5.9
Interest expense	(15.5)	(14.5)	(10.7)
Interest expense recovery	-	0.3	1.0
Total	<u>\$ (12.5)</u>	<u>\$ (11.3)</u>	<u>\$ (3.8)</u>

#### *2012 Compared to 2011*

Interest income increased by \$0.1 million at December 31, 2012, compared to December 31, 2011, due to higher fund balances available for investments. Interest expense increased by \$1.0 million primarily due to the recognition of \$2.2 million in additional interest associated with the refunds of generator noncompliance fines, partially offset by \$1.2 million in lower interest expenses on long-term debt.

#### *2011 Compared to 2010*

Interest income decreased by \$3.0 million at December 31, 2011, compared to December 31, 2010, due to lower fund balances available for investments and lower interest rates. Interest expense increased by \$3.8 million primarily due to lower capitalized interest as a result of the completion of the Company's new headquarters facility in late 2010.

**California Independent System Operator Corporation**  
**Statements of Net Position**  
**December 31, 2012 and 2011**

(in thousands of dollars)

	2012	2011
<b>Assets</b>		
Current assets		
Cash and cash equivalents, including restricted amounts	\$ 376,211	\$ 450,166
Accounts receivable	11,792	11,965
Short-term investments, including restricted amounts	27,839	22,790
Other current assets	5,720	6,835
Total current assets	<u>421,562</u>	<u>491,756</u>
Noncurrent assets		
Long-term investments, including restricted amounts	107,587	90,074
Fixed assets, net	252,406	303,868
Other assets	5,922	4,856
Total noncurrent assets	<u>365,915</u>	<u>398,798</u>
Total assets	<u>\$ 787,477</u>	<u>\$ 890,554</u>
<b>Liabilities and Net Position</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 15,286	\$ 18,541
Accrued salaries and compensated absences	27,132	25,919
Current portion of long-term debt	39,580	28,585
Due to market participants	307,210	347,208
Generator noncompliance fines refund obligation	2,851	638
Total current liabilities	<u>392,059</u>	<u>420,891</u>
Noncurrent liabilities		
Long-term debt, net of current portion	218,550	259,201
Employee retirement plan obligations	21,758	19,343
Total noncurrent liabilities	<u>240,308</u>	<u>278,544</u>
Total liabilities	<u>632,367</u>	<u>699,435</u>
Commitments and contingencies		
Net position		
Net investment in capital assets	35,634	72,887
Unrestricted	119,476	118,232
Total net position	<u>155,110</u>	<u>191,119</u>
Total liabilities and net position	<u>\$ 787,477</u>	<u>\$ 890,554</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 Position**  
**Years Ended December 31, 2012 and 2011**

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*(in thousands of dollars)*

	<b>2012</b>	<b>2011</b>
<b>Operating revenues</b>		
GMC revenue	\$ 195,150	\$ 186,390
Other revenues	13,902	8,189
Total operating revenues	<u>209,052</u>	<u>194,579</u>
<b>Operating expenses</b>		
Salaries and related benefits	105,383	105,126
Equipment leases and facility costs	4,519	7,270
Communications, technology and temporary staffing contracts	20,043	20,292
Legal and consulting services	23,116	15,854
Training, travel and professional dues	2,720	2,631
Insurance, administrative and other expenses	3,457	4,005
Lease termination and loss on retirement of assets	(289)	6,632
Depreciation and amortization	73,563	69,360
Total operating expenses	<u>232,512</u>	<u>231,170</u>
Loss from operations	<u>(23,460)</u>	<u>(36,591)</u>
Other income (expense)		
Interest income	2,960	2,940
Interest expense	(15,509)	(14,513)
Interest expense recovery	-	254
Total other expense, net	<u>(12,549)</u>	<u>(11,319)</u>
Change in net position	<u>(36,009)</u>	<u>(47,910)</u>
<b>Net position</b>		
Beginning of year	<u>191,119</u>	<u>239,029</u>
End of year	<u>\$ 155,110</u>	<u>\$ 191,119</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, 2012 and 2011**

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*(in thousands of dollars)*

	2012	2011
<b>Cash flows from operating activities</b>		
Receipts from scheduling coordinators for GMC	\$ 195,877	\$ 196,187
Other receipts	13,348	11,872
Payments to employees and to others for related benefits	(102,090)	(103,430)
Payment of generator noncompliance fines refund obligation	-	-
Payments to vendors/others	(56,418)	(49,524)
Receipts from market participants	293,139	371,655
Payments to market participants	<u>(333,137)</u>	<u>(316,615)</u>
Net cash provided by operating activities	<u>10,719</u>	<u>110,145</u>
<b>Cash flows from capital and related financing activities</b>		
Purchases and development of fixed assets	(21,996)	(30,411)
Repayment of bonds	(28,585)	(42,250)
Interest on debt	<u>(14,870)</u>	<u>(16,608)</u>
Net cash used in capital financing activities	<u>(65,451)</u>	<u>(89,269)</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(73,069)	(44,047)
Sales and maturities of investments	50,506	87,525
Interest received	<u>3,340</u>	<u>3,264</u>
Net cash (used in) provided by investing activities	<u>(19,223)</u>	<u>46,742</u>
Net increase (decrease) in cash and cash equivalents, restricted and unrestricted	(73,955)	67,618
<b>Cash and cash equivalents, restricted and unrestricted</b>		
Beginning of year	<u>450,166</u>	<u>382,548</u>
End of year	<u>\$ 376,211</u>	<u>\$ 450,166</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, 2012 and 2011**

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*(in thousands of dollars)*

	2012	2011
<b>Supplemental information</b>		
Cash paid for interest for bonds	\$ 14,870	\$ 16,608
<b>Reconciliation of loss from operations to net cash provided by operating activities</b>		
Loss from operations	\$ (23,460)	\$ (36,591)
Adjustments to reconcile loss from operations to net cash provided by operating activities		
Depreciation and amortization	73,563	69,360
Lease termination and loss on retirement of assets	(289)	6,632
Changes in operating assets and liabilities		
Accounts receivable and other assets	(561)	16,959
Accounts payable and other accrued expenses	1,464	(1,255)
Due to market participants	(39,998)	55,040
Net cash provided by operating activities	<u>\$ 10,719</u>	<u>\$ 110,145</u>
<b>Supplemental disclosure of noncash financing and investing activities</b>		
Amortization of bond premium	\$ 1,071	\$ 1,491
Amortization of bond issuance costs and loss of refunding	(404)	(479)
Generator fines interest included in interest expense	(2,213)	-
Generator fines interest expense recovery	-	254
Change in purchases and development of fixed assets included in accounts payable and accrued expenses	236	(8,667)

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

# California Independent System Operator Corporation

## Notes to Financial Statements

### December 31, 2012 and 2011

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#### 1. Organization and Operations

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

The Company operates a day-ahead market for all twenty-four hours of the next operating day, and a real-time market for each operating hour. The Company also performs a settlement and clearing function by charging and collecting payments from users of these services and paying 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 in the statements of net position. Except for the retention of restricted assets noted above, the Company’s financial statements reflect a net reporting of market activities wherein the financial statements do not include the revenues and expenses, cash flows, and assets and liabilities associated with the market transactions it facilitates. GMC revenues have a priority claim against any market-related receipts. Any market defaults are allocated to market participants.

The Board of the Company is appointed by the California Governor and is subject to confirmation by the California State Senate. A full Board is comprised of five members.

#### 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 Government Accounting Standards Board (“GASB”), and where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board (“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.

##### Net Presentation of Market Activity

Effective September 2012, the Company’s tariff was amended to reflect a change in the legal status of its position in facilitating market transactions. The tariff change established the Company as being a central counterparty to the transactions that it financially settles, with certain limited exceptions. The Company adopted this change in response to FERC Order No. 741, which was promulgated, among other reasons, to clarify the Company’s standing to pursue collection of defaulted amounts in the event a market participant files for bankruptcy.

While the tariff change modified the Company’s legal rights and obligations with respect to market transactions by making the Company a buyer to every seller and a seller to every buyer, the responsibilities of market participants for supplying electricity and other services to their customers have not been modified. The Company’s market participants continue to be primary obligors with respect to those obligations. In addition, the allocation of market defaults among market participants has not changed. Market participants continue to bear the credit risk associated with any financial defaults by other market participants. Accordingly, the Company’s financial

# California Independent System Operator Corporation

## Notes to Financial Statements

### December 31, 2012 and 2011

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statements continue to reflect a net reporting of market activities and exclude the revenues and expenses, cash flows, and assets and liabilities associated with the market transactions the Company facilitates.

#### **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. Actual results could materially differ from those estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents, restricted and unrestricted, include cash in bank accounts, money market funds, and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents are unrestricted unless specifically restricted by bond indentures or the tariff.

#### **Accounts Receivable and Revenue Recognition**

The GMC is based on rates filed with Federal Energy Regulatory Commission and is designed to recover the Company's operating costs, capital expenditures, debt service costs, and to provide for an operating reserve. The GMC billings are recognized as revenue, based on estimated meter data submitted by market participants and therefore may be subject to adjustment when final invoices are issued.

The GMC was restructured in 2012 and is comprised of the following three service categories: market services, system operations and congestion revenue rights services. In 2011, GMC rates were comprised of the following 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, 2012, 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. The tariff requires GMC rates to be adjusted not more than once per quarter. Rate adjustments are based on the greater of a 2% difference in projected volumes used to set rates or \$1.0 million in estimated annual GMC revenues. During 2012 and 2011, adjustments were made to certain GMC rates pursuant to these provisions.

#### **Generator Interconnection Studies**

The Company is responsible for conducting generator interconnection studies at the request of project sponsors who are developing generating plants to become connected to the transmission grid operated by the Company. The project sponsors are required to make a deposit before any studies are performed. At any time, the project sponsors may withdraw from the studies.

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

# California Independent System Operator Corporation

## Notes to Financial Statements

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deposits against the related receivable as costs are incurred. Certain deposits related to projects abandoned by the project sponsors are retained by the Company and distributed to market participants following approval by the Federal Energy Regulatory Commission. These distributions do not result in revenues or expenses recognized by the Company.

#### **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. However, this amount has changed over time in response to developments in the still ongoing litigation over the California electricity crisis. The Company adjusts such amounts in recognition of these developments, which affect the ultimate recognition of the fines charged and payments of the liability.

#### **Investments**

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

#### **Fixed Assets**

Fixed assets are recorded at cost. Depreciation is computed using the straight-line method over the assets' estimated useful lives. Most of the Company's investment in fixed assets consists of the headquarters building and related assets which are being depreciated over twenty to thirty years and information systems, which are being depreciated over 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 position for the period. Repairs and maintenance costs are expensed when incurred. The Company capitalizes direct costs of salaries and certain indirect costs incurred to develop or obtain software for internal use. Costs incurred related to software development during the preliminary stage of a project and training and maintenance costs are expensed as incurred. Costs related to abandoned projects are expensed when the decision to abandon is made.

#### **Other Assets**

Other assets consist primarily of debt issuance costs that are amortized over the life of the bonds using the bonds outstanding method (which approximates the effective interest method). Other assets also include certain employee retirement plan trust accounts.

#### **Compensated Absences**

The Company accrues vacation leave when the employee becomes eligible for the benefit. The Company does not record sick leave or other leave as a liability since there are no cash payments for sick leave or other leave made when employees terminate or retire. At December 31, 2012 and 2011, the total accrued liability for vacation was \$7.3 million and \$7.0 million, respectively.

# California Independent System Operator Corporation

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#### **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.

#### **Net Position**

The Company classifies its net position into three components:

**Net Investment in capital assets** - This component 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) and by the Company's tariff and agreements with external parties.

**Unrestricted** - This component consists of net assets that do not meet the definition of "invested in capital, net of related debt" or "restricted".

The Company had no restricted component of the net position at December 31, 2012 or 2011.

#### **Concentration of Credit Risk**

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

All of the Company's receivables are due from entities in the energy industry, including utilities, generation owners and other electricity market participants. For the years ended December 31, 2012 and 2011, approximately 56 percent and 58 percent, respectively, of GMC revenues were from two market participants.

GMC revenues have a priority claim against any market-related receipts, which means that even if an entity defaults on an invoice containing a GMC charge, the Company receives the full GMC so long as sufficient funds were received on other market invoices.

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

#### **Implementation of New GASB Accounting Guidance**

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective for the Company's fiscal year beginning January 1, 2012. This Statement modifies the presentation of deferred inflows and deferred outflows in the financial statements and changes the labeling of "net assets", as previously presented to "net position" under the new standard. Implementation of Statement No. 63 had no effect on the Company's net position or changes in net position for the years ended December 31, 2012.

Additionally, GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, was adopted by the Company during the year ended December 31, 2012. This Statement incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board Statements and Interpretations, Accounting Principles

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## Notes to Financial Statements

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Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedures that were issued on or before November 30, 1989. Implementation of Statement No. 62 had no effect on the Company's financial statements for the years ended December 31, 2012.

#### **Subsequent Events**

The Company evaluates events or transactions that occur after December 31, 2012 but before financial statements are issued for potential recognition or disclosure in the financial statements. The Company has evaluated all subsequent events through April 4, 2013, the date the financial statements were issued, and no items were noted that need to be disclosed.

### **3. Cash and Cash Equivalents and Investments**

#### **Investment Policy and Credit Risk**

The Company's investment policy restricts investments to securities issued by, or explicitly guaranteed by, the United States Government, debt obligations issued by government sponsored enterprises and supranational agencies, municipal and state obligations, corporate debt obligations, bank obligations, repurchase and other types of investment agreements, fixed income mutual funds, and money market funds. The Company's investment policy includes restrictions for investments relating to maximum amounts invested as a percentage of the total portfolio, maximum maturities, and minimum credit ratings.

To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, the Company limits purchases of investments to those rated at the time of purchase by at least two of the following nationally recognized statistical rating organizations: Standard & Poor's, Moody's, and Fitch. The investment must have a minimum rating of at least A-1 (or equivalent) for short-term obligations such as commercial paper and at least A- (or equivalent) for longer term obligations like corporate medium-term notes. In the event of split ratings, the lowest rating is considered the overall credit rating.

#### **Concentration of Credit Risk**

This is the risk of loss associated with the percentage of an entity's investment in a single issuer. The Company's investment policy limits investments in any single issuer to no more than 5% of the portfolio, with exceptions relating to US government obligations, pooled investments such as money market funds, and investments procured in connection with Company bond offerings. As of December 31, 2012, other than investments in US government obligations and money market funds, the Company had no investments in any one issuer representing more than 5% of total cash and cash equivalents and investments.

#### **Custodial Credit Risk**

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 may maintain balances in bank accounts exceeding the FDIC insured level of \$250,000. In the event of a bank default, the Company's deposits may not be returned. The Company had noninterest-bearing bank deposits in amounts of \$61.3 million and \$34.5 million at December 31, 2012 and 2011, respectively. These deposits qualified for FDIC insurance coverage under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("DFA") through December 31, 2012.

# California Independent System Operator Corporation

## Notes to Financial Statements

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All other investments purchased by the Company, by policy, are held in custodial accounts by third-party custodians and are registered in the Company's name, thereby minimizing any custodial credit risk.

#### **Interest Rate Risk**

Changes in interest rates may adversely affect the fair value of the Company's investments and its cash flows. The nature of the Company's investment needs and cash flows requires the majority of its investments to have maturities of one year or less. The investment policy further limits the maximum maturity of any investment to five years with the exception of bond reserve funds which are invested in accordance with the terms of the related bond indenture. The fair value of the resulting short-term investment portfolio is therefore, less affected by rising interest rates. The cash flows from short-term portfolios can be more affected by declining interest rates as maturing investments are reinvested at lower interest rates.

# California Independent System Operator Corporation

## Notes to Financial Statements

### December 31, 2012 and 2011

#### Summary of Balances

At December 31, 2012, the Company's cash, cash equivalents and investments consist of the following (in thousands):

Description	Credit Rating*	Remaining Maturities (in Years)			Total
		Less than 1	1 - 5	More than 5	
Cash and cash equivalents - unrestricted					
Deposits		\$ 60,759	\$ -	\$ -	\$ 60,759
Money Market Funds	AAAm	-	-	-	-
Money Market Funds	AAA	-	-	-	-
		<u>60,759</u>	<u>-</u>	<u>-</u>	<u>60,759</u>
Cash and cash equivalents - restricted					
Deposits		4,762	-	-	4,762
Money Market Funds	AAAm	302,326	-	-	302,326
Money Market Funds	AAA	8,364	-	-	8,364
		<u>315,452</u>	<u>-</u>	<u>-</u>	<u>315,452</u>
Total cash and cash equivalents		<u>376,211</u>	<u>-</u>	<u>-</u>	<u>376,211</u>
Short term investments - unrestricted					
Government-sponsored Enterprises	AA+	4,033	-	-	4,033
U.S Treasury	AA+	5,008	-	-	5,008
Corporate Notes	AA+	2,535	-	-	2,535
Corporate Notes	A	3,565	-	-	3,565
Corporate Notes	A-	614	-	-	614
Corporate Notes	AA-	3,051	-	-	3,051
		<u>18,806</u>	<u>-</u>	<u>-</u>	<u>18,806</u>
Short term investments - restricted					
U.S. Treasury	AA+	5,008	-	-	5,008
Government-sponsored Enterprises	AA+	4,025	-	-	4,025
		<u>9,033</u>	<u>-</u>	<u>-</u>	<u>9,033</u>
Total short-term Investments		<u>27,839</u>	<u>-</u>	<u>-</u>	<u>27,839</u>
Long-term investments - unrestricted					
Affinity Insurance Ltd.	N/A	-	-	37	37
U.S. Treasury	AA+	-	22,816	-	22,816
Government-sponsored Enterprises	AA+	-	21,772	-	21,772
Municipal Bonds	AA+	-	2,303	-	2,303
Municipal Bonds	AA-	-	1,575	-	1,575
Corporate Notes	AAA	-	2,637	-	2,637
Corporate Notes	AA+	-	1,033	-	1,033
Corporate Notes	AA-	-	6,415	-	6,415
Corporate Notes	A+	-	2,311	-	2,311
Corporate Notes	A	-	6,587	-	6,587
Corporate Notes	A-	-	4,053	-	4,053
Corporate Notes	BBB+	-	1,577	-	1,577
Long-term investments - restricted					
Guaranteed Investment Contract	Unrated	-	19,697	-	19,697
Forward Delivery Agreement	Unrated	-	-	14,774	14,774
Total long-term Investments		<u>-</u>	<u>92,776</u>	<u>14,811</u>	<u>107,587</u>
Total cash, cash equivalents and investments		<u>\$ 404,050</u>	<u>\$ 92,776</u>	<u>\$ 14,811</u>	<u>\$ 511,637</u>

\* Represents S&P rating.

