

# SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

THE WASHINGTON HARBOUR  
3000 K STREET, NW, SUITE 300  
WASHINGTON, DC 20007-5116  
TELEPHONE (202) 424-7500  
FACSIMILE (202) 424-7647  
WWW.SWIDLAW.COM

BRADLEY R. MILIAUSKAS  
DIRECT DIAL: (202) 295-8431  
FAX: (202) 424-7643  
[BRMILIAUSKAS@SWIDLAW.COM](mailto:BRMILIAUSKAS@SWIDLAW.COM)

NEW YORK OFFICE  
THE CHRYSLER BUILDING  
405 LEXINGTON AVENUE  
NEW YORK, NY 10174  
TEL. (212) 973-0111  
FAX (212) 891-9598

September 3, 2004

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

**Re: California Independent System Operator Corporation  
Docket No. ES04-\_\_\_\_-000**

Dear Secretary Salas:

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

Two extra copies of this filing are also enclosed. Please stamp these copies with the date and time filed and return them to the messenger. Feel free to contact the undersigned with any questions. Thank you for your attention to this matter.

Respectfully submitted,

  
Bradley R. Miliauskas

Counsel for the California Independent  
System Operator Corporation

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System	)	Docket No. ES04-____-000
Operator Corporation	)	

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

Pursuant to Section 204 of the Federal Power Act, 16 U.S.C. § 824c (2000), and Part 34 of the regulations of the Federal Energy Regulatory Commission ("FERC" or "Commission"), 18 C.F.R. §§ 34, *et seq.* (2003), the California Independent System Operator Corporation ("ISO") files this application for a Commission order authorizing the ISO to issue bonds in an amount not to exceed \$130 million.<sup>1</sup>

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

**A. The Issuance of New Bonds**

The purposes of the proposed bond issuance contemplated by the ISO are to provide funding for projected capital expenditures through 2006 and certain "carryover" project expenditures in early 2007, and to provide funding for the establishment of a debt service reserve fund ("DSRF").

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<sup>1</sup> The Commission has previously accepted the applications that the ISO has submitted for authorization to issue bonds. *See California Independent System Operator Corporation*, 90 FERC ¶ 62,088 (2000) (authorizing the ISO to issue bonds in an amount up to \$295 million); *California Independent System Operator Corporation*, 83 FERC ¶ 62,039 (1998) (amending earlier letter order to authorize the ISO to issue bonds in the amount of \$310 million); *California Independent System Operator Corporation*, 81 FERC ¶ 62,220 (1997) (authorizing the ISO to issue bonds in an amount up to \$260 million).

The ISO currently projects that approximately \$112 million of the proposed bond funding is required to meet capital expenditure needs into 2007. The balance of the total proceeds from the offering would be used to pay issuance costs (\$2.3 million) and establish a DSRF of \$12.7 million.<sup>2</sup> These amounts total \$127 million, the anticipated issuance amount. However, the ISO requests authorization for an issuance not to exceed \$130 million, in the event that minor adjustments or reallocations need to be made to these figures.

### **1. Capital Expenditure Funding Needs**

In June 2004, the ISO Governing Board approved a project plan, including schedule and budget, which provides for the completion of the ISO's Market Redesign and Technology Upgrade ("MRTU") project (formerly known as "MD02"). This \$139 million project has already been partially funded, through Grid Management Charge ("GMC") rates collected during 2002-2004, in the amount of \$47 million. An additional \$10 million in funding is required for 2004 and a further \$82 million is required for 2005-2007. Thus, the MRTU funding will require \$92 million of the proposed bond issuance amount. Projected funding needs for the MRTU project for the balance of 2004 through 2007 are \$10 million, \$51 million, \$24 million, and \$7 million, respectively.

The proposed issuance would also provide funding for other capital projects that the ISO anticipates undertaking during 2005 and 2006. The ISO has not yet completed its budgeting process for 2005 and 2006, but has in past years budgeted and spent approximately \$10 million annually on capital projects,

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<sup>2</sup> Exhibit G to the present filing contains a financial summary, prepared by J.P. Morgan Securities, Inc., of the terms of the proposed bond offering for which Commission approval is

other than the MRTU, and currently forecasts a need for this level of project funding for 2005 and 2006. A list of potential capital projects under consideration by the ISO was posted to the ISO's website on July 7, 2004 for stakeholder feedback. That list of potential capital projects is provided in Exhibit I to the present filing.<sup>3</sup> A list containing the projects included in the current proposed non-MRTU capital funding of \$10 million is also included in Exhibit I. The \$10 million funding for 2005 will fund a subset of the projects listed as "priority 1" projects. Additional projects on the list may be funded in 2006, or not at all. Further, there may be a need for unforeseen projects not on these lists in either 2005 or 2006. Cumulatively, the ISO estimates that the MRTU (through 2007) and other projects through 2006 will require \$112 million in bond funding (\$92 million for MRTU plus \$20 million for other capital projects).<sup>4</sup>

## **2. The DSRF**

The ISO proposes to establish a DSRF in the amount of \$12.7 million which would be available to pay debt service in the event of financial difficulties affecting the ISO. A DSRF is considered necessary to interest bond investors in the proposed bond offering and is traditional in municipal "revenue bond" (as opposed to general obligation bond) financings. The ISO is advised by its financial advisor that a DSRF is will very likely be required for an insurer to consider insuring any new ISO bonds. The ISO proposes to fund the DSRF from the proceeds of the new bond offering.

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sought herein.

<sup>3</sup> The following address on the ISO's website also contains additional information about these potential capital projects:  
<http://www.caiso.com/docs/2004/07/08/2004070813342019640.snp>



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

The ISO anticipates the issuance of variable rate demand bonds with a term of five years to meet these funding needs. The proposed amortization schedule for the bonds would be tailored to facilitate a stable-to-declining overall ISO revenue requirement 2005-2009. Annual bond amortization would fluctuate from 2005 to 2009, and would be higher in 2008 and 2009 than in other years, reflecting the lower debt service on the ISO's existing bonds during those years.

The ISO intends to incorporate the debt service costs for this new bond program into its GMC for 2005 through 2009.<sup>5</sup> The ISO's GMC has to date included debt service for earlier bond offerings. (The ISO's initial bond offering occurred in 1998 and the bond offering was refinanced in 2000.) A portion of these existing bonds is amortized and retired annually. They are scheduled to be retired in full by 2009. Currently, \$159.7 million of these bonds are outstanding.

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

The ISO is not requesting that any changes be made to the GMC rates in effect or to the ISO's Offer of Partial Settlement of the 2004 GMC Rate Case (Docket Nos. ER04-115-000, *et al.*) ("Offer of Partial Settlement"), which was filed on July 29, 2004 and is currently pending before the Commission. The Offer of Partial Settlement provides that the ISO may adjust the GMC charges without filing a rate case pursuant to Section 205 of the Federal Power Act for 2005 and 2006 if the ISO's overall revenue requirement is below certain thresholds. The

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<sup>4</sup> Note that the projected \$112 million amount does not include the costs of any non-MRTU capital projects the ISO might undertake in 2007.

ISO anticipates that the inclusion of the additional debt service for this proposed bond offering in the ISO's annual revenue requirement, in lieu of pay-as-you-go financing for the capital expenditures described above, will help the ISO satisfy this requirement. The ISO expects that its revenue requirement in 2005 and 2006 should be at or below the thresholds set forth in the Offer of Partial Settlement, even including additional debt service, as a result of a concerted effort by the ISO to control other ISO costs, and the reduction in pay-as-you-go funding of capital expenditures. The ISO is aiming for a stable-to-declining overall revenue requirement from 2005 to 2009 and the GMC adjustment provisions of the Offer of Partial Settlement ensure that the benefits of those efforts will flow through to the ISO's customers that pay the GMC. This bond program will be a key element of achieving that goal, as capital spending needs are expected to peak in 2005 and to decline substantially thereafter.

Without bond financing of the capital spending program in 2005, the ISO revenue requirement would be significantly higher than in past years assuming the Commission-approved MRTU program is to progress as scheduled. Thus, the bond program will facilitate greater stability in ISO rates. It will also effectively spread the costs of the MRTU program and other ISO capital expenditures over the expected useful lives of those capital assets. The ISO did not do this for 2001-2004 capital expenditures, and instead funded all capital spending directly from the GMC revenue requirement due to the loss of the ISO's investment grade credit rating in January 2001. With the restoration of the ISO's

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<sup>5</sup> Section 8.2.3 of the ISO Tariff authorizes the recovery of financing costs through the GMC.

investment grade credit ratings by one of the national credit rating agencies in 2003, and by another in August 2004, appropriate recovery of the cost of capital projects over their expected useful lifespan is again feasible. Nonetheless, depending on the required level of capital expenditures in the future, it may still be preferable (and more economic) to fund a (reduced) capital spending program annually through the GMC, rather than to utilize a (minimally sized) debt offering in order to recover capital costs over an extended period. Therefore the ISO does not remain closed to such an option in the future.

## **II. PART 34 REQUIREMENTS**

### **A. Section 34.3 Requirements**

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

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

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

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

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

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

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

or

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

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

Kenneth G. Jaffe  
Swidler Berlin Shereff Friedman, LLP  
3000 K Street, NW, Suite 300  
Washington, DC 20007  
Tel: (202) 424-7500  
Fax: (202) 424-7643

Counsel for the California Independent System Operator  
Corporation

**(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 November 8, 2004. The ISO seeks to execute its bond offering in the period from mid-November to early December 2004.

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

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

The securities proposed to be issued are variable rate demand bonds. The ISO has utilized this bond structure for its year 1998 and 2000 bond issuances. The ISO expects to enter into a variable to fixed interest rate swap agreement to with a notional amount of approximately 60% of the bonds. Such a structure will provide for a reasonable degree of protection from potentially volatile interest rates, and also provide savings from the currently very low short-term interest rates that have persisted in recent years. The bonds will be amortized over approximately five years.

**2. Amount of securities.**

The value of the bonds to be issued is not to exceed \$130 million.

**3. Interest or dividend rate.**

Variable rate demand bonds have interest rates that are periodically reset on a daily, weekly, or monthly basis. The ISO's current variable rate demand bonds with a weekly interest rate reset period have had interest rates of approximately 1.05% since January 2003. "All-in true interest costs" would be higher, and are projected to be approximately 3.7% for the overall weighted average interest cost for the fixed

rate and variable rate portions. This includes the additional costs of bond insurance, up-front issuance and underwriter costs, remarketing agent fees, bank liquidity costs, and payments under the proposed interest rate swap.

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

The target issuance date for the bonds is mid-November to December 2004. Final maturity of the bonds will occur in late 2009 or not later than January 2010.

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

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

Moody's: Baa2

Standard & Poor's: BBB

The proposed bonds themselves are anticipated to have a higher credit rating due to credit enhancement in the form of bond insurance and a bank liquidity line of credit.

The ISO's current bonds are rated as follows:

Moody's: Aaa / VMIG-1

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

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

The ISO expects the proposed bonds to have the same highest quality ratings and will solicit the interest of existing and other prospective bond insurers and liquidity banks.

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

The securities are to be issued to obtain funding primarily to finance ISO capital expenditures into 2007. Most of the bond funding will be used to fund the ISO's MRTU project. The remainder of the funds will be used for other capital projects including the construction of system reliability upgrades, upgrades to ISO operational systems and other corporate software upgrades and procurements, and other miscellaneous capital projects. While the ISO is still involved in its budgeting process for 2005, we anticipate a need for \$10 million in non-MRTU capital expenditures, and expect similar needs for 2006. The ISO posted a preliminary list of capital needs for stakeholder review on July 7, 2004, and will post an updated listing in mid-September 2004 consistent with the \$10 million stated need for 2005. The report will also list other projects that are likely candidates for the 2006 capital budget. The ISO projects that total capital requirements will be approximately \$112 million. The balance of the bond proceeds will be used for bond issuance costs, and the establishment of a debt service reserve fund. *All proceeds will be used solely for purposes of the ISO.*

**(g) State Applications.**

No application with respect to this issuance is required to be filed with any state utility regulatory body. As is necessary for the issuance of tax-exempt debt, the bonds will be issued through a conduit issuer. The ISO anticipates filing an application for issuance through a State of California government entity conduit issuer subsequent to the filing of this FERC application. The ISO's bonds for the years 1998 and 2000 were issued through the California Economic Development Financing Authority and the California Infrastructure and Economic Development Bank, respectively. (The first-named organization was replaced by the latter subsequent to 1998.)

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

The ISO's issuance of the bonds is consistent with its corporate purposes and responsibilities, its operation as an independent transmission system operator, and the public interest. The additional borrowings are reasonably necessary for the ISO to finance the capital expenditures needed to properly perform the services of a public utility provider and will not impair its ability to perform as an independent transmission system operator and a public utility.

As noted in section (f), above, the bond proceeds will be primarily used to fund the MRTU project, with which the Commission is already familiar. The other funds provided by the offering will be used to pay for other ISO capital projects that will be developed and presented to



the ISO stakeholders and ISO Governing Board during the 2005 and 2006 budgeting processes. The results of these budgeting processes will be posted on the ISO's website and provided as exhibits to the ISO's informational rate filings to be submitted to the Commission in December 2004 and December 2005.

The ISO Governing Board has been apprised of the proposed bond offering and is scheduled to adopt a resolution authorizing the transaction at its October 2004 meeting.

The offering will also further assist the ISO in meeting the goals stated by intervenors in the ISO's 2004 GMC rate case (Docket Nos. ER04-115-000, *et al.*) of maintaining rate stability and the proper matching of project costs with the beneficiaries of those projects. Without a bond offering, the ISO would be forced to substantially increase its revenue requirement in 2005 to collect the funds required for the MRTU and other capital projects, and accordingly, would be required to file a rate case pursuant to Section 205 of the Federal Power Act in order to increase rates. The Offer of Partial Settlement submitted by the ISO in the 2004 GMC rate case on July 29, 2004 provides a means to avoid such rate cases if the overall revenue requirement is maintained at the 2004 level increased by not more than 1.5% annually. The debt service on the bond offering added to other expected ISO costs will permit this provision to be met. Further, the ISO projects that with continued fiscal discipline, a stable revenue

requirement will be maintained through 2007, with decreases expected in 2008 and 2009, when the ISO's original year 2000 bonds are fully retired and the new bonds are retired as well (in 2009).

**(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 for the year 2000, including a pledge of operating revenues as security for the bonds. Additionally, the ISO plans to establish a debt service reserve fund to serve as additional security for repayment of the bonds.

An agreement with a bank provider of liquidity for the ISO's variable rate demand bond program limits total ISO indebtedness to \$375 million. The issuance proposed in the present application is within this limitation.

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

The present filing includes financial statements for the time-period from July 1, 2003 through June 30, 2004. The ISO's updated rates for the 2003 GMC were accepted by letter order issued in Docket No. ER03-181-000 on December 31, 2002. The ISO's updated rates for the 2004 GMC were accepted for filing, made subject to refund, set for hearing (which hearing was held in abeyance), and made subject to settlement proceedings by an order issued in Docket Nos. ER04-115-000 and EL04-47-000 on December 31, 2003.

If the pending Offer of Partial Settlement filed by the ISO on July 29, 2004 is accepted by the Commission, the ISO will adjust its current year GMC rates accordingly and will have the opportunity to adjust forthcoming GMC rates automatically (by filing annual informational filings) assuming the proposed revenue requirement for 2005 and 2006 does not exceed certain thresholds stated in the Offer of Partial Settlement. The ISO expects the 2005 revenue requirement (including debt service on the proposed bond offering) will be at a level to permit such an adjustment. If the 2005 revenue requirement exceeds the threshold stated in the Offer of Partial Settlement, the ISO will submit a filing pursuant to Section 205 of the Federal Power Act related to its revenue requirement but not addressing rate formulas. In any event, no changes are anticipated to be proposed to the GMC service categories established as a result of the pending Offer of Partial Settlement.

Any informational 2004 filing concerning the annual GMC will describe the rates for 2005 resulting from the allocation of the ISO's 2005 revenue requirement into those GMC service categories. The revenue requirement will include the ISO's budgeted operating costs, debt service on the existing or restructured debt and the new proceeds proposed by this application, and other costs as set forth in the ISO Tariff, Appendix F, Schedule 1, Part C.

**(k) Form of notice.**

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

**B. Section 34.4 Requirements**

As required by 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
- Exhibit B- Resolutions adopted by the ISO Governing Board authorizing the ISO's initial year 1998 bond issuance and the ISO's year 2000 bond restructuring and additional proceeds offering, and the Board Meeting Agenda for the Finance Committee Executive Session meeting held on July 29, 2004 and September 1, 2004 which covered the proposed 2004 bond offering.
- Exhibit C- Official Statement for the year 2000 California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds- California Independent System Operator Project
- Exhibit D- Projected Pro Forma Balance Sheets of the ISO, dated 6/30/04, and Schedule of Pro Forma Adjustments to Section 35 Filing dated 6/30/04
- Exhibit E- Projected Pro Forma Income Statements for the twelve months ending 6/30/04
- Exhibit F- Projected Pro Forma Statement of Cash Flows for the twelve months ending 6/30/04 and calculation of interest coverage
- Exhibit G- Bond Financial Information Related to Proposed New Money Issuance
- Exhibit H- Potential 2005 capital projects listing (posted to the ISO's website 7/7/2004). See original document at: <http://www.caiso.com/docs/2004/07/07/200407071139324094.pdf>

Additional detail regarding these projects was posted to the ISO website on 7/7/2004. See <http://www.caiso.com/docs/2004/07/08/2004070813342019640.snp>

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

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

A governmental entity will issue the bonds for the benefit of the ISO. The ISO anticipates filing an application for issuance through a State of California government entity conduit issuer subsequent to the filing of this FERC application. The ISO's bonds for the years 1998 and 2000 were issued through the California Economic Development Financing Authority and the California Infrastructure and Economic Development Bank, respectively. (The first-named organization was replaced by the latter subsequent to 1998.) The ISO has selected J.P. Morgan Securities, Inc. and Banc of America Securities LLC to act as underwriter of the bonds. The ISO is confident that the underwriting fees to be charged by these entities represent an attractive option relative to other alternatives in the market. Additionally, with a variable rate demand bond offering the interest rates to be in effect will only be for a one week initial period,

and will be set based on market conditions at the time of issuance, and reset thereafter on the same basis.

With respect to an interest rate swap the ISO would intend to execute to remove a portion of its exposure to the variable interest rates, the ISO intends to obtain multiple quotes and/or use the services of an independent pricing agent to opine on the competitiveness of the proposed swap interest rates; the ISO used such a pricing agent during its initial bond offering in 1998 and its refinanced bond offering in 2000.

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

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

### **III. SERVICE OF DOCUMENTS**

The ISO has served copies of this transmittal letter and all attachments on the California Public Utilities Commission, the California Energy Commission, and the California Electricity Oversight Board. In addition, the ISO is making the transmittal letter and attachments available to all California Market Participants by posting them on the ISO Home Page, [www.caiso.com](http://www.caiso.com).

#### **IV. SUPPORTING DOCUMENTS**

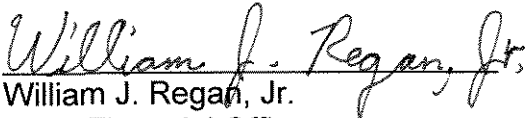
In addition to this transmittal letter and the exhibits described above in Section II, this filing contains a form of notice, suitable for publication in the Federal Register (Attachment A), together with the form of notice in electronic format.

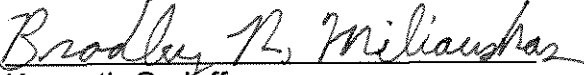
## V. CONCLUSION

WHEREFORE, the 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 \$130 million;
- grant the appropriate exemption from or, in the alternative, waiver of the requirements of 18 C.F.R. § 34.2(a), concerning the methods by which securities are to be issued; and
- issue its order authorizing the above requests by no later than November 8, 2004.

Respectfully submitted,

 <sup>BRM</sup>  
William J. Regan, Jr.  
Chief Financial Officer  
California Independent  
System Operator Corporation

  
Kenneth G. Jaffe  
Stephen C. Palmer  
Bradley R. Miliauskas  
Swidler Berlin Shereff Friedman, LLP

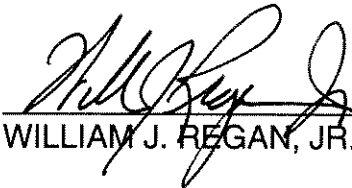
**Counsel for the California  
Independent System Operator  
Corporation**



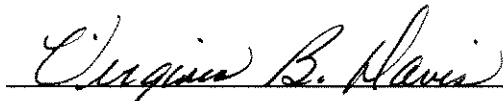
**VERIFICATION**

STATE OF CALIFORNIA	)	
	)	DOCKET NO.
CITY OF FOLSOM	)	ES04-____-000
COUNTY OF SACRAMENTO	)	

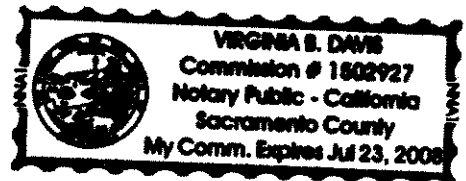
WILLIAM J. REGAN, JR., being duly sworn, on oath, says that he is the WILLIAM J. REGAN, JR. identified in the foregoing Section 204 Application; that he caused to be prepared such Application; and that the information appearing therein is true to the best of his knowledge and belief.

  
WILLIAM J. REGAN, JR.

Subscribed and sworn to before  
me on this 1<sup>st</sup> day of September, 2004



Notary Public



## EXHIBIT A

State of California



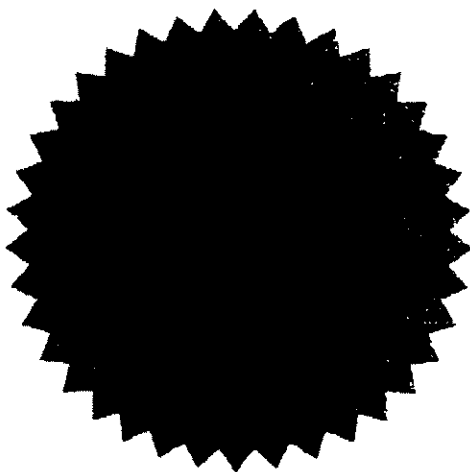
SECRETARY OF STATE

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

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

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

MAY - 6 1997



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**

## RESOLUTIONS

### Borrowing

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

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

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



# **CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

## **BORROWING RESOLUTION (1998-02-02)**

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

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

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

**Finance Committee****Debt Refinancing**

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

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

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

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

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

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

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

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



## PUBLIC NOTICE OF ISO BOARD OF GOVERNORS FINANCE COMMITTEE MEETING

The Finance Committee of the California Independent System Operator will meet:

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Date: July 29, 2004  
Time: 9:00 a.m. – 9:45 a.m.      **EXECUTIVE SESSION ONLY**  
Location: Offices of the California ISO  
Conference Room 101A – 1A  
Dial In: **Not available**

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During the above-noticed meeting, the Finance Committee will discuss and possibly take action on the following agenda items:

### **EXECUTIVE SESSION**

- 1) Approval of Executive Session Minutes
  - 6/24/04
- 2) Approval of Onsite Contract and Temporary Staffing Services Contract
- 3) Proposed 2004 Bond Offering
- 4) 2004 GMC Settlement Update
- 5) New Executive Session Business Issues and Future Agenda Items

To review General Session agenda documents online go to: <http://www.caiso.com/pubinfo/BOG/documents/>

All public documents, notices, and information are posted to the Web site as they are provided to the Board of Governors.  
The California ISO Web site address is: <http://www.caiso.com>



## PUBLIC NOTICE OF ISO BOARD OF GOVERNORS FINANCE COMMITTEE MEETING

The Finance Committee of the California Independent System Operator will meet:

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Date: September 1, 2004

Time: 1:00 p.m. – 5:00 p.m. **EXECUTIVE SESSION ONLY**

Location: Offices of the California ISO

Dial In: Not Available

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During the above-noticed meeting, the Finance Committee will discuss and possibly take action on the following agenda items:

### **EXECUTIVE SESSION**

- 1) Discussion of Proposed 2004 Bond Offering
- 2) Review of Proposed 2005 ISO Budget
- 3) New Business Issues and Future Agenda Items

To review General Session agenda documents online go to: <http://www.caiso.com/pubinfo/BOG/documents/>

All public documents, notices, and information are posted to the Web site as they are provided to the Board of Governors.  
The California ISO Web site address is: <http://www.caiso.com>

## EXHIBIT C

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions and assuming certain representations and compliance with certain covenants and requirements discussed herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income tax. See "TAX MATTERS" herein.*

**\$186,600,000**  
**California Infrastructure and Economic Development Bank**  
**Variable Rate Demand Revenue Bonds**  
**(California Independent System Operator Corporation Project)**  
**consisting of**  
**\$116,200,000 2000 Series A**  
**\$ 70,400,000 2000 Series B**

**Dated: Date of Issuance**

**Price 100%**

**Due: April 1, 2008**

*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 2000 Series A Bonds and the 2000 Series B Bonds (collectively, the "Bonds") are being issued by the California Infrastructure and Economic Development Bank (the "Infrastructure Bank") for the purpose of providing funds, together with other available moneys (i) to current refund the outstanding Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project), 1998 Series B, 1998 Series C and 1998 Series D issued by the California Economic Development Financing Authority (the responsibilities, liabilities and obligations of which have been assumed by the Infrastructure Bank) for the purpose of financing or refinancing a portion of the costs of certain facilities and equipment, certain startup costs and working capital for the California Independent System Operator Corporation (the "Corporation"), a California nonprofit public benefit corporation and (ii) to pay the costs of issuance of the Bonds. Concurrently with the delivery of the Bonds, the Infrastructure Bank expects to issue \$106,400,000 principal amount of Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2000 Series C (the "2000 Series C Bonds") as described herein. It is a condition precedent to the delivery of the Bonds that the 2000 Series C Bonds be issued on the date of delivery of the Bonds. See "PLAN OF FINANCE" herein.



**CALIFORNIA ISO**

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

The Bonds of each Series will bear interest from the date of initial issuance thereof at a Weekly Rate as described herein. The Rate Period for the Bonds of each Series may be changed to a Daily Rate, Commercial Paper Rate or Fixed Rate as described herein.

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

Bankers Trust Company of California, N.A. is the Trustee, Tender Agent, Registrar and Paying Agent for the Bonds. J.P. Morgan Securities Inc. is the Remarketing Agent for the 2000 Series A Bonds and Lehman Brothers is the Remarketing Agent for the 2000 Series B Bonds.

Payment of the principal of and interest on the Bonds when due (not including acceleration or redemption except mandatory sinking fund redemption) will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds. Payment of the Purchase Price of the Bonds by the Tender Agent (as described herein) shall not be so insured.



Payment of the Purchase Price of the Bonds tendered or deemed tendered for purchase but not remarketed in an amount equal to the principal amount thereof and up to thirty-four (34) days of accrued interest thereon at a maximum rate of 12% per annum will be made pursuant to and subject to the terms of a Standby Bond Purchase Agreement, dated as of March 1, 2000 (the "Standby Bond Purchase Agreement"), by and among the Corporation, the Trustee and Westdeutsche Landesbank Girozentrale, acting through its New York Branch, Bayerische Landesbank Girozentrale, acting through its New York Branch, and Morgan Guaranty Trust Company of New York (collectively, the "Liquidity Banks"). UNDER CERTAIN CIRCUMSTANCES DESCRIBED HEREIN, THE OBLIGATION OF THE LIQUIDITY BANKS TO PURCHASE BONDS TENDERED BY THE HOLDERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED; AND, IN SOME CIRCUMSTANCES, THE TERMINATION OR SUSPENSION OF SUCH OBLIGATION WILL BE IMMEDIATE AND WITHOUT NOTICE TO BONDHOLDERS. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE SUCH BONDS.

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

*The Bonds are offered when, as and if issued by the Infrastructure Bank and accepted by the Underwriter, subject to prior sale, or withdrawal or modification of the offer without notice, and subject to receipt of an approving legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel. Certain legal matters will be passed upon for the Infrastructure Bank by its General Counsel, Brooke Bassett, Esq., for the Corporation by its special counsel, Orrick, Herrington & Sutcliffe LLP, for the Liquidity Banks by their counsel, Chapman & Cutler, and for the Underwriter by its counsel, Brown & Wood LLP.*

*The Bonds are expected to be available for delivery through the facilities of DTC in New York New York, on or about April 13, 2000.*

**J.P. Morgan & Co.**

Dated: March 17, 2000

**No broker, dealer, salesman or other person has been authorized by the Infrastructure Bank, the Corporation or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. The Infrastructure Bank has not provided, has not independently verified, and does not certify the accuracy or sufficiency of any statements in this Official Statement except those appearing in the sections "THE INFRASTRUCTURE BANK," and "ABSENCE OF LITIGATION — The Infrastructure Bank." The Infrastructure Bank has received representations from the Corporation, the Underwriter, the Bond Insurer and the Liquidity Banks with respect to the information related to the Corporation, the Underwriter, the Bond Insurer and the Liquidity Banks, respectively, in this Official Statement, and the Infrastructure Bank has relied on these separate representations in authorizing distribution of this Official Statement.**

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

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

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements in this Official Statement which involve estimates, forecasts or matters of opinion whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

THE CORPORATION HAS NOT PROVIDED, HAS NOT INDEPENDENTLY VERIFIED, AND DOES NOT CERTIFY THE ACCURACY OR SUFFICIENCY OF ANY STATEMENTS IN THIS OFFICIAL STATEMENT IN THE SECTIONS "THE INFRASTRUCTURE BANK," "BOND INSURANCE," "THE STANDBY BOND PURCHASE AGREEMENT," "THE LIQUIDITY BANKS," "ABSENCE OF LITIGATION — The Infrastructure Bank," "TAX MATTERS," "UNDERWRITING," "APPENDIX A — BOOK-ENTRY SYSTEM" AND "APPENDIX B — FORM OF OPINION OF BOND COUNSEL."

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

EXCEPT WHEN BEARING INTEREST AT THE FIXED RATE, THE BONDS ARE EXEMPT FROM THE CONTINUING DISCLOSURE REQUIREMENTS OF RULE 15c2-12 OF THE SECURITIES AND EXCHANGE COMMISSION.



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**OFFICIAL STATEMENT**  
relating to  
**\$186,600,000**  
**California Infrastructure and Economic Development Bank**  
**Variable Rate Demand Revenue Bonds**  
**(California Independent System Operator Corporation Project)**  
consisting of  
**\$116,200,000 2000 Series A**  
**\$70,400,000 2000 Series B**

**INTRODUCTION**

*This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. See "APPENDIX C — GLOSSARY OF TERMS" herein.*

**Purpose**

This Official Statement, which includes the cover page and Appendices hereto, of the California Infrastructure and Economic Development Bank (the "Infrastructure Bank") is being furnished to provide certain information concerning the Infrastructure Bank's Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2000 Series A in the principal amount of \$116,200,000 (the "2000 Series A Bonds") and 2000 Series B in the principal amount of \$70,400,000 (the "2000 Series B Bonds" and collectively with the 2000 Series A Bonds, the "Bonds" and, individually, a "Series"). The Bonds are being issued by the Infrastructure Bank under and pursuant to an Indenture of Trust, dated as of March 1, 2000 (the "Indenture"), by and between the Infrastructure Bank and Bankers Trust Company of California, N.A., as trustee, tender agent, registrar and paying agent for the Bonds (the "Trustee"), for the purpose of providing funds, together with other available moneys (i) to current refund the outstanding Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 1998 Series B, 1998 Series C and 1998 Series D (collectively, the "Refunded Bonds") issued by the California Economic Development Financing Authority (the responsibilities, liabilities and obligations of which have been assumed by the Infrastructure Bank) for the purpose of financing or refinancing a portion of the costs of certain facilities and equipment, certain startup costs and working capital (the "1998 Project") for the California Independent System Operator Corporation (the "Corporation"), a California nonprofit public benefit corporation, and (ii) to pay the costs of issuance of the Bonds.

**Plan of Finance**

Concurrently with the delivery of the Bonds, the Infrastructure Bank expects to issue its Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2000 Series C in the principal amount of \$106,400,000 (the "2000 Series C Bonds") pursuant to the Indenture for the purpose of providing funds, together with other available moneys (i) to current refund the outstanding Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 1998 Series A issued by the California Economic Development Financing Authority, (ii) to finance or refinance a portion of the costs of acquisition of land and the acquisition and construction of certain facilities in connection with the expansion of the existing facilities of, and the cost of certain equipment, including computers and telecommunications hardware and software systems and other facilities and equipment (the "2000 Project") for, the Corporation and (iii) to pay costs of issuance of the Bonds. It is a condition precedent to the delivery of the Bonds that the 2000 Series C Bonds be issued on the date of delivery of the Bonds. See "PLAN OF FINANCE" herein.

## **The Infrastructure Bank**

The Infrastructure Bank is a public body organized within the government of the State of California (the "State") and created pursuant to the Bergesen-Peace Infrastructure and Economic Development Bank Act, codified at Section 63000 et seq. of the California Government Code, as amended. See "THE INFRASTRUCTURE BANK" herein.

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

In connection with the loan of the proceeds of the Bonds to the Corporation, the Infrastructure Bank and the Corporation will enter into a Loan Agreement, dated as of March 1, 2000 (the "Loan Agreement"). Pursuant to the Loan Agreement, the Corporation will be obligated to make certain payments (the "Repayment Installments") to the Trustee, as assignee of the Infrastructure Bank, in an amount which is sufficient to pay as and when due the principal of, premium, if any, and interest on the Bonds and the 2000 Series C Bonds. Pursuant to the Loan Agreement, the Corporation has pledged its Net Operating Revenues to secure its obligation to make payments of principal of and interest on the Bonds and the 2000 Series C Bonds, which pledge is on a parity with the pledge of such Net Operating Revenues securing certain other obligations. The Purchase Price of Bonds tendered or deemed tendered for purchase is payable solely from amounts drawn under the Liquidity Facility as described herein and is not otherwise payable from or secured by Net Operating Revenues of the Corporation. See "THE CORPORATION – Operating Revenues" herein. The Bonds will not be secured by a legal or equitable pledge of, or mortgage upon, the 1998 Project or the 2000 Project (collectively, the "Project").

The Corporation expects to enter into an interest rate swap agreement in the form of an ISDA Master Agreement and Schedule and related Transactions (the "Swap Agreement") with Morgan Guaranty Trust Company of New York ("Morgan Guaranty") in connection with the issuance of the Bonds for the purpose of converting the floating interest payments the Corporation is required to make on the Bonds into substantially fixed payments. None of the Infrastructure Bank, the Trustee nor the Bondholders shall have any interest in or rights under the Swap Agreement. The Swap Agreement constitutes a Parity Obligation for purposes of the Indenture. See "PLAN OF FINANCE – Swap Agreement" herein.

**THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE INFRASTRUCTURE BANK. THE BONDS DO NOT CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, BUT WILL BE SPECIAL OBLIGATIONS OF THE INFRASTRUCTURE BANK PAYABLE SOLELY FROM REVENUES AND OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE INFRASTRUCTURE BANK, THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF WILL BE OBLIGATED TO LEVY ANY TAXES OR APPROPRIATE OR EXPEND ANY FUNDS FOR THE PAYMENT OF PRINCIPAL, PREMIUM OR INTEREST ON, OR PURCHASE PRICE OF, THE BONDS. SEE "SECURITY FOR THE BONDS" HEREIN.**

## **Bond Insurance**

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

## **Liquidity Facility**

Payment of the Purchase Price of the Bonds tendered or deemed tendered for purchase but not remarketed in an amount equal to the principal amount thereof, and up to thirty-four (34) days of accrued interest thereon at a maximum rate of 12% per annum will be made pursuant to and subject to the terms of a Standby Bond Purchase Agreement, dated as of March 1, 2000 (the "Standby Bond Purchase Agreement"), by and among the Corporation, the Trustee and Westdeutsche Landesbank Girozentrale, acting through its New York Branch, Bayerische Landesbank Girozentrale, acting through its New York Branch, and Morgan Guaranty Trust Company of New York (collectively, the "Liquidity Banks"). The Standby Bond Purchase Agreement constitutes a Liquidity Agreement pursuant to the Indenture. UNDER CERTAIN CIRCUMSTANCES DESCRIBED HEREIN, THE OBLIGATION OF THE LIQUIDITY BANKS TO PURCHASE BONDS TENDERED BY THE HOLDERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED; AND, IN SOME SUCH CIRCUMSTANCES, THE TERMINATION OR SUSPENSION OF SUCH OBLIGATION WILL BE IMMEDIATE AND WITHOUT NOTICE TO BONDHOLDERS. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE SUCH BONDS.

## **The Corporation**

The Corporation is a California nonprofit public benefit corporation organized as directed by the California legislation providing for the deregulation of the sale of electricity in California (Assembly Bill 1890 enacted as Chapter 854 of the California Statutes of 1996, "AB 1890"). The Corporation has received a determination letter from the Internal Revenue Service that it has qualified as a corporation described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The Corporation has assumed operational control of the transmission facilities of the three largest investor-owned electric utilities in California to provide open, nondiscriminatory access to such facilities in connection with competition in supplying electricity to retail customers as required by AB 1890. The Corporation is the operator of one of the largest electrical control areas in the world both in terms of land area and load. See "THE CORPORATION" herein.

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

## **Other Matters**

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

## **PLAN OF FINANCE**

### **Refunding of 1998 Series B, 1998 Series C and 1998 Series D Bonds**

In May 1998, Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) were issued, consisting of 1998 Series A in the principal amount of \$101,600,000 (the "1998 Series A Bonds"), 1998 Series B in the principal amount of \$75,000,000 (the "1998 Series B Bonds"), 1998 Series C in the principal amount of \$75,000,000 (the "1998 Series C Bonds") and 1998 Series D in the principal amount of \$49,800,000 (the "1998 Series D Bonds") for the purpose of financing or refinancing the costs of the 1998 Project. A portion of the proceeds of the Bonds will be applied to the current refunding of the 1998 Series B, 1998 Series C and 1998 Series D Bonds to be outstanding in the combined aggregate principal amount of \$182,400,000 as of April 13, 2000. See also "Issuance of 2000 Series C Bonds" below.

The Corporation expects to notify the Trustee that it intends to make an optional prepayment of the repayment installments under and in accordance with the terms of the loan agreement relating to such Refunded Bonds and to instruct the Trustee to call the Refunded Bonds for redemption on June 1, 2000. Upon the issuance of the Bonds, amounts will be drawn under the letter of credit securing the Refunded Bonds (which amounts will be reimbursed to the bank providing the letter of credit from the proceeds of the related Series of Bonds), which amounts, together with other available moneys, will be deposited with Bankers Trust Company of California, N.A., as trustee for the Refunded Bonds and as escrow bank (the "Escrow Bank"), into an escrow fund pursuant to an Escrow Deposit Agreement, dated as of March 1, 2000 (the "Escrow Deposit Agreement"), by and among the Infrastructure Bank, the Corporation and the Escrow Bank, and applied to the purchase of certain noncallable direct obligations of, or obligations the full and timely payment of which is guaranteed by, the United States of America ("Government Obligations"), the principal of and interest on which, together with any uninvested cash on deposit in the escrow fund, will be sufficient to pay the principal and interest requirements (at an assumed rate of 12% per annum) on the Refunded Bonds (including the purchase price of any Refunded Bonds tendered for purchase by the holders thereof and not remarketed). On June 1, 2000, the Refunded Bonds will be redeemed at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date. Upon the initial deposit to the escrow fund as described above, the Refunded Bonds will no longer be deemed to be outstanding pursuant to the indenture of trust under which such Refunded Bonds were issued.

### **Issuance of 2000 Series C Bonds**

Concurrently with the delivery of the Bonds, the Infrastructure Bank expects to issue \$106,400,000 principal amount of its 2000 Series C Bonds pursuant to the Indenture for the purpose of providing funds, together with other available moneys (i) to current refund the outstanding 1998 Series A Bonds, (ii) to finance or refinance a portion of the costs of acquisition of land and the acquisition and construction of certain facilities in connection with the expansion of the existing facilities of, and the cost of certain equipment, including computers and telecommunication hardware and software systems and other facilities and equipment for, the Corporation and (iii) to pay costs of issuance of the 2000 Series C Bonds. It is a condition precedent to the delivery of the Bonds that the 2000 Series C Bonds be issued on the date of delivery of the Bonds. The Repayment Installments the Corporation is obligated to make pursuant to the Loan Agreement will be in amounts sufficient to pay as and when due the principal of, premium, if any, and interest on the 2000 Series C Bonds, as well as the Bonds. The Policy to be issued by the Insurer in connection with the Bonds will also insure the 2000 Series C Bonds. The Standby Bond Purchase Agreement to be delivered in connection with the Bonds will also provide liquidity for the 2000 Series C Bonds.

### **Swap Agreement for the Bonds**

The Corporation intends to enter into a Swap Agreement with Morgan Guaranty in connection with the Bonds. Pursuant to the Transactions under the Swap Agreement, the Corporation agrees to pay a fixed interest rate on a notional amount not greater than the principal amount of the Bonds. In return, Morgan

Guaranty agrees to pay a variable rate of interest, equal to The Bond Market Association Municipal Swap Index, a weekly index, on a like notional amount. The amounts payable by a party under the Swap Agreement are due monthly but are netted against the payments to be received by such party thereunder. The Swap Agreement constitutes a Parity Obligation for purposes of the Indenture. None of the Infrastructure Bank, the Trustee nor the Bondholders shall have any interest in or rights under the Swap Agreement. See "SECURITY FOR THE BONDS – Parity Obligations" herein.

### **ESTIMATED APPLICATION OF PROCEEDS**

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

Deposit to Escrow Fund	\$185,928,453
Costs of Issuance <sup>(1)</sup>	467,169
Underwriter's Discount	204,378
Total	<u>\$186,600,000</u>

<sup>(1)</sup> Includes bond insurance premium, legal, financing, consulting and Liquidity Banks' fees, rating agency fees, printing costs and other miscellaneous expenses.

### **THE INFRASTRUCTURE BANK**

The California Economic Development Financing Authority issued and delivered its \$301,400,000 Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project), consisting of \$101,600,000 1998 Series A issued and delivered on May 5, 1998 and \$75,000,000 1998 Series B, \$75,000,000 1998 Series C and \$49,800,000 1998 Series D issued and delivered on May 15, 1998, pursuant to its authority to issue tax-exempt revenue bonds to provide financing for private activity economic development projects under Part 10.2 of Division 3 of Title 2 of the California Government Code (the "Prior Act").

On March 2, 1998, Senate Bill 1184 (Chapter 4, California Statutes of 1998) ("SB 1184") was enacted. SB 1184, effective January 1, 1999, repealed the Prior Act. Pursuant to SB 1184, the Infrastructure Bank will observe, keep and perform all of the responsibilities, liabilities and obligations of the California Economic Development Financing Authority, and such assumption occurred without any execution or filing of any paper or any further act. Any reference in any law, contract, bond, indenture, or other document to the former California Economic Development Financing Authority is deemed after the effective date of SB 1184 to mean the Infrastructure Bank.

The Infrastructure Bank is a public body organized within the government of the State of California and created pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act, codified at 63000 et seq. of the California Government Code, as amended. The Infrastructure Bank is governed, and its corporate powers are exercised, by a Board of Directors consisting of the State Secretary of Trade and Commerce, the State Director of Finance and the State Treasurer.

### **THE CORPORATION**

As required by AB 1890, the Corporation was established as a nonprofit public benefit California corporation governed by a Board of Governors representing the various classes of stakeholders interested in the deregulation of the electric industry in California. In 1998, the Corporation received a *determination letter*

from the Internal Revenue Service indicating that it qualified as a corporation described in Section 501(c)(3) of the Code.

Following its incorporation in May 1997, the Corporation began preparing to take over operational control of the investor-owned electric transmission facilities in California. Prior to such date, development on the infrastructure for the Corporation was commenced through a trust established by the three largest investor-owned California electric utilities. Among the many elements necessary for the Corporation to assume its role as directed by AB 1890 were: (i) the establishment of the necessary dispatch control centers and metering devices; (ii) the development of the communications infrastructure needed to link the Corporation with transmission and power plant operators and scheduling coordinators; and (iii) the creation of computer programs to accept and synchronize schedules for transmission on an hourly basis from multiple scheduling coordinators and to provide the reliability and congestion management necessary for the transmission system to assure uninterrupted electric service.

On March 31, 1998, the Corporation commenced operations and has since then exercised operational control of the electric transmission facilities of the three largest investor-owned California utilities. The Corporation is the operator of one of the largest electrical control areas in the world both in terms of land area and load and operates day-ahead and hour-ahead markets for transmission congestion and ancillary services, and a real-time market for balancing energy.

Since its startup, the Corporation has successfully operated the electric transmission system through two summers of record peak electricity demand. Additionally, the Corporation has continued to modify its computer systems and market rules to enhance the robustness of the competitive energy markets and to be responsive to the market participants it serves.

The Corporation's executive offices and primary dispatch and communications facilities are located in Folsom, California. The Corporation maintains a back-up dispatch and communications center at Alhambra, California. The costs of the 1998 Project initially financed or refinanced with the proceeds of the Refunded Bonds consisted of tenant improvements to the Corporation's facilities in Folsom and Alhambra, computer hardware and communications facilities located at these and other locations and the costs of developing computer programs necessary for the Corporation's control of generation and transmission facilities, including communications and billing services in connection with such control.

There are currently 25 voting members of the Board of Governors and 5 nonvoting advisory representatives, representing a total of 13 different classes of stakeholders. The Corporation is regulated by the Federal Energy Regulatory Commission ("FERC").

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

## **THE BONDS**

### **General**

The Bonds will be issued in two Series, each such Series to be in the principal amount indicated on the cover page of this Official Statement. The Bonds of each Series will be dated their date of issuance. The Bonds of each Series will mature on April 1, 2008 (the "Maturity Date").



Pursuant to the Indenture, the Bonds shall bear interest at the Daily Rate, Weekly Rate, Commercial Paper Rate (each, a "Variable Rate") or a Fixed Rate, based on the Interest Rate Determination Method specified from time to time by the Corporation. The maximum rate of interest any of the Bonds (other than Liquidity Provider Bonds) may bear is 12% per annum. While the Interest Rate Determination Method may be different for each Series of the Bonds, the interest rate for all Bonds within a Series shall be determined based on the same Interest Rate Determination Method. All the Bonds will initially bear interest at the Weekly Rate, determined as described herein. The Bonds will initially be issued in authorized denominations of \$100,000 or any integral multiple thereof.

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

Bankers Trust Company of California, N.A. is the Trustee, Tender Agent, Registrar and Paying Agent for the Bonds. J.P. Morgan Securities Inc. has been appointed under the Indenture and a Remarketing Agreement with the Corporation to serve as Remarketing Agent for the 2000 Series A Bonds. Lehman Brothers has been appointed under the Indenture and a Remarketing Agreement with the Corporation to serve as Remarketing Agent for the 2000 Series B Bonds. Each such Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed, all in accordance with the terms of the Indenture and the applicable Remarketing Agreement.

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

#### **Determination of Interest Rates on the Bonds**

The Interest Rate Determination Method shall be specified from time to time by the Corporation as a Daily Rate, a Weekly Rate, a Commercial Paper Rate or a Fixed Rate. Each such Rate shall be determined as provided in the Indenture; provided, that no Rate (other than the Bank Rate) as so determined shall exceed the Maximum Interest Rate in effect on the date of determination thereof, except that Bonds purchased by a Liquidity Provider in accordance with the terms of a Liquidity Agreement shall bear interest at the Bank Rate in effect on the date of determination thereof. At any one time, all Bonds of a Series shall have the same Interest Rate Determination Method and (except as to Liquidity Provider Bonds, Bonds during a Commercial Paper Rate Period and Bonds of different maturities bearing interest at a Fixed Rate) shall bear interest at the same interest rate. The Bonds of each Series shall bear interest payable on each Interest Payment Date computed on the basis of a 365/366-day year and actual days elapsed during any Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period and a 360-day year of twelve (12) 30-day months during any Fixed Rate Period.

#### **Weekly Rate Period for Bonds**

Upon initial issuance, the Bonds of each Series will bear interest at the Weekly Rate, provided that during the period from the date of initial issuance of each Series of Bonds through the first Tuesday thereafter, the Bonds of such Series shall bear interest at the rate specified in a Certificate of the Infrastructure Bank. During each Weekly Rate Period, the applicable Remarketing Agent will set a Weekly Rate by 5:00 p.m., New

York City time, on each Tuesday (or the immediately preceding Business Day, if such Tuesday is not a Business Day) for the next Calendar Week; provided, that, the Weekly Rate for the first Calendar Week (or portion thereof) following a Conversion Date resulting in a change in the Interest Rate Determination Method to a Weekly Rate shall be set by the applicable Remarketing Agent on the Business Day immediately preceding such Conversion Date. Each Weekly Rate shall be the rate of interest which, if borne by Bonds in the Weekly Rate Period, would, in the judgment of the applicable Remarketing Agent, having due regard for the prevailing financial market conditions for revenue bonds or other securities the interest on which is excluded from gross income of the Holders thereof (other than any Holder who is a "substantial user" of facilities financed with such obligations or a "related user" within the meaning of Section 147(a) of the Code for federal income tax purposes, whether or not interest is includable as an item of tax preference or otherwise includable directly or indirectly for purpose of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code ("Tax-Exempt Securities") which are of the same general nature as such Bonds or Tax-Exempt Securities which are competitive as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of the Bonds in the Weekly Rate Period, be the lowest interest rate which would enable the applicable Remarketing Agent to place such Bonds at a price of par (plus accrued interest, if any) on the first day of such Weekly Rate Period. In determining the Rate that the Bonds shall bear, no Remarketing Agent shall have any liability to the Corporation, the Trustee or any Bondholder, except for its negligence or willful misconduct.