# California Independent System Operator Corporation

## Notes to Financial Statements

### December 31, 2012 and 2011

At December 31, 2011, the Company's cash, cash equivalents and investments consist of the following (in thousands):

Description	Credit Rating*	Remaining Maturities (in Years)			Total
		Less than 1	1 - 5	More than 5	
Cash and cash equivalents - unrestricted					
Deposits		\$ 31,132	\$ -	\$ -	\$ 31,132
Money Market Funds	AAAm	55,839	-	-	55,839
Money Market Funds	AAA	103	-	-	103
		<u>87,074</u>	<u>-</u>	<u>-</u>	<u>87,074</u>
Cash and cash equivalents - restricted					
Deposits		108	-	-	108
Money Market Funds	AAAm	290,510	-	-	290,510
Money Market Funds	AAA	72,474	-	-	72,474
		<u>363,092</u>	<u>-</u>	<u>-</u>	<u>363,092</u>
Total cash and cash equivalents		<u>450,166</u>	<u>-</u>	<u>-</u>	<u>450,166</u>
Short term investments - unrestricted					
U.S Treasury	AA+	2,018	-	-	2,018
Corporate Notes	AA	1,003	-	-	1,003
Corporate Notes	A+	3,623	-	-	3,623
Corporate Notes	A	520	-	-	520
Corporate Notes	AA-	3,002	-	-	3,002
		<u>10,166</u>	<u>-</u>	<u>-</u>	<u>10,166</u>
Short term investments - restricted					
U.S. Treasury	AA+	5,241	-	-	5,241
Government-sponsored Enterprises	AA+	7,383	-	-	7,383
		<u>12,624</u>	<u>-</u>	<u>-</u>	<u>12,624</u>
Total short-term Investments		<u>22,790</u>	<u>-</u>	<u>-</u>	<u>22,790</u>
Long-term investments - unrestricted					
Affinity Insurance Ltd.	N/A	-	-	37	37
U.S. Treasury	AA+	-	6,588	-	6,588
Government-sponsored Enterprises	AA+	-	8,072	-	8,072
Municipal Bonds	AA+	-	2,332	-	2,332
Corporate Notes	AAA	-	2,690	-	2,690
Corporate Notes	AA+	-	2,621	-	2,621
Corporate Notes	AA	-	2,633	-	2,633
Corporate Notes	AA-	-	3,237	-	3,237
Corporate Notes	A+	-	2,215	-	2,215
Corporate Notes	A	-	10,965	-	10,965
Corporate Notes	A-	-	5,927	-	5,927
Corporate Notes	BBB+	-	3,235	-	3,235
Long-term investments - restricted					
U.S. Treasury	AA+	-	5,067	-	5,067
Guaranteed Investment Contract	Unrated	-	19,697	-	19,697
Forward Delivery Agreement	Unrated	-	-	14,758	14,758
Total long-term Investments		<u>-</u>	<u>75,279</u>	<u>14,795</u>	<u>90,074</u>
Total cash, cash equivalents and investments		<u>\$ 472,956</u>	<u>\$ 75,279</u>	<u>\$ 14,795</u>	<u>\$ 563,030</u>

\* Represents lowest rating (Fitch, Moody's or S&P), presented on the S&P scale.

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

	<b>2012</b>	<b>2011</b>
Unrestricted funds, operating account	\$ 152,681	\$ 147,793
Restricted funds		
Market participants	307,210	347,208
Capital expenditures	17,274	31,267
Debt service	34,472	36,762
	<u>\$ 511,637</u>	<u>\$ 563,030</u>

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

	<b>2012</b>	<b>2011</b>
Security deposits	\$ 123,007	\$ 173,774
Market funds pending settlement	95,189	61,772
Pass-through fees due to others	12,890	10,810
Generator interconnection study deposits	60,250	81,166
Forfeited deposits pending distribution	15,874	19,686
Total amounts restricted for market participants	<u>\$ 307,210</u>	<u>\$ 347,208</u>

Cash, cash equivalents and investments 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 market participants who are required to post collateral 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. Pass-through fees due to others consist of amounts collected from market participants that will be paid to market participants for summer reliability, startup costs and emission costs. Generator interconnection study deposits are amounts collected for future studies. Forfeited deposits consist of generator interconnection study amounts forfeited by project sponsors that are pending Federal Energy Regulatory Commission approval for distribution.

**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, 2012, are as follows (in thousands):

	2011	Additions and Transfers In	Deletions and Transfers Out	2012
Nondepreciable fixed assets				
Land	\$ 9,098	\$ -	\$ -	\$ 9,098
Work-in-progress	6,279	22,288	(23,924)	4,643
	<u>15,377</u>	<u>22,288</u>	<u>(23,924)</u>	<u>13,741</u>
Depreciable fixed assets				
Regional transmission operator software	355,977	20,393	(12,710)	363,660
Regional transmission operator hardware	32,711	2,484	(65)	35,130
Communication equipment	7,831	559	-	8,390
ISO Facilities (HQ and Alhambra)	156,413	104	(12,774)	143,743
Furniture, fixtures and other	14,639	197	(63)	14,773
	<u>567,571</u>	<u>23,737</u>	<u>(25,612)</u>	<u>565,696</u>
Less: Accumulated depreciation	<u>(279,080)</u>	<u>(73,563)</u>	<u>25,612</u>	<u>(327,031)</u>
	<u>288,491</u>	<u>(49,826)</u>	<u>-</u>	<u>238,665</u>
Total fixed assets, net	<u>\$ 303,868</u>	<u>\$ (27,538)</u>	<u>\$ (23,924)</u>	<u>\$ 252,406</u>

Changes in the Company's fixed assets for the year ended December 31, 2011, are as follows (in thousands):

	2010	Additions and Transfers In	Deletions and Transfers Out	2011
Nondepreciable fixed assets				
Land	\$ 7,617	\$ 1,481	\$ -	\$ 9,098
Work-in-progress	110,946	22,137	(126,804)	6,279
	<u>118,563</u>	<u>23,618</u>	<u>(126,804)</u>	<u>15,377</u>
Depreciable fixed assets				
Regional transmission operator software	336,834	19,519	(376)	355,977
Regional transmission operator hardware	34,081	1,677	(3,047)	32,711
Communication equipment	8,935	1,234	(2,338)	7,831
ISO Facilities (HQ and Alhambra)	63,306	94,589	(1,482)	156,413
Furniture, fixtures and other	14,338	8,122	(7,821)	14,639
	<u>457,494</u>	<u>125,141</u>	<u>(15,064)</u>	<u>567,571</u>
Less: Accumulated depreciation	<u>(224,784)</u>	<u>(69,360)</u>	<u>15,064</u>	<u>(279,080)</u>
	<u>232,710</u>	<u>55,781</u>	<u>-</u>	<u>288,491</u>
Total fixed assets, net	<u>\$ 351,273</u>	<u>\$ 79,399</u>	<u>\$ (126,804)</u>	<u>\$ 303,868</u>

# California Independent System Operator Corporation

## Notes to Financial Statements

### December 31, 2012 and 2011

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The Company capitalized interest related to the development of fixed assets of \$0.3 million and \$0.2 million for the years ending December 31, 2012 and 2011, respectively.

In January 2011, the remaining two wings of the new headquarters facility were fully occupied and as a result, \$84.8 million of assets were transferred from work-in-progress to fixed assets as they were placed in service.

#### 5. Generator Noncompliance Fines

In 2000 and 2001, the Company billed generator noncompliance fines to market participants totaling \$122.1 million of which the Company collected \$60.7 million. Generally, these fines were assessed at a rate corresponding to twice the highest price paid in the Company's markets for energy. Because the prices for this period are being adjusted as a result of the Federal Energy Regulatory Commission Refund Case, as described in Note 12, the amount of the fines to be retained by the Company is being reduced, with any surplus collections being refunded with interest to market participants. The Company accrues interest in accordance with Federal Energy Regulatory Commission rulings on the portion of fines collected in excess of the estimated realizable amount, which is to be refunded to market participants when the amounts are settled. The ultimate settlement of fines is expected after the conclusion of the proceedings in the Federal Energy Regulatory Commission Refund Case and the financial settlement of the California Power Exchange (Cal PX).

Based on estimates of the mitigated energy prices the Company recorded fine revenues between the years 2000 to 2004 totaling \$29.5 million, resulting in a refund liability of \$31.2 million. On December 31, 2010, in connection with a settlement agreement that was approved by FERC the Company distributed \$43.9 million to the settling parties thereby reducing its refund liability.

In 2012, the Company increased its estimated generator noncompliance liability based on updated information it obtained related to interest and other factors that will serve to reduce the estimated amount of generator fine proceeds the Company will ultimately retain, which consequently increases the generator fine collections that will be returned to market participants. The final settlement of generator noncompliance fines will occur after the conclusion of the FERC Refund Case proceedings described in Note 12, which is expected to involve shortfalls in interest and principal in connection with prior settlements between the California Parties and suppliers. Based on current estimates obtained in 2012 from parties involved in these proceedings, the Company updated its estimate of the proportionate allocation of these shortfalls to the Company which resulted in an overall increase in the estimated liability of \$2.2 million and recognition of interest expense in the same amount in 2012.

The Company estimates the remaining liability (including interest) related to generator noncompliance fines to be \$2.8 million as of December 31, 2012.

There are significant uncertainties associated with the final settlement of generator noncompliance fines. While management's estimated liability at December 31, 2012 is based on the best information available, adjustments are likely to occur in the future to the estimated liability associated with interest and other shortfalls that will be incurred by the Cal PX, and allocated to the Company in connection with final disposition of the funds and obligations arising from the events of 2000 and 2001.

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**Notes to Financial Statements**  
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**6. Long-term Debt and Related Agreements**

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

	2012	2011
CIEDB Revenue Bonds, Series 2009 Fixed interest rates of 3.00% - 6.25% with maturities through 2039	\$ 196,545	\$ 200,000
CIEDB Revenue Bonds, Series 2008 Fixed interest rates of 4.00% - 5.00% with maturities through 2014	59,490	84,620
Unamortized net premium		
Series 2009 bonds	447	1,749
Series 2008 bonds	1,648	1,417
Total long-term debt	<u>258,130</u>	<u>287,786</u>
Less: Current portion	(39,580)	(28,585)
Total long-term debt, less current portion	<u>\$ 218,550</u>	<u>\$ 259,201</u>

Summarized activity of long-term debt for the year ended December 31, 2012, is as follows (in thousands):

	Beginning of Year	Payments	End of Year
CIEDB Revenue Bonds, Series 2009	\$ 200,000	\$ (3,455)	\$ 196,545
CIEDB Revenue Bonds, Series 2008	84,620	(25,130)	59,490
Total long-term debt	<u>\$ 284,620</u>	<u>\$ (28,585)</u>	<u>\$ 256,035</u>

Summarized activity of long-term debt for the year ended December 31, 2011, is as follows (in thousands):

	Beginning of Year	Payments	End of Year
CIEDB Revenue Bonds, Series 2009	\$ 200,000	\$ -	\$ 200,000
CIEDB Revenue Bonds, Series 2008	126,870	(42,250)	84,620
Total long-term debt	<u>\$ 326,870</u>	<u>\$ (42,250)</u>	<u>\$ 284,620</u>

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Scheduled future debt service payments for these bonds as of December 31, 2012, are as follows (in thousands):

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 39,580	\$ 13,228	\$ 52,808
2014	27,145	11,605	38,750
2015	3,830	10,868	14,698
2016	3,980	10,711	14,691
2017	4,140	10,544	14,684
2018 - 2039	177,360	142,408	319,768
	<u>\$ 256,035</u>	<u>\$ 199,364</u>	<u>\$ 455,399</u>

Both the 2008 and 2009 Bonds are supported by a pledge of the Company's revenues and operating reserves. In addition, the 2009 Bonds are supported by a deed of trust on the Company's headquarters building and land. The premiums on the bonds are being amortized over the life of the bonds.

Interest expense recorded by the Company related to long-term debt includes interest paid on the bonds (net of interest capitalized to fixed assets), and amortization of the bond issuance costs and the bond premiums.

**7. Derivative Financial Instrument – CRRs**

As described in Note 2, beginning September 1, 2012, the Company is the central counterparty to market participant transactions which includes Congestion Revenue Rights (CRRs). CRRs are financial instruments that enable market participants to reduce their congestion-related price risk when delivering or selling energy on the grid. A CRR provides an economic hedging mechanism against congestion charges that can be transacted by market participants separately from transmission service. These instruments are considered derivative financial instruments for accounting purposes, which would require presentation at fair value if they were recognized as assets and liabilities of the Company.

Consistent with its role in facilitating other market transactions, the Company facilitates the allocation, auctioning and ultimate settlement of CRRs in its market, but does not have economic risks and rewards associated with these financial instruments. Any market defaults are allocated to market participants. As such they are not recognized as assets and liabilities in the Company's statements of net position. However, unlike other market transactions administered by the Company, CRRs can be outstanding for extended periods of time. At December 31, 2012, the average life of the Company's CRRs was 3.2 years and there are a total of 62 CRR holders. The estimated net fair value of both the CRR assets and liabilities as of December 31, 2012 was \$789.4 million related to a total of 834,012 megawatts, which vary in length from one month to several years. The value of each megawatt of CRR is a function of numerous factors including the length of period the CRR covers.

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While these amounts are not presented in the statements of net position, their estimated net fair value is disclosed for informational purposes given their longer term nature. Their fair value was determined based on several factors including actual auction prices transacted in the most recent annual and monthly auction processes, the Company's models which calculate the estimated value of all transmission constraints, net present value discounting and other factors. In addition to the high level of uncertainty associated with these inputs to the valuation calculation model, changes to actual or anticipated flows and constraints on the transmission system managed by the Company or in the value of electricity flowing on the transmission system create volatility that can significantly affect CRR values. Changes in generation, load, weather, and transmission outages are other factors that can have immediate and significant impact on CRR values.

The following is a summary of CRR megawatts, by type, outstanding at December 31, 2012.

<b>Type</b>	<b>Megawatts</b>
Monthly (January 2013)	40,166
Annual (February - December 2013)	447,208
Long Term (January 2014 - December 2022)	346,638
	<u>834,012</u>

**8. Fair Value of Financial Instruments**

The following valuation methods and assumptions were used as a basis for the fair value of each class of financial instrument:

**Investments**

The fair values of investments, including cash equivalents, except as noted below, are based upon quoted market prices. Fair values for the guaranteed investment contract and forward delivery agreement are based on counterparty quotes.

**Long-Term Debt**

The fair value of fixed rate long-term debt, which includes the short-term portion, is based on current market quotes.

The fair values of the Company's financial instruments as of December 31, 2012, are presented below (in thousands):

	<b>Recorded Value</b>	<b>Fair Value</b>
Investments, including cash and cash equivalents	\$ 511,637	\$ 513,886
Long-term debt, including current portion	(258,130)	(271,461)

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The fair values of the Company's financial instruments as of December 31, 2011, are presented below (in thousands):

	<b>Recorded Value</b>	<b>Fair Value</b>
Investments, including cash and cash equivalents	\$ 563,030	\$ 565,825
Long-term debt, including current portion	(287,786)	(301,035)

The carrying values reported in the statements of net position for current assets and liabilities approximate fair value.

**9. Employee Benefit Plans**

The Company maintains a number of employee benefit plans. A description of the plans and key provisions is included below. Obligations included in the Company's statements of net position related to these plans consist of the following at December 31 (in thousands):

	<b>2012</b>	<b>2011</b>
Post-employment medical benefit plan	\$ 20,046	\$ 17,966
Executive pension restoration plan	1,156	883
Executive savings plan	556	494
Total employee retirement plan obligations	<u>\$ 21,758</u>	<u>\$ 19,343</u>

**Post-Employment Medical Benefit Plan**

***Plan Description***

The Company sponsors the California ISO Retirees Medical Plan, a defined benefit plan, to provide post-employment health care benefits to all eligible employees who retire from the Company on or after attaining age 60. The required years of service to qualify for plan benefits is five years for employees currently employed and ten years for employees hired after 2012. Depending on years of service, the Company pays between 60% and 70% of the premiums on the coverage elections made by the beneficiaries not to exceed \$8,000 for individual retiree coverage and \$16,000 for retiree plus spouse and/or dependent. Plan benefits are available to eligible retirees and to their spouses, domestic partners and eligible dependents, as provided for under the terms of the plan. Current plan coverage extends for the lifetime of the participants and their beneficiaries, except for dependents, which generally terminates at age 25. There are 38 active employees and 29 retirees eligible to receive benefits pursuant to the plan as of December 31, 2012.

***Funding and Investment Policy***

The Company has established a trust for the purposes of funding the plan. The trust was established as a tax-exempt voluntary employees' beneficiary association. All assets of the trust are to be used for the exclusive benefit of the participants and beneficiaries of the plan. Although the Company has fiscal accountability for these assets and holds them in a fiduciary capacity, the assets are not considered assets of the Company and are therefore not included in the statements of net position of the Company. As of December 31, 2012 and 2011, the trust assets were \$6.6 million and \$5.3 million, respectively. Trust assets are primarily invested in US Treasury, government sponsored enterprises, and corporate obligations.

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The Company's current funding policy is to annually contribute an amount such that the total amount in the trust approximates the actuarially determined liability attributable to retirees and their spouses and to active participants who are fully eligible to retire. The Company does not provide funding into the plan related to future obligations associated with employees who have not become eligible to retire.

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

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

The Company's annual OPEB cost at December 31, 2012 and 2011, and for the years then ended, is as follows (in thousands):

	2012	2011
Annual required contribution	\$ 4,310	\$ 3,720
Interest on net OPEB obligation	719	797
Adjustment to annual required contribution	<u>(1,616)</u>	<u>(1,516)</u>
Annual OPEB cost	3,413	3,001
Contributions made	<u>(1,333)</u>	<u>(670)</u>
Increase in net OPEB obligation	2,080	2,331
<b>Net OPEB obligation</b>		
Beginning of year	<u>17,966</u>	<u>15,635</u>
End of year	<u>\$ 20,046</u>	<u>\$ 17,966</u>

The Company's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation for the years ended December 31, 2012, 2011 and 2010 were as follows (in thousands):

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	3,401	12 %	15,635
2011	3,001	22 %	17,966
2012	3,413	39 %	20,046

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**Actuarial Methods and Assumptions**

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

The following significant actuarial methods and assumptions were used in the calculation of annual OPEB cost for the year ending December 31, 2012.