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

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

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

#### **Other Interest Rate Determination Methods**

**Daily Rate.** During each Daily Rate Period, which may be applicable to the Bonds of any Series as designated by an Authorized Corporation Representative, the Bonds so designated will bear interest at the Daily Rate. During each Daily Rate Period, the applicable Remarketing Agent will determine a Daily Rate by 12:30 p.m., New York City time, on each Business Day and such Daily Rate shall be the rate of interest which, if borne by Bonds in the Daily Rate Period, would, in the judgment of the Remarketing Agent for such Bonds, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Bonds or Tax-Exempt Securities which are competitive as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Bonds in the Daily Rate Period, be the lowest interest rate which would enable the Remarketing Agent for such Bonds to place such Bonds at a price of par (plus accrued interest, if any) on such Business Day. The Daily Rate for any non-Business Day will be the rate for the last Business Day on which a Daily Rate was set.

**Commercial Paper Rate.** During such period as the Bonds of a Series bear interest at a Commercial Paper Rate as designated by an Authorized Corporation Representative, each Bond of a Series so designated will bear interest at the Commercial Paper Rate applicable to it. The applicable Remarketing Agent will select each Commercial Paper Rate Period or Periods for each Bond of a Series of Bonds which is bearing, or is to bear, interest at a Commercial Paper Rate on a Business Day selected by the applicable Remarketing Agent not more than five (5) Business Days prior to the first day of such Commercial Paper Rate Period with respect to such Bonds and not later than 12:30 p.m., New York City time, on the first day of such Commercial Paper Rate Period. Each Commercial Paper Rate Period shall be a period of not less than one nor more than 270 days determined by the applicable Remarketing Agent with the intention of yielding the lowest overall interest expense on such Bonds taking into account (A) all other Commercial Paper Rate Periods for all Bonds, (B) general economic and market conditions relevant to such Bonds, and (C) such other facts, circumstances and conditions as the Remarketing Agent determines to be relevant. Notwithstanding the foregoing, no Commercial Paper Rate Period for any Bond shall be selected with an expiration date later than the fifth (5<sup>th</sup>) Business Day prior to the expiration date of any Liquidity Agreement, as then in effect, for such Bond. The last day of each Commercial Paper Rate Period shall be a day immediately preceding a Business Day. If the Interest Rate Determination Method with respect to a Series of Bonds bearing interest at the Commercial Paper Rate Period is being converted to a new Interest Rate Determination Method, the applicable Remarketing Agent shall determine Commercial Paper Rate Periods with respect to such Bonds being converted in such manner that, as soon as possible, all Commercial Paper Rate Periods with respect to such Bonds being converted shall end on the same date, not less than fourteen (14) days following delivery to the Trustee of the notice required by the Indenture, which date shall be the last day of the then-current Commercial Paper Rate Periods with respect to such Bonds being converted and, upon the establishment of such Commercial Paper Rate Periods with respect to such Bonds being converted, the day next succeeding the last day of all such Commercial Paper Rate Periods with respect to such Bonds being converted shall be the effective date of the new Rate Period. The applicable Remarketing Agent, promptly upon the determination of the last day of such Commercial Paper Rate Periods with respect to such Bonds being converted prior to Conversion to a new Interest Rate Determination Method, shall give written notice of such last day and such Conversion Date to the Infrastructure Bank, the Trustee and the Liquidity Provider for such Bonds.

The applicable Remarketing Agent shall set a Commercial Paper Rate for each Bond of a Series bearing interest at a Commercial Paper Rate not later than 12:30 p.m., New York City time, on the first day of each Commercial Paper Rate Period for such Bonds. The Commercial Paper Rate for each Commercial Paper Rate Period applicable to each Bond of a Series bearing interest at a Commercial Paper Rate will be the rate determined by the applicable Remarketing Agent to be the lowest interest rate which would be necessary for the Remarketing Agent to place such Bond on the first day of the applicable Commercial Paper Rate Period at a price of par.

**Fixed Rate.** The Interest Rate Determination Method for the Bonds of any Series may be converted from any Variable Rate to a Fixed Rate in accordance with the provisions of the Indenture. After such Conversion, each Bond so converted shall bear interest at the Fixed Rate applicable to it. The interest rate to be borne by any Bond so converted from the Fixed Rate Conversion Date shall be the rate determined by the Remarketing Agent for such Bond on the applicable Computation Date to be the rate which, if borne by such Bond, would, in the judgment of such Remarketing Agent having due regard for prevailing market conditions for Tax-Exempt Securities which are comparable to such Bond, be the lowest interest rate which would enable such Remarketing Agent to place the Bond tendered (or deemed to have been tendered) for purchase at a price of par on the Fixed Rate Conversion Date.

In determining the Fixed Rate for any Series of Bonds, the Remarketing Agent, subject to the approval of the Corporation, shall also determine on or before the Business Day next preceding the determination of the Fixed Rate, the redemption premiums for optional redemption of such Bonds on such dates during the Fixed Rate Period as are in its best professional judgment consistent with the then-current market conditions.

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

If, for any reason, the Remarketing Agent for a Bond fails to set the length of any Commercial Paper Rate Period, or to establish any Commercial Paper Rate, for a Bond or a court holds any Commercial Paper Rate Period, or Commercial Paper Rate, for any Bond to be invalid or unenforceable, a Commercial Paper Rate Period for such Bond lasting through the next day immediately preceding a Business Day (or until the earlier stated maturity thereof) and an interest rate applicable to such Bond equal to 100% of the Daily Rate Index will be established automatically.

***Notice of Rates.*** Promptly following the determination of any Rate for a Bond, the Remarketing Agent for such Bond shall give written notice thereof to the Trustee. Such notice shall also include details as to principal amounts of Bonds and the Interest Rate Determination Method at the time applicable. Promptly upon receipt of notice from a Remarketing Agent of any Fixed Rate, the Trustee shall give each affected Bondholder notice of the new Rate applicable to such Bonds.

***Absence of Remarketing Agent.*** If no Remarketing Agent shall be serving under the Indenture for a Series of Bonds, the determination of the applicable Rate Index shall be made by the Trustee. The determination of any Rate or Rate Index by a Remarketing Agent or the Trustee shall be conclusive and binding upon the Infrastructure Bank, the Corporation, the Trustee, the Remarketing Agent and the Bondholders.

***No Liability.*** In determining the interest rate that the Bonds shall bear as provided in the Indenture, each Remarketing Agent and the Trustee shall have no liability to the Infrastructure Bank, the Corporation, the Trustee or any Bondholder, except for its negligence or willful misconduct.

#### **Conversion of Interest Rate Determination Method**

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

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

***Limitations.*** Any Conversion must comply with the following: (A) the Conversion Date must be an Interest Payment Date on which the Bonds designated for Conversion are subject to mandatory tender pursuant to the applicable provisions of the Indenture; (B) the Conversion Date must be a Business Day; (C) the Liquidity Facility for the Bonds being converted to be held by the Trustee after a Conversion to a Variable Rate must cover accrued interest (computed at the Maximum Interest Rate then in effect on the basis of a

365/366 day year and actual days elapsed) for the maximum number of days between Interest Payment Dates permitted under that Interest Rate Determination Method plus such additional number of days as shall be required in order to obtain or maintain a rating on the Bonds being converted; provided that if the number of days of interest coverage provided by the Liquidity Facility is being changed from the number of days previously in place, the Trustee shall have received a reconfirmation of the rating on the Bonds being converted from the rating agencies; (D) no Conversion shall become effective unless the Opinion of Bond Counsel referred to above is redelivered on (and as of) the Conversion Date and all outstanding Bonds of such Series are successfully remarketed in the new Interest Rate Determination Method on the Conversion Date; and (E) upon conversion of any Series of Bonds to a Fixed Rate, an Authorized Corporation Representative may provide in the Conversion Notice to the Liquidity Provider for the Bonds being converted a request for termination of the Liquidity Facility to be effective upon such Conversion Date to a Fixed Rate.

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

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

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

***No Conversion During Continuance of Event of Default.*** No Conversion shall occur if at the time of such Conversion an Event of Default shall have occurred and be continuing under the Indenture.

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

#### **Tender of Bonds for Purchase**

***Optional Tender During Weekly Rate Period.*** The Holders or Beneficial Owners of Bonds bearing interest at a Weekly Rate shall have the right to tender any such Bonds (or portions thereof in amounts such that the amount purchased and the amount not purchased are in Authorized Denominations) to the Tender Agent for purchase on any Business Day at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest from the Interest Payment Date next preceding the Purchase Date to but not including the Purchase Date (unless the Purchase Date shall be an Interest Payment Date, in which case the Purchase Price shall be equal to the principal amount thereof), payable in immediately available funds, upon (A) delivery by the Holder or Beneficial Owner of such Bond to the Tender Agent at its Principal Office of an irrevocable notice by telephone (promptly confirmed in writing) or written or Electronic notice by 5:00 p.m. (New York City time) on any Business Day at least seven (7) days prior to the Purchase Date, which states the principal amount of such Bond to be tendered for purchase and the Purchase Date, and (B) delivery of such Bond to the Tender Agent on the Purchase Date in accordance with the Indenture.

***Optional Tender During Daily Rate Period.*** The Holders or Beneficial Owners of Bonds bearing interest at a Daily Rate shall have the right to tender any such Bonds (or portions thereof in amounts such that the amount purchased and the amount not purchased are in Authorized Denominations) to the Tender Agent for purchase on any Business Day at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest from the Interest Payment Date next preceding the Purchase Date to but not including the Purchase Date (unless the Purchase Date shall be an Interest Payment Date, in which case the Purchase Price shall be equal to the principal amount thereof), payable in immediately available funds, upon (A) delivery by the Holder or Beneficial Owner of such Bond to the Tender Agent at its Principal Office of an irrevocable notice by telephone (promptly confirmed in writing) or written or Electronic notice by 11:00 a.m. (New York City time) on the Purchase Date, and (B) delivery of such Bond to the Tender Agent on the Purchase Date in accordance with the Indenture.

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

IF A BONDHOLDER OR BENEFICIAL OWNER FAILS TO DELIVER ANY BOND TO THE TENDER AGENT ON OR BEFORE THE PURCHASE DATE, SUCH BOND SHALL BE DEEMED TO HAVE BEEN PROPERLY TENDERED TO THE TENDER AGENT AND, TO THE EXTENT THAT THERE SHALL BE ON DEPOSIT WITH THE TENDER AGENT ON SUCH PURCHASE DATE AN AMOUNT SUFFICIENT TO PAY THE PURCHASE PRICE THEREOF, SUCH BOND SHALL CEASE TO CONSTITUTE OR REPRESENT A RIGHT TO PAYMENT OF PRINCIPAL THEREOF OR INTEREST THEREON OF THE FORMER HOLDER AND SHALL CONSTITUTE AND REPRESENT ONLY THE FORMER HOLDER'S RIGHT TO PAYMENT OF THE PURCHASE PRICE PAYABLE ON SUCH DATE. THE FOREGOING SHALL NOT LIMIT THE ENTITLEMENT OF ANY BONDHOLDER ON ANY RECORD DATE TO RECEIPT OF INTEREST, IF ANY, DUE ON ANY SUCH PURCHASE DATE UNLESS SUCH INTEREST IS PAID AS PART OF THE PURCHASE PRICE.

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

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

- (i) as to all Bonds of any Series, on the effective date of any new Interest Rate Determination Method for such Bonds;
- (ii) as to each Bond bearing interest at a Commercial Paper Rate, on each Interest Payment Date immediately following each Commercial Paper Rate Period;
- (iii) as to all Bonds of any Series, on the day before the termination date of the then current Liquidity Facility as a result of providing a substitute Liquidity Facility with respect to the Bonds of such Series pursuant to the Loan Agreement;
- (iv) as to all Bonds of any Series, on the day before the effective date of any amendment or modification of the Liquidity Facility applicable to such Bonds unless the Trustee shall have received a Rating Confirmation with respect to such amendment or modification;
- (v) as to all Bonds of any Series, upon receipt by the Trustee of written notice from the Liquidity Provider for that Series of Bonds stating that an event has occurred as a result of which the Liquidity Provider is permitted under the Liquidity Agreement to terminate or to suspend its obligation to purchase Bonds under the Liquidity Agreement and directing a mandatory tender of such Series of Bonds on a Business Day selected by the Trustee not more than five (5) days after receipt of such notice; or
- (vi) as to all Bonds of any Series, on the last Business Day that is not less than five (5) calendar days preceding the expiration of the Liquidity Facility then in effect with respect to such Series, in the event that at least thirty-five (35) days prior to the expiration in whole of any Liquidity Facility then in effect with respect to such Series (other than an expiration of the Liquidity Facility at

the maturity of the such Bonds) the Trustee shall have not received (a) a renewal or extension of the existing Liquidity Facility for a period of at least 364 days (or, if shorter, the period to maturity of such Series) or (b) a substitute Liquidity Facility meeting the requirements of the Loan Agreement.

With respect to Bonds subject to mandatory tender for purchase pursuant to clause (i) above, the Trustee will give notice as described under the caption "Conversion of Interest Rate Determination Method – Notice to Bondholders" herein. With respect to Bonds subject to mandatory tender for purchase pursuant to clause (ii) above, no notice is required to be given pursuant to the Indenture. With respect to Bonds subject to mandatory tender for purchase pursuant to clause (iii), (iv) or (vi) above, the Trustee shall give notice by first-class mail to the Holders of the Bonds at their address shown on the registration books kept by the Registrar, not later than the fifteenth (15<sup>th</sup>) day prior to the date on which the Bonds are subject to mandatory tender. With respect to Bonds subject to mandatory tender pursuant to clause (v) above, the Trustee shall give notice by first-class mail to the Holders of the affected Bonds within two (2) Business Days of receipt of the notice that an event has occurred under the Liquidity Agreement permitting the termination of the Liquidity Facility from the Liquidity Provider and directing a mandatory tender of Bonds, that such Bonds are subject to mandatory tender for purchase on the Purchase Date specified in such notice.

**IF A BONDHOLDER OR BENEFICIAL OWNER FAILS TO DELIVER ANY BOND TO THE TENDER AGENT ON OR BEFORE ANY PURCHASE DATE SPECIFIED ABOVE, SUCH BOND SHALL BE DEEMED TO HAVE BEEN PROPERLY TENDERED TO THE TENDER AGENT AND, TO THE EXTENT THAT THERE SHALL BE ON DEPOSIT WITH THE TENDER AGENT ON SUCH PURCHASE DATE AN AMOUNT SUFFICIENT TO PAY THE PURCHASE PRICE THEREOF, SUCH BOND SHALL CEASE TO CONSTITUTE OR REPRESENT A RIGHT TO PAYMENT OF PRINCIPAL THEREOF OR INTEREST THEREON OF THE FORMER HOLDER AND SHALL CONSTITUTE AND REPRESENT ONLY THE FORMER HOLDER'S RIGHT TO PAYMENT OF THE PURCHASE PRICE PAYABLE ON SUCH DATE.**

***Purchase of Tendered Bonds.*** On each Purchase Date that any Bonds are tendered for purchase (or deemed tendered for purchase) in accordance with the Indenture, the Tender Agent will purchase (but solely from funds received by the Tender Agent in accordance with the terms of the Indenture) such Bonds (or portions thereof in Authorized Denominations) at the applicable Purchase Price. Funds for the payment of the Purchase Price of such Bonds (or portions thereof in Authorized Denominations) shall be paid by the Tender Agent solely from the following sources and in the following order of priority:

- (i) Proceeds of the remarketing of such Bonds (or portions thereof in Authorized Denominations); and
- (ii) Money drawn or received under Liquidity Facility for such Bonds.

#### **Remarketing**

J.P. Morgan Securities Inc. will serve as Remarketing Agent for the 2000 Series A Bonds pursuant to the terms of the Indenture and a Remarketing Agreement with the Corporation. Lehman Brothers will serve as Remarketing Agent for the 2000 Series B Bonds pursuant to the terms of the Indenture and a Remarketing Agreement with the Corporation. A Remarketing Agent may resign, or the Corporation or the Infrastructure Bank may remove a Remarketing Agent, pursuant to the terms of the applicable Remarketing Agreement.

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



## Redemption

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

**Optional Redemption.** The Bonds of any Series as shall be designated by the Corporation will be subject to redemption upon prepayment of the Repayment Installments at the option of the Corporation, in whole, or in part by lot in Authorized Denominations, prior to their maturity dates, but only from Available Amounts (provided that the portion of the redemption price that is accrued interest need not be paid with Available Amounts if the redemption date is an Interest Payment Date for the Bonds to be redeemed) as follows:

(1) During any Daily Rate Period or Weekly Rate Period, the Bonds of any Series shall be subject to such redemption on any Interest Payment Date at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date;

(2) On the day next succeeding the last scheduled day of any Commercial Paper Rate Period for any Bond, such Bond shall be subject to such redemption at a redemption price of 100% of the principal amount thereof;

(3) During any Fixed Rate Period, the Bonds of any Series shall be subject to such redemption during the periods specified below, on any date for redemption set forth below, at the direction of the Corporation, at the redemption prices (expressed as percentages of principal amount) hereinafter indicated (unless different redemption terms shall be specified by the Corporation pursuant to the Indenture):

<u>Length of Time to Maturity</u>	<u>Redemption Dates and Prices<sup>(1)</sup></u>
Less than or equal to 10 years and greater than 5 years.	At any time after the 5 <sup>th</sup> anniversary of the effective date commencing on such Interest Payment Date at 101%, declining by 1% annually to 100%.
Less than or equal to 5 years.	Not callable.

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<sup>(1)</sup> Dates measured from the start of the currently applicable adjustable Rate Period.

**Optional Redemption Upon Extraordinary Events.** The Bonds of each Series as shall be designated by an Authorized Corporation Representative shall be redeemed in whole or in part, and if in part by lot, at any time, but only from Available Amounts (provided that the portion of the redemption price that is accrued interest need not be paid with Available Amounts if the redemption date is an Interest Payment Date for the Bonds to be redeemed), at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date upon receipt by the Trustee of a written notice from the Corporation stating that any of the following events has occurred and that the Corporation therefore intends to exercise its option to prepay the payments due under the Loan Agreement and thereby effect the redemption of Bonds in whole or in part to the extent of such prepayments:

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

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

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

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

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

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

<b>Payment Date (April 1)</b>	<b>2000 Series A Principal Amount</b>	<b>2000 Series B Principal Amount</b>
2001	\$12,700,000	\$ 7,700,000
2002	13,000,000	7,900,000
2003	13,500,000	8,200,000
2004	14,200,000	8,600,000
2005	14,700,000	8,900,000
2006	15,300,000	9,300,000
2007	16,000,000	9,700,000
2008	16,800,000†	10,100,000†

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† Maturity.

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

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

With respect to any notice of optional redemption or redemption upon mandatory prepayment as described above, unless upon the giving of such notice the Bonds to be redeemed are deemed to have been paid, such notice must state that such redemption is conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of Available Amounts sufficient to pay the principal of, and premium, if any, and interest on, the Bonds to be redeemed, and that if such Available Amounts are not received, such notice will be of no force and effect and the Infrastructure Bank will not be required to redeem such Bonds. If such redemption is not effectuated, the Trustee will, *within a reasonable time thereafter*, give notice that such Available Amounts were not so received.

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

**Selection of Bonds to be Redeemed.** The principal amount of Bonds of each Series to be redeemed by the Corporation pursuant to the optional prepayment by the Corporation of Repayment Installments under the Loan Agreement shall be as specified by the Corporation. If less than all the Bonds of any Series are called for redemption, the Trustee will select the Bonds or any portion thereof to be redeemed first from the outstanding Liquidity Provider Bonds of such Series, if any, or such portion thereof not previously called for redemption, by lot in such manner as it may determine, until all Liquidity Provider Bonds, if any, shall have been redeemed, and then from the outstanding Bonds of such Series or such portion thereof not previously called for redemption, by lot. If less than all the Bonds of any Series are to be redeemed and so long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry system, selection of Bonds of such Series for redemption will be in accordance with DTC's customary practices. If the Bonds are not held in a book-entry system, the Trustee will select the Bonds of any Series to be redeemed by lot. If less than all the Bonds are to be redeemed, the Bonds that remain outstanding must be in Authorized Denominations.

### **Book-Entry System**

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

redemption or Purchase Price of, or interest on, any Bonds, or (c) the delivery of any notice by the Securities Depository or any Participant.

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

## **SECURITY FOR THE BONDS**

### **Payments by the Corporation Under the Loan Agreement**

Payment of the principal of, and premium, if any, and interest on the Bonds (and the 2000 Series C Bonds) will be secured by an assignment by the Infrastructure Bank to the Trustee of the Infrastructure Bank's interest in the Loan Agreement, including all Repayment Installments to be made by the Corporation to the Infrastructure Bank under the Loan Agreement (except the Infrastructure Bank's rights with respect to notices, consents and approvals, rights to receive certain payments with respect to expenses and indemnification rights). Pursuant to the Loan Agreement, the Corporation has pledged its Net Operating Revenues to secure its obligation to make payments of principal of and interest on the Bonds (and the 2000 Series C Bonds), which pledge is on a parity with the pledge of such Net Operating Revenues securing certain other obligations. Payment of the principal of and interest on the Bonds when due (not including acceleration or redemption except mandatory sinking fund redemption) will be insured by the Policy to be issued by the Insurer. The Purchase Price of Bonds tendered or deemed tendered for purchase is payable solely from amounts drawn under the Liquidity Facility and from remarketing proceeds, and is not otherwise payable from or secured by Net Operating Revenues of the Corporation. While the Bonds are in a Weekly Rate Period, prospective investors should base their investment decision on the credit worthiness of the Insurer and the Liquidity Banks. See "BOND INSURANCE," "THE STANDBY BOND PURCHASE AGREEMENT" and "THE LIQUIDITY BANKS" herein. The Bonds will not be secured by a mortgage or a security interest in the Project or any other property of the Corporation.

**THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE INFRASTRUCTURE BANK. THE BONDS DO NOT CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, BUT WILL BE SPECIAL OBLIGATIONS OF THE INFRASTRUCTURE BANK PAYABLE SOLELY FROM REVENUES AND OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE INFRASTRUCTURE BANK, THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF WILL BE OBLIGATED TO LEVY ANY TAXES OR APPROPRIATE OR EXPEND ANY FUNDS FOR THE PAYMENT OF PRINCIPAL, PREMIUM OR INTEREST ON, OR PURCHASE PRICE OF, THE BONDS.**

### **Parity Obligations**

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

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

### **Limitations on Remedies**

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

## **BOND INSURANCE**

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

### **The Insurance Policy**

The Insurer's Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Infrastructure Bank to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on the Bonds as such payments will become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's Policy does not insure against loss of any redemption premium which may at any time be payable with respect to any Bond. The Insurer's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemption (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from

the Trustee or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Trustee payment of the insured amounts due on such Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has two European branches, one in the Republic of France and the other in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

As of December 31, 1998, the Insurer had admitted assets of \$6.5 billion (audited), total liabilities of \$4.2 billion (audited), and total capital and surplus of \$2.3 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 1999, the Insurer had admitted assets of \$6.9 billion (unaudited), total liabilities of \$4.5 billion (unaudited), and total capital and surplus of \$2.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Furthermore, copies of the Insurer's year end financial statements prepared in accordance with statutory accounting practices are available without charge from the Insurer. A copy of the Annual Report on Form 10-K of the Company is available from the Insurer or the Securities and Exchange Commission. The address of the Insurer is 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

Moody's Investors Service, Inc. rates the financial strength of the Insurer "Aaa."

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., rates the financial strength of the Insurer "AAA."

Fitch IBCA, Inc. (formerly known as Fitch Investors Service, L.P.) rates the financial strength of the Insurer "AAA."

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of

any of the above ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds, nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.4 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

## **THE STANDBY BOND PURCHASE AGREEMENT**

### **General**

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

The Standby Bond Purchase Agreement will be issued by the Banks, pursuant to which the Banks severally, and not jointly, provide an Available Commitment in an amount equal to \$296,275,178.08. The Trustee, upon compliance with the terms of the Standby Bond Purchase Agreement, is authorized and directed to draw up to an amount sufficient to pay the portion of the purchase price of Variable Rate Bonds delivered for purchase pursuant to a demand for purchase by the Holder thereof or a mandatory tender for purchase and not remarketed equal to the principal amount of such Variable Rate Bonds, plus an amount not to exceed thirty-four (34) days of accrued interest on such Bonds at a rate of 12% per annum to pay interest on Variable Rate Bonds when due.

The Banks' Available Commitment under the Liquidity Facility will terminate on the earlier of (a) April 12, 2001 (unless renewed or extended); (b) the occurrence of a Conversion to a Fixed Rate under the Indenture with respect to all outstanding Variable Rate Bonds; (c) the date on which the Trustee accepts a substitute Liquidity Facility; (d) the date on which the Banks are no longer required to purchase tendered Variable Rate Bonds following an event of termination as described below; or (e) the date on which no Variable Rate Bonds are outstanding.

Upon the occurrence of any event of termination described in clauses (a) or (c) below, the Available Commitment and the obligation of the Banks to purchase Variable Rate Bonds shall immediately terminate without notice or demand, and thereafter the Banks shall be under no obligation to purchase Variable Rate Bonds.

Upon the occurrence of any event of termination described in clauses (e) or (j) below, the Banks may terminate the Available Commitment by giving written notice to the Trustee and the Insurer, specifying the date on which the Available Commitment shall terminate, which shall not be less than thirty (30) days from the date of receipt of such notice by the Trustee, and after such date, the Banks shall be under no further obligation to purchase Variable Rate Bonds under the Standby Bond Purchase Agreement.

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

Upon the occurrence of an event described in clause (c) below, which, with the passage of time, the giving of notice, or both, would become an event of termination specified below, the obligations of the Banks to purchase Bonds shall be immediately suspended without notice or demand, and such suspension shall

thereafter be effective until the case or proceeding referred to therein is terminated. In the event such case or proceeding is terminated, the obligations of the Banks to purchase Variable Rate Bonds shall be reinstated and the terms of the Standby Bond Purchase Agreement shall continue in full force and effect (unless the Available Commitment shall have otherwise terminated) as if there had been no suspension.

In addition to the rights and remedies set forth above, in the case of any event of termination specified below, upon the election of the Banks: (i) all amounts payable under the Liquidity Facility Agreement (other than payments of principal and interest on the Variable Rate Bonds or payments of deferred interest or any deferred interest fee amounts) shall upon notice to the Corporation become immediately due and payable, without presentment, demand, protest or further notice of any kind, and/or (ii) the Banks shall have all the rights and remedies available to them under the Variable Rate Agreement, the Related Documents (as defined below), the Policy or otherwise pursuant to law or equity.

*"Events of Termination"* under the Liquidity Facility Agreement include the following:

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

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

(c) a proceeding is instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect to the Insurer or for any substantial part of its property under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) and such proceeding is not terminated for a period of thirty (30) consecutive days or such court enters an order granting the relief sought in such proceeding or the Insurer shall institute or take any corporate action for the purpose of instituting any such proceeding; or the Insurer becomes the subject of a proceeding under Article 74 of the New York Insurance Law (or any successor provision), shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the Insurer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts or claims as they become due, or shall take any corporate action in furtherance of any of the foregoing; or

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

(e) nonpayment of certain fee amounts payable under the Standby Bond Purchase Agreement within ten (10) Business Days after the Corporation, the Trustee, the Insurer and the



Infrastructure Bank have received written notice from the Banks that the same were not paid when due; or

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

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

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

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

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

*"Insurer Adverse Change"* means the failure by the Insurer to maintain a claims-paying ability rating of at least "AA" by S&P, "AA" by Fitch and at least "Aa2" by Moody's and such claims paying ability ratings shall remain below "AA" by S&P, "AA" by Fitch and "Aa2" by Moody's for a period of ninety (90) consecutive days.

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

### **Substitute Liquidity Facility**

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

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

The Corporation may at any time provide a substitute Liquidity Facility with respect to a Series of Bonds in accordance with the provisions of the Loan Agreement and the Indenture (provided, however, that the Corporation shall not substitute any Liquidity Facility with respect to any Series of Bonds during a Rate Period if such Series of Bonds are not then required to be tendered for purchase pursuant to the Indenture) upon delivery to the Trustee of the following: (i) an opinion of Bond Counsel addressed to the Trustee to the effect that the delivery of such substitute Liquidity Facility to the Trustee is authorized under the Indenture and the Loan Agreement and complies with the terms thereof and will not adversely affect the Tax-Exempt status of interest on any of the Bonds, (ii) an opinion or opinions of counsel to the Liquidity Provider addressed to the Trustee and the Infrastructure Bank, to the effect that the Liquidity Facility has been duly authorized,

executed and delivered by the Liquidity Provider and constitutes the valid, legal and binding obligation of the Liquidity Provider enforceable against the Liquidity Provider in accordance with its terms, and (iii) a Rating Confirmation.

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

- (i) the substitute Liquidity Facility must be a Liquidity Facility entered into by, or issued by, a commercial bank or other financial institution;
- (ii) the terms and provisions of the substitute Liquidity Facility with respect to the purchase of Bonds thereunder must be in all material respects no less favorable to the Trustee than the terms and provisions of the initial Liquidity Facility;
- (iii) the substitute Liquidity Facility must take effect on or before the date of termination of the existing Liquidity Facility and the term of the substitute Liquidity Facility must be at least 364 days (or, if shorter, the period to maturity of the applicable Series of Bonds); and
- (iv) the substitute Liquidity Facility must be in an amount sufficient to pay the maximum purchase price of the Series of Bonds which will be applicable during the then current Rate Period.

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

## THE LIQUIDITY BANKS

### Westdeutsche Landesbank Girozentrale

**Background Information.** Westdeutsche Landesbank Girozentrale, which traces its history to 1832, was created by the merger of two central banks, or Landesbanks (German State Banks), in the State of North Rhine-Westphalia, the Federal Republic of Germany ("Germany") on January 1, 1969. As a German universal bank, Westdeutsche Landesbank Girozentrale provides commercial and investment banking services regionally, nationally and internationally to public, corporate and bank customers. Westdeutsche Landesbank Girozentrale is the largest of the Landesbanks and, on the basis of total assets at December 31, 1998, was the fourth largest bank in Germany. At December 31, 1998, Westdeutsche Landesbank Girozentrale had total assets of approximately DM 540.8 billion (US\$ 323.2 billion).

Westdeutsche Landesbank Girozentrale also performs the functions of a state and municipal bank for the State of North Rhine-Westphalia and acts as the central bank of the Sparkassen (savings banks) in North Rhine-Westphalia (Germany's most populous state). It conducts a comprehensive range of wholesale banking business and has the power to issue mortgage bonds, municipal bonds and other bonds and is the largest continuous issuer of long term debt in Germany. In its capacity as central bank, Westdeutsche Landesbank Girozentrale acts as the clearing and depository bank for the savings banks in North Rhine-Westphalia. As a

state bank, Westdeutsche Landesbank Girozentrale provides trustee services for state-supported lending programs for housing, regional economic assistance, middle market firms and environmental protection. Internationally, the Westdeutsche Landesbank Girozentrale Group (the "Group") operates through an extensive network of banking subsidiaries, branches and representative offices to provide a range of financial services to its clients.

Pursuant to a guaranty obligation (Gewährträgerhaftung) set forth in Section 37 of the North Rhine-Westphalia Savings Bank Act and Section 5 of the Ordinances of Westdeutsche Landesbank Girozentrale, North Rhine-Westphalia together with the other guarantors specified therein (including regional authorities and savings bank associations) are jointly and severally liable without restriction for all obligations of Westdeutsche Landesbank Girozentrale, including all obligations of the New York Branch of Westdeutsche Landesbank Girozentrale (hereinafter, "WestLB New York"). The guaranty obligation gives creditors a direct claim against North Rhine-Westphalia only if the claims of the creditors have not first been satisfied out of the assets of Westdeutsche Landesbank Girozentrale, including the assets of WestLB New York.

In addition to being liable under the guaranty obligation, North Rhine-Westphalia, having established Westdeutsche Landesbank Girozentrale, is responsible to Westdeutsche Landesbank Girozentrale for the performance of Westdeutsche Landesbank Girozentrale's obligations, including all obligations of WestLB New York. This maintenance obligation (Anstaltslast), while not a formal guaranty affording creditors of Westdeutsche Landesbank Girozentrale a direct claim against North Rhine-Westphalia, requires North Rhine-Westphalia to keep Westdeutsche Landesbank Girozentrale in a position to perform its functions and to enable it, in the event of financial difficulties, to perform its obligations, when due.

**The New York Branch.** WestLB New York is licensed and subject to supervision and regulation by the Superintendent of Banks of the State of New York. WestLB New York is examined by the New York State Banking Department and is subject to banking laws and regulations applicable to a foreign bank that operates a New York branch. In addition to being subject to New York banking laws and regulations, Westdeutsche Landesbank Girozentrale and WestLB New York are also subject to the International Banking Act of 1978 (the "IBA") and the Foreign Bank Supervision Enhancement Act of 1991, and Westdeutsche Landesbank Girozentrale is subject to federal regulation under the IBA and the Bank Holding Company Act of 1956.

**Summary of Results of Operations and Financial Condition for the Fiscal Year Ended December 31, 1998.** In the fiscal year ended December 31, 1998, Westdeutsche Landesbank Girozentrale's total assets grew by 18.4% from DM 456.7 billion to DM 540.8 billion (US\$ 323.2 billion). As of December 31, 1998, total deposits and borrowed funds totaled DM 495 billion (US\$ 296 billion), an increase of 18% from the previous year's amount by DM 76 billion. Westdeutsche Landesbank Girozentrale's capital and reserves (including supplementary capital) increased to DM 22,438 million (US\$ 13,411 million) as of December 31, 1998 (as compared to DM 19,246 million as of December 31, 1997).

Westdeutsche Landesbank Girozentrale's operating profit before risk provisions/result of evaluation of DM 1,548 million (US\$ 925 million) increased by 15.3% over the previous year. Interest surplus increased by 11.7% (from DM 3,064 million in 1997 to DM 3,422 million in 1998). Commission surplus increased by 15.2% (from DM 395 million in 1997 to DM 455 million in 1998). Staff expenses increased by 8.6% to DM 1,381 million (US\$ 825 million) in 1998, with other administrative expenses showing an increase of 25.0% to DM 1,325 million (US\$ 792 million) in 1998.

**United States and German Exchange Rates and Generally Accepted Accounting Principles.** The financial information for the year ended December 31, 1998 is derived from the audited statements of Westdeutsche Landesbank Girozentrale, does not include the consolidated subsidiaries of the Westdeutsche Landesbank Girozentrale Group and has been prepared in accordance with accounting principles, practices, laws and regulations generally accepted in Germany. German accounting principles differ in certain respects from accounting principles generally accepted in the United States.

Unless indicated otherwise, currency amounts are stated in Deutsche Marks ("DM" or "Deutsche Marks") or United States dollars ("US\$" or "U.S. dollars"). Merely for the convenience of the reader, this summary contains translations of certain Deutsche Mark amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the Deutsche Mark amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollar amounts at the rate indicated. Unless otherwise indicated, the translations of Deutsche Marks into U.S. dollars have been made at **DM 1.6730 = US\$ 1.00**, which was the official (Frankfurt fixing) exchange rate on December 30, 1998. In certain instances, figures reflect the effect of rounding.

### **Bayerische Landesbank Girozentrale**

Bayerische Landesbank Girozentrale was incorporated as a public law financial institution (Rechtsfaehige Anstalt des Oeffentlichen Rechts) by the Law Establishing Bayerische Landesbank Girozentrale (Gesetz ueber die Errichtung der Bayerischen Landesbank Girozentrale) of June 27, 1972, as amended, as adopted by the Parliament of the Free State of Bavaria, and is subject to the German Federal Banking Act of July 10, 1961, as amended (Gesetz ueber das Kreditwesen) (the "Federal Banking Act"). Its statutes authorize Bayerische Landesbank Girozentrale to provide universal financial services including both commercial and investment banking as well as brokerage activities. The Free State of Bavaria owns 50% of Bayerische Landesbank Girozentrale's share capital, the other 50% being owned by the Bavarian Savings Bank and Clearing Association (Bayerischer Sparkassen-und Giroverband) (which is the central organization of the Bavarian Savings Banks).

Bayerische Landesbank Girozentrale is equipped to provide a full range of domestic and international banking services; with regard to local banking functions, Bayerische Landesbank Girozentrale also makes use of the Bavarian Savings Bank's network. In the domestic field, Bayerische Landesbank Girozentrale places emphasis on wholesale banking, lending to federal and local authorities and mortgage lending, together with industrial credit. Bayerische Landesbank Girozentrale holds the function of a banker of the Free State of Bavaria and its municipalities, and also finances public and private development projects, administers public funds and performs certain treasury functions for the Free State of Bavaria.

The Free State of Bavaria and the Bavarian Savings Bank and Clearing Association are jointly and severally liable for the obligations of Bayerische Landesbank Girozentrale if the liabilities cannot be satisfied from Bayerische Landesbank Girozentrale's assets (Gewachtraeger). The owners of Bayerische Landesbank Girozentrale also have an obligation to maintain Bayerische Landesbank Girozentrale in a financial position which enables it to carry out its functions. This liability (Anstaltslast), which is peculiar to German law, obliges the owners to provide funds for Bayerische Landesbank Girozentrale that are necessary to enable it to fulfill its functions, to meet its liabilities and to keep its finances sound. As an additional safeguard, it is noted that as a public law institution Bayerische Landesbank Girozentrale can only be put into liquidation through a specific law to this effect.

Bayerische Landesbank Girozentrale established a Representative Office in New York in October 1979 and obtained a license from the office of the Comptroller of the Currency in October 1981 to operate through a branch located in the City of New York.

The New York Branch engages in a diversified banking business, and is a major wholesale lending participant throughout the United States, offering a full range of domestic and international financial services, including loans, foreign exchange and money market operations.

All banking institutions in the Federal Republic of Germany are subject to governmental supervision and regulation exercised by the Federal Banking Supervisory Authority (Bundesaufsichtsamt fuer das Kreditwesen), an independent federal authority with regulatory powers and by the Deutsche Bundesbank (the "German Federal Central Bank") in accordance with the Federal Banking Act. The Federal Banking Act contains major rules for banking supervision and regulates Bayerische Landesbank Girozentrale's business

activities, capital adequacy and liquidity. In addition to the above-mentioned general banking supervision, the group of Landesbanks is subject to special supervision by their respective federal states.

As reported in Bayerische Landesbank Girozentrale's Annual Report for the Fiscal Year ended December 31, 1998, Bayerische Landesbank Girozentrale had total assets of Deutsche Mark ("DM") 439.8 billion (DM 475.2 billion on a consolidated basis). Business volume (balance sheet total, own drawings charged to borrowers, endorsement liabilities, and guarantees) expanded by 9.5% to DM 468.1 billion from the previous year end. Bayerische Landesbank Girozentrale's lending volume increased by DM 21.1 billion to DM 300.5 billion from year end 1997. Total equity of Bayerische Landesbank Girozentrale, including, among other items, nominal capital of DM 1.6 billion, profits participation rights with a nominal value of DM 3.88 billion and capital contributions of silent partners in an amount of DM 4.16 billion, totaled DM 15.78 billion or 3.6% of the unconsolidated balance sheet. Net income after tax was DM 512.0 million, a decrease of 13.4% compared to year end 1997. DM 400 million of such amount has been allocated to revenue reserves, raising Bayerische Landesbank Girozentrale's published reserve to DM 6.03 billion. The accounting principles applied in the preparation of Bayerische Landesbank Girozentrale's financial statements comply with generally accepted accounting principles in the Federal Republic of Germany and may not conform to generally accepted accounting principles applied by United States banks.

The rate of exchange between the DM and the dollar is determined by the forces of supply and demand in the foreign exchange markets, which, in turn, are affected by changes in the balance of payments and other economic and financial conditions, government intervention, speculation and other factors. The foregoing information relating to Bayerische Landesbank Girozentrale is based upon facts and circumstances present on the dates referenced above. Such facts and circumstances may change from time to time. Bayerische Landesbank Girozentrale shall have no obligation to update the foregoing information to reflect any such change.

Copies of Bayerische Landesbank Girozentrale's Annual Report for the most recent available fiscal year may be obtained at the New York Branch in person during normal business hours or by mail by writing to the New York Branch at: Bayerische Landesbank Girozentrale, 560 Lexington Avenue, New York, New York 10022, Attention: Corporate Finance.

Bayerische Landesbank Girozentrale has supplied the information relating to it in the previous paragraphs. Bayerische Landesbank Girozentrale does not accept responsibility for any information contained in this Official Statement other than the information contained in this Section relating to Bayerische Landesbank Girozentrale.

#### **Morgan Guaranty Trust Company of New York**

Morgan Guaranty Trust Company of New York is a wholly owned subsidiary and the principal asset of J.P. Morgan & Co. Incorporated ("Morgan"), a Delaware corporation whose principal office is located in New York, New York. Morgan Guaranty Trust Company of New York is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. Its business is subject to examination and regulation by Federal and New York State banking authorities. As of December 31, 1999, Morgan Guaranty Trust Company of New York and its subsidiaries had total assets of \$167.7 billion, total net loans of \$26.1 billion, total deposits of \$47.7 billion, and stockholder's equity of \$10.6 billion. As of December 31, 1998, Morgan Guaranty Trust Company of New York and its subsidiaries had total assets of \$175.2 billion, total net loans of \$24.9 billion, total deposits of \$56.2 billion, and stockholder's equity of \$10.5 billion.

The Consolidated statement of condition of Morgan Guaranty Trust Company of New York as of December 31, 1999, is set forth on page 12 of Exhibit 99a to Form 8-K dated January 18, 2000, as filed by Morgan with the Securities and Exchange Commission. Morgan Guaranty Trust Company of New York will provide without charge to each person to whom this Official Statement is delivered, on the request of any such

person, a copy of the Form 8-K referred to above. Written request should be directed to: Morgan Guaranty Trust Company of New York, 60 Wall Street, New York, New York 10260-0060, Attention: Office of the Secretary.

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

## **ABSENCE OF LITIGATION**

### **The Infrastructure Bank**

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

### **The Corporation**

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

## **VERIFICATION**

Upon the delivery of the Bonds, Grant Thornton LLP, independent accountants, will deliver a report on the mathematical accuracy of certain computations contained in the schedules provided to them relating to the adequacy of the maturing principal amount of the Government Obligations held in the escrow fund established with respect to the Refunded Bonds, interest earned thereon and certain moneys on deposit in said fund for the payment of the principal and interest requirements on the Refunded Bonds (including the purchase price of any Refunded Bonds tendered for purchase by the holders thereof and not remarketed) until the redemption date therefor and upon the redemption of the Refunded Bonds on such redemption date. The report of Grant Thornton LLP will include a statement that the scope of their engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of any event occurring, or data or information coming to their attention, subsequent to the date of their report.

## **RATINGS**

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

## **UNDERWRITING**

J.P. Morgan Securities Inc., the Underwriter, is expected to agree, subject to certain conditions, to purchase the Bonds from the Infrastructure Bank at an aggregate Underwriter's discount of \$204,378. The Bond Purchase Contract for the Bonds provides that the Underwriter is obligated to purchase all of the Bonds if any are purchased. The Bonds may be offered and sold by the Underwriter 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 Underwriter. The Corporation has agreed to indemnify the Infrastructure Bank and the Underwriter against certain liabilities, including certain liabilities under federal securities laws.

## **TAX MATTERS**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative maximum taxable liability of such corporations. A copy of the proposed form of the opinion of Bond Counsel is set forth in "APPENDIX B - FORM OF OPINION OF BOND COUNSEL."

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the Bonds is based upon certain representations of fact and certifications made by the Infrastructure Bank, the Corporation, the Underwriter and others and is subject to the condition that the Infrastructure Bank and the Corporation comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to assure that interest on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Infrastructure Bank and the Corporation have covenanted to comply with all such requirements.

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

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for federal income tax purposes provided that the Infrastructure Bank and the Corporation comply with certain requirements of the Code, the ownership of Bonds and the accrual or receipt of interest thereon may otherwise affect the tax liability of certain persons. The extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences.

Accordingly, all potential purchasers should consult their tax advisors with respect to such consequences before purchasing any of the Bonds.

#### **OTHER LEGAL MATTERS**

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



## **EXECUTION AND DELIVERY**

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

### **CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK**

By: /s/ Lon S. Hatamiya  
Title: Chair

Approved by:

### **CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

By: /s/ Terry M. Winter  
Title: President and Chief Executive Officer

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## APPENDIX A

### BOOK-ENTRY SYSTEM

*The following information concerning DTC and DTC's book-entry system has been obtained from DTC. The Infrastructure Bank, the Corporation and the Underwriter make no representation as to the accuracy or completeness of such information.*

#### **General**

Initially, DTC will act as securities depository for the Bonds. The Bonds will be issued solely in book-entry form to be held under DTC's book-entry system, registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each Series of the Bonds, each in the aggregate principal amount of the Bonds of such Series, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended.

DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants ("Direct Participants") include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are 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 interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The 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.

As long as the book-entry system is used for the Bonds, redemption notices will be sent to Cede & Co. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

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

Principal, Purchase Price, premium, if any, and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payment date. 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, the Corporation or the Infrastructure Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, Purchase Price, premium, if any, and interest to DTC is the responsibility of the Infrastructure Bank or the Trustee, and disbursement of such payments to the Participants or the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants, Indirect DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in

such Bonds and other related transactions by and between DTC, the DTC Participants, the Indirect DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants, the Indirect DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR HOLDERS OF BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

#### **Discontinuance of DTC Services**

DTC may discontinue providing its services as Securities Depository with respect to the Bonds at any time by giving notice to the *Infrastructure Bank*, the Corporation, the Trustee and the Tender Agent. In addition, the Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Securities Depository). Under either of such circumstances, in the event that a successor Securities Depository is not obtained, Bond certificates are required to be printed and delivered.

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**APPENDIX B**  
**FORM OF OPINION OF BOND COUNSEL**

[Closing Date]

California Infrastructure and Economic Development Bank  
801 K Street, Suite 1700  
Sacramento, California 95814

**Re:**     \$186,600,000 California Infrastructure and Economic Development Bank  
          Variable Rate Demand Revenue Bonds  
          (California Independent System Operator Corporation Project)  
          2000 Series A and 2000 Series B

Ladies and Gentlemen:

We have acted as bond counsel for the California Infrastructure and Economic Development Bank, a public instrumentality of the State of California (the "Infrastructure Bank"), in connection with its authorization and issuance of the above-referenced bonds (the "Bonds") under and pursuant to the provisions of the Bergeson-Peace Infrastructure and Economic Development Act constituting Division 1 of Title 6.7 of the Government Code of the State of California (the "Act") and an Indenture of Trust, dated as of March 1, 2000 (the "Indenture"), by and between the Infrastructure Bank and Bankers Trust Company of California, N.A., as trustee (the "Trustee"). The Bonds are issued for the purpose of making a loan of the proceeds thereof to California Independent System Operator Corporation ("ISO") pursuant to a Loan Agreement, dated as of March 1, 2000, by and between the Infrastructure Bank and ISO. All terms not defined herein have the meanings ascribed to those terms in the Indenture.

In such connection, we have examined originals or copies identified to our satisfaction as being true copies of the Indenture, the Loan Agreement, the Tax Certificate, dated the date hereof, by and between the Infrastructure Bank and ISO, opinions of counsel to the Infrastructure Bank, ISO and the Trustee, and certain other documents and records of the Infrastructure Bank and ISO. As to questions of fact material to our opinion, we have relied upon certifications of officers of the Infrastructure Bank, ISO, the Trustee and others which have been furnished to us, but we have not undertaken to verify the accuracy thereof through independent investigation. We have also relied upon, without independent verification, the legal conclusions set forth in the opinions referred to above. Finally, we have assumed the genuineness of all signatures, the legal capacity of all natural persons executing the documents referred to above, the authenticity of all documents submitted to us as originals, the conformity to originals of all documents submitted to us as copies, and the due and legal authorization, execution and delivery thereof by, and validity against, any parties to such documents other than the Infrastructure Bank.

Based upon and subject to the foregoing, and in reliance thereon, we are of the following opinions:

1.     The Infrastructure Bank has lawful authority to issue the Bonds; it has duly authorized and issued the Bonds in accordance with the Constitution and laws of the State of California, including the Act, and the Indenture; and the Bonds constitute legal, valid and binding obligations of the Infrastructure Bank enforceable against the Infrastructure Bank in accordance with their terms. The Bonds are special obligations of the Infrastructure Bank payable solely from the Revenues and other amounts held by the Trustee under the Indenture (except the Rebate Fund); the Bonds are not a lien or charge upon the funds or property of the Infrastructure Bank except to the extent provided in the Indenture. The Bonds are not an obligation of the State of California or any instrumentality or local agency thereof (other than the Infrastructure Bank); and

neither the faith and credit nor the taxing power of the State of California or any instrumentality or local agency thereof is pledged for the payment of the Bonds.

2. The Infrastructure Bank has lawful authority under the Act to enter into the Indenture; it has duly authorized, executed and delivered the Indenture; and the Indenture is a legal, valid and binding obligation of the Infrastructure Bank enforceable against the Infrastructure Bank in accordance with its terms. The Indenture creates a valid pledge of the Revenues and other amounts held by the Trustee under the Indenture (except the Rebate Fund), subject to the provisions of the Indenture permitting the application of the Revenues and such amounts for the purposes and on the terms and conditions set forth therein. The Indenture also creates a valid assignment to the Trustee, for the benefit of the Holders of the Bonds, of the Infrastructure Bank's right, title and interest in and to the Loan Agreement to the extent described in the Indenture.