Valuation date	January 1, 2012
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, open
Remaining amortization period	15 years
Asset valuation method	Market
Investment rate of return	4.00%
Healthcare cost trend rate	8.0% initial, 5.0% ultimate

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 below reflects multiyear trend information to show the status of funding based on the actuarial value of plan assets relative to the actuarial accrued liabilities. This information is required supplementary information (dollars in thousands):

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>APBO (b)</b>	<b>Unfunded APBO (b - a)</b>	<b>Funded Ratio (a/b)</b>
January 1, 2011	4,608	18,022	13,414	26%
January 1, 2012	5,343	22,727	17,384	24%
January 1, 2013	6,564	20,046	13,482	33%

The actuarial valuation as of January 1, 2013, incorporated changes to actuarial assumptions which are different from the assumptions used in the calculation of the annual pension costs for the year ending December 31, 2012. Such changes included a decrease in the investment rate of return from 4.0% to 3.5%, plan eligibility changes and the change in the cost-sharing of the plan coverage costs, including the employer cost cap. The APBO decreased by \$2.7 million between 2012 and 2013. This change is primarily to due plan changes, which reduced the obligation by \$9.5 million partially offset by increases in the obligation resulting from assumption changes of \$3.7 million and to the increases associated with the normal cost of the plan of \$3.1 million.

# California Independent System Operator Corporation

## Notes to Financial Statements

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The actuarial valuation as of January 1, 2012, incorporated changes to actuarial assumptions which are different from the assumptions used in the calculation of the annual pension costs for the year ending December 31, 2011. Such changes included a decrease in the investment rate of return from 5.1% to 4.0%, a decrease in the health care cost trend rate from 8.5% to 8.0% and changes to the retirement age rates. The increase in the APBO between 2011 and 2012 associated with changes in assumptions is \$1.8 million.

#### **Executive Pension Restoration Plan**

The Company sponsors the Executive Pension Restoration Plan, a nonqualified defined contribution plan, which allows certain officers of the Company to make contributions and receive Company contributions in excess of the 401(k) contribution limits set forth by IRS regulations as described in the retirement savings benefits plan below.

The contributions and earnings thereon are held in a trust and the balances as of December 31, 2012 and 2011, were \$1.2 million and \$0.9 million, respectively, and are included in Other Assets with a corresponding liability in Employee Retirement Plan Obligations. In connection with this plan, the Company recognized expenses for contributions of \$117,000 and \$67,000 in 2012 and 2011, respectively.

#### **Executive Savings Plan**

The Company sponsors the Executive Savings Plan, a nonqualified defined contribution plan under section 457(b) of the IRS Code. The Company contributes a percentage of each officer's annual base compensation to the plan. Officers may elect to make voluntary contributions, subject to statutory limitations. The contributions and earnings thereon are held in a trust and the balance as of December 31, 2012 and 2011 was \$556,000 and \$494,000, respectively and is included in Other Assets, with a corresponding liability in Employee Retirement Plan Obligations. In connection with this plan, the Company recognized expenses of \$110,000 and \$106,000 in 2012 and 2011, respectively.

#### **Retirement Savings Benefits Plan**

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

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

Employees' contributions to the Retirement Plan for 2012 and 2011 were \$7.5 million and \$6.7 million, respectively. In connection with this plan, the Company's contributions to the Retirement Plan for 2012 and 2011 were \$8.1 million and \$7.6 million, respectively.

# California Independent System Operator Corporation

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#### Supplemental Executive Retirement Plan

In 2011, the Company discontinued the Company sponsored California ISO Supplemental Executive Retirement Plan, a nonqualified defined benefit plan intended to provide selected executives of the Company with target retirement benefits based upon an executive's average earnings and total number of years of service with the Company, as defined in the plan. The plan was fully funded and distributed as of December 31, 2011. In connection with this plan, the Company recognized expenses of \$514,000 in 2011.

#### 10. Insurance Programs and Claims

The Company is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; nonperformance of duty; injuries to employees; and natural disasters. The Company maintains various commercial and mutual insurance plans that provide coverage for most claims in excess of specific dollar thresholds, which range from \$500 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. Losses incurred below insurance deductibles are expensed as incurred. In the last three years, the Company did not incur any claims in excess of the coverage 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 activity of other members of the captive insurance company. The Company's annual insurance expense is limited through reinsurance and risk sharing arrangements of the captive to an additional percentage of the initial base premium paid.

#### 11. Lease and Contract Commitments

The Company has long-term operating leases and service contracts that expire at various times through 2030 including telecommunication equipment and services, information system equipment and services and systems infrastructure.

The following are the future minimum payments under these agreements as of December 31, 2012 (in thousands):

2013	\$	4,097
2014		1,515
2015		1,509
2016		810
2017		603
2018 - 2030		<u>2,769</u>
	\$	<u>11,303</u>

Lease and service contract costs of approximately \$12.5 million were charged to operating expense in both 2012 and 2011.

# California Independent System Operator Corporation

## Notes to Financial Statements

### December 31, 2012 and 2011

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In January 2011, the Company relocated to a permanent headquarter building and vacated the leased headquarter buildings, which had three separate active leases at the time of the relocation. Although the Company was no longer occupying the leased space, in accordance with the lease agreements, the Company was required to pay for on-going costs associated with each of the leases, as well as monthly rent through November 2012 for one lease, and instead of making monthly lease payments for the other two lease agreements that had expiration dates through December 2016, the Company opted to pay the related early termination fees. As a result of these estimated unrecoverable lease and termination costs required, a liability and related expense in the amount of \$6.4 million was recorded in 2011. During 2012 and 2011, payments in the amount of \$3.9 million and \$2.3 million, respectively, were recorded against the liability. As of December 31, 2012, all settlement costs have been paid and the remaining liability balance of \$0.3 million was recognized as a gain in 2012.

## 12. Contingencies and Settlements

### **The Federal Energy Regulatory Commission Refund Case**

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

Purchasers of energy during this period sought refunds at the Federal Energy Regulatory Commission. In a proceeding that is still ongoing, the Federal Energy Regulatory Commission has issued a series of orders related to mitigating the clearing prices in markets administered by the Company and the Cal PX for the period from October 2, 2000 through June 20, 2001 (the Federal Energy Regulatory Commission Refund Case). Several of the Company's market participants have settled their liability arising from the Federal Energy Regulatory Commission Refund Case and related proceedings. Management believes the ultimate outcome of the Federal Energy Regulatory Commission Refund Case will have no material financial impact on the Company as these refund amounts are funded and will ultimately be resettled among market participants, except for the Generator Noncompliance Fines, as described in Note 5.

### **Market Billing Disputes in Good Faith Negotiations**

As part of the tariff and applicable contracts, the Company has dispute resolution processes for market participants, transmission owners and RMR owners to register disagreements regarding information reflected in the settlement statements or billing amounts for market and RMR activity.

Market disputes are addressed in the normal course of operations, some of which result in adjustments to previously issued settlement statements. When adjustments are made, the adjustment amounts are reallocated to market participants based on the allocation methodology related to the charge code being adjusted, with no net cost or credit being realized by the Company. With respect to pending market disputes at December 31, 2012, including those that have escalated to good faith negotiations, management believes that any settlements or market adjustments would be resettled against the market with no liability to the Company.

### **Indemnifications**

The Company's bylaws require its annual financial statements to include disclosures about certain payments made by the Company related to indemnifications to or on behalf of officers and Board members. There were no such payments in 2012 or 2011.

# California Independent System Operator Corporation

## Notes to Financial Statements

### December 31, 2012 and 2011

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#### **Other Matters**

The Company, during the ordinary course of its operations, has been involved in various lawsuits and claims, some of which are still pending. In addition, the Company is subject to compliance requirements of mandatory reliability standards promulgated by Federal Energy Regulatory Commission-approved mandatory reliability standards (i.e. NERC Reliability Standards), which if violated could result in penalties assessed to the Company.

On September 8, 2011, an 11-minute system disturbance occurred in the Pacific Southwest, leading to cascading power outages and leaving approximately 2.7 million customers without power in Southern California, Arizona and northern Mexico. Service was restored in Southern California early the next morning.

The FERC and the North American Electric Reliability Corporation (“NERC”) conducted a joint inquiry into the outages and, on May 1, 2012, they issued a joint report with their analysis and conclusions as to the causes of the events. The report includes recommendations to help industry operators prevent similar outages in the future, but does not address potential reliability violations or an assessment of responsibility of the parties involved.

Management believes it is possible that penalties could be assessed against the entities involved in the events of September 8, which could include the Company. To the extent that any material penalties were assessed against the Company, Management believes that it is probable that it would be able to obtain authorization from FERC to recover those penalties from market participants through the penalty allocation request and approval process set forth in the Company’s Tariff.

There are several other matters currently pending related to alleged violations of these standards. Management is of the opinion that none of these matters will have a material adverse impact on the financial position or results of the operations of the Company.

**APPENDIX C**

**SUMMARY OF CERTAIN PROVISIONS OF  
THE PRINCIPAL LEGAL DOCUMENTS**

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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 2013 Indenture, the 2013 Loan Agreement and the Deed of Trust. This summary does not purport to be comprehensive, and reference should be made to the 2013 Indenture, the 2013 Loan Agreement and the Deed of Trust for a full and complete statement of their provisions.*

### DEFINITIONS

Unless the context otherwise requires, the terms defined below, for all purposes of the 2013 Indenture and of the 2013 Loan Agreement and of any indenture supplemental to the 2013 Indenture or agreement supplemental thereto, have the meanings specified below, as follows:

“Account” means any of the accounts in which the Operating Fund is held, as specified in the 2013 Loan Agreement, and respect to which the Corporation has entered into control agreements, as such accounts may be amended from time to time.

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

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

“Additional Payments” means the amounts payable to the Infrastructure Bank, the Trustee or other Persons, as more particularly set forth in the 2013 Loan Agreement.

“Agreement” or “2013 Loan Agreement” means the 2013 Loan Agreement, of even date herewith, between the Infrastructure Bank and the Corporation relating to the loan of the proceeds of the 2013 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 Executive Director of the Infrastructure Bank as well as the Infrastructure Bank’s Deputy Executive Director, its General

Counsel, and its Bond Unit Manager, or any person who at the time and from time to time may be designated by the Executive Director 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 2013 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 Fund” means the Bond Fund established pursuant to the 2013 Indenture.

“Bond Register” means the registration books for the ownership of 2013 Bonds maintained by the Trustee pursuant to the 2013 Indenture.

“Book-Entry Bonds” means any 2013 Bonds which are then held in book-entry form as provided in the 2013 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.

“Certificate of the Corporation” means a certificate signed by an Authorized Corporation Representative. If and to the extent required by the provisions of the 2013 Indenture, each Certificate of the Corporation will include the statements provided for in the 2013 Indenture.

“Certificate of the Infrastructure Bank” means a certificate signed by an Authorized Infrastructure Bank Representative. If and to the extent required by the provisions of the 2013 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’s Board of Directors (the “Infrastructure Bank Board”) to have been duly adopted by the Infrastructure Bank Board 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 2013 Bonds.

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

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

“Completion Date” means the date of completion of the 2009A Project as that date will be certified as provided in the 2013 Loan Agreement.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated as of November 1, 2013, 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 2013 Loan Agreement.

“Costs” means, with respect to the 2009A Project, the sum of the items, or any such item, of the cost of the 2009A Project to the extent permitted by the Act and the Certified Resolution authorizing the issuance of the 2013 Bonds, including reimbursement of the Corporation for amounts expended for such costs, but will not include any Costs of Issuance which, together with amounts expended on Costs of Issuance from the Costs of Issuance Fund, exceed the maximum amount set forth in the Tax Certificate.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Infrastructure Bank or the Corporation and related to the authorization, issuance, sale and delivery of the 2013 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 2013 Bonds and any other cost, charge or fee in connection with the original issuance of the 2013 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 2013 Indenture.

“Debt Service Coverage Requirement” means the coverage of the Corporation’s debt service obligations that is required to be included in the Grid Management Charge pursuant to the Grid Management Charge Formula as described in the 2013 Loan Agreement. For debt service obligations which bear interest at a variable rate, the Corporation will reasonably estimate the amount thereof, thereof, taking into account any swap or other financial agreements which the Corporation may enter into from time to time.

“Deed of Trust” means that certain Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated as of the date hereof, executed by the Corporation, as trustor, in favor of Chicago Title Company, as trustee thereunder, creating a lien on the Property for the benefit of the Trustee, as trustee for the Owners of the 2013 Bonds.

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

“Documents” means, collectively, the 2013 Indenture and the 2013 Loan Agreement.

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

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

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

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

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

“Event of Default” as used with respect to the 2013 Indenture has the meaning specified in the 2013 Indenture, and as used with respect to the 2013 Loan Agreement has the meaning specified therein.

“Existing Parity Obligations” means the 2008 Loan Agreement.

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

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

“Government Obligations” means any of the following:

- (i) Cash (insured at all times by the Federal Deposit Insurance Corporation); and
- (ii) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:
  - U.S. treasury obligations;
  - All direct or fully guaranteed obligations;
  - Farmers Home Administration;
  - General Services Administration;
  - Guaranteed Title XI financing;
  - Government National Mortgage Association (GNMA); and
  - State and Local Government Series.

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

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

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

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

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

“Interest Payment Date” means each February 1 and August 1, commencing February 1, 2014.

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

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

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

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

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

Obligations of the Resolution Funding Corporation (REFCORP)

Senior debt obligations of the Federal Home Loan Bank System

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

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

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

(6) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

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

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

any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

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

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

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

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

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

a) (i) permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers), and (ii) collateral levels must be at least 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA's and 104% of the total principal when the collateral type is FNMA and FHLMC (“Eligible Collateral”);

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

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

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

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

“Issue Date” means November 14, 2013.

“Loan Agreement” means the 2013 Loan Agreement, of even date herewith, between the Infrastructure Bank and the Corporation and relating to the loan of the proceeds of the 2013 Bonds, as originally executed or as it may from time to time be supplemented or amended.

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

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

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

“Nominee” has the meaning specified in the 2013 Indenture.

“Notice by Mail” or “notice” of any action or condition “by Mail” means a written notice meeting the requirements of the 2013 Indenture mailed by first class mail, postage prepaid, to the Owners of specified Bonds, at the addresses shown on the Bond Register.

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

“Operating Cost Reserve Requirement” has the meaning set forth in the Loan Agreement.

“Operating Fund” means the bank and brokerage accounts of the Corporation specified in the 2013 Loan Agreement. The Corporation will be permitted to amend the definition of Operating Fund to add different bank and brokerage accounts therein.

“Operating Revenues” means all revenues received by the Corporation for the account of the Corporation from all sources, including but not limited to the Grid Management Charge, interest on all Corporation operating accounts and operating and capital reserve accounts, communication fees, Western Electricity Coordinating Council security fees, Large Generator Interconnection Program fees, application fees, training reimbursements, and any other revenues from ancillary services, but excluding any moneys received by the Corporation in trust for third parties i.e., (i) moneys in the accounts established pursuant to the Tariff in the 2013 Indenture, other than those moneys payable as the Grid Management Charge, (ii) moneys in the accounts established pursuant to the Tariff in Appendix N, Part J, Section 2 and (iii) moneys in any like account established by the Corporation pursuant to the Tariff.

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

“Opinion of Counsel” means a written opinion of counsel acceptable to the Infrastructure Bank and the Corporation. If and to the extent required by the provisions of the 2013 Indenture, each Opinion of Counsel will include the statements provided for in the 2013 Indenture.

“Outstanding” when used as of any particular time with reference to the 2013 Bonds (subject to the provisions of the 2013 Indenture), means all such 2013 Bonds theretofore authenticated and delivered by the Trustee under the 2013 Indenture except:

(i) 2013 Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(ii) 2013 Bonds in lieu of or in substitution for which other 2013 Bonds will have been authenticated and delivered by the Trustee pursuant to the 2013 Indenture; and

(iii) 2013 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 2013 Indenture.

“Owner” means, as of any time, the registered owner of any 2013 Bond as set forth in the Bond Register.

“Parity Obligations” means, collectively, (i) the Existing Parity Obligations, (ii) the 2013 Loan Agreement, and (iii) any obligation of the Corporation secured by a lien on Net Operating Revenues on par with the pledge of Net Operating Revenues set forth in the 2013 Loan Agreement.

“Permitted Encumbrances” means, as of any particular time, (i) liens, charges and encumbrances, if any, on the Property as of the date of issuance of the 2013 Bonds, (ii) liens for ad valorem taxes and special assessments not then delinquent, (iii) the 2013 Loan Agreement, the 2013 Indenture, and the Deed of Trust or other collateral, security or other agreements then outstanding, and any financing statements naming the Infrastructure Bank or the Corporation as the debtor and naming the Infrastructure Bank or the Trustee as the secured party filed to perfect the security

interest granted or to be granted in connection with the 2013 Loan Agreement, the 2013 Indenture or the Deed of Trust, (iv) utility, access and other easements and rights of way, restrictions and exceptions that will not materially interfere with or impair the operations being conducted in connection with any of the Property (or, if no operations are being conducted therein, the operations for which such facility was designed or last modified), (v) such minor defects, irregularities, encumbrances, easements, rights of way and clouds on title as normally exist with respect to properties similar in character to the Property and as do not in the aggregate materially impair the property affected thereby for the purpose for which it was acquired or is held, (vi) liens arising in connection with worker's compensation, unemployment insurance, taxes, assessments, statutory obligations or liens, social security legislation, undetermined liens and charges incidental to construction, or other similar charges arising in the ordinary course of operation and not overdue or, if overdue, being contested in good faith and such other liens and charges at the time required by law as a condition precedent to the transactions or the activities of the Corporation or the exercise of any privileges or licenses necessary to the Corporation, (vii) any lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Corporation to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker's compensation, unemployment insurance, pension or profit-sharing plans or other social security, or to share in the privileges or benefits required for entities such as the Corporation participating in such arrangements, (viii) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any property, (ix) any liens on the Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with the Property, which in each such case are not due and payable or are not delinquent, or the amount or validity of which in each such case is being contested and execution thereon is stayed or, with respect to liens of materialmen, laborers, suppliers or vendors have been due less than 120 days or the payment of which has been provided for by the posting of a bond, (x) any lien on property (other than the 2009A Facilities) acquired after the delivery date of the 2013 Bonds; (xi) liens on property received by the Corporation through gifts, grants or bequests such liens being due to restrictions on such gifts, grants or bequests of property or the income thereon, (xii) liens consisting of purchase money security interests and lessors' interest in capitalized leases, (xiii) present or future valid zoning laws and ordinances, and (xiv) liens securing indebtedness for which money or evidences of indebtedness in the necessary amount for the payment, redemption or satisfaction of which has been deposited in a trust with a trustee for the sole purpose of satisfying the indebtedness. "Permitted Encumbrances" will also include any loan agreements, indentures, or other agreements executed for the purpose of or in connection with providing funds to complete the 2009A Headquarters Facility, or other collateral, security or other agreements related thereto, and any financing statements filed to perfect the security interest granted or to be granted in connection with the foregoing.

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

"Principal Corporate Trust Office" means the corporate trust office of the Trustee as designated in the 2013 Indenture or such other office designated by the Trustee from time to time; provided, however, that for transfer, registration, exchange, payment and surrender of 2013 Bonds such term means the corporate trust office or agency of the Trustee at which, at any particular time,

its corporate trust agency business will be conducted, or such other office designated by the Trustee from time to time.

“Principal Installment” means, with respect to any Principal Installment Date, the sum of (i) the aggregate amount of principal due with respect to 2013 Bonds that mature on such Principal Installment Date plus (ii) the aggregate amount of Sinking Fund Installments due on such Principal Installment Date.

“Principal Installment Date” means any date on which any 2013 Bonds mature or any date on which any of the 2013 Bonds are subject to redemption from mandatory Sinking Fund Installments.

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

“Purchase Contract” means the Bond Purchase Contract among the Infrastructure Bank, the Treasurer of the State and the underwriters of the 2013 Bonds and approved by the Corporation, relating to the sale of the 2013 Bonds from the Infrastructure Bank to the underwriters.

“Rating Agency” means, with respect to the 2013 Bonds, Fitch, Moody’s or Standard & Poor’s to the extent it is then providing or maintaining a rating on such 2013 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 2013 Bonds, any other nationally recognized rating agency then providing or maintaining a rating on such 2013 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 2013 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.

“Refunding Bonds” means any bonds issued by the Infrastructure Bank to refund the 2013 Bonds.

“Refunding Indenture” means any indenture entered into between the Infrastructure Bank and the Refunding Trustee, executed in connection with the issuance of the Refunding Bonds.

“Refunding Loan Agreement” means any loan agreement entered into between the Infrastructure Bank and the Corporation that is incurred as a Parity Obligation in accordance with the 2013 Loan Agreement and executed in connection with the issuance of the Refunding Bonds.

“Refunding Trustee” means U.S. Bank National Association, as trustee of the Refunding Bonds.

“Repayment Installment” means any amount that the Corporation is required to pay to the Trustee pursuant to the 2013 Loan Agreement as a repayment of the loan of the Bond proceeds made by the Infrastructure Bank under the 2013 Loan Agreement.

“Representation Letter” has the meaning specified in the 2013 Indenture.

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

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

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

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

“Serial Bonds” means 2013 Bonds for which no Sinking Fund Installments are established.

“Sinking Fund Installments” means, with respect to the 2013 Bonds, the amounts set forth in the 2013 Indenture, subject to the credits provided in such Section.

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

“State” means the State of California.

“Supplemental Indenture” means any indenture amendatory of the 2013 Indenture or supplemental to the 2013 Indenture duly authorized and entered into between the Infrastructure Bank and the Trustee in accordance with the provisions of the 2013 Indenture.

“Tariff” means the Corporation Tariff and Pro Forma Agreements as posted from time to time pursuant to an order of the Federal Energy Regulatory Commission. References to specific sections of the Tariff will mean the Tariff as posted on July 1, 2013.

“Tax Certificate” means the Tax Certificate and Agreement related to the 2013 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 2013 Bonds, that such interest is excluded from the gross income of the holders thereof for federal income tax purposes.

“Term Bonds” means 2013 Bonds which are payable on or before their specified maturity dates from Sinking Fund Installments.

“Trustee” means U.S. Bank National Association, 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 2013 Indenture.

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

“2009A Bonds” means the California Infrastructure and Economic Development Bank Revenue Bonds (California Independent System Operator Corporation Project) 2009 Series A.

“2013 Bonds” means the bonds authorized and issued pursuant to the 2013 Indenture and any bonds issued in exchange or replacement thereof in accordance with the 2013 Indenture.

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

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

“2009A Project” has the meaning set forth in the 2013 Loan Agreement.

“2013 Revenues” means (i) all receipts, installment payments and other income or payments derived by the Infrastructure Bank or the Trustee under the 2013 Loan Agreement and the Deed of Trust, (ii) all proceeds with respect to, arising from, or relating to the Property or the 2009A Project, to the extent and as set forth in the Deed of Trust; (iii) any income or revenue derived from the investment of any money in any fund or account established pursuant to the 2013 Indenture (other than the Rebate Fund and any account therein), including all Repayment Installments and (iv) any other payments made by the Corporation as contemplated by the 2013 Loan Agreement; provided, however, that such term will not include Additional Payments.

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

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

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

## CERTAIN PROVISIONS OF THE 2013 INDENTURE OF TRUST

### **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 2013 Indenture, all of the 2013 Revenues, and all amounts and securities in the funds and accounts established pursuant to the 2013 Indenture (other than the Rebate Fund), are irrevocably pledged to the punctual payment of the principal of and interest on the 2013 Bonds. Said pledge will constitute a first lien on the 2013 Revenues and such funds and accounts pledged therefor pursuant to the 2013 Indenture for the payment of the 2013 Bonds in accordance with the terms thereof; provided, however, that notwithstanding the foregoing provision, the Corporation may create, assume or suffer to exist Permitted Encumbrances. All 2013 Revenues and the other assets pledged under the 2013 Indenture will be held in trust for the benefit of the Owners from time to time of the 2013 Bonds but will nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the 2013 Indenture.

(b) Pursuant to the 2013 Indenture, the Infrastructure Bank transfers, assigns and sets over to the Trustee all of the 2013 Revenues and any and all rights and privileges, other than the Reserved Rights, it has under the 2013 Loan Agreement, including, without limitation, the right to collect and receive directly all of the 2013 Revenues and the right to hold and enforce any security interest; and any 2013 Revenues collected or received by the Infrastructure Bank will be deemed to be held, and to have been collected or received by the Infrastructure Bank as the agent of the Trustee and will forthwith be paid by the Infrastructure Bank to the Trustee. The Trustee also will be entitled to take all steps, actions and proceedings reasonably necessary in its judgment (i) to enforce the terms, covenants and conditions of, and preserve and protect the priority of its interest in and under, the 2013 Loan Agreement and any security agreement with respect to the 2013 Loan Agreement, the 2009A Project, the Property, or the 2013 Bonds, other than the Tax Certificate and (ii) to assure compliance with all covenants, agreements and conditions on the part of the Infrastructure Bank contained in the 2013 Indenture with respect to the 2013 Revenues.

As additional security for the benefit of the Owners from time to time of the 2013 Bonds, the Corporation has executed the Deed of Trust for the benefit of the Trustee as Trustee for the Owners, and the Trustee will take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of its rights (as Trustee for the Owners) and all of the obligations of the Corporation under the Deed of Trust.

Anything to the contrary notwithstanding, the Trustee shall not be required to enter, take possession of, or take any other action whatsoever with respect to the Property, and shall not be required to initiate foreclosure proceedings with respect to the Property and the Deed of Trust unless the Trustee is satisfied that the Trustee will not be subject to any liability under any local, state or federal environmental laws or regulations of any kind whatsoever or from any circumstances present at the Property relating to the presence, use, management, disposal of, or contamination by any environmentally hazardous materials or substances of any kind whatsoever.

**Bond Fund.** Upon the receipt thereof, the Trustee will deposit all 2013 Revenues in California Independent System Operator Corporation Series 2013 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 2013 Indenture, moneys in the Bond Fund will be used solely for the payment of the principal of and interest on the 2013 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 2013 Revenues, including any prepayment amounts received under the 2013 Loan Agreement from or for the account of the Corporation.

In making payments of principal of and interest on the 2013 Bonds, the Trustee will use any 2013 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 2013 Bonds then due and payable or to effect the defeasance of 2013 Bonds pursuant to the 2013 Indenture, so long as no Event of Default (or any event which would be an Event of Default under the 2013 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 2013 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.

**Investment of Moneys.** Subject to the 2013 Indenture, any moneys in any of the funds and accounts established pursuant to the 2013 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 2013 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. Investments in any of the funds or accounts established under the 2013 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 2013 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 2013 Indenture. Unless otherwise directed by the Corporation, the Trustee may make any investment permitted under the 2013 Indenture through or with its own commercial banking or investment departments.

**Amounts Remaining in Funds.** The 2013 Indenture provides that the Trustee, unless otherwise instructed by the Corporation, will transfer to the Corporation (free and clear of the pledge and lien of the 2013 Indenture) all amounts remaining in any fund held by the Trustee under the 2013 Indenture after payment in full of (a) the 2013 Bonds, or after provision for such payment will have been made as provided in the 2013 Indenture, (b) the fees, charges and expenses of the Trustee and

the Infrastructure Bank due and owing in accordance with the 2013 Loan Agreement and the 2013 Indenture and (c) all other amounts required to be paid under the 2013 Loan Agreement and the 2013 Indenture, including the Rebate Requirement.

### **Costs of Issuance Fund**

The Trustee will establish the Costs of Issuance Fund (the “Costs of Issuance Fund”). The moneys in the Costs of Issuance Fund will be held by the Trustee in trust and applied to the payment of Costs of Issuance, upon a requisition filed with the Trustee in the form attached to the Indenture as Exhibit C, signed by an Authorized Corporation Representative. Any amounts remaining in the Costs of Issuance Fund six months following the Issue Date of will be applied as provided in the 2013 Indenture.

### **Covenants of the Issuer**

**Payment of Principal and Interest.** The Infrastructure Bank will punctually pay, but only out of 2013 Revenues and the funds and accounts pledged therefor pursuant to the 2013 Indenture, the principal of and interest on every 2013 Bond issued under the 2013 Indenture at the times and places and in the manner provided in the 2013 Indenture and in the 2013 Bonds according to the true intent and meaning thereof. All such payments will be made by the Trustee as provided in the 2013 Indenture.

**Preservation of 2013 Revenues.** The Infrastructure Bank will not waive any provision of the 2013 Loan Agreement or take any action to interfere with or impair the pledge and assignment under the 2013 Indenture of 2013 Revenues and the assignment to the Trustee of rights under the 2013 Loan Agreement assigned to the Trustee under the 2013 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 2013 Indenture.

**Compliance with Indenture.** The Infrastructure Bank will not issue, or permit to be issued, any 2013 Bonds secured or payable in any manner out of 2013 Revenues or the other assets pledged under the 2013 Indenture in any manner other than in accordance with the provisions of the 2013 Indenture, and will not suffer or permit any default to occur under the 2013 Indenture, but will faithfully observe and perform all its obligations pursuant to the covenants, conditions and requirements thereof.

**Other Liens.** So long as any 2013 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 2013 Revenues or the funds and accounts pledged under the 2013 Indenture, other than the lien of the 2013 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 2013 Indenture and by the Deed of Trust and to perfect and maintain as perfected such rights, interests, powers, benefits, privileges and advantages.

**Deed of Trust Covenant.** Subject to the provisions of the 2013 Indenture, the Trustee will promptly collect all amounts due from the Corporation pursuant to the 2013 Loan Agreement and will exercise the rights given to it by the Deed of Trust and assigned to it pursuant to the 2013 Loan Agreement and further will enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the Infrastructure Bank, the Owners and all of the obligations of the Corporation.

## **Default**

### **Events of Default; Acceleration; Waiver of Default.**

(a) Each of the following events will constitute an “Event of Default” under the 2013 Indenture:

(i) Failure to make payment of any installment of interest upon any 2013 Bond when such payment will have become due and payable;

(ii) Failure to make due and punctual payment of the principal of any Outstanding 2013 Bond when such payment will have become due and payable, whether at the stated maturity thereof, or upon proceedings for the mandatory redemption thereof from Sinking Fund Installments or upon the maturity thereof by declaration;

(iii) The occurrence of an “Event of Default” under the 2013 Loan Agreement, as specified therein;

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

(v) Default by the Infrastructure Bank in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the 2013 Indenture or in the 2013 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 2013 Bonds at the time Outstanding;

No default specified in (v) 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 2013 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 2013 Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest will thereupon become and be immediately due and payable. Notwithstanding the foregoing, the Trustee will not be required to take any action upon the occurrence and continuation of

an Event of Default under paragraph (a)(iii), (a)(iv) or (a)(v) above until a Responsible Officer of the Trustee has actual knowledge of such Event of Default. After any declaration of acceleration of the 2013 Bonds under the 2013 Indenture the Trustee will immediately declare all indebtedness payable under the 2013 Loan Agreement with respect to the 2013 Bonds to be immediately due and payable in accordance with the 2013 Loan Agreement and may exercise and enforce such rights as exist under the 2013 Loan Agreement. As set forth in the 2013 Loan Agreement, during any period that the Operating Fund is held in the name and to the credit of the Trustee pursuant to any control agreement, the Corporation will be entitled to use or withdraw any amounts held by the Trustee on deposit therein for the payment of Operating Costs, or which otherwise do not constitute Net Operating Revenues (as such terms are defined in the 2013 Loan Agreement). The Trustee shall provide immediate access to funds through written authorization to the respective bank or transfer funds required by the Corporation held in Trustee's accounts that do not constitute Net Operating Revenues.

The preceding paragraph, however, is subject to the condition that if, at any time after the principal of the 2013 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 2013 Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the 2013 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 2013 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 2013 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 2013 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 2013 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 2013 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 2013 Indenture or the Deed of Trust, by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the 2013 Indenture, or in aid of the execution of any power in the 2013 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 2013 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 2013 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 2013 Indenture.

Second: In case none of the principal of the Outstanding 2013 Bonds will have become due and remains unpaid, to the payment of interest in default on the Outstanding 2013 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 2013 Indenture.

Third: In case the principal of any of the Outstanding 2013 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 2013 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 2013 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 2013 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 2013 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 2013 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 2013 Bonds, severally and respectively, will be restored to their former positions and rights under the 2013 Indenture; and all remedies, rights and powers of the Infrastructure Bank, the Trustee, and the Owners of the 2013 Bonds will continue as though no such proceedings had been taken.

**Remedies Cumulative.** No remedy conferred in the 2013 Indenture upon or reserved to the Trustee or to any Owner of the 2013 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 2013 Indenture or now or thereafter existing at law or in equity.

**Power of Trustee to Control Proceedings.** In the event that the Trustee, upon the happening of an Event of Default, will have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the 2013 Indenture, whether upon its own discretion or upon the request of Owners of the 2013 Bonds, it will have full power, in the exercise of its discretion for the best interests of the Owners of the 2013 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 2013 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 2013 Bonds Outstanding under the 2013 Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

All rights of action under the 2013 Indenture or under any of the 2013 Bonds secured by the 2013 Indenture which are enforceable by the Trustee may be enforced by it without the possession of any of the 2013 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 2013 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 2013 Indenture, unless (a) such Owner will have previously given to the Trustee written notice of the occurrence of an Event of Default under the 2013 Indenture, (b) the Owners of at least a majority in aggregate principal amount of all the 2013 Bonds then Outstanding will have made written request upon the Trustee to exercise the powers therein before 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 2013 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 2013 Indenture, except in the manner provided in the 2013 Indenture, and that all proceedings at law or in equity to enforce any provision of the 2013 Indenture will be instituted, had and maintained in the manner provided in the 2013 Indenture and for the equal benefit of all Owners of the Outstanding 2013 Bonds, subject to the provisions of the 2013 Indenture.

The right of any Owner to receive payment of the principal of and interest on such 2013 Bond out of 2013 Revenues, as provided in the 2013 Indenture and such Bond, on and after the respective due dates expressed in such 2013 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 2013 Indenture.

### **Modification of Indenture, Documents**

**Modification without Consent of Owners.** The Infrastructure Bank and the Trustee, without the consent of or notice to any Owners, from time to time and at any time, but subject to the conditions and restrictions contained in the 2013 Indenture, may enter into a Supplemental Indenture or Indentures, which Supplemental Indenture or Indentures thereafter will form a part of the 2013 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 2013 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 2013 Bonds, or to surrender any right or power in the 2013 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 2013 Indenture or any Document, or in regard to matters or questions arising under the 2013 Indenture or any Document, as the Infrastructure Bank may deem necessary or desirable;

(c) to modify, amend or supplement the 2013 Indenture in such manner as to permit the qualification of the 2013 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 2013 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 2013 Bonds;

(e) to modify or eliminate the book-entry registration system for any of the 2013 Bonds;

(f) to provide for the procedures required to permit any Owner to separate the right to receive interest on the 2013 Bonds from the right to receive principal thereof and to sell or dispose of such rights, as contemplated by Section 1286 of the Code;

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

(h) to comply with requirements of any Rating Agency in order to obtain or maintain a rating on any 2013 Bonds; or

(i) in connection with any other change which will not adversely affect the security for the 2013 Bonds or the Tax-Exempt status of interest thereon or otherwise materially adversely affect the interests of the Owners of the 2013 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 2013 Indenture, the Infrastructure Bank or the Trustee will cause notice of the proposed execution of the Supplemental Indenture or Amendment to be given by mail to the Corporation and each Rating Agency. A copy of the proposed Supplemental Indenture or Amendment will accompany such notice. Not less than one week after the date of the first mailing of such notice, the Infrastructure Bank and/or the Trustee may execute and deliver such Supplemental Indenture or Amendment, but only after there will have been delivered to the Trustee and the Infrastructure Bank an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment (i) is authorized or permitted by the 2013 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 2013 Bonds and (v) will not materially adversely affect the interests of the Owners of the 2013 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 2013 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 2013 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 2013 Bonds at the time Outstanding, evidenced as provided in the 2013 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 2013 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 2013 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 2013 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 2013 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 2013 Revenues and the other assets pledged as security for Bonds under the 2013 Indenture prior to or on a parity with the lien of the 2013 Indenture, except as permitted in the 2013 Indenture described above under this caption “Modification without Consent of Bondholders,” or permit the creation of any preference of any Owner over any other Owner, except as permitted in the 2013 Indenture, or deprive the Owners of the 2013 Bonds of the lien created by the 2013 Indenture upon the 2013 Revenues and the other assets pledged to the payment of the 2013 Bonds under the 2013 Indenture, without the consent of the Owners of all Bonds then Outstanding. Nothing in this paragraph will be construed as making necessary the approval of any Owner of any Supplemental Indenture or Amendment permitted by the provisions described above under the caption “Modification without Consent of Bondholders.”