3. The Infrastructure Bank has lawful authority under the Act to enter into the Loan Agreement; it has duly authorized, executed and delivered the Loan Agreement; and the Loan Agreement is a legal, valid and binding obligation of the Infrastructure Bank enforceable against the Infrastructure Bank in accordance with its terms.

4. Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

5. Interest on the Bonds is exempt from State of California personal income tax.

The opinions expressed herein as to the exclusion from gross income of interest on the Bonds are subject to the condition that the Infrastructure Bank and ISO comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Infrastructure Bank and ISO have covenanted to comply with all such requirements. The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether or not any such actions or events are taken or do occur. The Indenture, the Loan Agreement and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the exclusion from gross income of interest for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences of the Bonds.

We have not undertaken to review the Official Statement relating to the Bonds on behalf of the Holders or beneficial owners of the Bonds, and we assume no responsibility to such Holders or beneficial owners for the accuracy or completeness of the information contained therein.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Loan Agreement are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer, and other similar laws affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,



## APPENDIX C

### GLOSSARY OF TERMS

Unless the context otherwise requires, the terms defined in this APPENDIX C shall have the meanings specified below.

"Act" means the Bergeson-Peace Infrastructure and Economic Development Bank Act, constituting Division 1 of Title 6.7 of the Government Code of the State, commencing with Section 63000.

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

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

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

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

"Authorized Denomination" means (a) with respect to Bonds of any Series during any Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period of one year or less, \$100,000 or any multiple of \$100,000 above that amount; and (b) with respect to Bonds of any Series during any Fixed Rate Period, \$5,000 or any multiple of \$5,000 above that amount.

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

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

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

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

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

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

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

"Calendar Week" means the period of seven (7) days from and including Wednesday of any week to and including Tuesday of the next following week.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commercial Paper Rate" means the interest rate on Bonds of any Series established from time to time pursuant to the applicable provisions of the Indenture.

"Commercial Paper Rate Period" means, with respect to any Bond bearing interest, or to bear interest, at a Commercial Paper Rate, the period during which such Bond bears interest at a specific rate of interest for such Commercial Paper Rate Period in accordance with the applicable provisions of the Indenture.

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

"Conversion" means any conversion from time to time in accordance with the terms of the Indenture of the Bonds of any Series from one Interest Rate Determination Method to another.

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

"Conversion Notice" shall have the meaning set forth in the Indenture.

"Daily Rate" means the interest rate on any Bond established from time to time pursuant to the applicable provisions of the Indenture.

"Daily Rate Index" means, on any Business Day, the Tax-Exempt Daily Interest Rate ("TEDIR") established by the Remarketing Agent at its principal office as of the opening of business on such Business Day as a base rate of interest which is indicative of current bid-side yields of securities the interest on which is excluded from gross income for federal income tax purposes and which are repriced and can be tendered for payment on any Business Day; provided, that, if TEDIR shall not be established as aforesaid, the Daily Rate Index for any Business Day shall be an Alternate Daily Index selected by the Remarketing Agent with the consent of the Infrastructure Bank or, if no such Alternate Daily Index shall have been so selected, shall be the sum of (A) the product of (i) the interest rate for thirty-day taxable commercial paper (prime paper placed

through dealers) announced for such day by the Federal Reserve Bank of New York, converted to a coupon equivalent rate, multiplied by (ii) 1 minus the maximum federal income tax rate payable by individuals at the time on interest income, plus (B) 2.00% or, if interest on the Bonds is an item of tax preference in determining alternative minimum taxable income (as evidenced by an Opinion of Bond Counsel), 2.25%.

"Daily Rate Period" means any period during which any Bonds bear interest at the Daily Rate.

"Determination of Taxability" means a determination that, interest on the Bonds, or any of them, is determined not to be Tax-Exempt by a final administrative determination of the Internal Revenue Service or a final judicial decision of a court of competent jurisdiction in a proceeding of which the Corporation received notice and was afforded an opportunity to participate to the full extent permitted by law. A determination or decision will not be considered final for purposes of the preceding sentence unless (A) the Infrastructure Bank or the Holder or Holders of the Bonds involved in the proceeding in which the issue is raised (i) shall have given the Corporation, the Trustee and the Liquidity Provider, if any, prompt written notice of the commencement thereof, and (ii) shall have offered the Corporation the opportunity to control the proceeding; provided the Corporation agrees to pay all expenses in connection therewith and to indemnify such Holder or Holders against all liability for such expenses (except that any such Holder may engage separate counsel, and the Corporation shall not be liable for the fees or expenses of such counsel); and (B) such proceeding shall not be subject to a further right of appeal or shall not have been timely appealed.

"Electronic" notice means notice through a time-sharing terminal.

"Fixed Rate" means the fixed rate borne by any Bond either from its date of issuance hereunder or from the *Fixed Rate Conversion Date relating to such Bond*, which rate shall be established in accordance with the applicable provisions of the Indenture.

"Fixed Rate Conversion Date" means the Conversion Date on which the interest rate on any Bond shall be converted to a Fixed Rate.

"Fixed Rate Index" means the rate of interest per annum determined by the Remarketing Agent to be equal to the Fixed Rate Percentage of the weekly "Bond Buyer Revenue Bond Index" (or, if the "Bond Buyer Revenue Bond Index" is unavailable or discontinued, any comparable index selected by the Remarketing Agent) for the date immediately preceding the date of determination or, if any comparable index selected is unavailable or discontinued, 110% of the then current yield on United States Treasury obligations which have remaining terms equal approximately to the remaining term of such Bond as of the Fixed Rate Conversion Date and which are publicly traded at a price closest to the principal amount thereof.

"Fixed Rate Percentage" means: (a) if interest on the Bonds of a Series to be converted to a Fixed Rate is not an item of tax preference in determining alternative minimum taxable income under the Code (as evidenced by an Opinion of Bond Counsel): (i) 102%, if, on the Computation Date relating to any Fixed Rate Conversion Date, the Bonds to be converted to a Fixed Rate have received or are expected to receive a rating to be applicable to such Bonds on the Fixed Rate Conversion Date in respect of the Fixed Rate Period of "AA" or better (or its equivalent) by a Rating Agency, (ii) 105%, if, on the Computation Date relating to any Fixed Rate Conversion Date, the Bonds to be converted to a Fixed Rate have received or are expected to receive a rating to be applicable to such Bonds on the Fixed Rate Conversion Date in respect of the Fixed Rate Period of "A" or better (or its equivalent) but less than "AA" (or its equivalent) by a Rating Agency, and (iii) 110%, in all other cases; and (b) if interest on the Bonds of a Series to be converted to a Fixed Rate is an item of tax preference in determining alternative minimum taxable income under the Code (as evidenced by an Opinion of Bond Counsel): (i) 102.5%, if, on the Computation Date relating to any Fixed Rate Conversion Date, the Bonds to be converted to a Fixed Rate having received or are expected to receive a rating to be applicable to such Bonds on the Fixed Rate Conversion Date in respect of the Fixed Rate Period of "AA" or better (or its equivalent) by a Rating Agency, (ii) 105.5%, if, on the Computation Date relating to any Fixed Rate Conversion Date, the Bonds to be converted to a Fixed Rate have received or are expected to receive a rating to be applicable to such Bonds on the Fixed Rate Conversion Date in respect of the Fixed Rate Period of "A" or better (or its equivalent) but less than "AA" (or its equivalent) by a Rating Agency, and (iii) 110.5%, in all other cases.

"Fixed Rate Period" means the period from and including the date of issuance or the Fixed Rate Conversion Date of Bonds of a Series bearing a Fixed Rate to and including the Maturity Date.

"Grid Management Charge" or "GMC" means the Corporation's monthly charge on certain entities that is 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.

"Holder" or "Bondholder" means the registered owner of any Bond.

"Interest Payment Date" means (i) with respect to each Liquidity Provider Bond and each Bond bearing interest at a Daily Rate or Weekly Rate, the first Business Day of each calendar month, (ii) with respect to each Bond bearing interest at a Commercial Paper Rate, the day immediately succeeding the last day of each Commercial Paper Rate Period applicable to such Bond, (iii) each Conversion Date, (iv) with respect to any Fixed Rate Period, each Semi-Annual Interest Payment Date, and (v) in all events, the final maturity date of each Bond.

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

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

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

"Liquidity Provider" means the issuer or issuers or other provider or providers of a Liquidity Facility with respect to the Bonds of any Series as permitted under the Loan Agreement and the Indenture (except the Corporation), and the respective successors and assigns of the business thereof and any surviving, resulting or transferee entity with or into which it may be consolidated or merged or to which it may transfer all or substantially all of its business. The initial Liquidity Provider for the Bonds shall be Westdeutsche Landesbank Girozentrale, Bayerische Landesbank Girozentrale and Morgan Guaranty Trust Company of New York, severally but not jointly, as described in the Standby Bond Purchase Agreement.

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

"Maximum Interest Rate" means (a) while a Liquidity Facility is in effect with respect to the Bonds of any Series, the rate of interest specified in such Liquidity Facility which is used to determine the amount available under such Liquidity Facility for payment of interest due and payable to Holders of the Bonds, but in no event greater than 12% per annum, and (b) at all other times, 12% per annum.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns.

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

"1998 Project" means the computer and telecommunications hardware and software systems required by the Corporation to act as an independent system operator of electric transmission facilities placed under the Corporation's operating control, together with other facilities, start-up costs and initial working capital requirements in connection with the new business activity, financed with the proceeds of the Refunded Bonds.

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

"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 reserve accounts, communication fees, Western Systems Coordinating Council security fees, application fees, training reimbursements and any other revenues from ancillary services, but excluding any monies received by the Corporation in trust for third parties, *i.e.*, (i) monies in the Clearing Account established pursuant to the Tariff in Section 2.2.3 of the Settlement and Billing Protocol included in the Tariff, other than those monies payable as the Grid Management Charge, (ii) monies in the accounts established pursuant to the Tariff in Section 2.1 of Annex 1 to the Settlement and Billing Protocol included in the Tariff and (iii) monies in any like account established by the Corporation pursuant to the Tariff.

"Parity Obligations" means the Corporation's payment obligations under the Liquidity Agreement, the Swap Agreement and any other indebtedness permitted under a Liquidity Facility or Facilities securing the Bonds or any Liquidity Agreement pursuant to which any such Liquidity Facility was issued.

"Principal Office" (i) of the Tender Agent, the Registrar or the Paying Agent means the office thereof designated in writing by the Tender Agent, the Registrar or the Paying Agent, as the case may be, to the Infrastructure Bank, the Trustee, the Liquidity Provider and the Corporation, which initially shall be located in Irvine, California; (ii) of the Trustee means the principal corporate trust office of the Trustee designated in writing to the Infrastructure Bank, the Registrar, the Paying Agent, the Tender Agent, the Liquidity Provider and the Corporation, which initially shall be located in Irvine, California; (iii) of the Remarketing Agent means its office designated in writing to the Infrastructure Bank, the Trustee, the Tender Agent, the Liquidity Provider and the Corporation; and (iv) of the Liquidity Provider means its office located at such address as such Liquidity Provider shall designate in writing to the Infrastructure Bank, the Trustee, the Tender Agent and the Corporation.

"Project" means collectively the 1998 Project and the 2000 Project.

"Purchase Date" means any date on which any Bond is required to be purchased as a result of optional or mandatory tender provisions of the Indenture.

"Purchase Price" means an amount equal to 100% of the principal amount of any Bond tendered or deemed tendered to the Trustee for purchase pursuant to the optional or mandatory tender provisions of the Indenture, plus accrued and unpaid interest thereon to but not including the Purchase Date; provided, however, if the Purchase Date occurs after the Record Date applicable to the interest accrued on such Bond from the last occurring Interest Payment Date, then the Purchase Price shall not include accrued and unpaid interest, which shall be paid to the Holder of record on the applicable Record Date.

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

"Rate Index" means the Alternate Daily Index, the Daily Rate Index or both, as the context may require.

"Rate Period" means any Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period, or Fixed Rate Period.

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

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

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

"Record Date" means (a) with respect to any Interest Payment Date in respect of any Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period the Business Day next preceding such Interest Payment Date; and (b) with respect to any Interest Payment Date in respect of any Fixed Rate Period, the fifteenth day (whether or not a Business Day) of the month preceding such Interest Payment Date.

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

"Reserve Requirement" has the meaning provided in Appendix M to the Tariff.

"Revenues" means all receipts, installment payments and other income derived by the Infrastructure Bank or the Trustee under the Agreement or otherwise in respect of the financing or refinancing of the Project Facilities as contemplated by the Agreement, and any income or revenue derived from the investment of any money in any fund or account established pursuant to this Indenture (other than the Bond Purchase Fund, the Rebate Fund and the accounts therein), including all Repayment Installments, amounts received under the Bond Insurance Policy to pay principal of and interest on the Bonds and any other payments made by the Corporation with respect to the Bonds pursuant to the Agreement; provided, however, that such term shall not include payments to the Infrastructure Bank or the Trustee for fees, expenses or indemnifications pursuant to the Agreement or any amounts on deposit in the Bond Purchase Fund, the Rebate Fund or accounts therein.

"Semi-Annual Interest Payment Date" means April 1 or October 1.

"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, its successors and assigns.

"Tariff" means the Corporation Tariff and Pro Forma Agreements as posted from time to time pursuant to an order of the Federal Energy Regulatory Commission. References contained in the Indenture to specific sections of the Tariff shall mean the Tariff as posted on November 4, 1999.

"Tax Certificate" means, for each Series of Bonds, the Tax Certificate and Agreement, dated as of the date of initial issuance of such Series, by and between the Infrastructure Bank and the Corporation, as the same may be amended from time to time.

"Tax-Exempt" means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from the gross income of the Holders thereof (other than any Holder who is a "substantial user" of facilities financed with such obligations or a "related person" within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is

includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

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

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

"2000 Project" means the land, improvements, computer and telecommunications hardware and software systems, and other facilities and equipment used to provide operational control services in connection with electric transmission facilities, all as generally described in the Agreement.

"Variable Rate" means any of the Daily Rate, the Weekly Rate or the Commercial Paper Rate.

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

"Weekly Rate" means the variable interest rate on the Bonds of any Series established in accordance with the Indenture.

"Weekly Rate Period" means each period during which Weekly Rates are in effect.

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## APPENDIX D

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

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

#### INDENTURE OF TRUST

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

(a) The Trustee will have received an executed copy of the Agreement, the Escrow Agreement and the Indenture;

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

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

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

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

**Bond Register.** The Registrar will keep or cause to be kept at its Principal Office sufficient books for the registration and the registration of transfer of the Bonds, which will at all times, during regular business hours, be open to inspection by the Infrastructure Bank, the Trustee, the Insurer, the Liquidity Provider, if any, and the Corporation; and, upon presentation for such purpose, the Registrar will, under such reasonable regulations as it may prescribe, register the transfer or cause to be registered the transfer, on said books, of Bonds as provided in the Indenture.

**Bonds Mutilated, Lost, Destroyed or Stolen.** If any Bond becomes mutilated, the Infrastructure Bank, upon the request and at the expense of the holder of said Bond, will execute, and the Registrar will

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

**Construction Fund.** (a) The Trustee will establish the 2000 California Independent System Operator Corporation Construction Fund (the "Construction Fund"). Upon written direction from an Authorized Corporation Representative, the Trustee will establish within the Construction Fund such accounts and subaccounts as may be necessary or convenient to carry out the purposes of the Tax Certificate.

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

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

(c) Upon the receipt by the Trustee of a certificate conforming with the requirements of the Agreement, and after payment of costs payable from the Construction Fund or provision having been made for payment of such costs not yet due by retaining such costs in the Construction Fund or otherwise as directed in such certificate, the Trustee will transfer any remaining balance in the Construction Fund into a separate account within the Bond Fund, which the Trustee will establish and hold in trust, and which will be entitled the "Surplus Account." The moneys in any Surplus Account will be used and applied subject to the Indenture, at the written direction of the Corporation (unless some other application of such moneys is requested by the Corporation and would not, in the opinion of Bond Counsel, cause interest on the Bonds to become no longer Tax-Exempt) to the purchase for cancellation or redemption of Bonds of any Series as designated by an Authorized Corporation Representative in Authorized Denominations, to the maximum degree permissible, and at the earliest possible dates at which such Bonds can be purchased or redeemed pursuant to the Indenture. Notwithstanding the Investment of Moneys provision of the Indenture, the moneys in such Surplus Account will be invested at the written instruction of the Corporation at a yield no higher than the yield on the Outstanding Bonds (unless in the opinion of Bond Counsel investment at a higher yield would not cause interest on the Bonds to become no longer Tax-Exempt), and all such investment income will be deposited in such Surplus Account and expended or reinvested as provided in the Indenture.

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

**Costs of Issuance Fund.** The Trustee will establish the 2000 Costs of Issuance Fund (the "Costs of Issuance Fund"). The Trustee will establish such accounts and subaccounts within the Costs of Issuance Fund as may be specified in a written direction from an Authorized Corporate Representative. The moneys in the Costs of Issuance Fund will be held by the Trustee in trust and applied to the payment of Costs of Issuance, upon a requisition filed with the Trustee in the form attached to the Indenture as Exhibit C, signed by an Authorized Corporation Representative. All payments from the Costs of Issuance Fund will be reflected in the Trustee's regular accounting statements. Any amounts remaining in an account of the Costs of Issuance Fund three months following the date of delivery of the respective Series of Bonds will be transferred to the Construction Fund and deposited in such accounts as are directed by an Authorized Corporation Representative.

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

**Investment of Moneys.** Subject to the arbitrage covenants of the Indenture, any moneys in any of the funds and accounts to be established by the Trustee pursuant to the Indenture (other than the Bond Purchase Fund) 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), by the Trustee, if and to the extent then permitted by law, 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 obligations issued by, or guaranteed by the full faith and credit of, the United States of America which is rated by each Rating Agency at least as high as the then current rating of such Rating Agency on the Bonds if such Rating Agency is then rating the Bonds. Moneys in any fund or account (other than the Bond Purchase Fund) 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 Holder) not later than the date on which such moneys will be required by the Trustee.

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

Any interest, profit or loss on any investments of moneys in any fund or account under the Indenture will be credited or charged to the respective funds from which such investments are made. The Trustee may sell or present for redemption any obligations so purchased whenever it 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 Agreement. Unless otherwise directed by the Corporation, the Trustee may make any investment permitted under the Indenture of Moneys provision through or with its own commercial banking or investment departments.

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

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

**Assignment to Trustee; Enforcement of Obligations.** (a) Pursuant to the Indenture the Infrastructure Bank transfers, assigns and sets over to the Trustee all of the Revenues and any and all rights and privileges it had under the Agreement with respect to the Bonds, except (i) the Infrastructure Bank's rights to receive any notices under the Indenture or the Agreement, (ii) the Infrastructure Bank's right to receive payments, if any, with respect to fees, expenses and indemnification and certain other purposes under the Agreement and (iii) the Infrastructure Bank's rights to give approvals or consents pursuant to the Agreement, but including, without limitation, the right to collect and receive directly all of the Revenues and the right to hold and enforce any security interest; and any Revenues collected or received by the Infrastructure Bank will be deemed to be held, and to have been collected or received, by the Infrastructure Bank as the agent of the Trustee, and will forthwith be paid by the Infrastructure Bank to the Trustee. The assignment under the Indenture is to the Trustee solely in its capacity as Trustee under the Indenture and subject to the provisions of the Indenture and in taking or refraining from taking any action under the Agreement pursuant to such assignment, the Trustee will be entitled to the protections and limitations from liability afforded it as Trustee under the Indenture. The Trustee also will be entitled to take all steps, actions and proceedings reasonably necessary in its judgment (1) to enforce the terms, covenants and conditions of, and preserve and protect the priority of its interest in and under, the Agreement, the Bond Insurance Policy, any Liquidity Facility and any other security agreement with respect to the Project or the Bonds, and (2) to assure compliance with all covenants, agreements and conditions on the part of the Infrastructure Bank contained in the Indenture with respect to the Revenues.

**Repayment to Corporation or Liquidity Provider.** When there are no longer any Bonds Outstanding or provision for payment of the Bonds has been made in accordance with the Defeasance provisions of the Indenture, and all fees, charges and expenses of the Trustee, the Registrar, the Liquidity Provider, any Tender Agent, any Remarketing Agent and any Paying Agent have been paid or provided for, payment of the full amount owing the United States Government, as determined under the Agreement, the Arbitrage Covenants of the Indenture and the Tax Certificate, all expenses of the Infrastructure Bank relating to the Project and the Indenture have been paid or provided for, and all other amounts payable under the Indenture and under the Agreement have been paid, and the Indenture has been discharged and satisfied, the Trustee will pay to the Corporation any amounts remaining in any fund established and held pursuant to the Indenture; provided, however, that any amounts remaining in the Liquidity Facility Debt Service Account will be paid to the Liquidity Provider when there are no longer any Bonds Outstanding or provision for payment of such Bonds has been made in accordance with the Defeasance Provisions of the Indenture, regardless of whether all other amounts payable under the Indenture or under the Agreement have been paid.

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

(b) In the event that a Liquidity Facility is in effect, the Trustee will make a demand for payment under such Liquidity Facility subject to and in accordance with its terms, in order to receive payment thereunder.

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

(d) Any Bonds purchased with payments made under a Liquidity Facility pursuant to the Mandatory Tender Bonds provision will constitute Liquidity Provider Bonds and will be registered in the name of, or as otherwise directed by, the Liquidity Provider and delivered to or upon the order of, or as otherwise directed by, such Liquidity Provider; provided, that if such Bonds are Book-Entry Bonds, the Trustee will immediately upon making any demand for payment on a Liquidity Facility pursuant to the Mandatory Tender Bonds provision notify the Tender Agent. Upon receipt of such notice, the Tender Agent will direct DTC to cause any Bonds purchased with the proceeds of such demand to be transferred to such account at DTC, as directed by the Liquidity Provider, and such Bonds will be held in the name of or for the account of the Liquidity Provider or as may be directed by such Liquidity Provider.

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

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

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

(h) The Trustee will provide to each Rating Agency then rating the Bonds written notice of the extension of any Liquidity Facility in effect with respect to the Bonds.

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

**Payment of Principal and Interest.** The Infrastructure Bank covenants that it will punctually pay, but only out of Revenues as provided in the Indenture, the principal and the interest (and premium, if any) to become due in respect of every Bond issued under the Indenture at the times and places and in the manner

provided in the Indenture and in the Bonds according to the true intent and meaning thereof. All such payments will be made by the Trustee as provided in the Indenture. When and as paid in full, all Bonds, if any, will be delivered to the Trustee and will forthwith be cancelled by the Trustee, who will deliver a certificate evidencing such cancellation to the Infrastructure Bank and the Corporation. The Trustee may retain or destroy such cancelled Bonds.

**Extension or Funding of Claims for Interest.** In order to prevent any accumulation of claims for interest after maturity, the Infrastructure Bank will not, directly or indirectly, extend or assent to the extension of the time for the payment of any claim for interest on any of the Bonds, and will not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding such claims or in any other manner. In case any such claim for interest will be extended or funded, whether or not with the consent of the Infrastructure Bank, such claim for interest so extended or funded will not be entitled, in case of default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which will not have been so extended or funded.

**Paying Agents.** The Infrastructure Bank, with the written approval of the Trustee and the Corporation, may appoint and at all times have one or more Paying Agents (which will meet the qualifications of the Trustee set forth in the Indenture) in such place or places as the Corporation may designate, for the payment of the principal of, and the interest (and premium, if any) on, the Bonds. All provisions of the Indenture which apply to the Trustee will also apply to any Paying Agent appointed under the Indenture. It will be the duty of the Trustee to make such arrangements with any such Paying Agent as may be necessary to assure, to the extent of the moneys held by the Trustee for such payment, the prompt payment of the principal of and interest and premium, if any, on the Bonds presented at either place of payment. The Paying Agent initially appointed under the Indenture is the Trustee.

**Preservation of Revenues.** The Infrastructure Bank will not waive any provision of the Agreement or take any action to interfere with or impair the pledge and assignment under Indenture of Revenues and the assignment to the Trustee of rights under the Agreement, or the Trustee's enforcement of any rights thereunder, without the prior written consent of the Trustee. The Trustee may give such written consent, and may itself take any such action, or consent to any Amendment, only in accordance with the provisions of the Indenture.