Upon receipt by the Trustee of (A) a Certified Resolution authorizing the execution of any such Supplemental Indenture or Amendment, (B) an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is (aa) authorized or permitted by the 2013 Indenture, the Act and other applicable law, (bb) complies with the applicable terms of the 2013 Indenture, (cc) in the case of a Supplemental Indenture, will, upon the execution and delivery thereof, be a valid and binding agreement of the Infrastructure Bank, (dd) will not adversely affect the Tax-Exempt status of interest on the 2013 Bonds and (ee) will not materially adversely affect the interests of the Owners of the 2013 Bonds; and (C) evidence of the consent of, as required by the 2013 Indenture, the Owners, as aforesaid, the Trustee will join with the Infrastructure Bank in the execution of such Supplemental Indenture or will consent to such Amendment; provided, however, that (aa) the Trustee will not be obligated to enter into any such Supplemental Indenture which affects the Trustee’s own rights, duties or immunities under the 2013 Indenture or otherwise, in which case the Trustee may in its sole discretion, but will not be obligated to, enter into such Supplemental Indenture and (bb) the Trustee will not enter into such Supplemental Indenture or consent to any Amendment of any Document without first obtaining the Corporation’s written consent thereto.

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

Promptly after the execution by the parties thereto of any Supplemental Indenture or Amendment as provided in the 2013 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 2013 Loan Agreement pursuant to the provisions of the 2013 Indenture or the 2013 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 2013 Indenture and the 2013 Loan Agreement of the Infrastructure Bank, the Trustee, the Corporation and all Owners of Outstanding 2013 Bonds will thereafter be determined, exercised and enforced under the 2013 Indenture and under the 2013 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 2013 Indenture or the 2013 Loan Agreement, as the case may be, for any and all purposes.

**Required and Permitted Opinions of Counsel.** Subject to the provisions of the 2013 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 2013 Indenture complies with the applicable requirements of the 2013 Indenture, that the appropriate consents have been obtained and that such Supplemental Indenture or Amendment has been duly authorized by the Infrastructure Bank.

## **Defeasance**

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

(a) by the payment of the principal of and interest on all 2013 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 2013 Bonds as provided in the 2013 Indenture; or

(c) by the delivery to the Trustee, for cancellation by it, of all 2013 Bonds; and if all other sums payable the 2013 Indenture by the Corporation and the Infrastructure Bank will be paid and discharged, then thereupon the 2013 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 2013 Indenture have been complied with, forthwith execute proper instruments acknowledging the satisfaction and discharge of the 2013 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 2013 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 2013 Indenture.

The Infrastructure Bank and the Corporation will surrender to the Trustee for cancellation by it any 2013 Bonds previously authenticated and delivered which the Infrastructure Bank or the Corporation lawfully may have acquired in any manner whatsoever, and such 2013 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 2013 Indenture when payment of the principal of such 2013 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 2013 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 2013 Indenture and (ii) if such 2013 Bond or portion thereof is to be redeemed prior to the maturity thereof, notice of such redemption will have been given as in the 2013 Indenture provided or provision satisfactory to the Trustee will have been made for giving such notice.

(b) In the event of the provision of the payment of less than the full principal amount of a 2013 Bond in accordance with subsection (a) of this Section, the principal amount of the Bond as to which such payment is not provided for will be in an Authorized Denomination and, unless that portion of the Bond as to which payment is provided for in accordance with subsection (a) of this Section is to be paid or redeemed within sixty days of the deposit with the Trustee, such portion will also be in an Authorized Denomination.

(c) Upon the deposit with the Trustee, in trust, at or before maturity or the redemption date, as applicable, of money and/or nonprepayable, noncallable Government Obligations as provided in the 2013 Indenture to pay or redeem a 2013 Bond or a portion thereof and the satisfaction of the other conditions specified in subsection (a) of this Section, such 2013 Bond, or the applicable portion thereof, will be deemed to be paid under the 2013 Indenture, will no longer be secured by or entitled to the benefits of the 2013 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 2013 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 2013 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 2013 Indenture.

**Deposit of Money or Securities with Trustee.** Whenever in the 2013 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 2013 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 2013 Indenture and will be:

(a) An amount of money equal to the principal amount of such 2013 Bonds and all unpaid interest thereon to maturity, except that, in the case of 2013 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 2013 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 2013 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 2013 Bonds to be paid or redeemed, as such principal or redemption price and interest become due; provided that, in the case of 2013 Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as provided in the 2013 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 2013 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 2013 Bonds. The Trustee will not be responsible for verifying the sufficiency of money and Government Obligation deposited with the Trustee to provide for the payment of the principal of and interest on Bonds pursuant to this the 2013 Indenture but may conclusively rely for all purposes of the 2013 Indenture on an Accountant's Report as to such sufficiency.

## **CERTAIN PROVISIONS OF THE 2013 LOAN AGREEMENT**

### **Issuance of the 2013 Bonds; Application of Proceeds**

**Agreement to Issue Bonds; Application of Proceeds of the 2013 Bonds.** To provide funds to advance refund a portion of the 2009A Bonds, the Infrastructure Bank agrees that it will issue the 2013 Bonds pursuant to the 2013 Indenture and sell and deliver the 2013 Bonds (or cause the 2013 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 2013 Bonds as provided in the 2013 Indenture.

**Investment of Moneys in Funds.** Subject to the provisions of the 2013 Loan Agreement, any moneys in any fund held by the Trustee will, to the extent permitted under the 2013 Indenture, at the written request of an Authorized Corporation Representative, be invested or reinvested by the Trustee as provided in the 2013 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 2013 Indenture, be credited or charged to such fund.

**Disbursements of Proceeds of the 2013 Bonds.** The Corporation will authorize and direct the Trustee, upon compliance with the 2013 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 2013 Bonds. Each of the payments referred to in the 2013 Loan Agreement will be made upon receipt by the Trustee of

a written requisition in the form prescribed by the 2013 Indenture, signed by an Authorized Corporation Representative.

### **Loan to Corporation; Repayment Provisions**

**Loan to Corporation.** The Infrastructure Bank covenants and agrees, upon the terms and conditions in the 2013 Loan Agreement, to make a loan to the Corporation for the purpose of advance refunding a portion of the 2009A Bonds and the Costs of Issuance of the 2013 Bonds. Pursuant to said covenant and agreement, the Infrastructure Bank will issue the 2013 Bonds upon the terms and conditions contained in this Agreement and the 2013 Indenture. The Infrastructure Bank and the Corporation agree that the application of the proceeds of sale of the 2013 Bonds to advance refund a portion of the 2009A Bonds and Costs of Issuance of the 2013 Bonds, will be deemed to be and treated for all purposes as a loan to the Corporation of an amount equal to the aggregate principal amount of the 2013 Bonds.

#### **Repayment and Payment of Other Amounts Payable.**

(a) With respect to the 2013 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 2013 Indenture for the payment of principal of (whether at maturity or upon redemption or acceleration), premium, if any, and/or interest on the 2013 Bonds, until the principal of, premium, if any, and interest on the 2013 Bonds will have been fully paid or provision for the payment thereof will have been made in accordance with the 2013 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 2013 Bonds as provided in the 2013 Indenture.

Each payment made by the Corporation pursuant to the 2013 Loan Agreement will at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon redemption or acceleration) and premium, if any, then payable on the 2013 Bonds; provided that any amount held by the Trustee in the Bond Fund on any due date for a Repayment Installment under the 2013 Loan Agreement will be credited against the Repayment Installment due on such date, to the extent available for such purpose; and provided further that, subject to the provisions of this paragraph, if at any time the available amounts held by the Trustee in the Bond Fund are sufficient to pay all of the principal of and interest and premium, if any, on the Outstanding Bonds as such payments become due, the Corporation will be relieved of any obligation to make any further payments with respect to the 2013 Bonds under the provisions of this Section. Notwithstanding the foregoing, if on any date the amount held by the Trustee in the Bond Fund is insufficient to make any required payments of principal of (whether at maturity or upon redemption or acceleration) and interest and premium, if any, on the 2013 Bonds as such payments become due, the Corporation will forthwith pay such deficiency as a Repayment Installment under the 2013 Loan Agreement.

(b)

(i) The Corporation agrees that, so long as any of the 2013 Bonds remain Outstanding, all of the Operating Revenues will be deposited as soon as practicable upon receipt in a fund designated as the "Operating Fund" which the Corporation will establish and maintain, subject to the provisions of this section, in an account or accounts at such financial institution or institutions as the Corporation will from time to time designate in writing to the Trustee for such purpose.

(ii) The Corporation pledges, grants a first lien on, and grants a security interest in all of its right, title, and interest, whether now owned or hereafter acquired, in, to, and under, the Net Operating Revenues, the Operating Fund, each Account, all money, instruments, investment property, and other property on deposit in or credited to the Operating Fund or any Account, and the proceeds of the foregoing (collectively, the “Collateral”), to the Infrastructure Bank (for the benefit of the Owners from time to time of the Outstanding Bonds), to secure the payment of the principal of and interest on the 2013 Bonds and the performance by the Corporation of its other obligations under the 2013 Loan Agreement. The security interest in, pledge of, and lien on the Collateral made by the 2013 Loan Agreement will rank *pari passu* with any security interest in, pledge of, or lien on the Collateral or any part thereof securing Parity Obligations. Pursuant to the 2013 Loan Agreement, the Corporation will cause to be executed by each Depository Bank an account control agreement that perfects the security interest in the deposit accounts or securities accounts constituting the Operating Fund and will execute and deliver such other documents (including, but not limited to, other control agreements) as may be necessary or reasonably requested by the Infrastructure Bank or the Trustee, in order to perfect or maintain as perfected such security interest or give public notice thereof. The Corporation will be entitled to use or withdraw any amounts held in the Operating Fund for the payment of Operating Costs, or which otherwise do not constitute Net Operating Revenues.

(c) Without limiting the generality of the obligations of the Corporation under subsection (a) of this Section to ensure that the moneys available in the Bond Fund are sufficient to pay when due the principal of and interest on the Outstanding Bonds, but without duplication, the Corporation will make the deposits with the Trustee of the amounts described in (i), (ii) and (iii) below.

(i) Interest Deposits. The Corporation has agreed that it will deposit with the Trustee on or before each Interest Payment Date an amount equal to the amount of the interest payable on the 2013 Bonds on such Interest Payment Date less any amounts then on deposit in the Bond Fund available to pay the interest on the 2013 Bonds payable on such Interest Payment Date.

(ii) Principal Deposits. The Corporation has agreed that it will deposit with the Trustee on or before each Principal Installment Date an amount equal to the amount of the Principal Installment payable on the 2013 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.

(d) The Corporation also agrees to pay to the Trustee until the principal of, premium, if any, and interest on the 2013 Bonds will have been fully paid or provision for the payment thereof will have been made as required by the 2013 Indenture, (i) the annual fee of the Trustee for its ordinary services rendered as trustee, and its ordinary expenses incurred under the 2013 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 2013 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 2013 Bonds. The Corporation agrees that the provisions of this Section will survive the discharge of the 2013 Indenture and the retirement of the 2013 Bonds or the resignation or removal of the Trustee.

(e) The Corporation also agrees to pay to the Infrastructure Bank (i) its fees and reasonable expenses in connection with the loan to the Corporation under this Agreement, the Deed of Trust, the 2013 Bonds, the 2013 Indenture, the Tax Certificate or any other documents contemplated by the 2013 Loan Agreement or thereby, including without limitation reasonable expenses incurred by the Infrastructure Bank as a “taxpayer” before the Internal Revenue Service in any audit or investigation of the 2013 Bonds and reasonable expenses incurred by the Attorney General of the State or any bond counsel or 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 2013 Bonds, the 2013 Indenture, the Deed of Trust or any other documents contemplated hereby or thereby, including the Tax Certificate, in each case payable no later than thirty (30) days after request therefor, and (ii) an annual fee of \$500, payable on September 1 of each year or portion thereof in which Bonds are Outstanding, commencing September 1, 2013. 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 2013 Bonds. The Corporation agrees that the provisions described in this paragraph (e) shall survive the discharge of the 2013 Indenture and the retirement of the 2013 Bonds or the resignation or removal of the Trustee.

(f) The Corporation also agrees to pay any rebate or other amounts required to be paid pursuant to the Tax Certificate and to pay the cost of calculation of such rebate or other amounts payable in accordance with the terms of the Tax Certificate. The Corporation agrees that the provisions described in this (f) shall survive the discharge of the 2013 Indenture and the retirement of the 2013 Bonds.

(g) In the event the Corporation should fail to make any of the payments required by this Section, such payments will continue as obligations of the Corporation until such amounts will have been fully paid. The Corporation agrees to pay such amounts, together as to items required in subsections (a) through (e) with interest thereon until paid, to the extent permitted by law, at 10% per annum.

**Unconditional Obligation.** The obligations of the Corporation to make the payments required by 2013 Loan Agreement and to perform and observe the other agreements on its part contained in the 2013 Loan Agreement will be absolute and unconditional, irrespective of any defense or any rights of setoff, recoupment or counterclaim it might otherwise have against the Infrastructure Bank or any other Person, and during the period such payments are required to be paid pursuant to the 2013 Loan Agreement, the Corporation will pay absolutely the payments to be made on account of the loan as prescribed in the 2013 Loan Agreement and all other payments required under 2013 Loan Agreement, free of any deductions and without abatement, diminution or setoff. Until such time as the principal of, premium, if any, and interest on the 2013 Bonds will have been fully paid, or provision for the payment thereof will have been made as required by the 2013 Indenture, the Corporation (i) will not suspend or discontinue any payments provided for in 2013 Loan Agreement, (ii) will perform and observe all of its other covenants contained in the 2013 Loan Agreement and the Deed of Trust with respect to the 2013 Bonds and the Property and (iii) except as provided in 2013 Loan Agreement, will not terminate the 2013 Loan Agreement for any cause, including, without limitation, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to, or taking or condemnation of, all or any part of the 2009A Facilities or the Property, termination of any lease relating to the 2009A Facilities or the Property, commercial frustration of purpose, any change in the tax or other laws of the United States

of America or of the State or any political subdivision of either of these, or any failure of the Infrastructure Bank or the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with the 2013 Loan Agreement, the Deed of Trust or the 2013 Indenture. Notwithstanding the immediately prior sentence, the Corporation shall not suspend or discontinue any payments described in paragraph (f) in the preceding section at any time such payment are required pursuant to federal tax law.

**Assignment of Infrastructure Bank's Rights.** As security for the payment of the 2013 Bonds, the Infrastructure Bank will assign to the Trustee the Infrastructure Bank's rights, but not its obligations, under the 2013 Loan Agreement, including the right to receive payments thereunder except Reserved Rights; and the Infrastructure Bank thereby directs the Corporation to make the payments required by the 2013 Loan Agreement directly to the Trustee. The Corporation hereby assents to such assignment and agrees to make such payments directly to the Trustee without defense or setoff by reason of any dispute between the Corporation and the Infrastructure Bank or the Trustee.

**Amounts Remaining in Funds.** It is agreed by the parties to 2013 Loan Agreement that any amounts remaining in any fund held by the Trustee under the 2013 Indenture after payment in full of (i) the 2013 Bonds, or after provision for such payment will have been made as provided in the 2013 Indenture, (ii) the fees, charges and expenses of the Trustee, due and owing in accordance with the 2013 Loan Agreement, the Deed of Trust and the 2013 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 2013 Loan Agreement, the Deed of Trust, the Tax Certificate and the 2013 Indenture, will be applied as provided in the 2013 Loan Agreement of the 2013 Indenture.

## **Special Covenants and Agreements**

**Right of Access to the Property.** The Corporation agrees that during the term of the 2013 Loan Agreement, and, to the extent within its control, for so long as the Corporation owns or operates the Property, the Infrastructure Bank and the Trustee, the duly authorized agents of any of them, and, at the request of the Infrastructure Bank, agents of the Internal Revenue Service will have the right (but not the duty) at all reasonable times during normal business hours to enter upon the sites of the 2009A Project or 2009A Facilities to examine and inspect the 2009A Project or 2009A Facilities; provided, however, that this right is subject to federal and State laws and regulations applicable to the sites of the 2009A Project or 2009A Facilities; and provided further that the Corporation reserves the right to restrict access to the 2009A Project or 2009A Facilities in accordance with reasonably adopted procedures relating to safety and security. The rights of access hereby reserved to the Infrastructure Bank and the Trustee and their respective authorized agents may be exercised only after the party seeking such access will have given reasonable advance notice and executed release of liability (which release will not limit any of the Corporation's obligations thereunder) and confidentiality agreements (relating to proprietary information of the Corporation) if requested by the Corporation in the form then currently used by the Corporation. Nothing contained in this Section or in any other provision of the 2013 Loan Agreement will be construed to entitle the Infrastructure Bank or the Trustee or any agent of any of such parties to any information or inspection involving the confidential know-how of the Corporation or any computer software.

### **Corporation's Maintenance of Its Existence; Assignments.**

(a) The Corporation agrees that during the term of the 2013 Loan Agreement and so long as any Bond is Outstanding, it will maintain its corporate existence as an organization described in Section 501(c)(3) of the Code, will not dissolve or otherwise dispose of all or substantially all of its assets, and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; provided, that the Corporation may, without violating the agreements contained in 2013 Loan Agreement, consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets as an entirety and thereafter dissolve; provided, that in the event the Corporation is not the surviving, resulting or transferee corporation, as the case may be, that the surviving, resulting or transferee corporation (i) is a corporation organized under the laws of the United States or any state, district or territory thereof, (ii) is qualified to do business in the State and is an organization described in Section 501(c)(3) of the Code and (iii) assumes in writing all of the obligations of the Corporation under the 2013 Loan Agreement and all other documents relating to the 2013 Bonds to which the Corporation is a party.

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 2013 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 2013 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 2013 Loan Agreement will not be adversely affected by such sale or other transfer, (C) evidence from each of the Rating Agencies then rating the 2013 Bonds that such merger will not result in a withdrawal or downgrading of their respective ratings on the 2013 Bonds, (D) the Deed of Trust is a valid and binding obligation of the surviving, resulting or transferee Person, which Person will duly assume in writing all of the obligations of the Corporation under the Deed of Trust and (E) the surviving, resulting or transferee Person after such transaction is not in default under any provision of the Deed of Trust.

Notwithstanding any other provision of the 2013 Loan Agreement, the Corporation need not comply with any of the provisions described in (a) above, provision for the payment of all Outstanding Bonds having been made as provided in the 2013 Indenture.

(b) The rights and obligations of the Corporation under the 2013 Loan Agreement may be assigned by the Corporation, in whole or in part; provided, however, that any assignment other than pursuant to 2013 Loan Agreement will be subject to each of the following conditions:

(i) No such assignment will relieve the Corporation from primary liability for any of its obligations under the 2013 Loan Agreement, and the Corporation will continue to remain primarily liable for the payments specified in the 2013 Loan Agreement, and for performance and observance of the other agreements on its part provided in the 2013 Loan Agreement to be performed and observed by it.

(ii) Any such assignment from the Corporation will retain for the Corporation such rights and interests as will permit it to perform its obligations under the 2013 Loan Agreement, and any assignee from the Corporation will assume the obligations of the Corporation under the 2013 Loan Agreement to the extent of the interest assigned.

(iii) The Corporation will, within thirty (30) days after delivery thereof, furnish or cause to be furnished to the Infrastructure Bank and the Trustee a true and complete copy of every such assignment together with an instrument of assumption.

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

**Maintenance and Repair; Taxes; Utility and Other Charges; Insurance.**

(a) For the term of this Agreement, the Corporation will use commercially reasonable efforts to cause the 2009A Facilities to be maintained in good condition and repair, ordinary wear and tear excepted, will maintain, operate and use the 2009A Facilities and the Property, during the useful life thereof and will not alienate, sell, convey or transfer the 2009A Facilities except (i) with respect to the Property, in compliance with the relevant provisions of the Deed of Trust and (ii) if the Corporation provides to the Trustee and the Infrastructure Bank an Opinion of Bond Counsel to the effect that such alienation, sale, conveyance or transfer will not adversely affect the tax exempt status of interest on the 2013 Bonds.

(b) The Corporation will operate the 2009A Headquarters Facilities as the headquarters for its grid management operations, maintain the 2009A Headquarters Facilities and the Property in good repair, working order and condition to achieve this function and otherwise to meet the covenants and obligations contained in the 2013 Loan Agreement and honor all valid restrictions on the uses to which the 2009A Headquarters Facilities and the Property may be subject so long as any Bonds are Outstanding.

(c) The Corporation agrees that between the Infrastructure Bank and the Corporation, the Corporation will pay or cause to be paid during the term of the 2013 Loan Agreement all taxes, governmental charges of any kind lawfully assessed or levied upon the 2009A Project or the 2009A Facilities or any part thereof, including any taxes levied against the 2009A Project or the 2009A Facilities, all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the 2009A Facilities and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the 2009A Facilities, provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Corporation, to the extent described above, will be obligated to pay only such installments as are required to be paid during the term of the 2013 Loan Agreement. The Corporation may, at the Corporation's expense and in the Corporation's name, in good faith, contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during that period of such contest and any appeal therefrom unless by such nonpayment the 2009A Facilities or any part thereof will be subject to loss or forfeiture.

(d) The Corporation covenants and agrees that it will not create, assume or suffer to exist any lien upon the Property or the 2009A Facilities, except for Permitted Encumbrances.

**Qualification in California.** The Corporation agrees that throughout the term of the 2013 Loan Agreement it, or any successor or assignee as permitted by the 2013 Loan Agreement, will be qualified to do business in the State.

**Rate Covenant.** The Corporation agrees that, so long as any Bonds remain Outstanding, for each year it will establish a Grid Management Charge in accordance with the Grid Management Charge Formula which will include in its budgeted revenue requirements a Debt Service Coverage Requirement with respect to budgeted debt service on the 2013 Bonds and any Parity Obligations of not less than 25% and will not take any action to modify the Grid Management Charge Formula in any manner which would adversely affect the security afforded the Owners under the 2013 Loan Agreement including, without limitation, ceasing to maintain the Operating Cost Reserve Requirement at 15% of its annual Operating Costs for purposes of the Grid Management Charge Formula. The Debt Service Coverage Requirement may be satisfied through the use of any funds of the Corporation legally available for the payment of debt service on the 2013 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 2013 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 Debt Service Coverage Requirement with respect to budgeted debt service on the 2013 Bonds, the outstanding Parity Obligations and the Parity Obligations to be created, incurred or issued, of not less than 25%.

**Insurance.**

(a) So long as any Bonds remain Outstanding, the Corporation will maintain or cause to be maintained with respect to the 2009A Project, the 2009A Facilities and the Property, with insurance companies or by means of self-insurance, insurance of such type, against such risks and in such amounts as are customarily carried in relation to activities and facilities located in the State of a nature similar to the 2009A Project, the 2009A Facilities or the Property, as applicable, which insurance will include property damage, fire and extended coverage, public liability and property damage liability insurance.

(b) The Corporation will at all times also maintain worker's compensation coverage as required by the laws of the State.

**Investments.** The Corporation, by written request, may direct the investment by the Trustee of moneys in the funds and accounts established pursuant to the 2013 Indenture, subject to the limitations set forth in the 2013 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 2013 Bonds, or any other funds in any way pledged to the security of or reasonably expected to be used to pay the 2013 Bonds, which would cause any of the 2013 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 2013 Loan Agreement.

## **Damage, Destruction and Condemnation; Continuation of Payment**

**Obligation to Continue Payments.** So long as any Bonds are Outstanding, if (a) the 2009A Facilities or the Property or any portion thereof is destroyed (in whole or in part) or are damaged by fire or other casualty, or (b) the temporary use of the 2009A Facilities or the Property or any portion thereof will be taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority, the Corporation will nevertheless be obligated to continue to pay the amounts specified in the 2013 Loan Agreement, to the extent not prepaid in accordance with the 2013 Loan Agreement.

**Damage to or Condemnation of the 2009A Facilities or the Property.** In the event any portion of the 2009A Facilities or the Property is (a) taken from the Corporation by eminent domain, or (b) damaged or destroyed, the Corporation will transfer to the Trustee, and the Trustee will apply, the Net Proceeds of any condemnation award, or insurance received as a result of such taking or casualty, to the prepayment of Repayment Installments and to the redemption of Bonds as provided in of the 2013 Indenture; provided, that the Corporation need not transfer to the Trustee, and the Trustee need not apply, the amount of any such proceeds if the Corporation delivers a Written Certificate to the Trustee to the effect that (i) the Net Proceeds of such insurance or condemnation award, together with other moneys on hand and available to the Corporation for such purpose are sufficient to repair or replace the damaged, destroyed or condemned portion of the 2009A Facilities or the Property, (ii) the Corporation will apply such moneys promptly to the replacement or repair of such portion of the 2009A Facilities or the Property and (iii) during the period prior to completion of such repair or replacement, the Corporation's ability to comply with its Repayment Installment obligations under the 2013 Loan Agreement will not be materially adversely affected.

## **Events of Default and Remedies**

**Events of Default.** Any one of the following which occurs will constitute an Event of Default pursuant to the 2013 Loan Agreement:

(a) failure by the Corporation to pay or cause to be paid any amounts required to be paid under the 2013 Loan Agreement when due or to make the deposits required to be made under the 2013 Loan Agreement within three days of the day when such payment was due;

(b) failure of the Corporation to observe and perform any covenant, condition or agreement on its part required to be observed or performed under the 2013 Loan Agreement, other than making the payments referred to in (a) above, which continues for a period of thirty (30) days after written notice from the Trustee or the Infrastructure Bank, which notice will specify such failure and request that it be remedied, unless the Infrastructure Bank and the Trustee will agree in writing to an extension of such time period; provided, however, that if the failure stated in the notice cannot be corrected within such period, the Infrastructure Bank and the Trustee will not unreasonably withhold their consent to an extension of such time period if corrective action is instituted within such period and diligently pursued until the default is corrected;

(c) the Corporation's application for or consent to the appointment of a receiver, trustee, liquidator or custodian of the Corporation, or of all or a substantial part of its property, or the commencement by the Corporation of a voluntary case or other proceeding seeking liquidation, reorganization or other such relief under any bankruptcy, insolvency or other similar law; now or

thereafter in effect, or the Corporation's consent to any such relief or to the taking of possession of its property by another party in any such involuntary case or other proceeding commenced against it; or

- (d) the occurrence of an Event of Default under the 2013 Indenture.

The provisions of subsection (b) of the preceding paragraph are subject to the limitation that the Corporation will not be deemed in default if and so long as the Corporation is unable to carry out its agreements under the 2013 Loan Agreement, other than its agreements to make payments, by reason of strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Corporation; it being agreed that the settlement of strikes, lockouts and other industrial disturbances will be entirely within the discretion of the Corporation, and the Corporation will not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Corporation, unfavorable to the Corporation. This limitation will not apply to any default under subsections (a), (c) or (d) of this Section, or any agreement to make payments.

**Remedies on Default.** Whenever any Event of Default will have occurred and will continue:

- (a) The Trustee, by notice in writing delivered to the Corporation (with copies of such notice being sent to the Infrastructure Bank) may declare the unpaid balance of the loan payable under of the 2013 Loan Agreement in an amount equal to the Outstanding principal amount of the 2013 Bonds, together with the interest accrued thereon, to be immediately due and payable, but may do so only if the 2013 Bonds have been accelerated as provided in the 2013 Indenture.

- (b) To the extent not already provided for in the Loan Agreement, 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 2013 Loan Agreement and thereafter to become due under the 2013 Loan Agreement or the enforcement of the performance and observance of any obligation, agreement or covenant of the Corporation under the 2013 Loan Agreement and the Deed of Trust, including but not limited to instituting and prosecuting to judgment or final decree and enforcing any such judgment or decree against the Corporation and collect in the manner provided by law moneys decreed to be payable.

- (d) The provisions of subsection (a) above, however, are subject to the condition that if, at any time after the loan will have been so declared due and payable, and before any judgment or decree for the payment of the moneys due will have been obtained or entered as thereafter provided, there will have been deposited with the Trustee a sum sufficient to pay all the principal of the 2013 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 2013

Loan Agreement, and the reasonable fees and expenses of the Trustee, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on such Bonds due and payable solely by reason of such declaration) will have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the 2013 Bonds then Outstanding, by written notice to the Infrastructure Bank and to the Trustee, on behalf of the Owners of all the 2013 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 2013 Loan Agreement and such proceedings will have been discontinued or abandoned for any reason or will have been determined adversely to the Trustee or the Infrastructure Bank, then, and in every such case, the Corporation, the Trustee and the Infrastructure Bank will be restored respectively to their several positions and rights under the 2013 Loan Agreement, and all rights, remedies and powers of the Corporation, the Trustee and the Infrastructure Bank will continue as though no such action had been taken (provided, however, that any settlement of such proceedings duly entered into by the Infrastructure Bank, the Trustee or the Corporation will not be disturbed by reason of this the 2013 Loan Agreement).

**No Remedy Exclusive.** No remedy conferred in the 2013 Loan Agreement upon or reserved to the Infrastructure Bank or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy will be cumulative and will be in addition to every other remedy given under the 2013 Loan Agreement and the Deed of Trust or now or thereafter existing at law or in equity or by statute.

**Amendments, Changes and Modifications.** Except as otherwise provided in the 2013 Loan Agreement or the 2013 Indenture, the 2013 Loan Agreement may not be effectively amended, changed, modified, altered or terminated except in accordance with the 2013 Indenture.

## **CERTAIN PROVISIONS OF THE DEED OF TRUST**

### **Grant in Trust**

**Grant.** For the purposes of and upon the terms and conditions specified in the Deed of Trust, the Corporation irrevocably grants, conveys and assigns to the Trustee, in trust for the benefit of the Infrastructure Bank, with power of sale and right of entry and possession, all of the Corporation's right, title and interest in that certain real property located in the City of Folsom, State of California, on which the Headquarters will be located (the "Subject Property"), together with all of the Corporation's right, title and interest, whether now owned or thereafter acquired, in or to the property and rights listed in paragraph (a) through (h) below; provided, however, that the foregoing grant excludes all Operating Revenues (as defined in the 2013 Loan Agreement).

(a) All buildings, structures, fixtures, additions, enlargements, extensions, modifications, repairs, replacements and improvements now or thereafter located on the Subject Property (hereinafter referred to as the "Improvements") including, but not limited to, the existing Improvements comprised of existing buildings and to-be constructed buildings; and to the extent

permitted by law, the name or names, if any, as may now or thereafter be used for each Improvement, and the goodwill associated therewith;

(b) All easements, rights-of-way, strips and gores of land, streets, ways, alleys, passages, sewer rights, water, water courses, water rights and powers, air rights and development rights, liberties, tenements, hereditaments and appurtenances of any nature whatsoever, in any way belonging, relating or pertaining to the Subject Property or the Improvements and the reversions, remainders, and all land lying in the bed of any street, road or avenue, opened or proposed, in front of or adjoining the Subject Property to the center line thereof and all the estates, rights, titles, interests, property, possession, claim and demand whatsoever, both in law and in equity, of the Corporation of, in and to the Subject Property and the Improvements and every part and parcel thereof, with the appurtenances thereto;

(c) All machinery, equipment, fixtures (including, but not limited to, all heating, air conditioning, plumbing, lighting, communications and elevator fixtures), inventory and articles of personal property and accessions thereof and renewals, replacements thereof and substitutions therefor, and other tangible property of every kind and nature whatsoever owned by the Corporation, or in which the Corporation has or will have an interest, now or thereafter located upon the Subject Property or the Improvements, or appurtenances thereto, or used in connection with the present or future operation and occupancy of the Subject Property or the Improvements; excluding, however, (i) any machinery or equipment currently or in the future encumbered by a purchase money security interest granted in connection with the financing of such machinery or equipment, and (ii) any machinery or equipment sold or otherwise transferred by the Corporation in the normal course of business, and which is not necessary for the continuing performance by the Corporation of its grid management operations;

(d) All awards of payments, including interest thereon, which may theretofore and thereafter be made with respect to the Subject Property to the extent actually received by the Corporation, whether from the exercise of the right of eminent domain (including, but not limited to, any transfer of the Subject Property or part thereof made in lieu of or in anticipation of the exercise of said right), or for any other injury to or decrease in the value of the Subject Property;

(e) All leases and other agreements affecting the use, enjoyment or occupancy of the Subject Property now or thereafter entered into (the "Leases") and all oil and gas or other mineral royalties, bonuses and rents, revenues, security deposits, issues and profits from the Subject Property (the "Rents") and all proceeds from the sale or other disposition of the Leases and the right to receive and apply the Rents to the payment of the obligations secured by thereby;

(f) All proceeds of and any unearned premiums on any insurance policies covering the Subject Property including, without limitation, the right to receive and apply the proceeds of any insurance, judgments (including with respect to a casualty thereto or condemnation thereof), or settlements made in lieu thereof; for damage to the Subject Property;

(g) The right, in the name and on behalf of the Corporation, to appear in and defend any action or proceeding brought with respect to the Subject Property and to commence any action or proceeding to protect the interest of the Trustee in the Subject Property; and

(h) All right, title and interest of every nature of the Corporation in all receivables and other accounts of the Corporation relating to the Subject Property and in all monies

deposited or to be deposited in any funds or account maintained or deposited with the Trustee, or its assigns, in connection therewith.

All of the foregoing is collectively referred thereto as the "Subject Property."

**Substitution of Property.** Pursuant to the Deed of Trust, the Corporation has the right from time to time to request that any part of the Subject Property be released from, and reconveyed to, the Corporation free and clear of the lien of the Deed of Trust, whether or not upon the sale, refinancing or other disposition of such part of the Subject Property, subject to the following conditions:

(a) No Event of Default has occurred and be continuing under the 2013 Loan Agreement, the 2013 Indenture or the Deed of Trust;

(b) The Corporation will either:

(i) substitute other real property (the "Substitute Mortgaged Property")

provided that:

(1) the Substitute Mortgaged Property will be used as the main headquarters facility of the Corporation;

(2) the fair market value of the Substitute Mortgaged Property, as set forth in an appraisal performed by an MM-designated appraiser, dated not earlier than one month before the date of the proposed release of the Subject Property, together with the fair market value of any Subject Property subject to the lien of the Deed of Trust after giving effect to such release and reconveyance ("Remaining Mortgaged Property"), would equal the lesser of (x) 100% of the fair market value of the Subject Property prior to giving effect to such release and (y) the outstanding principal balance of the 2013 Loan Agreement;

(3) the Substitute Mortgaged Property will constitute real property of one or more legal parcels in compliance with California Subdivision Map Act, with permanent legal access to public streets and with adequate parking required under local ordinances as a condition to such substitution;

(4) the Substitute Mortgaged Property will be subject to the lien of the Deed of Trust, and subject to no other lien, charge or encumbrance except Permitted Encumbrances, as that term is defined in the 2013 Loan Agreement, and title to the Substitute Mortgaged Property and the Remaining Mortgaged Property will be insured by an ALTA policy of title insurance (together with CLTA Endorsement 116.7 and with no surety required) in the amount of the sum of the outstanding principal balance of the 2013 Loan Agreement, and naming the Trustee as insured; and

(5) the completion, to the satisfaction of the Trustee, of such environmental reviews as may be reasonably requested by the Trustee in writing with respect to the Substitute Mortgaged Property; or

(ii) pay the net proceeds of the sale or other disposition of the Subject Property to the Trustee:

(1) for deposit in the Bond Fund in accordance with the 2013 Indenture to the extent necessary to discharge all obligations of the Corporation under the 2013 Loan Agreement; or

(2) for deposit in an escrow account and release to a seller of the Substitute Mortgaged Property upon compliance with the requirements set forth in the Deed of Trust.

(c) The Corporation will pay (i) all costs of drafting, executing, recording and filing and (ii) all other expenses and taxes (if any) applicable to or arising from any such release or exchange.

### **Obligations Secured**

**Obligations Secured.** The Deed of Trust provides that the Corporation made the grant and assignment for the purpose of securing the following obligations (“Secured Obligations”):

(a) Payment to the Trustee of all sums at any time owing under the 2013 Loan Agreement and the performance of all covenants and obligations of the Corporation under the 2013 Loan Agreement; and

(b) Payment to Refunding Trustee, as trustee under any Refunding Indenture, of all sums at any time owing under the Refunding Loan Agreement and the performance of all covenants and obligations of Corporation under such Refunding Loan Agreement; and

(c) Payment and performance of all covenants and obligations of the Corporation under the Deed of Trust; and

(d) All modifications, extensions and renewals of any of the obligations secured by the Deed of Trust, however evidenced, including, without limitation (i) modifications of the required principal payment dates or interest payment dates or both, as the case may be, deferring or accelerating payment dates wholly or partly or (ii) modifications of the required debt service payments.

### **Assignment of Leases and Rents**

**Covenants.** Pursuant to the Deed of Trust, the Corporation covenanted and agreed at the Corporation’s sole cost and expense to (a) perform the obligations of lessor contained in the Leases, if any, and enforce by all available remedies performance by the lessees of the obligations of the lessees contained in any Leases, (b) give the Trustee prompt written notice of any default which occurs with respect to any of the Leases, whether the default be that of the lessee or of the lessor, (c) deliver to the Trustee fully executed, counterpart original(s) of each and every Lease if requested to do so and (d) execute and record such additional assignments of any Lease or specific subordinations of any Lease to the Deed of Trust, in form and substance acceptable to the Trustee, as the Trustee may request. The Corporation will not, without the Trustee’s prior written consent or as otherwise permitted by any provision of the 2013 Loan Agreement (i) enter into any Leases after the date of such assignment, (ii) execute any other assignment relating to any of the Leases, (iii) discount any rent or other sums due under the Leases or collect the same in advance, other than to collect rent one (1) month in advance of the time when it becomes due, (iv) terminate, modify or amend any of the terms of the Leases or in any manner release or discharge the lessees from any obligations

thereunder, (v) consent to any assignment or subletting by any lessee or (vi) subordinate or agree to subordinate any of the Leases to any other deed of trust or encumbrance. Any such attempted action in violation of the provisions of the Deed of Trust will be null and void. Without in any way limiting the requirement of the Trustee's consent thereunder, any sums received by the Corporation in consideration of any termination (or the release or discharge of any lessee), modification or amendment of any Lease will be applied to reduce the outstanding Secured Obligations and any such sums received by the Corporation will be held in trust by the Corporation for such purpose.