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

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

(b) The Trustee will establish and maintain a fund separate from any other fund established and maintained under the Indenture designated the "California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds, Series 2000 (California Independent System Operator Corporation Project) Rebate Fund" (the "Rebate Fund"). Within the Rebate Fund, the Trustee will maintain such accounts as will be directed by the Corporation as necessary in order for the Infrastructure Bank and the Corporation to comply with the terms and requirements of the Tax Certificate. Subject to the transfer provisions provided in the Indenture below, all money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States Government, and neither the Corporation, the Infrastructure Bank nor the Bondholders will have any rights in or claim to such moneys. All amounts deposited into or on deposit in the

Rebate Fund will be governed by the Arbitrage Covenants, by the Agreement and by the Tax Certificate. The Trustee will conclusively be deemed to have complied with such provisions if it follows the directions of the Corporation, including supplying all necessary information requested by the Corporation and the Infrastructure Bank in the manner set forth in the Tax Certificate, and will not be required to take any actions thereunder in the absence of written directions from the Corporation.

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

(d) Notwithstanding any provision of the Indenture, including in particular the Defeasances provisions therein, the obligation of the Corporation to pay the Rebate Requirement to the United States Government and to comply with all other requirements of the Arbitrage Covenants, the Agreement and the Tax Certificate will survive the defeasance or payment in full of the Bonds.

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

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

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

**Events of Default; Acceleration; Waiver of Default.** Each of the following events will constitute an "Event of Default" under the Indenture: (a) Failure to make payment of any installment of interest upon any Bond when such payment will have become due and payable; (b) Failure to make due and punctual payment of the principal of or premium, if any, on any Bond when such payment will have become due and payable, whether at the stated maturity thereof, or upon proceedings for redemption thereof or upon the maturity thereof by declaration; (c) The occurrence of an "Event of Default" under the Agreement; (d) Default by the Infrastructure Bank in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, and the continuance of such default for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, 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 holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or (e) The Infrastructure Bank's or the Corporation's application for or consent to the appointment of a receiver, trustee, liquidator or custodian of the Infrastructure Bank or the Corporation, as the case may be, or of all or a substantial part of its property, or the commencement by the Infrastructure Bank or the Corporation of a voluntary case or other proceeding seeking liquidation, reorganization or other such relief under any bankruptcy, insolvency or other similar law, now or hereafter in effect, or the Infrastructure Bank's 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.



No default specified in (d) above will constitute an Event of Default unless the Infrastructure Bank and the Corporation 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 or, the Corporation within the applicable period and diligently pursued until the default is corrected. With regard to any alleged default concerning which notice is given to the Corporation under the provisions of this Section, the Infrastructure Bank thereby grants the Corporation full authority for the account of the Infrastructure Bank to perform any covenant or obligation the non-performance of which is alleged in said notice to constitute a default in the name and stead of the Infrastructure Bank with full power to do any and all things and acts to the same extent that the Infrastructure Bank could do and perform any such things and acts and with power of substitution. Notwithstanding such grant, the Corporation will not have any obligation to cure any default of the Infrastructure Bank.

Upon the occurrence and continuation of an Event of Default, the Trustee may, and upon the written request of the holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding and with the consent of the Insurer, or upon the written request of the Insurer, if any, will, by notice in writing delivered to the Corporation and the Insurer, with copies of such notice being sent to the Infrastructure Bank, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest will thereupon become and be immediately due and payable. Interest on the Bonds will cease to accrue from and after the date of declaration of any such acceleration. Notwithstanding the foregoing, the Trustee will not be required to take any action upon the occurrence and continuation of an Event of Default until a Responsible Officer of the Trustee has actual knowledge of such Event of Default. After any declaration of acceleration under this provision the Trustee will immediately declare all indebtedness payable under the Agreement with respect to the Bonds to be immediately due and payable in accordance with the Agreement and may exercise and enforce such rights as exist under the Agreement.

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

Notwithstanding anything else under this provision of the Indenture to the contrary, the failure of the Corporation to observe any covenant, agreement or representation in the Agreement which results in a Determination of Taxability, will not constitute an Event of Default under the Indenture if the Bonds are redeemed pursuant to Redemption Upon Mandatory Prepayment provisions of the Indenture. Payment of the redemption price for such Bonds will constitute the full and complete payment and satisfaction to the Holders of the Bonds for any claims, damages, costs or expenses arising out any failure on the part of the Corporation described above in this paragraph.

**Institution of Legal Proceedings by Trustee.** In addition, if one or more of the Events of Default under the Indenture will happen and be continuing, the Trustee in its sole discretion may, and upon the written request of the Insurer, or the holders of a majority in aggregate principal amount of the Bonds then Outstanding with the consent of the Insurer, and upon being indemnified to its satisfaction in its sole discretion therefor (including with respect to any expenses or liability the Trustee may incur) will, proceed to protect or



enforce its rights or the rights of the Holders under the Act or under the Indenture, by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained therein, or in aid of the execution of any power therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee will deem most effectual in support of any of its rights or duties under the Indenture.

**Application of Moneys Collected by Trustee.** Any moneys collected by the Trustee and 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 premium, if any) or interest, upon presentation of the Bonds, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

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

Second: In case the principal of none of the Outstanding Bonds will have become due and remains unpaid, to the payment of interest in default on the Outstanding Bonds in the order of the maturity thereof, such payments to be made ratably and proportionately to the persons entitled thereto without discrimination or preference, except as specified in the Indenture; provided, however, that no payment of interest will be made with respect to any Bonds held by the Infrastructure Bank, the Corporation or actually known by the Trustee to be held by any affiliate of the Corporation, or any nominee of the Infrastructure Bank, the Corporation, or any affiliate of the Corporation, until interest due on all Bonds not so registered will have been paid.

Third: In case the principal of any of the Outstanding Bonds will have become due by declaration or otherwise and remains unpaid, first to the payment of principal of all Outstanding Bonds then due and unpaid, then to the payment of interest in default in the order of maturity thereof, and then to the payment of the premium thereon, if any; in every instance such payment to be made ratably to the persons entitled thereto without discrimination or preference, except as specified in the Indenture; provided, however, that no payment of principal or premium or interest will be made with respect to any Bonds held by the Infrastructure Bank, the Corporation or known by the Trustee to be held by any affiliate of the Corporation or any nominee of the Infrastructure Bank, the Corporation, or any affiliate of the Corporation, until all amounts due on all Bonds not so held have been paid.

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

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

**Remedies Cumulative.** No remedy therein conferred upon or reserved to the Trustee or to any holder of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy will be

cumulative and will be in addition to every other remedy given under the Indenture or now or thereafter existing at law or in equity.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Qualifications of Trustee and Registrar.** There will at all times be a trustee and a registrar which will be corporations or banking associations organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least fifty million dollars (\$50,000,000), subject to supervision or examination by federal or State authority. If such corporations or banking associations publish reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority referred to in the Indenture then for the purposes of this provision the combined capital and surplus of such corporations or banking associations will be deemed to be their combined capital and surplus as set forth in their most recent reports of conditions so published. In case at any time the Trustee or the Registrar will cease to be eligible in accordance with the provisions of this provision, the Trustee or the Registrar, as the case may be, will resign immediately in the manner and with the effect specified in the Indenture.

**Resignation and Removal of Trustee or Registrar and Appointment of Successor Trustee or Registrar.** (a) The Trustee or the Registrar may at any time resign by giving written notice to the Infrastructure Bank, the Corporation, the Insurer and the Liquidity Provider, if any, and by giving to the Bondholders notice either by publication of such resignation, which notice will be published at least once in a Qualified Newspaper, or by giving Notice by Mail to such Bondholders. The Trustee will also mail a copy of any such notice of resignation to the Rating Agencies. Upon receiving such notice of resignation, the Infrastructure Bank, with the advice and consent of the Corporation and the consent of the Insurer (whose consent will not be unreasonably withheld), will promptly appoint a successor trustee or registrar, as the case may be, by an instrument in writing. If no successor trustee or registrar, as the case may be, will have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation by the Trustee or the Registrar, as the case may be, the resigning trustee or registrar, as the case may be, may petition any court of competent jurisdiction for the appointment of a successor trustee or registrar, as the case may be, or any Bondholder who has been a bona fide Holder for at least six (6) months may, on behalf of himself and others similarly situated, petition any such court for the appointment of a successor trustee or registrar, as the case may be. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, appoint a successor trustee or registrar, as the case may be.

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

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

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

then, in any such case, the Infrastructure Bank may remove the Trustee or the Registrar, as the case may be, and, with the advice and consent of the Corporation and the consent of the Insurer (whose consent will not be

unreasonably withheld), appoint a successor trustee or registrar, as the case may be, by an instrument in writing, or any such Bondholder may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee or the Registrar, as the case may be, and the appointment of a successor trustee or registrar, as the case may be. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, remove the Trustee or the Registrar, as the case may be, and appoint a successor trustee or registrar, as the case may be. Upon any removal of the Trustee, any outstanding fees and expenses of such former Trustee will be paid in accordance with the Indenture.

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

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

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

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

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

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

**Appointment, Duties and Qualifications of Tender Agent.** (a) In order to carry out the duties and obligations of the Tender Agent contained in the Indenture, the Infrastructure Bank, with the advice and consent of the Corporation, will appoint a Tender Agent in order to carry out such duties and obligations. The Tender Agent will designate to the Trustee its Principal Office to signify in writing its acceptance of the duties and obligations imposed upon it under the Indenture. The Tender Agent will keep such books and records with respect to its activities as Tender Agent as will be consistent with prudent industry practice and to make

such books and records available for inspection by each of the Infrastructure Bank, the Trustee and the Corporation at all reasonable times. The Tender Agent initially appointed under the Indenture is the Trustee.

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

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

**Appointment, Duties and Qualifications of Remarketing Agent.** (a) In order to carry out the duties and obligations contained in the Indenture, the Corporation, with the approval of the Liquidity Provider, will appoint the Remarketing Agent for each Series of Bonds subject to the conditions set forth below. A Remarketing Agent will be a bank, trust company or member of the National Association of Securities Dealers, Inc. organized and doing business under the laws of any state of the United States of America or the District of Columbia and will have together with its parent, if any, a capitalization of at least fifty million dollars (\$50,000,000) as shown in its or its parent's most recently published annual report. The Remarketing Agent initially appointed for the 2000 Series A Bonds is J.P. Morgan Securities, Inc. The Remarketing Agent initially appointed for the 2000 Series B Bonds is Lehman Brothers. The Remarketing Agent initially appointed for the 2000 Series C Bonds is Bear Stearns & Co. Inc.

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

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

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

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

(a) to add to the covenants and agreements of the Infrastructure Bank contained in the Indenture, or of the Corporation or of any Liquidity Provider contained in any Document, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for any of the Bonds, or to surrender any right or power reserved to or conferred upon the Infrastructure Bank or the Corporation; provided, that no such covenant, agreement, assignment, pledge or surrender will materially adversely affect the interests of the Holders of the Bonds;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision contained in the Indenture or any Document, or in regard to matters or questions arising under the Indenture or any Document, as the Infrastructure Bank may deem necessary or desirable and not inconsistent with the Indenture and which will not materially adversely affect the interests of the Holders of the Bonds;

(c) to modify, amend or supplement the Indenture or any indenture supplemental hereto in such manner as to permit the qualification under the Trust Indenture Act of 1939 or any similar federal statute thereafter in effect, and, if they so determine, to add to the Indenture or any indenture supplemental thereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute, and which will not adversely affect the interests of the Holders of the Bonds;

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

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

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

(g) to provide for the appointment of a co-trustee or the succession of a new Trustee, Registrar or Paying Agent;

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

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

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

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

(l) to modify, alter, amend or supplement the Indenture or any Document in any other respect, including amendments which would otherwise be described in the Modification provisions of the Indenture, if the effective date of such Supplemental Indenture or Supplemental Indenture or Amendment is a date on which all Bonds affected thereby are subject to mandatory tender for purchase pursuant to the Indenture or if Notice by Mail of the proposed Supplemental Indenture or Amendment is given to Holders of

the affected Bonds at least thirty (30) days before the effective date thereof and, on or before such effective date, such Bondholders have the right to demand purchase of their Bonds pursuant to the Indenture.

Before the Infrastructure Bank or the Trustee enters into an Indenture supplemental hereto and before the Trustee consents to any Amendment to any Document pursuant to the provisions of the Indenture, the Infrastructure Bank, or the Trustee, as the case may be, will cause notice of the proposed execution of the Supplemental Indenture or Amendment to a Document to be given by mail to the Insurer. 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 an opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (i) authorized or permitted by the Indenture, the Act and other applicable law; (ii) complies with their respective terms, in the case of a Supplemental Indenture, will upon the execution and delivery thereof; (iii) be valid and binding upon the Infrastructure Bank in accordance with its terms; and (iv) will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

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

Upon receipt by the Trustee of: (1) a Certified Resolution authorizing the execution of any such Supplemental Indenture or Amendment; (2) an opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (i) authorized or permitted by the Indenture, the Act and other applicable law; (ii) complies with their respective terms; (iii) in the case of a Supplemental Indenture, will, upon the execution and delivery thereof, be valid and binding upon the Infrastructure Bank in accordance with its terms; and (iv) will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds; and (3) evidence of the consent of the Bondholders and the Insurer, as aforesaid, the Trustee will join with the Infrastructure Bank in the execution of such Supplemental Indenture or will consent to such Amendment; provided, however, that (i) the Trustee will not be obligated to enter into any such Supplemental



Indenture which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its sole discretion, but will not be obligated to, enter into such Supplemental Indenture; and (ii) the Trustee will not enter into such Supplemental Indenture or Amendment without first obtaining the Corporation's written consent thereto.

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

Promptly after the execution by the parties thereto of any Supplemental Indenture or Amendment as provided in the Indenture, the Trustee will mail a notice (prepared by the Corporation) setting forth in general terms the substance of such Supplemental Indenture or such Amendment to the Insurer, the Liquidity Provider, if any, to each Bondholder at the address contained in the bond register maintained by the Registrar and to the applicable Rating Agencies. Any failure of the Trustee to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture or such Amendment.

**Discharge of Indenture.** If the entire indebtedness on all Bonds Outstanding will be paid and discharged in any one or more of the following ways: (a) by the payment of the principal of, and premium, if any, and interest on all Bonds Outstanding, as and when the same become due and payable; or (b) by the delivery to the Registrar, for cancellation by it, of all Bonds Outstanding;

and if all other sums payable pursuant to the Indenture by the Infrastructure Bank will be paid and discharged, then thereupon the Indenture will cease, terminate and become null and void except only as provided in the Discharge of Liabilities on Bonds provision of the Indenture, and thereupon the Trustee will, upon Written Request of the Infrastructure Bank, and upon receipt by the Trustee of a Certificate of the Infrastructure Bank and an Opinion of Counsel, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of the Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Indenture. The Trustee will mail written notice of such payment and discharge to the applicable Rating Agencies to the Insurer and to the Liquidity Provider, if any. The satisfaction and discharge of the Indenture will be without prejudice to the rights of the Trustee to charge and be reimbursed by the Corporation for any expenditures which it may thereafter incur in connection with the Indenture.

Any Bond or Authorized Denomination thereof will be deemed to be paid within the meaning of the Indenture when (a) payment of the principal of and premium, if any, on such Bond or Authorized Denomination thereof, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided therein) either (i) will have been made or caused to be made in accordance with the terms thereof, or (ii) will have been provided for by irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment (1) moneys sufficient to make such payment and/or (2) nonprepayable, noncallable Government Obligations maturing as to principal and interest in such amount and at such time as will insure the availability of sufficient moneys to make such payment, and (b) all necessary and proper fees, compensation and expenses of the Trustee pertaining to any such deposit will have been paid or the payment thereof provided for to the satisfaction of the Trustee; provided that no Bond will be deemed to be paid within the meaning of the Indenture unless arrangements satisfactory to the Trustee will have been made to assure that Bonds tendered for purchase in accordance with Mandatory and Optional Redemption provisions of the Indenture can be paid and redeemed from such moneys and/or Government Obligations and the Trustee will have received written confirmation from each Rating Agency then rating the Bonds, if any, that such Rating Agency's then current rating on the Bonds will not be lowered or withdrawn as a result of such provision. At such time as a Bond or Authorized Denomination thereof will be deemed to be paid pursuant to the Indenture, such Bond or Authorized Denomination thereof will no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys and/or Government Obligations. The Trustee will not be responsible for verifying the sufficiency of funds provided to effect the defeasance of Bonds pursuant to the Defeasance provisions.

The Infrastructure Bank, the Corporation and any Liquidity Provider may at any time surrender to the Registrar for cancellation by it any Bonds previously authenticated and delivered which the Infrastructure

Bank or the Corporation or such Liquidity Provider lawfully may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

**Discharge of Liability on Bonds.** Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem Outstanding Bonds, whether upon or prior to their maturity or the redemption date of such Bonds, (provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for giving such notice), all liability of the Infrastructure Bank and the Corporation in respect of such Bonds will cease, terminate and be completely discharged, except that the Infrastructure Bank and the Corporation will remain liable for such payment but only from, and the Bondholders will thereafter be entitled only to payment (without interest accrued thereon after such redemption date or maturity date) out of, the money deposited with the Trustee for their payment, subject, however, to the provisions of the Indenture; provided that no Bond will be deemed to be paid within the meaning of the Indenture unless arrangements satisfactory to the Trustee will have been made to assure that such Bond, if tendered for purchase in accordance with Mandatory and Optional Redemption provisions of the Indenture, could be paid and redeemed from such moneys and/or Government Obligations.

**Payment of Bonds after Discharge of Indenture.** Notwithstanding any provisions of the Indenture, and subject to applicable laws of the State, any moneys deposited with the Trustee or any Paying Agent, in trust for the payment of the principal of, or interest or premium on, any Bonds remaining unclaimed for two (2) years after the principal of any or all of the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in the Indenture), will then be repaid to the Corporation upon its written request, and the holders of such Bonds will thereafter be entitled to look only to the Corporation for payment thereof, and all liability of the Trustee or any Paying Agent with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Corporation as aforesaid, the Trustee or Paying Agent, as the case may be, will (at the request and cost of the Corporation) first publish at least once in a Qualified Newspaper a notice, in such form as may be deemed appropriate by the Corporation and the Trustee, in respect of the Bonds so payable and not presented and in respect of the provisions relating to the repayment to the Corporation of the moneys held for the payment thereof. In the event of the repayment of any such moneys to the Corporation as aforesaid, the Holders of the Bonds in respect of which such moneys were deposited will thereafter be deemed to be unsecured creditors of the Corporation for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the Corporation (without interest thereon).

**Deposit of Money or Securities with Trustee.** Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be: (a) Lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice, the amount to be deposited or held will be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or (b) nonprepayable, noncallable Government Obligations, the principal of and the interest on which when due will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice; (c) provided, in each case, that the Trustee will have been irrevocably instructed (by the terms of the Indenture or by Written Request of the Infrastructure Bank) to apply such money to the payment of such principal or redemption price and interest with respect to such Bonds.

**Opinions of Bond Counsel.** The parties to the Indenture, and the Corporation, acknowledge that whenever in the Indenture or the Tax Certificate it is required that prior to the taking of any action (including but not limited to any modifications of arbitrage covenants contained in the Indenture) an opinion of Bond

Counsel is required to be delivered to the effect that such action will not adversely affect the Tax-Exempt status of interest on the Bonds, if such opinion is not given by Stradling Yocca Carlson & Rauth, a Professional Corporation, the original approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, on the Bonds dated the Issue Date may no longer be relied upon by any person, including subsequent owners of the Bonds. No contrary representation will be made by any party to the Indenture, or the Corporation, or any agent thereof.

## **LOAN AGREEMENT**

**Representations of the Corporation.** The Corporation makes the following representations as the basis for its undertakings contained in the Agreement:

(a) The Corporation is a nonprofit, public benefit corporation duly formed under the laws of the State and described under Section 501(c)(3) of the Code, is in good standing in the State, and has the power to enter into and has duly authorized, by proper corporate action, the execution and delivery of the Agreement and all other documents contemplated to be executed by the Corporation.

(b) Neither the execution and delivery of the Agreement, the Remarketing Agreements, the Liquidity Agreement, the consummation of the transactions contemplated thereby, nor the fulfillment of or compliance with the terms and conditions thereof, conflicts with or results in a breach of any of the terms, conditions or provisions of the Corporation's Articles of Incorporation or Bylaws or of any corporate actions or of any material agreement or instrument to which the Corporation is now a party or by which it is bound, or constitutes a default (with due notice or the passage of time or both) under any of the foregoing, or results in the creation or imposition of any prohibited lien, charge or encumbrance whatsoever upon any of the property or assets of the Corporation under the terms of any material instrument or agreement to which the Corporation is now a party or by which it is bound.

(c) The 2000 Project consists and will consist of those facilities and equipment, including computer hardware and software, described in Exhibit A to the Agreement, and, to the extent within its control, for so long as it owns or operates the Project, the Corporation will make no changes to the 2000 Project or to the operation thereof which would affect the qualification of the 2000 Project as "economic development facilities" under the Act. The Corporation will comply with all requirements set forth in the Tax Certificate.

(d) To the extent necessary to preserve the security for the Bonds and the Tax-Exempt status of interest on the Bonds, all material certificates, approvals, permits and authorizations of agencies of applicable local governmental agencies, the State and the federal government have been or will be obtained with respect to the acquisition, construction and installation of the 2000 Project and pursuant to such certificates, approvals, permits and authorizations the Project has been or will be acquired, constructed or installed and are or will be in operation.

(e) To the best knowledge of the Corporation, no member, officer or other official of the Infrastructure Bank has any interest whatsoever in the Corporation or in the transactions contemplated by the Agreement.

(f) The estimated costs of the 2000 Project are as set forth in the Tax Certificate, and such costs will be determined in accordance with standard engineering/construction and accounting principles. All the information and representations in the Tax Certificate are true and correct as of the date thereof.

(g) No event has occurred and no condition exists which would constitute an Event of Default (as defined in the Indenture) or which, with the passing of time or with the giving of notice or both would become such an Event of Default.

**Agreement to Acquire and Construct the Facilities.** The Corporation agrees that it will acquire, equip, construct, rehabilitate and install, or complete the acquisition, construction, equipping, rehabilitation and installation of, the Facilities included in the Project, and will acquire, equip, construct, rehabilitate and install all other facilities and real and personal property deemed necessary for the operation of the Facilities

included in the Project, substantially in accordance with the description of the 1998 Project attached as Exhibit A to the Loan Agreement, dated as of May 1, 1998, by and between the Authority and the Corporation and the description of the 2000 Project attached as Exhibit A to the Agreement, including any and all supplements, amendments and additions or deletions thereto or therefrom, it being understood that the approval of the Infrastructure Bank will not be required for changes in such descriptions which do not substantially alter the purpose and description of the Facilities referred to above. The Corporation further agrees to proceed with due diligence to complete the Facilities within three years from the date of the Agreement.

In the event that the Corporation desires to alter or change the Facilities included in the Project, and such alteration or change either substantially alters the purpose and description of the Facilities included in the Project, as described above, or changes the location of any Facility to a location other than those specified in Exhibit A to the Agreement, the Infrastructure Bank will enter into, and will instruct the Trustee to consent to, such amendment or supplement as will be required to reflect such alteration or change to the Project upon receipt of:

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

**Disbursements of Bond Proceeds.** (a) Subject to the provisions of the Agreement, the Corporation will authorize and direct the Trustee, upon compliance with the Indenture, to disburse the moneys in the Construction Fund to or on behalf of the Corporation only to pay the cost of financing the 2000 Project (and not for Costs of Issuance).

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

Each of the payments referred to will be made upon receipt by the Trustee of a written requisition in the form prescribed by the Indenture, signed by the Authorized Corporation Representative.

(b) The Corporation will authorize and direct the Trustee, upon compliance with the Indenture, to disburse the moneys in the Costs of Issuance Fund to or on behalf of the Corporation *only for Costs of Issuance*. Each of the payments referred to will be made upon receipt by the Trustee of a written requisition in the form prescribed by the Indenture, signed by the Authorized Corporation Representative.

**Establishment of Completion Date; Obligation of Corporation to Complete.** As soon as the acquisition, construction and installation of the 2000 Project is completed, the Authorized Corporation Representative, on behalf of the Corporation, will evidence the Completion Date by providing a certificate to that effect to the Trustee and the Infrastructure Bank stating the Costs of the 2000 Project. Notwithstanding the foregoing, such certificate may state that it is given without prejudice to any rights of the Corporation against third parties for any claims or for the payment of any amount not then due and payable which exists at the date of such certificate or which may subsequently exist.

At the time such certificate is delivered to the Trustee, moneys remaining in the Construction Fund (other than moneys relating to provisional payments permitted by the Disbursement of Bond Proceeds provision of the Agreement), including any earnings resulting from the investment of such moneys, will be used as provided in Section 3.03 of the Indenture.