**Security Interest.** Pursuant to the Deed of Trust, the Corporation thereby grants and assigns to the Trustee a security interest, in all specified personal property in which the Corporation now or at any time thereafter has any interest (collectively, the "Collateral") subject to Permitted Encumbrances and excluding, however, (i) any machinery or equipment currently or in the future encumbered by a purchase money security interest granted in connection with the financing of such machinery or equipment, (ii) any machinery or equipment sold or otherwise transferred by the Corporation in the normal course of business, and which is not necessary for the continuing performance by the Corporation of its grid management operations; and (iii) Operating Revenues (as defined in the 2013 Loan Agreement).

**Rights of Trustee.** The Deed of Trust provides that in addition to the Trustee's rights as a "Secured Party" under the California Uniform Commercial Code, as amended or recodified from time to time ("UCC"), the Trustee may, but will not be obligated to, at any time without notice and at the expense of the Corporation (a) give notice to any person of the Trustee's rights thereunder and enforce such rights at law or in equity, (b) insure, protect, defend and preserve the Collateral or any rights or interests of the Trustee therein, (c) inspect the Collateral and (d) endorse, collect and receive any right to payment of money owing to the Corporation under or from the Collateral. Notwithstanding the above, in no event will the Trustee be deemed to have accepted any property other than cash in satisfaction of any obligation of the Corporation to the Trustee unless the Trustee will make an express written election of said remedy under UCC Section 9505, or other applicable law.

### **Rights and Duties of the Parties**

**Liens, Encumbrances and Charges.** The Deed of Trust provides that the Corporation will promptly discharge any lien not approved by the Trustee in writing that has or may attain priority over the Deed of Trust. The Corporation will pay when due all obligations secured by or reducible to liens and encumbrances which will now or thereafter encumber or appear to encumber all or any part of the Subject Property or any interest therein, whether senior or subordinate thereto.

**Maintenance and Preservation of the Subject Property.** Subject to provisions of the Deed of Trust, the Corporation covenanted (a) to insure the Subject Property against such risks as the Trustee may reasonably require and, at the Trustee's request, to provide evidence of such insurance to the Trustee, and to comply with the requirements of any insurance companies insuring the Subject Property (b) to keep the Subject Property in good condition and repair (c) not to remove or demolish the Subject Property or any part thereof, not to alter, restore or add to the Subject Property and not to initiate or acquiesce in any change in any zoning or other land classification which affects the Subject Property without the Trustee's prior written consent (d) to complete or restore promptly and in good and workmanlike manner the Subject Property, or any part thereof which may be damaged or destroyed, without regard to whether the Trustee elects to require that insurance proceeds be used to reduce the Secured Obligations as provided in the Deed of Trust, (e) to comply with all laws,

ordinances, regulations and standards, and all covenants, conditions, restrictions and equitable servitudes, whether public or private, of every kind and character which affect the Subject Property and pertain to acts committed or conditions existing thereon, including, without limitation, any work, alteration, improvement or demolition mandated by such laws, covenants or requirements, (f) not to commit or permit waste of the Subject Property and (g) to do all other acts which from the character or use of the Subject Property may be reasonably necessary to maintain and preserve its value.

### **Default Provisions**

**Default.** Pursuant to the Deed of Trust, the term “Default” means (a) the occurrence of an “event of default” as defined in the 2013 Loan Agreement, (b) the Corporation’s failure to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Deed of Trust for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied is given to the Corporation by the Trustee or (c) any of the representations and warranties of the Corporation therein was false or incorrect in any material respect when made.

**Rights and Remedies.** The Deed of Trust sets forth the rights and remedies of the Trustee following an Event of Default, which include the following: at any time after Default, the Trustee and the Trustee will each have all the following rights and remedies (subject to the provisions of Article VII of the 2013 Indenture):

- (a) With or without notice, to declare all Secured Obligations immediately due and payable;
- (b) With or without notice, and without releasing the Corporation from any Secured Obligation, and without becoming a mortgagee in possession, to cure any breach or Default of the Corporation and, in connection therewith, to enter upon the Subject Property and do such acts and things as the Trustee deem necessary or desirable to protect the security thereof, including, without limitation (i) to appear in and defend any action or proceeding purporting to affect the security of the Deed of Trust or the rights or powers of the Trustee under the Deed of Trust, (ii) to pay, purchase, contest or compromise any encumbrance, charge, lien or claim of lien which, in the sole judgment of the Trustee, is or may be senior in priority to the Deed of Trust, the judgment of the Trustee being conclusive as between the parties thereto, (iii) to obtain insurance, (iv) to pay any premiums or charges with respect to insurance required to be carried under the Deed of Trust or (v) to employ counsel, accountants, contractors and other appropriate persons;
- (c) To commence and maintain an action or actions in any court of competent jurisdiction to foreclose such instrument as a mortgage or to obtain specific enforcement of the covenants of the Corporation thereunder, and the Corporation agreed that such covenants are specifically enforceable by injunction or any other appropriate equitable remedy and that for the purposes of any suit brought under the Deed of Trust, the Corporation waives the defense of laches and any applicable statute of limitations;
- (d) To apply to a court of competent jurisdiction for and obtain appointment of a receiver of the Subject Property as a matter of strict right and without regard to the adequacy of the security for the repayment of the Secured Obligations, the existence of a declaration that the Secured Obligations are immediately due and payable, or the filing of a notice of default, and the Corporation thereby consents to such appointment;

(e) To enter upon, possess, manage and operate the Subject Property or any part thereof, to take and possess all documents, books, records, papers and accounts of the Corporation or the then owner of the Subject Property, to make, terminate, enforce or modify Leases of the Subject Property upon such terms and conditions as the Trustee deems proper, to make repairs, alterations and improvements to the Subject Property as necessary, in the Trustee's sole judgment, to protect or enhance the security thereof;

(f) To execute a written notice of such Default and of its election to cause the Subject Property to be sold to satisfy the Secured Obligations. As a condition precedent to any such sale, the Trustee will give and record such notice as the law then requires. When the minimum period of time required by law after such notice has elapsed, the Trustee, without notice to or demand upon the Corporation except as required by law, will sell the Subject Property at the time and place of sale fixed by it in the notice of sale, at one or several sales, either as a whole or in separate parcels and in such manner and order, all as the Trustee in its sole discretion may determine, at public auction to the highest bidder for cash, in lawful money of the United States, payable at time of sale. Neither the Corporation nor any other person or entity other than the Trustee has the right to direct the order in which the Subject Property is sold. Subject to requirements and limits imposed by law, the Trustee may from time to time postpone sale of all or any portion of the Subject Property by public announcement at such time and place of sale. The Trustee will deliver to the purchaser at such sale a deed conveying the Subject Property or portion thereof so sold, but without any covenant or warranty, express or implied. The recitals in the deed of any matters or facts are conclusive proof of the truthfulness thereof. Any person, including the Trustee or the Corporation may purchase at the sale;

(g) To resort to and realize upon the security thereunder and any other security now or later held by the Trustee concurrently or successively and in one or several consolidated or independent judicial actions or lawfully taken non-judicial proceedings, or both, and to apply the proceeds received upon the Secured Obligations all in such order and manner as the Trustee determines in its sole discretion; and

(h) Upon sale of the Subject Property at any judicial or non judicial foreclosure, the Trustee may credit bid (as determined by the Trustee in its sole and absolute discretion) all or any portion of the Secured Obligations. In determining such credit bid, the Trustee may, but is not obligated to, take into account all or any of the following: (i) appraisals of the Subject Property as such appraisals may be discounted or adjusted by the Trustee in its sole and absolute underwriting discretion, (ii) expenses and costs incurred by the Trustee with respect to the Subject Property prior to foreclosure, (iii) expenses and costs which the Trustee anticipates will be incurred with respect to the Subject Property after foreclosure, but prior to resale, including, without limitation, costs of structural reports and other due diligence, costs to carry the Subject Property prior to resale, costs of resale (e.g., commissions, attorneys fees, and taxes), costs of any Hazardous Materials clean-up and monitoring, costs of deferred maintenance, repair, refurbishment and retrofit, costs of defending or settling litigation affecting the Subject Property, and lost opportunity costs (if any), including the time value of money during any anticipated holding period by the Trustee, (iv) declining trends in real property values generally and with respect to properties similar to the Subject Property, (v) anticipated discounts upon resale of the Subject Property as a distressed or foreclosed property, (vi) the fact of additional collateral (if any), for the Secured Obligations and (vii) such other factors or matters that the Trustee (in its sole and absolute discretion) deems appropriate. In regard to the above, the Corporation acknowledged and agreed that (aa) the Trustee is not required to use any or all of the foregoing factors to determine the amount of its credit bid, (bb) the Deed of Trust does not

impose upon the Trustee any additional obligations that are not imposed by law at the time the credit bid is made, (cc) the amount of the Trustee's credit bid need not have any relation to any loan-to-value ratios previously discussed between the Corporation and the Trustee and (z) the Trustee's credit bid may be (at the Trustee's sole and absolute discretion) higher or lower than any appraised value of the Subject Property.

**Application of Foreclosure Sale Proceeds.** The Deed of Trust provides that after deducting all costs, fees and expenses of the Trustee, and of the Deed of Trust, including, without limitation, cost of evidence of title and attorneys' fees in connection with sale and costs and expenses of sale and of any judicial proceeding wherein such sale may be made, the Trustee will apply all proceeds of any foreclosure sale (a) in accordance with the provisions of Section 7.03 of the Indenture and (b) the remainder, if any, to the person or persons legally entitled thereto.

**No Cure or Waiver.** Pursuant to the Deed of Trust, neither the Trustee's nor any receiver's entry upon and taking possession of all or any part of the Subject Property, nor any collection of rents, issues, profits, insurance proceeds, condemnation proceeds or damages, other security or proceeds of other security, or other sums, nor the application of any collected sum to any Secured Obligation, nor the exercise or failure to exercise of any other right or remedy by the Trustee or any receiver cures or waives any breach, Default or notice of default under the Deed of Trust, or nullify the effect of any notice of default or sale (unless all Secured Obligations then due have been paid and performed and the Corporation has cured all other defaults), or impair the status of the security, or prejudice the Trustee in the exercise of any right or remedy, or be construed as an affirmation by the Trustee of any tenancy, lease or option or a subordination of the lien of the Deed of Trust.

**Power to File Notices and Cure Defaults.** Pursuant to the Deed of Trust, the Corporation thereby irrevocably appointed the Trustee and its successors and assigns, as its attorney-in-fact, which agency is coupled with an interest (a) to execute and/or record any notices of completion, cessation of labor, or any other notices that the Trustee deems appropriate to protect the Trustee's interest (b) upon the issuance of a deed pursuant to the foreclosure of the Deed of Trust or the delivery of a deed in Lieu of foreclosure, to execute all instruments of assignment or further assurance with respect to the Leases and Payments in favor of the grantee of any such deed, as may be necessary or desirable for such purpose (c) to prepare, execute and file or record financing statements, continuation statements, applications for registration and like papers necessary to create, perfect or preserve the Trustee's security interests and rights in or to any of the Collateral and (d) upon the occurrence of an event, act or omission which, with notice or passage of time or both, would constitute a Default, the Trustee may perform any obligation of the Corporation thereunder; provided, however, that (i) the Trustee as such attorney-in-fact will only be accountable for such funds as are actually received by the Trustee and (ii) the Trustee is not be liable to the Corporation or any other person or entity for any failure to act under the Deed of Trust.

**Remedies Cumulative.** The Deed of Trust provides that all rights and remedies of the Trustee thereunder are cumulative and in addition to all rights and remedies provided by law.

### **Miscellaneous Provisions**

**Loan Agreement Controls.** The Deed of Trust provides that in the event of conflict between the terms of the Deed of Trust and the 2013 Loan Agreement, the terms of the 2013 Loan Agreement prevails, except that the provisions of the Deed of Trust controls with respect to rights and remedies of the Trustee thereunder.

## 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 2013 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2013 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2013 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 2013 Bonds. The 2013 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the 2013 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 a Standard & Poor’s rating of AA+. 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2013 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2013 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

2013 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 2013 Bonds, except in the event that use of the book-entry system for the 2013 Bonds is discontinued.

To facilitate subsequent transfers, all 2013 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 2013 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 2013 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2013 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 2013 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2013 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2013 Bond documents. For example, Beneficial Owners of 2013 Bonds may wish to ascertain that the nominee holding the 2013 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 2013 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 2013 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 2013 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 2013 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 2013 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, 2013 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, 2013 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

### PROPOSED FORM OF OPINION OF BOND COUNSEL

November 14, 2013

California Infrastructure and Economic  
Development Bank  
Sacramento, California

**Re: California Infrastructure and Economic Development Bank Refunding  
Revenue Bonds (California Independent System Operator Corporation  
Project) Series 2013 – Final Opinion**

Ladies and Gentlemen:

We have acted as Bond Counsel to the California Infrastructure and Economic Development Bank (the “Infrastructure Bank”) in connection with its issuance of \$191,820,000 aggregate principal amount of California Infrastructure and Economic Development Bank Refunding Revenue Bonds (California Independent System Operator Corporation Project) Series 2013 (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 November 1, 2013 (the “Indenture”), between the Infrastructure Bank and U.S. Bank National Association, 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 November 1, 2013 (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; 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 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, including electronic 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 referred to in the preceding sentence, 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 such documents.

We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Agreement and their enforceability may be subject to any applicable bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium, liquidation, readjustment of debt, marshaling, arrangement, receivership, equity of redemption and other laws relating to or affecting creditors' rights, the effect of general principles of equity and the availability of equitable remedies, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing, 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, choice of venue, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Indenture, the Agreement or the Deed of Trust or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. We express no opinion with respect to tax matters in connection with the Bonds. 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.

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. This opinion is limited to the specific opinions expressed herein, and no further opinion are intended to be, or should be, inferred therefrom.

Based upon the foregoing, and in reliance thereon, and subject to the assumptions, qualifications, limitations and exceptions set forth herein, 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 2013 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.
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. 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.

Sincerely yours,

Polsinelli LLP

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## APPENDIX F

### PROPOSED FORM OF OPINION OF SPECIAL TAX COUNSEL

November 14, 2013

California Infrastructure and Economic Development Bank  
1101 I Street, 19th Floor  
Sacramento, California 95814

California Infrastructure and Economic Development Bank  
Refunding Revenue Bonds  
(California Independent System Operator Corporation Project)  
Series 2013

Ladies and Gentlemen:

We have acted as special tax counsel to the California Independent System Operator Corporation, a California nonprofit public benefit corporation (the "Corporation"), in connection with issuance by the California Infrastructure and Economic Development Bank (the "Infrastructure Bank") of \$191,820,000 aggregate principal amount of California Infrastructure and Economic Development Bank Refunding Revenue Bonds (California Independent System Operator Corporation Project) Series 2013 (the "Bonds"), issued pursuant to an Indenture of Trust, dated as of November 1, 2013 (the "Indenture"), between the Infrastructure Bank and U.S. Bank National Association, 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 Corporation, pursuant to a Loan Agreement, dated as of November 1, 2013 (the "Agreement"), between the Infrastructure Bank and the Corporation. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Agreement, the Tax Certificate and Agreement, dated the date hereof (the "Tax Agreement"), between the Infrastructure Bank and the Corporation, the opinions of Polsinelli LLP, as bond counsel, dated the date hereof (the "Bond Counsel Opinions") 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, as amended (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 to the effect that use of those assets will not be in activities that are 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 the Corporation's status as an organization described in Section 501(c)(3) of the Code, or use of the Bond-financed assets in activities that are considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. 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, all parties. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Agreement and the Tax Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against instrumentalities and agencies of the State of California. 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.

With your consent, we have relied on the Bond Counsel Opinions with respect to the validity of the Bonds and with respect to the due authorization and issuance of the Bonds.

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

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

**APPENDIX G**

**PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT**

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## APPENDIX G

### PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated as of November 1, 2013 by and between California Independent System Operator Corporation (the “Borrower”) and U.S. Bank National Association, as Trustee (the “Trustee”) under an Indenture of Trust dated as of November 1, 2013 (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 \$191,820,000 principal amount Refunding Revenue Bonds (California Independent System Operator Corporation Project), Series 2013 (the “Bonds”). The proceeds of the Bonds are being loaned by the Issuer to the Borrower pursuant to a Loan Agreement dated as of November 1, 2013 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, 2013, by no later than 150 days after the end of the respective fiscal year, to (i) the Repository (electronic format, accompanied by such identifying information as is prescribed by the Repository), (ii) the Issuer, and (iii) the Trustee.

(b) The Borrower shall provide, in a timely manner, notice of any failure of the Borrower to provide the Annual Financial Information by the date specified in subsection (a) above, in each case to (i) the Repository (electronic format, accompanied by such identifying information as is prescribed by the Repository), (ii) the Issuer and (iii) the Trustee.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof, the Borrower shall provide Audited Financial Statements, when and if available, to (i) the Repository (electronic format, accompanied by such identifying information as is prescribed by the Repository), (ii) the Issuer, and (iii) the Trustee.

Section 1.4. Listed Event Notices. (a) If a Listed Event described in (i) through (ix) of paragraph (6) of Section 4.1 occurs, the Borrower shall provide, in a timely manner not later than ten business days of occurrence, notice of such Listed Event to (i) the Repository, (ii) the Issuer, and (iii) the Trustee.

(b) If a Listed Event described in (x) through (xvi) of paragraph (6) of Section 4.1 which the Borrower determines would be material under applicable federal securities laws occurs, the Borrower shall provide, in a timely manner not later than ten business days of occurrence, notice of such Listed Event to (i) the Repository, (ii) the Issuer, and (iii) the Trustee. Notwithstanding the foregoing, notice of the Listed Event described in (xii) of paragraph (6) of Section 4.1 need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

(c) 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.

(d) 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 Listed 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.

(e) Each Listed Event Notice relating to the Bonds shall include the CUSIP numbers of the Bonds to which such Listed Event Notice relates or, if the Listed Event Notice relates to all bond issues of the Issuer including the Bonds, such Listed 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 Listed 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 Listed Event hereunder.

## ARTICLE II

### Operating Rules

Section 2.1. Reference to Other Filed Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Borrower provides Annual Financial Information (but not Listed Event notices) by specific reference to documents (i) filed with the SEC, or (ii) if such document is a “final official statement” as defined in paragraph (f)(3) of the Rule, available from the MSRB.

Section 2.2. Transmission of Information and Notices. Unless otherwise required by law and, in the Borrower’s sole determination, subject to technical and economic feasibility, the Borrower shall employ such methods of information and notice transmission as shall be requested or recommended by the recipients of the Borrower’s information and notices; provided, that information transmitted to the Repository pursuant to Sections 1.2, 1.3 and 1.4 hereof shall be submitted in electronic format, accompanied by such identifying information as is prescribed by the Repository.

Section 2.3. Fiscal Year. (a) The Borrower’s current fiscal year is January 1 - December 31, and the Borrower shall promptly notify (i) the Repository, (ii) the Issuer, and (iii) the Trustee in writing of each change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

## ARTICLE III

### Effective Date, Termination, Amendment and Enforcement

Section 3.1. Effective Date, Termination. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The Borrower’s and the Trustee’s obligations under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Bonds.

(c) If the Borrower’s obligations under the Loan Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Agreement in the same manner as if it were the Borrower, and thereupon the original Borrower shall have no further responsibility hereunder.

(d) This Agreement, or any provision hereof, shall be null and void in the event that (1) the Borrower delivers to the Trustee an opinion of Counsel, addressed to the Borrower, the Issuer and the Trustee, to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) the Borrower delivers copies of such opinion to (i) the Repository, and (ii) the Issuer. The Borrower shall so deliver such opinion within one Business Day after delivery thereof to the Trustee.

Section 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Borrower or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Borrower shall have delivered to the Trustee an opinion of Counsel, addressed to the Borrower, the Issuer and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) the Borrower shall have delivered to the Trustee an opinion of Counsel or a determination by a person, in each case unaffiliated with the Issuer or the Borrower (such as bond counsel or the Trustee) and acceptable to the Borrower, addressed to the Borrower, the Issuer and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Indenture with consent of holders of Bonds pursuant to the Indenture as in effect at the time of the amendment, and (5) the Trustee shall have delivered copies of such opinion(s) and amendment to (i) the Repository, and (ii) the Issuer. The Trustee shall so deliver such opinion(s) and amendment within one Business Day after receipt by the Trustee.

(b) In addition to subsection (a) above, this Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the Borrower shall have delivered to the Trustee an opinion of Counsel, addressed to the Borrower, the Issuer and the Trustee, to the effect that performance by the Borrower and the Trustee under this Agreement as so amended will not result in a violation of the Rule and (3) the Borrower shall have delivered copies of such opinion and amendment to (i) the Repository and (iii) the Issuer. The Borrower shall so deliver such opinion and amendment within one Business Day after receipt by the Trustee.

(c) In addition to subsections (a) and (b) above, this Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) the Borrower shall have delivered to the Trustee an opinion of Counsel, addressed to the Borrower, the Issuer and the Trustee, to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of Staff, of the SEC, and (2) the Borrower shall have delivered copies of such opinion and amendment to (i) the Repository and (ii) the Issuer. The Borrower shall so deliver such opinion and amendment within one Business Day after delivery thereof to the Trustee.

(d) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the

reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(e) If an amendment is made pursuant to Section 3.2 (a) hereof to the accounting principles to be followed by the Borrower in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that Beneficial Owners of Bonds shall be third-party beneficiaries of this Agreement and shall be entitled to enforce the rights of the Trustee under this Agreement to the extent the Trustee shall fail or refuse or shall be unable to take any enforcement action hereunder. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and in subsection (b) of this Section.

(b) The obligations of the Borrower to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding Bonds, or by the Trustee on behalf of the holders of Outstanding Bonds, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the holders of Outstanding Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, who shall have provided the Trustee with adequate security and indemnity. The holders' and Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Borrower's obligations under this Agreement. In consideration of the third-party beneficiary status of Beneficial Owners of Bonds pursuant to subsection (a) of this Section, Beneficial Owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by the Borrower or the Trustee to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Indenture, and the rights and remedies provided by the Indenture upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

## ARTICLE IV

### Definitions

Section 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) “Annual Financial Information” means, collectively, (i) updated versions of the following financial information and operating data contained in Appendix A to the Official Statement, for each fiscal year of the Borrower, as follows:

(a) the financial information and operating data appearing under the caption “**The ISO Charges - Coverage of GMC by Total Market Settlement Collections**”;

(b) a description of ISO’s largest customers of the type appearing in the final paragraph under the caption “**Grid Management Charge - FERC Process for Revisions to GMC Rates**”;

(c) the financial information appearing in the table headed “**Financial Information - Condensed Statements of Net Position**”;

(d) the financial information appearing in the paragraph headed “**Financial Information - Long-term Obligations**”; and

(e) a description of the annual required contribution and actuarial accrued liability for post employment benefits of the type appearing in the final paragraph under the caption “**Financial Information - Pension Benefits and Other Post Employment Benefits**”.

and (ii) the information regarding amendments to this Agreement required pursuant to Sections 3.2(c) and (d) of this Agreement. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in Section 4.1(1)(i) hereof of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided. As and to the extent that the financial information and operating data described in Section 4.1(1)(i) hereof are included in the Borrower’s audited financial statements, they need not be separately reported.

(2) “Audited Financial Statements” means the annual financial statements, if any, of the Borrower, audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited Financial Statements shall be prepared in accordance with

GAAP; provided, however, that pursuant to Section 3.2(a) hereof, the Borrower may from time to time, if required by Federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(a) hereof shall include a reference to the specific Federal or State law or regulation describing such accounting principles, or other description thereof.

(3) “Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

(4) “Counsel” means Orrick, Herrington & Sutcliffe LLP or other nationally recognized bond counsel or counsel expert in federal securities laws.

(5) “GAAP” means generally accepted accounting principles as prescribed from time to time by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties or responsibilities of either of them.

(6) “Listed Event” means any of the following events with respect to the Bonds, whether relating to the Borrower or otherwise:

- (i) Principal and interest payment delinquencies;
- (ii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iii) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (iv) Substitution of credit or liquidity providers, or their failure to perform;
- (v) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (vi) Tender offers;
- (vii) Defeasances;
- (viii) Rating changes; or
- (ix) Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over

substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

- (x) Unless described in paragraph 6(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- (xi) Modifications to rights of Bond holders;
- (xii) Optional, unscheduled or contingent Bond calls;
- (xiii) Release, substitution, or sale of property securing repayment of the Bonds;
- (xiv) Non-payment related defaults;
- (xv) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
- (xvi) Appointment of a successor or additional trustee or the change of name of a trustee.

(7) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

(8) “Official Statement” means the Official Statement dated October 10, 2013 of the Issuer relating to the Bonds.

(9) “Repository” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule.

(10) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(11) “SEC” means the United States Securities and Exchange Commission.

(12) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

(13) “Underwriters” means RBC Capital Markets, LLC, as Representative, and Citigroup Global Markets Inc. as underwriters of the Bonds.

## ARTICLE V

### Miscellaneous

Section 5.1. Duties, Immunities and Liabilities of Trustee. The Trustee shall have only such duties under this Agreement as are specifically set forth in this Agreement, and the Borrower agrees to indemnify and save the Trustee, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Trustee’s negligence or willful misconduct in the performance of its duties hereunder. Such indemnity shall be separate from and in addition to that provided to the Trustee under the Indenture. The obligations of the Borrower under this Section shall survive resignation or removal of the Trustee and payment of the Bonds.

Section 5.2. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives, all as of the date first above written.

CALIFORNIA INDEPENDENT  
SYSTEM OPERATOR CORPORATION

By: \_\_\_\_\_  
An Authorized Representative

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_  
An Authorized Representative

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# California ISO

Shaping a Renewed Future



# **EXHIBIT G**

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**California Independent System Operator  
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Taxable Advance Refunding of 2013 Series A  
Refund All Outstanding Bonds  
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**SOURCES AND USES OF FUNDS**

**California Independent System Operator**  
**Taxable Refunding**  
**2021 Series A Refunding Bonds**  
**Taxable Advance Refunding of 2013 Series A**  
**Refund All Outstanding Bonds**  
**Not-to-Exceed Scenario - 5% Savings**

Dated Date                    01/14/2021  
 Delivery Date                01/14/2021

**Sources:**


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Bond Proceeds:		
Par Amount		176,370,000.00
Other Sources of Funds:		
Release from 2013 Debt Service Fund	3,284,593.75	
Cash Defeasance of 2/1/2021 Maturity	5,517,375.00	
		<u>8,801,968.75</u>
		<u>185,171,968.75</u>

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**Uses:**


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Refunding Escrow Deposits:		
Cash Deposit		182,962,937.50
Delivery Date Expenses:		
Cost of Issuance	1,763,700.00	
Underwriter's Discount	440,925.00	
		<u>2,204,625.00</u>
Other Uses of Funds:		
Additional Proceeds		4,406.25
		<u>185,171,968.75</u>

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**BOND SUMMARY STATISTICS**

**California Independent System Operator  
Taxable Refunding  
2021 Series A Refunding Bonds  
Taxable Advance Refunding of 2013 Series A  
Refund All Outstanding Bonds  
Not-to-Exceed Scenario - 5% Savings**

Dated Date	01/14/2021
Delivery Date	01/14/2021
Last Maturity	02/01/2039
Arbitrage Yield	3.118218%
True Interest Cost (TIC)	3.147630%
Net Interest Cost (NIC)	3.180601%
All-In TIC	3.266328%
Average Coupon	3.156232%
Average Life (years)	10.259
Duration of Issue (years)	8.640
Par Amount	176,370,000.00
Bond Proceeds	176,370,000.00
Total Interest	57,108,656.43
Net Interest	57,549,581.43
Total Debt Service	233,478,656.43
Maximum Annual Debt Service	12,974,972.80
Average Annual Debt Service	12,937,096.55
Underwriter's Fees (per \$1000)	
Average Takedown	
Other Fee	2.500000
Total Underwriter's Discount	2.500000
Bid Price	99.750000

<i>Bond Component</i>	<i>Par Value</i>	<i>Price</i>	<i>Average Coupon</i>	<i>Average Life</i>	<i>Average Maturity Date</i>	<i>PV of 1 bp change</i>
Serial Bonds	128,965,000.00	100.000	2.735%	7.931	12/19/2028	88,504.15
Term Bond due 2039	47,405,000.00	100.000	3.704%	16.593	08/18/2037	62,100.55
	176,370,000.00			10.259		150,604.70

	TIC	All-In TIC	Arbitrage Yield
Par Value	176,370,000.00	176,370,000.00	176,370,000.00
+ Accrued Interest			
+ Premium (Discount)			
- Underwriter's Discount	-440,925.00	-440,925.00	
- Cost of Issuance Expense		-1,763,700.00	
- Other Amounts			
Target Value	175,929,075.00	174,165,375.00	176,370,000.00
Target Date	01/14/2021	01/14/2021	01/14/2021
Yield	3.147630%	3.266328%	3.118218%

**BOND PRICING**

**California Independent System Operator**  
**Taxable Refunding**  
**2021 Series A Refunding Bonds**  
**Taxable Advance Refunding of 2013 Series A**  
**Refund All Outstanding Bonds**  
**Not-to-Exceed Scenario - 5% Savings**

<i>Bond Component</i>	<i>Maturity Date</i>	<i>Amount</i>	<i>Rate</i>	<i>Yield</i>	<i>Price</i>
Serial Bonds:					
	02/01/2022	7,905,000	1.111%	1.111%	100.000
	02/01/2023	8,220,000	1.259%	1.259%	100.000
	02/01/2024	8,320,000	1.517%	1.517%	100.000
	02/01/2025	8,450,000	1.667%	1.667%	100.000
	02/01/2026	8,585,000	1.949%	1.949%	100.000
	02/01/2027	8,760,000	2.149%	2.149%	100.000
	02/01/2028	8,945,000	2.436%	2.436%	100.000
	02/01/2029	9,165,000	2.586%	2.586%	100.000
	02/01/2030	9,400,000	2.736%	2.736%	100.000
	02/01/2031	9,655,000	2.836%	2.836%	100.000
	02/01/2032	9,935,000	2.936%	2.936%	100.000
	02/01/2033	10,225,000	3.036%	3.036%	100.000
	02/01/2034	10,535,000	3.136%	3.136%	100.000
	02/01/2035	<u>10,865,000</u>	3.236%	3.236%	100.000
		128,965,000			
Term Bond due 2039:					
	02/01/2036	11,210,000	3.704%	3.704%	100.000
	02/01/2037	11,630,000	3.704%	3.704%	100.000
	02/01/2038	12,060,000	3.704%	3.704%	100.000
	02/01/2039	<u>12,505,000</u>	3.704%	3.704%	100.000
		47,405,000			
		<u>176,370,000</u>			

Dated Date	01/14/2021	
Delivery Date	01/14/2021	
First Coupon	08/01/2021	
Par Amount	176,370,000.00	
Original Issue Discount		
Production	176,370,000.00	100.000000%
Underwriter's Discount	-440,925.00	-0.250000%
Purchase Price	175,929,075.00	99.750000%
Accrued Interest		
Net Proceeds	175,929,075.00	

**BOND DEBT SERVICE**

**California Independent System Operator**  
**Taxable Refunding**  
**2021 Series A Refunding Bonds**  
**Taxable Advance Refunding of 2013 Series A**  
**Refund All Outstanding Bonds**  
**Not-to-Exceed Scenario - 5% Savings**

<i>Period Ending</i>	<i>Principal</i>	<i>Coupon</i>	<i>Interest</i>	<i>Debt Service</i>
02/01/2022	7,905,000	1.111%	5,068,392.19	12,973,392.19
02/01/2023	8,220,000	1.259%	4,752,019.46	12,972,019.46
02/01/2024	8,320,000	1.517%	4,648,529.66	12,968,529.66
02/01/2025	8,450,000	1.667%	4,522,315.26	12,972,315.26
02/01/2026	8,585,000	1.949%	4,381,453.76	12,966,453.76
02/01/2027	8,760,000	2.149%	4,214,132.10	12,974,132.10
02/01/2028	8,945,000	2.436%	4,025,879.70	12,970,879.70
02/01/2029	9,165,000	2.586%	3,807,979.50	12,972,979.50
02/01/2030	9,400,000	2.736%	3,570,972.60	12,970,972.60
02/01/2031	9,655,000	2.836%	3,313,788.60	12,968,788.60
02/01/2032	9,935,000	2.936%	3,039,972.80	12,974,972.80
02/01/2033	10,225,000	3.036%	2,748,281.20	12,973,281.20
02/01/2034	10,535,000	3.136%	2,437,850.20	12,972,850.20
02/01/2035	10,865,000	3.236%	2,107,472.60	12,972,472.60
02/01/2036	11,210,000	3.704%	1,755,881.20	12,965,881.20
02/01/2037	11,630,000	3.704%	1,340,662.80	12,970,662.80
02/01/2038	12,060,000	3.704%	909,887.60	12,969,887.60
02/01/2039	12,505,000	3.704%	463,185.20	12,968,185.20
	176,370,000		57,108,656.43	233,478,656.43

**BOND DEBT SERVICE**

**California Independent System Operator**  
**Taxable Refunding**  
**2021 Series A Refunding Bonds**  
**Taxable Advance Refunding of 2013 Series A**  
**Refund All Outstanding Bonds**  
**Not-to-Exceed Scenario - 5% Savings**

<i>Period Ending</i>	<i>Principal</i>	<i>Coupon</i>	<i>Interest</i>	<i>Debt Service</i>	<i>Annual Debt Service</i>
08/01/2021			2,648,470.19	2,648,470.19	
02/01/2022	7,905,000	1.111%	2,419,922.00	10,324,922.00	12,973,392.19
08/01/2022			2,376,009.73	2,376,009.73	
02/01/2023	8,220,000	1.259%	2,376,009.73	10,596,009.73	12,972,019.46
08/01/2023			2,324,264.83	2,324,264.83	
02/01/2024	8,320,000	1.517%	2,324,264.83	10,644,264.83	12,968,529.66
08/01/2024			2,261,157.63	2,261,157.63	
02/01/2025	8,450,000	1.667%	2,261,157.63	10,711,157.63	12,972,315.26
08/01/2025			2,190,726.88	2,190,726.88	
02/01/2026	8,585,000	1.949%	2,190,726.88	10,775,726.88	12,966,453.76
08/01/2026			2,107,066.05	2,107,066.05	
02/01/2027	8,760,000	2.149%	2,107,066.05	10,867,066.05	12,974,132.10
08/01/2027			2,012,939.85	2,012,939.85	
02/01/2028	8,945,000	2.436%	2,012,939.85	10,957,939.85	12,970,879.70
08/01/2028			1,903,989.75	1,903,989.75	
02/01/2029	9,165,000	2.586%	1,903,989.75	11,068,989.75	12,972,979.50
08/01/2029			1,785,486.30	1,785,486.30	
02/01/2030	9,400,000	2.736%	1,785,486.30	11,185,486.30	12,970,972.60
08/01/2030			1,656,894.30	1,656,894.30	
02/01/2031	9,655,000	2.836%	1,656,894.30	11,311,894.30	12,968,788.60
08/01/2031			1,519,986.40	1,519,986.40	
02/01/2032	9,935,000	2.936%	1,519,986.40	11,454,986.40	12,974,972.80
08/01/2032			1,374,140.60	1,374,140.60	
02/01/2033	10,225,000	3.036%	1,374,140.60	11,599,140.60	12,973,281.20
08/01/2033			1,218,925.10	1,218,925.10	
02/01/2034	10,535,000	3.136%	1,218,925.10	11,753,925.10	12,972,850.20
08/01/2034			1,053,736.30	1,053,736.30	
02/01/2035	10,865,000	3.236%	1,053,736.30	11,918,736.30	12,972,472.60
08/01/2035			877,940.60	877,940.60	
02/01/2036	11,210,000	3.704%	877,940.60	12,087,940.60	12,965,881.20
08/01/2036			670,331.40	670,331.40	
02/01/2037	11,630,000	3.704%	670,331.40	12,300,331.40	12,970,662.80
08/01/2037			454,943.80	454,943.80	
02/01/2038	12,060,000	3.704%	454,943.80	12,514,943.80	12,969,887.60
08/01/2038			231,592.60	231,592.60	
02/01/2039	12,505,000	3.704%	231,592.60	12,736,592.60	12,968,185.20
	176,370,000		57,108,656.43	233,478,656.43	233,478,656.43