In the event the moneys in the Construction Fund available for payment of the Costs of the 2000 Project should be insufficient to pay the costs thereof in full, the Corporation agrees to pay directly, or to

deposit in the Construction Fund moneys sufficient to pay, any costs of completing the 2000 Project in excess of the moneys available for such purpose in the Construction Fund. The Infrastructure Bank makes no express or implied warranty that the moneys deposited in the Construction Fund and available for payment of the Costs of the 2000 Project, under the provisions of the Agreement, will be sufficient to pay all the amounts which may be incurred for such Cost of the 2000 Project. The Corporation agrees that if, after exhaustion of the moneys in the Construction Fund, the Corporation should pay, or deposit moneys in the Construction Fund for the payment of, any portion of the Costs of the 2000 Project pursuant to the provisions of this Section, it will not be entitled to any reimbursement therefor from the Infrastructure Bank, from the Trustee or from the holders of any of the Bonds, nor will it be entitled to any diminution of the amounts payable under the Agreement.

**Loan to Corporation.** The Infrastructure Bank covenants and agrees, upon the terms and conditions in the Agreement, to make a loan to the Corporation for the purpose of refunding the Prior Bonds and financing a portion of the 2000 Project. Pursuant to said covenant and agreement, the Infrastructure Bank will issue each Series of the Bonds upon the terms and conditions contained in the Agreement and the Indenture. The Infrastructure Bank and the Corporation agree that the application of the proceeds of sale of each Series of the Bonds to refund the Prior Bonds and to finance a portion of the 2000 Project will be deemed to be and treated for all purposes as a loan to the Corporation of an amount equal to the aggregate principal amount of the Bonds so issued.

**Repayment and Payment of Other Amounts Payable.** (a) With respect to the Bonds, the Corporation covenants and agrees to pay to the Trustee as a Repayment Installment, on or before each date provided in or pursuant to the Indenture for the payment of principal of (whether at maturity or upon redemption or acceleration), premium, if any, and/or interest on the Bonds, until the principal of, premium, if any, and interest on the Bonds will have been fully paid or provision for the payment thereof will have been made in accordance with the Indenture, in immediately available funds, for deposit in the Bond Fund, a sum equal to the amount then payable as principal (whether at maturity or upon redemption or acceleration), premium, if any, and interest upon the Bonds as provided in the Indenture.

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

(b) The Corporation agrees that, so long as any of the Bonds remain Outstanding, all of the Operating Revenues will be deposited as soon as practicable upon receipt in a fund designated as the "Operating Fund" which the Corporation will establish and maintain, subject to the provisions of the Agreement, in an account or accounts at such banking institution or institutions as the Corporation will from time to time designate in writing to the Trustee for such purpose (called the "Depository Bank(s)"). Subject only to the provisions of the Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Agreement, the Corporation pledges, grants a first lien on and grants a security interest in the Net Operating Revenues to the Infrastructure Bank (for the benefit of the holders from time to time of the Outstanding Bonds and the Liquidity Provider), to secure the payment of the principal of and interest on the Bonds and the performance by the Corporation of its other obligations under the Agreement and its obligations under the Liquidity Agreement. The pledge of and lien on the Net Operating Revenues made by the Agreement will rank pari passu with any pledge of and lien on Net Operating Revenues securing Parity Obligations. The Corporation will execute and cause to be filed Uniform Commercial Code financing statements, will execute and cause to be sent to each Depository Bank for the Operating Fund a notice of the

security interest granted under the Agreement and will execute and deliver such other documents (including, but not limited to, 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.

(c) The Corporation also agrees to pay to the Trustee until the principal of, premium, if any, and interest on the Bonds will have been fully paid or provision for the payment thereof will have been made as required by the Indenture, (i) the annual fee of the Trustee for its ordinary services rendered as trustee, and its ordinary expenses incurred under the Indenture, as and when the same become due, (ii) the reasonable fees, charges and expenses of the Registrar, Paying Agent, Remarketing Agents, and Tender Agent, as and when the same become due, (iii) the reasonable fees, charges and expenses of the Trustee for the necessary extraordinary services rendered by it and extraordinary expenses (including reasonable attorneys' fees) incurred by it under the Indenture, as and when the same become due, (iv) the cost of printing any Bonds required to be furnished by the Infrastructure Bank, and (v) any fees required to be paid to the Infrastructure Bank in connection with the issuance of the Bonds. The Corporation agrees that these provisions will survive the discharge of the Indenture and the retirement of the Bonds or the resignation or removal of the Trustee.

(d) The Corporation also agrees to pay to the Infrastructure Bank, (i) its fees and reasonable expenses in connection with the loan to the Corporation under the Agreement, the Bonds, the Indenture or any other documents contemplated thereby, including without limitation reasonable expenses incurred by the Attorney General of the State or any attorneys representing the Infrastructure Bank (including attorneys that are employees of the Infrastructure Bank) in connection with any litigation, investigation or matter that may at any time be instituted or any other questions or matter involving such loan or the Bonds, the Indenture or any other documents contemplated thereby and reasonable expenses incurred by the Infrastructure Bank in supervision and inspection of the Corporation and its operations with respect to the use and application of the loan, 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, 2001. 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 each Purchase Contract executed by it in connection with the sale of the Bonds, and all reasonable expenses of the Infrastructure Bank related to the refunding of the Prior Bonds and the financing of the 2000 Project which are not otherwise required to be paid by the Corporation under the terms of the Agreement; provided that the Infrastructure Bank will have obtained the prior written approval of an Authorized Corporation Representative for any expenditures other than those provided for in the Agreement or in a Purchase Contract.

(e) The Corporation also agrees to pay to Standard & Poor's the annual surveillance fee charged by Standard & Poor's in connection with the Bonds, such payment to be made at such times and in such amounts as heretofore agreed to by the Corporation and Standard & Poor's.

(f) In the event the Corporation should fail to make any of the payments required by the Agreement, such payments will continue as obligations of the Corporation until such amounts will have been fully paid. The Corporation agrees to pay such amounts, together with interest thereon until paid, to the extent permitted by law, at the rate borne by the Bonds.

**Unconditional Obligation.** The obligations of the Corporation to make the payments required by the Agreement and to perform and observe the other agreements on its part contained in the Agreement will be absolute and unconditional, irrespective of any defense or any rights of setoff, recoupment or counterclaim it might otherwise have against the Infrastructure Bank, and during the term of the Agreement, the Corporation will pay absolutely the payments to be made on account of the loan as prescribed in the Agreement and all other payments required under the Agreement, free of any deductions and without abatement, diminution or setoff. Until such time as the principal of, premium, if any, and interest on the Bonds will have been fully paid, or provision for the payment thereof will have been made as required by the Indenture, the Corporation (i) will not suspend or discontinue any payments provided for in the Agreement with respect to the Bonds; (ii) will perform and observe all of its other covenants contained in the Agreement with respect to the Bonds and the Project; and (iii) except as provided in the Events of Default and Remedies provisions of the Agreement, will not terminate the Agreement for any cause, including, without limitation, the occurrence of

any act or circumstances that may constitute failure of consideration, destruction of or damage to, or taking or condemnation of, all or any part of the Project, termination of any lease relating to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either of these, or any failure of the Infrastructure Bank or the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with the Agreement or the Indenture.

**Assignment of Infrastructure Bank's Rights.** As security for the payment of the Bonds, the Infrastructure Bank will assign to the Trustee the Infrastructure Bank's rights, but not its obligations, under the Agreement, including the right to receive payments (except (i) the rights of the Infrastructure Bank to receive notices under the Agreement, (ii) the right of the Infrastructure Bank to receive certain payments, with respect to expenses and indemnification and certain other purposes under the Agreement, and (iii) the right of the Infrastructure Bank to give approvals or consents pursuant to the Agreement); and the Infrastructure Bank thereby directs the Corporation to make the payments required (except such payments for expenses and indemnification and certain other purposes) directly to the Trustee. The Corporation assents to such assignment and agrees to make payments directly to the Trustee without defense or setoff by reason of any dispute between the Corporation and the Infrastructure Bank or the Trustee.

The Infrastructure Bank acknowledges that the Corporation will be obligated to reimburse each Liquidity Provider, for amounts provided under the applicable Liquidity Facility to purchase Bonds which are tendered for purchase and not remarketed pursuant to the applicable Remarketing Agreement, and acknowledges that any and all proceeds of any subsequent remarketing of the Bonds so purchased will be paid to the Liquidity Providers, in order to discharge the Corporation's reimbursement obligation (or any loan by such Liquidity Provider, to finance such reimbursement obligation) to the Liquidity Provider.

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

**Liquidity Facility.** (a) The Corporation will deliver (or cause to be delivered) to the Trustee on or prior to the Issue Date an executed counterpart of the Standby Bond Purchase Agreement as the initial Liquidity Facility for the Bonds. The Corporation will maintain one or more Liquidity Facilities, either by maintaining the Standby Bond Purchase Agreement or providing one or more substitute Liquidity Facilities as provided in this provision, to provide a source of payment of the Purchase Price of all Variable Rate Bonds.

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

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



Any such substitute Liquidity Facility must meet the following conditions: (i) the substitute Liquidity Facility must be a Liquidity Facility entered into by, or issued by, a commercial bank or other financial institution; (ii) the terms and provisions of the substitute Liquidity Facility with respect to the purchase of Bonds thereunder must be in all material respects no less favorable to the Trustee than the terms and provisions of the initial Liquidity Facility provided in the Agreement; (iii) the substitute Liquidity Facility must take effect on or before the date of termination of the existing Liquidity Facility and the term of the substitute Liquidity Facility must be at least 364 days (or, if shorter, the period to maturity of the applicable Series of Bonds); and (iv) the substitute Liquidity Facility must be in an amount sufficient to pay the maximum purchase price of the Series of Bonds which will be applicable during the then current Rate Period.

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

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

**Parity Obligations.** The Corporation will not, without the written consent of the Insurer, enter into or incur any Parity Obligation [other than the Standby Bond Purchase Agreement and the Swap Agreements.]

**Events of Default.** Any one of the following which occurs will constitute an Event of Default pursuant to the Agreement: (a) failure by the Corporation to pay or cause to be paid any amounts required to be paid under the Repayment and Payment of Other Amounts Payable provision when due; or (b) failure of the Corporation to observe and perform any covenant, condition or agreement on its part required to be observed or performed under the Agreement, other than making the payments referred to in (a) above, which continues for a period of thirty (30) days after written notice from the Trustee or the Infrastructure Bank, which notice 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; or (c) the occurrence of an Event of Default under the 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 Agreement 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) or (c) above.

**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 and the Insurer) and with the prior consent of the Insurer, may declare the unpaid balance of the loan with respect to which an Event of Default has occurred, in an amount equal to the Outstanding principal amount of the Bonds, together with the interest accrued thereon, to be immediately due and payable, and will do so if the Bonds have been accelerated as provided in the Indenture. After any such declaration of acceleration of the Bonds, the Trustee will immediately take such actions as necessary to realize moneys under the Bond Insurance Policy; (b) the Trustee may have access to and may inspect, examine and make copies of the books and records and any and all accounts, data and federal income tax and other tax returns of the Corporation; (c) the Infrastructure Bank or the Trustee may take whatever action or institute any proceeding, at law or in equity, as may be necessary or desirable for the collection of the payments and other amounts then due including enforcing the security interest in the Net Operating Revenues granted by the Corporation pursuant to the Agreement and thereafter to become due under the Agreement or the enforcement of the performance and observance of any obligation, agreement or covenant of the Corporation under the Agreement, including but not limited to instituting and prosecuting to judgment or final decree and enforcing any such judgment or decree against the Corporation and collect in the manner provided by law moneys decreed to be payable.

The provisions of subsection (a) above, however, are subject to the condition that if, at any time after any portion of the loan will have been so declared due and payable, and before any judgment or decree for the payment of the moneys due will have been obtained or entered as thereafter provided, there will have been deposited with the Trustee a sum sufficient to pay all the principal of the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all such Bonds, with interest on such overdue installments of principal as provided therein, and the reasonable fees and expenses of the Trustee, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on such Bonds due and payable solely by reason of such declaration) will have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will have been made therefor, then, and in every such case, the holders of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Infrastructure Bank and to the Trustee accompanied by the written consent of the Insurer may, on behalf of the holders of all the Bonds, rescind and annul such declaration and its consequences and waive such default; provided that no such rescission and annulment will extend to or will affect any subsequent default, or will impair or exhaust any right or power consequent thereon.

In case the Trustee or the Infrastructure Bank will have proceeded to enforce its rights under the Agreement and such proceedings will have been discontinued or abandoned for any reason or will have been determined adversely to the Trustee or the Infrastructure Bank, then, and in every such case, the Corporation, the Trustee and the Infrastructure Bank will be restored respectively to their several positions and rights under the Agreement, and all rights, remedies and powers of the Corporation, the Trustee and the Infrastructure Bank will continue as though no such action had been taken (provided, however, that any settlement of such proceedings duly entered into by the Infrastructure Bank, the Trustee or the Corporation will not be disturbed by reason of this provision).

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

**Redemption of Bonds With Prepayment Moneys.** By virtue of the assignment of the rights of the Infrastructure Bank under the Agreement to the Trustee, the Corporation agrees to and will pay (or cause to be paid) directly to the Trustee any amount permitted or required to be paid by it under the prepayment provisions

of the Agreement. The Trustee will use the moneys so paid to it by the Corporation to effect redemption of the Bonds in accordance with Article IV of the Indenture on the date specified for such redemption in the Agreement.

**Options to Prepay Installments.** The Corporation will have the option to prepay the amounts payable under the Agreement with respect to the Bonds of any Series (the principal amount of each maturity and Series to be specified by an Authorized Corporation Representative) by paying to the Trustee, for deposit in the Bond Fund, the amount set forth in the Amount of Prepayment provision of the Agreement, under the circumstances set forth in the Indenture.

**Mandatory Prepayment.** The Corporation will have and thereby accepts the obligation to prepay Repayment Installments to the extent mandatory redemption of the Bonds of any Series is required pursuant to the Indenture or to the extent the maturity of the Bonds of any Series will have been accelerated pursuant to the Indenture. The Corporation will satisfy its obligation by prepaying such Repayment Installments (a) within one hundred eighty (180) days after the occurrence of any event set forth in the Indenture, (b) subject to any notice requirements contained in the Indenture with respect to the mandatory redemption of the Bonds, immediately upon the occurrence of any event set forth in the Indenture giving rise to such required prepayment, and (c) immediately upon receipt of notice from the Trustee of any acceleration of the maturity of the Bonds pursuant to the Indenture. The amount payable by the Corporation in the event of a prepayment required will be determined as set forth in Amount of Prepayment provision of the Agreement and will be deposited in the Bond Fund.

**Amount of Prepayment.** In the case of a prepayment of the entire amount due pursuant to the Agreement, the amount to be paid will be a sum sufficient, together with other funds and the yield on any securities then on deposit with the Trustee and available for such purpose, to pay (1) the principal of all Outstanding Bonds of the affected Series on the redemption date specified in the notice of redemption, plus interest accrued and to accrue to the payment or redemption date of such Bonds, plus premium, if any, pursuant to the Indenture, (2) all reasonable and necessary fees and expenses of the Infrastructure Bank, the Trustee, the Tender Agent, the Registrar, the Remarketing Agents and any Paying Agent accrued and to accrue through final payment of the Bonds of the affected Series, and (3) all other liabilities of the Corporation accrued and to accrue under the Agreement with respect to the Bonds of the affected Series.

In the case of partial prepayment of the Repayment Installments with respect to the Bonds of the affected Series, the amount payable will be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to pay the principal amount of and premium, if any, and accrued interest on the Bonds to be redeemed, as provided in the Indenture, and to pay expenses of redemption of such Bonds.

**Notice and Date of Prepayment.** In the event of a prepayment, the Corporation will give, at least fifteen (15) days prior to the last day by which the Trustee is permitted to give notice of redemption pursuant to the Indenture, written notice to the Infrastructure Bank and the Trustee specifying the date upon which any prepayment will be made, provided that the Infrastructure Bank and the Trustee may agree to waive their respective rights to receive such notice or may agree to a shorter notice period. If in the case of a mandatory prepayment, the Corporation fails to give such notice of a prepayment required by the Agreement, such notice may be given by the Infrastructure Bank, by the Trustee, or any holder or holders of 10% or more in aggregate principal amount of the Outstanding Bonds of the affected Series. The Infrastructure Bank and the Trustee, at the request of the Corporation, or Bondholders, will forthwith take all steps necessary under the Indenture (except that the Infrastructure Bank will not be required to make payment of any money required for such redemption other than from Revenues) to effect redemption of all or part of the then Outstanding Bonds of the affected Series, as the case may be, (a) in the case of redemption upon optional prepayment, on the date specified in such notice or if no such date is specified on the earliest practicable date thereafter on which such redemption may be made under applicable provisions of the Indenture and (b) in the case of redemption upon mandatory prepayment other than from mandatory sinking fund payments, on the earliest practicable date thereafter on which such redemption may be made under the applicable provisions of the Indenture.

Notwithstanding anything to the contrary in the Agreement, each notice contemplated that is given with respect to an optional prepayment will state that it is subject to and conditional upon receipt by the Trustee on or prior to the proposed prepayment date of an amount sufficient to effect such prepayment and such notice will be of no force and effect and the prepayment need not be made and the Repayment Installments will not become due and payable on the proposed prepayment date unless such an amount is so received on or prior to the proposed prepayment date.

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

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# **MBIA**

## **FINANCIAL GUARANTY INSURANCE POLICY**

**MBIA Insurance Corporation**  
**Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, heretofore unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than an advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]  
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instrument being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owner or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

**MBIA Insurance Corporation**

\_\_\_\_\_  
President

Attest

\_\_\_\_\_  
Assistant Secretary

**SPECIMEN**

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*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing tax regulations, rulings and judicial decisions and assuming certain representations and compliance with certain covenants and requirements discussed herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income tax. See "TAX MATTERS" herein.*

**\$106,400,000**  
**California Infrastructure and Economic Development Bank**  
**Variable Rate Demand Revenue Bonds**  
**(California Independent System Operator Corporation Project)**  
**2000 Series C**

**Dated: Date of Issuance**

**Price 100%**

**Due: April 1, 2000**

*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 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 2000 Series C Bonds (hereinafter, the "Bonds") are being issued by the California Infrastructure and Economic Development Bank (the "Infrastructure Bank") for the purpose of providing funds, together with other available moneys (i) to current refund the outstanding Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project), 1998 Series A issued by the California Economic Development Financing Authority (the responsible parties and obligations of which have been assumed by the Infrastructure Bank) for the purpose of financing or refinancing a portion of the costs of certain facilities of, and the cost of certain equipment, including computers and telecommunications hardware and software systems and other facilities and equipment for the Corporation and (iii) to pay the costs of issuance of the Bonds. Concurrently with the delivery of the Bonds, the Infrastructure Bank expects to issue \$186,600,000 aggregate principal amount of Variable Rate Demand Revenue Bonds (California Independent System Operator Project) 2000 Series A and 2000 Series B (collectively, the "2000 Series A and B Bonds") as described herein. It is a condition precedent to the delivery of the 2000 Series A and B Bonds that the 2000 Series C Bonds be issued on the date of delivery of the 2000 Series A and B Bonds. See "PLAN OF FINANCE" herein.



**CALIFORNIA ISO**

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

The Bonds will bear interest from the date of initial issuance thereof at a Weekly Rate as described herein. The Rate Period for the Bonds may be changed to a Daily Rate, Commercial Paper Rate or Fixed Rate as described herein.

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

Bankers Trust Company of California, N.A. is the Trustee, Tender Agent, Registrar and Paying Agent for the Bonds. Bear, Stearns & Co. Inc. is the Remarketing Agent for the Bonds.

Payment of the principal of and interest on the Bonds when due (not including acceleration or redemption except mandatory sinking fund redemption) will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds. Payment of the Purchase Price of the Bonds by the Tender Agent (as described herein) shall not be so insured.



Payment of the Purchase Price of the Bonds tendered or deemed tendered for purchase but not remarketed in an amount equal to the principal of and up to thirty-four (34) days of accrued interest thereon at a maximum rate of 12% per annum will be made pursuant to and subject to the terms of a Standby Bond Purchase Agreement, dated as of March 1, 2000 (the "Standby Bond Purchase Agreement"), by and among the Corporation, the Trustee and Westdeutsche Landesbank Girozentrale, acting through its New York Branch, Bayerische Landesbank Girozentrale, acting through its New York Branch, and Morgan Guaranty Corporation of New York (collectively, the "Liquidity Banks"). UNDER CERTAIN CIRCUMSTANCES DESCRIBED HEREIN, THE OBLIGATION OF LIQUIDITY BANKS TO PURCHASE BONDS TENDERED BY THE HOLDERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED; AND, IN SOME SUCH CIRCUMSTANCES, THE TERMINATION OR SUSPENSION OF SUCH OBLIGATION WILL BE IMMEDIATE AND WITHOUT NOTICE TO BONDHOLDERS. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE SUCH BONDS.

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

*The Bonds are offered when, as and if issued by the Infrastructure Bank and accepted by the Underwriter, subject to prior sale, or withdrawal or modification offer without notice, and subject to receipt of an approving legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel. Certain legal matters will be passed upon for the Infrastructure Bank by its General Counsel, Brooke Bassett, Esq., for the Corporation by its special counsel, Orrick, Herrington & Sutcliffe LLP, for the Liquidity Banks by their counsel, Chapman & Cutler, and for the Underwriter by its counsel, Brown & Wood LLP.*

*The Bonds are expected to be available for delivery through the facilities of DTC in New York New York, on or about April 13, 2000.*

**J.P. Morgan & Co.**

Dated: March 31, 2000

No broker, dealer, salesman or other person has been authorized by the Infrastructure Bank, the Corporation or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. The Infrastructure Bank has not provided, has not independently verified, and does not certify the accuracy or sufficiency of any statements in this Official Statement except those appearing in the sections "THE INFRASTRUCTURE BANK," and "ABSENCE OF LITIGATION — The Infrastructure Bank." The Infrastructure Bank has received representations from the Corporation, the Underwriter, the Bond Insurer and the Liquidity Banks with respect to the information related to the Corporation, the Underwriter, the Bond Insurer and the Liquidity Banks, respectively, in this Official Statement, and the Infrastructure Bank has relied on these separate representations in authorizing distribution of this Official Statement.

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

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

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements in this Official Statement which involve estimates, forecasts or matters of opinion whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

THE CORPORATION HAS NOT PROVIDED, HAS NOT INDEPENDENTLY VERIFIED, AND DOES NOT CERTIFY THE ACCURACY OR SUFFICIENCY OF ANY STATEMENTS IN THIS OFFICIAL STATEMENT IN THE SECTIONS "THE INFRASTRUCTURE BANK," "BOND INSURANCE", "THE STANDBY BOND PURCHASE AGREEMENT", "THE LIQUIDITY BANKS," "ABSENCE OF LITIGATION — The Infrastructure Bank," "TAX MATTERS," "UNDERWRITING," "APPENDIX A — BOOK-ENTRY SYSTEM" AND "APPENDIX B — FORM OF OPINION OF BOND COUNSEL".

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

EXCEPT WHEN BEARING INTEREST AT THE FIXED RATE, THE BONDS ARE EXEMPT FROM THE CONTINUING DISCLOSURE REQUIREMENTS OF RULE 15c2-12 OF THE SECURITIES AND EXCHANGE COMMISSION.

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**OFFICIAL STATEMENT**  
**relating to**  
**\$106,400,000**  
**California Infrastructure and Economic Development Bank**  
**Variable Rate Demand Revenue Bonds**  
**(California Independent System Operator Corporation Project)**  
**2000 Series C**

**INTRODUCTION**

*This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. See "APPENDIX C — GLOSSARY OF TERMS" herein.*

**Purpose**

This Official Statement, which includes the cover page and Appendices hereto, of the California Infrastructure and Economic Development Bank (the "Infrastructure Bank") is being furnished to provide certain information concerning the Infrastructure Bank's Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2000 Series C in the principal amount of \$106,400,000 (the "Bonds"). The Bonds are being issued by the Infrastructure Bank under and pursuant to an Indenture of Trust, dated as of March 1, 2000 (the "Indenture"), by and between the Infrastructure Bank and Bankers Trust Company of California, N.A., as trustee, tender agent, registrar and paying agent for the Bonds (the "Trustee"), for the purpose of providing funds, together with other available moneys (i) to current refund the outstanding Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 1998 Series A (the "Refunded Bonds") issued by the California Economic Development Financing Authority (the responsibilities, liabilities and obligations of which have been assumed by the Infrastructure Bank) for the purpose of financing or refinancing a portion of the costs of certain facilities and equipment, certain startup costs and working capital for the California Independent System Operator Corporation (the "Corporation"), a California nonprofit public benefit corporation (the "1998 Project"), (ii) to finance or refinance a portion of the costs of acquisition of land and the acquisition and construction of certain facilities in connection with the expansion of the existing facilities of, and the cost of certain equipment, including computers and telecommunications hardware and software systems and other facilities and equipment for the Corporation (the "2000 Project"), and (iii) to pay the costs of issuance of the Bonds. See "PLAN OF FINANCE" herein.

**Plan of Finance**

Concurrently with the delivery of the Bonds, the Infrastructure Bank expects to issue its Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2000 Series A in the principal amount of \$116,200,000 and 2000 Series B in the principal amount of \$70,400,000 (collectively, the "2000 Series A and B Bonds") pursuant to the Indenture for the purpose of providing funds, together with other available moneys (i) to current refund the outstanding Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 1998 Series B, 1998 Series C and 1998 Series D issued by the California Economic Development Financing Authority and (ii) to pay costs of issuance of the Bonds. It is a condition precedent to the delivery of the 2000 Series A and B Bonds that the Bonds be issued on the date of delivery of the 2000 Series A and B Bonds. See "PLAN OF FINANCE" herein.

**The Infrastructure Bank**

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

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

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

In connection with the loan of the proceeds of the Bonds to the Corporation, the Infrastructure Bank and the Corporation will enter into a Loan Agreement, dated as of March 1, 2000 (the "Loan Agreement"). Pursuant to the Loan Agreement, the Corporation will be obligated to make certain payments (the "Repayment Installments") to the Trustee, as assignee of the Infrastructure Bank, in an amount which is sufficient to pay as and when due the principal of, premium, if any, and interest on the Bonds and the 2000 Series A and B Bonds. Pursuant to the Loan Agreement, the Corporation has pledged its Net Operating Revenues to secure its obligation to make payments of principal of and interest on the Bonds and the 2000 Series A and B Bonds, which pledge is on a parity with the pledge of such Net Operating Revenues securing certain other obligations. The Purchase Price of Bonds tendered or deemed tendered for purchase is payable solely from amounts drawn under the Liquidity Facility as described herein and is not otherwise payable from or secured by Net Operating Revenues of the Corporation. See "THE CORPORATION – Operating Revenues" herein. The Bonds will not be secured by a legal or equitable pledge of, or mortgage upon, the 1998 Project or the 2000 Project (collectively, the "Project").

**THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE INFRASTRUCTURE BANK. THE BONDS DO NOT CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, BUT WILL BE SPECIAL OBLIGATIONS OF THE INFRASTRUCTURE BANK PAYABLE SOLELY FROM REVENUES AND OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE INFRASTRUCTURE BANK, THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF WILL BE OBLIGATED TO LEVY ANY TAXES OR APPROPRIATE OR EXPEND ANY FUNDS FOR THE PAYMENT OF PRINCIPAL, PREMIUM OR INTEREST ON, OR PURCHASE PRICE OF, THE BONDS. SEE "SECURITY FOR THE BONDS" HEREIN.**

### **Bond Insurance**

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

### **Liquidity Facility**

Payment of the Purchase Price of the Bonds tendered or deemed tendered for purchase but not remarketed in an amount equal to the principal amount thereof, and up to thirty-four (34) days of accrued interest thereon at a maximum rate of 12% per annum will be made pursuant to and subject to the terms of a Standby Bond Purchase Agreement, dated as of March 1, 2000 (the "Standby Bond Purchase Agreement"), by and among the Corporation, the Trustee and Westdeutsche Landesbank Girozentrale, acting through its New York Branch, Bayerische Landesbank Girozentrale, acting through its New York Branch, and Morgan Guaranty Trust Company of New York (collectively, the "Liquidity Banks"). The Standby Bond Purchase Agreement constitutes a Liquidity Agreement pursuant to the Indenture. UNDER CERTAIN CIRCUMSTANCES DESCRIBED HEREIN, THE OBLIGATION OF THE LIQUIDITY BANKS TO PURCHASE BONDS TENDERED BY THE HOLDERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED; AND, IN SOME SUCH CIRCUMSTANCES, THE TERMINATION OR SUSPENSION OF SUCH OBLIGATION WILL BE IMMEDIATE AND

WITHOUT NOTICE TO BONDHOLDERS. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE SUCH BONDS.

### **The Corporation**

The Corporation is a California nonprofit public benefit corporation organized as directed by the California legislation providing for the deregulation of the sale of electricity in California (Assembly Bill 1890 enacted as Chapter 854 of the California Statutes of 1996, "AB 1890"). The Corporation has received a determination letter from the Internal Revenue Service that it has qualified as a corporation described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The Corporation has assumed operational control of the transmission facilities of the three largest investor-owned electric utilities in California to provide open, nondiscriminatory access to such facilities in connection with competition in supplying electricity to retail customers as required by AB 1890. The Corporation is the operator of one of the largest electrical control areas in the world both in terms of land area and load. See "THE CORPORATION" herein.

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

### **Other Matters**

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

## **PLAN OF FINANCE**

### **Refunding of 1998 Series A Bonds**

In May 1998, Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) were issued, consisting of 1998 Series A in the principal amount of \$101,600,000 (the "1998 Series A Bonds"), 1998 Series B in the principal amount of \$75,000,000 (the "1998 Series B Bonds"), 1998 Series C in the principal amount of \$75,000,000 (the "1998 Series C Bonds") and the 1998 Series D in the principal amount of \$49,800,000 (the "1998 Series D Bonds") for the purpose of financing or refinancing the costs of certain facilities and equipment, certain startup costs and working capital for the Corporation. A portion of the proceeds of the Bonds will be applied to the current refunding of the 1998 Series A Bonds to be outstanding in the principal amount of \$74,500,000 as of April 13, 2000. See also "Issuance of 2000 Series A and B Bonds" below.

The Corporation expects to notify the Trustee that it intends to make an optional prepayment of the repayment installments under and in accordance with the terms of the loan agreement relating to the Refunded

Bonds and to instruct the Trustee to call the Refunded Bonds for redemption on June 1, 2000. Upon the issuance of the Bonds, amounts will be drawn under the letter of credit securing the Refunded Bonds (which amounts will be reimbursed to the bank providing the letter of credit from the proceeds of the Bonds), which amounts, together with other available moneys, will be deposited with Bankers Trust Company of California, N.A., as trustee for the Refunded Bonds and as escrow bank (the "Escrow Bank"), into an escrow fund pursuant to an Escrow Deposit Agreement, dated as of March 1, 2000 (the "Escrow Deposit Agreement"), by and among the Infrastructure Bank, the Corporation and the Escrow Bank, and applied to the purchase of certain noncallable direct obligations of, or obligations the full and timely payment of which is guaranteed by, the United States of America ("Government Obligations"), the principal of and interest on which, together with any uninvested cash on deposit in the escrow fund, will be sufficient to pay the principal and interest requirements (at an assumed rate of 12% per annum) on the Refunded Bonds (including the purchase price of any Refunded Bonds tendered for purchase by the holders thereof and not remarketed). On June 1, 2000, the Refunded Bonds will be redeemed at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date. Upon the initial deposit to the escrow fund as described above, the Refunded Bonds will no longer be deemed to be outstanding pursuant to the indenture of trust under which such Refunded Bonds were issued.

### **Additional Capital Expenditures**

A portion of the proceeds of the Bonds will be applied to finance or refinance a portion of the costs of acquisition of land and the acquisition and construction of certain facilities in connection with the expansion of the existing facilities of, and the costs of certain equipment, including computers and telecommunications hardware and software systems and other facilities and equipment for, the Corporation.

### **Issuance of 2000 Series A and B Bonds**

Concurrently with the delivery of the Bonds, the Infrastructure Bank expects to issue \$186,600,000 aggregate principal amount of its 2000 Series A and B Bonds pursuant to the Indenture for the purpose of providing funds, together with other available moneys (i) to current refund the outstanding 1998 Series B, 1998 Series C and 1998 Series D Bonds and (ii) to pay costs of issuance of the 2000 Series A and B Bonds. It is a condition precedent to the delivery of the 2000 Series A and B Bonds that the Bonds be issued on the date of delivery of the 2000 Series A and B Bonds. The Repayment Installments the Corporation is obligated to make pursuant to the Loan Agreement will be in amounts sufficient to pay as and when due the principal of, premium, if any, and interest on the 2000 Series A and B Bonds, as well as the Bonds. The Policy to be issued by the Insurer in connection with the Bonds will also insure the 2000 Series A and B Bonds. The Standby Bond Purchase Agreement will be delivered in connection with the Bonds will also provide liquidity for the 2000 Series A and B Bonds.

The Corporation intends to enter into an interest rate Swap Agreement in the form of an ISDA Master Agreement and Schedule and related Transactions (the "Swap Agreement") with Morgan Guaranty Trust Company of New York ("Morgan Guaranty") in connection with the 2000 Series A and B Bonds. Pursuant to the Transactions under the Swap Agreement the Corporation agrees to pay a fixed interest rate on a notional amount not greater than the principal amount of the 2000 Series A and B Bonds. In return, Morgan Guaranty agrees to pay a variable rate of interest, equal to The Bond Market Association Municipal Swap Index, a weekly index, on a like notional amount. The amounts payable by a party under the Swap Agreement are due monthly but are netted against the payments to be received by such party thereunder. The Swap Agreement constitutes a Parity Obligation for purposes of the Indenture. None of the Infrastructure Bank, the Trustee nor the Bondholders shall have any interest in or rights under the Swap Agreement. See "SECURITY FOR THE BONDS – Parity Obligations" herein.



## ESTIMATED APPLICATION OF PROCEEDS

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

Deposit to Escrow Fund	\$ 75,941,168
Additional Capital Expenditures	30,000,000
Costs of Issuance <sup>(1)</sup>	343,210
Underwriter's Discount	<u>115,622</u>
Total	<u>\$106,400,000</u>

<sup>(1)</sup> Includes bond insurance premium, legal, financing, consulting and Liquidity Banks' fees, rating agency fees, printing costs and other miscellaneous expenses.

## THE INFRASTRUCTURE BANK

The California Economic Development Financing Authority issued and delivered its \$301,400,000 Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project), consisting of \$101,600,000 1998 Series A issued and delivered on May 5, 1998 and \$75,000,000 1998 Series B, \$75,000,000 1998 Series C and \$49,800,000 1998 Series D issued and delivered on May 15, 1998, pursuant to its authority to issue tax-exempt revenue bonds to provide financing for private activity economic development projects under Part 10.2 of Division 3 of Title 2 of the California Government Code (the "Prior Act").

On March 2, 1998, Senate Bill 1184 (Chapter 4, California Statutes of 1998) ("SB 1184") was enacted. SB 1184, effective January 1, 1999, repealed the Prior Act. Pursuant to SB 1184, the Infrastructure Bank will observe, keep and perform all of the responsibilities, liabilities and obligations of the California Economic Development Financing Authority, and such assumption occurred without any execution or filing of any paper or any further act. Any reference in any law, contract, bond, indenture, or other document to the former California Economic Development Financing Authority is deemed after the effective date of SB 1184 to mean the Infrastructure Bank.

The Infrastructure Bank is a public body organized within the government of the State of California and created pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act, codified at 63000 et seq. of the California Government Code, as amended. The Infrastructure Bank is governed, and its corporate powers are exercised, by a Board of Directors consisting of the State Secretary of Trade and Commerce, the State Director of Finance and the State Treasurer.

## THE CORPORATION

### General

As required by AB 1890, the Corporation was established as a nonprofit public benefit California corporation governed by a Board of Governors representing the various classes of stakeholders interested in the deregulation of the electric industry in California. In 1998, the Corporation received a determination letter from the Internal Revenue Service indicating that it qualified as a corporation described in Section 501(c)(3) of the Code.

Following its incorporation in May 1997, the Corporation began preparing to take over operational control of the investor-owned electric transmission facilities in California. Prior to such date, development on the infrastructure for the Corporation was commenced through a trust established by the three largest investor-

owned California electric utilities. Among the many elements necessary for the Corporation to assume its role as directed by AB 1890 were: (i) the establishment of the necessary dispatch control centers and metering devices; (ii) the development of the communications infrastructure needed to link the Corporation with transmission and power plant operators and scheduling coordinators; and (iii) the creation of computer programs to accept and synchronize schedules for transmission on an hourly basis from multiple scheduling coordinators and to provide the reliability and congestion management necessary for the transmission system to assure uninterrupted electric service.

On March 31, 1998, the Corporation commenced operations and has since then exercised operational control of the electric transmission facilities of the three largest investor-owned California utilities. The Corporation is the operator of one of the largest electrical control areas in the world both in terms of land area and load and operates day-ahead and hour-ahead markets for transmission congestion and ancillary services, and a real-time market for balancing energy.

Since its startup, the Corporation has successfully operated the electric transmission system through two summers of record peak electricity demand. Additionally, the Corporation has continued to modify its computer systems and market rules to enhance the robustness of the competitive energy markets and to be responsive to the market participants it serves.

The Corporation's executive offices and primary dispatch and communications facilities are located in Folsom, California. The Corporation maintains a back-up dispatch and communications center at Alhambra, California. The costs of the 1998 Project initially financed or refinanced with the proceeds of the Refunded Bonds consisted of tenant improvements to the Corporation's facilities in Folsom and Alhambra, computer hardware and communications facilities located at these and other locations and the costs of developing computer programs necessary for the Corporation's control of generation and transmission facilities, including communications and billing services in connection with such control.

There are currently 25 voting members of the Board of Governors and 5 nonvoting advisory representatives, representing a total of 13 different classes of stakeholders. The Corporation is regulated by the Federal Energy Regulatory Commission ("FERC").

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

## **THE BONDS**

### **General**

The Bonds will be issued in the principal amount indicated on the cover page of this Official Statement. The Bonds will be dated their date of issuance. The Bonds will mature on April 1, 2009 (the "Maturity Date").

Pursuant to the Indenture, the Bonds shall bear interest at the Daily Rate, Weekly Rate, Commercial Paper Rate (each, a "Variable Rate") or a Fixed Rate, based on the Interest Rate Determination Method specified from time to time by the Corporation. The maximum rate of interest any of the Bonds (other than Liquidity Provider Bonds) may bear is 12% per annum. The interest rate for all the Bonds shall be determined based on the same Interest Rate Determination Method. The Bonds will initially bear interest at the Weekly

Rate, determined as described herein. The Bonds will initially be issued in authorized denominations of \$100,000 or any integral multiple thereof.

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

Bankers Trust Company of California, N.A. is the Trustee, Tender Agent, Registrar and Paying Agent for the Bonds. Bear, Stearns & Co. Inc. has been appointed under the Indenture and a Remarketing Agreement with the Corporation to serve as Remarketing Agent for the Bonds. The Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed, all in accordance with the terms of the Indenture and the Remarketing Agreement.

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

#### **Determination of Interest Rates on the Bonds**

The Interest Rate Determination Method shall be specified from time to time by the Corporation as a Daily Rate, a Weekly Rate, a Commercial Paper Rate or a Fixed Rate. Each such Rate shall be determined as provided in the Indenture; provided, that no Rate (other than the Bank Rate) as so determined shall exceed the Maximum Interest Rate in effect on the date of determination thereof, except that Bonds purchased by a Liquidity Provider in accordance with the terms of a Liquidity Agreement shall bear interest at the Bank Rate in effect on the date of determination thereof. At any one time, all the Bonds shall have the same Interest Rate Determination Method and (except as to Liquidity Provider Bonds, Bonds during a Commercial Paper Rate Period and Bonds of different maturities bearing interest at a Fixed Rate) shall bear interest at the same interest rate. The Bonds shall bear interest payable on each Interest Payment Date computed on the basis of a 365/366-day year and actual days elapsed during any Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period and a 360-day year of twelve (12) 30-day months during any Fixed Rate Period.

#### **Weekly Rate Period for Bonds**

Upon initial issuance, the Bonds will bear interest at the Weekly Rate, provided that during the period from the date of initial issuance of the Bonds through the first Tuesday thereafter, the Bonds shall bear interest at the rate specified in a Certificate of the Infrastructure Bank. During each Weekly Rate Period, the applicable Remarketing Agent will set a Weekly Rate by 5:00 p.m., New York City time, on each Tuesday (or the immediately preceding Business Day, if such Tuesday is not a Business Day) for the next Calendar Week; provided, that, the Weekly Rate for the first Calendar Week (or portion thereof) following a Conversion Date resulting in a change in the Interest Rate Determination Method to a Weekly Rate shall be set by the Remarketing Agent on the Business Day immediately preceding such Conversion Date. Each Weekly Rate shall be the rate of interest which, if borne by Bonds in the Weekly Rate Period, would, in the judgment of the Remarketing Agent, having due regard for the prevailing financial market conditions for revenue bonds or other securities the interest on which is excluded from gross income of the Holders thereof (other than any Holder who is a "substantial user" of facilities financed with such obligations or a "related user" within the meaning of Section 147(a) of the Code for federal income tax purposes, whether or not interest is includable as

an item of tax preference or otherwise includable directly or indirectly for purpose of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code ("Tax-Exempt Securities") which are of the same general nature as such Bonds or Tax-Exempt Securities which are competitive as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of the Bonds in the Weekly Rate Period, be the lowest interest rate which would enable the Remarketing Agent to place such Bonds at a price of par (plus accrued interest, if any) on the first day of such Weekly Rate Period. In determining the Rate that the Bonds shall bear, no Remarketing Agent shall have any liability to the Corporation, the Trustee or any Bondholder, except for its negligence or willful misconduct.

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

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

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

#### **Other Interest Rate Determination Methods**

**Daily Rate.** During each Daily Rate Period, which may be applicable to the Bonds as designated by an Authorized Corporation Representative, the Bonds so designated will bear interest at the Daily Rate. During each Daily Rate Period, the Remarketing Agent will determine a Daily Rate by 12:30 p.m., New York City time, on each Business Day and such Daily Rate shall be the rate of interest which, if borne by Bonds in the Daily Rate Period, would, in the judgment of the Remarketing Agent for such Bonds, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Bonds or Tax-Exempt Securities which are competitive as to credit and maturity (or period for tender) with the credit and maturity (or period for tender) of such Bonds in the Daily Rate Period, be the lowest interest rate which would enable the Remarketing Agent for such Bonds to place such Bonds at a price of par (plus accrued interest, if any) on such Business Day. The Daily Rate for any non-Business Day will be the rate for the last Business Day on which a Daily Rate was set.

**Commercial Paper Rate.** During such period as the Bonds bear interest at a Commercial Paper Rate as designated by an Authorized Corporation Representative, each Bond so designated will bear interest at the Commercial Paper Rate applicable to it. The Remarketing Agent will select each Commercial Paper Rate Period or Periods for each Bond which is bearing, or is to bear, interest at a Commercial Paper Rate on a Business Day selected by the Remarketing Agent not more than five (5) Business Days prior to the first day of such Commercial Paper Rate Period with respect to such Bonds and not later than 12:30 p.m., New York City time, on the first day of such Commercial Paper Rate Period. Each Commercial Paper Rate Period shall be a period of not less than one nor more than 270 days determined by the Remarketing Agent with the intention of yielding the lowest overall interest expense on such Bonds taking into account (A) all other Commercial Paper Rate Periods for all Bonds, (B) general economic and market conditions relevant to such Bonds, and (C) such

other facts, circumstances and conditions as the Remarketing Agent determines to be relevant. Notwithstanding the foregoing, no Commercial Paper Rate Period for any Bond shall be selected with an expiration date later than the fifth (5<sup>th</sup>) Business Day prior to the expiration date of any Liquidity Agreement, as then in effect, for such Bond. The last day of each Commercial Paper Rate Period shall be a day immediately preceding a Business Day. If the Interest Rate Determination Method with respect to the Bonds bearing interest at the Commercial Paper Rate Period is being converted to a new Interest Rate Determination Method, the Remarketing Agent shall determine Commercial Paper Rate Periods with respect to such Bonds being converted in such manner that, as soon as possible, all Commercial Paper Rate Periods with respect to such Bonds being converted shall end on the same date, not less than fourteen (14) days following delivery to the Trustee of the notice required by the Indenture, which date shall be the last day of the then-current Commercial Paper Rate Periods with respect to such Bonds being converted and, upon the establishment of such Commercial Paper Rate Periods with respect to such Bonds being converted, the day next succeeding the last day of all such Commercial Paper Rate Periods with respect to such Bonds being converted shall be the effective date of the new Rate Period. The Remarketing Agent, promptly upon the determination of the last day of such Commercial Paper Rate Periods with respect to such Bonds being converted prior to Conversion to a new Interest Rate Determination Method, shall give written notice of such last day and such Conversion Date to the Infrastructure Bank, the Trustee and the Liquidity Provider for such Bonds.

The Remarketing Agent shall set a Commercial Paper Rate for each Bond bearing interest at a Commercial Paper Rate not later than 12:30 p.m., New York City time, on the first day of each Commercial Paper Rate Period for such Bonds. The Commercial Paper Rate for each Commercial Paper Rate Period applicable to each Bond bearing interest at a Commercial Paper Rate will be the rate determined by the Remarketing Agent to be the lowest interest rate which would be necessary for the Remarketing Agent to place such Bond on the first day of the applicable Commercial Paper Rate Period at a price of par.

**Fixed Rate.** The Interest Rate Determination Method for the Bonds may be converted from any Variable Rate to a Fixed Rate in accordance with the provisions of the Indenture. After such Conversion, each Bond so converted shall bear interest at the Fixed Rate applicable to it. The interest rate to be borne by any Bond so converted from the Fixed Rate Conversion Date shall be the rate determined by the Remarketing Agent for such Bond on the applicable Computation Date to be the rate which, if borne by such Bond, would, in the judgment of such Remarketing Agent having due regard for prevailing market conditions for Tax-Exempt Securities which are comparable to such Bond, be the lowest interest rate which would enable such Remarketing Agent to place the Bond tendered (or deemed to have been tendered) for purchase at a price of par on the Fixed Rate Conversion Date.

In determining the Fixed Rate for the Bonds, the Remarketing Agent, subject to the approval of the Corporation, shall also determine on or before the Business Day next preceding the determination of the Fixed Rate, the redemption premiums for optional redemption of such Bonds on such dates during the Fixed Rate Period as are in its best professional judgment consistent with the then-current market conditions.

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

If, for any reason, the Remarketing Agent fails to set the length of any Commercial Paper Rate Period, or to establish any Commercial Paper Rate, for a Bond or a court holds any Commercial Paper Rate Period, or Commercial Paper Rate, for any Bond to be invalid or unenforceable, a Commercial Paper Rate Period for such Bond lasting through the next day immediately preceding a Business Day (or until the earlier stated maturity thereof) and an interest rate applicable to such Bond equal to 100% of the Daily Rate Index will be established automatically.

**Notice of Rates.** Promptly following the determination of any Rate for a Bond, the Remarketing Agent shall give written notice thereof to the Trustee. Such notice shall also include details as to principal amounts of Bonds and the Interest Rate Determination Method at the time applicable. Promptly upon receipt of notice from the Remarketing Agent of any Fixed Rate, the Trustee shall give each affected Bondholder notice of the new Rate applicable to such Bonds.

**Absence of Remarketing Agent.** If no Remarketing Agent shall be serving under the Indenture for the Bonds, the determination of the applicable Rate Index shall be made by the Trustee. The determination of any Rate or Rate Index by a Remarketing Agent or the Trustee shall be conclusive and binding upon the Infrastructure Bank, the Corporation, the Trustee, the Remarketing Agent and the Bondholders.

**No Liability.** In determining the interest rate that the Bonds shall bear as provided in the Indenture, the Remarketing Agent and the Trustee shall have no liability to the Infrastructure Bank, the Corporation, the Trustee or any Bondholder, except for its negligence or willful misconduct.

### **Conversion of Interest Rate Determination Method**

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

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

**Limitations.** Any Conversion must comply with the following: (A) the Conversion Date must be an Interest Payment Date on which the Bonds designated for Conversion are subject to mandatory tender pursuant to the applicable provisions of the Indenture; (B) the Conversion Date must be a Business Day; (C) the Liquidity Facility for the Bonds being converted to be held by the Trustee after a Conversion to a Variable Rate must cover accrued interest (computed at the Maximum Interest Rate then in effect on the basis of a 365/366 day year and actual days elapsed) for the maximum number of days between Interest Payment Dates permitted under that Interest Rate Determination Method plus such additional number of days as shall be required in order to obtain or maintain a rating on the Bonds being converted; provided that if the number of days of interest coverage provided by the Liquidity Facility is being changed from the number of days previously in place, the Trustee shall have received a reconfirmation of the rating on the Bonds being converted from the rating agencies; (D) no Conversion shall become effective unless the Opinion of Bond Counsel referred to above is redelivered on (and as of) the Conversion Date and all outstanding Bonds are successfully remarketed in the new Interest Rate Determination Method on the Conversion Date; and (E) upon conversion of the Bonds to a Fixed Rate, an Authorized Corporation Representative may provide in the Conversion Notice to the Liquidity Provider for the Bonds being converted a request for termination of the Liquidity Facility to be effective upon such Conversion Date to a Fixed Rate.

**Notice to Bondholders.** Upon receipt of a Conversion Notice from an Authorized Corporation Representative, as soon as possible, but in any event not less than twenty (20) days prior to the proposed

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

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

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

***No Conversion During Continuance of Event of Default.*** No Conversion shall occur if at the time of such Conversion an Event of Default shall have occurred and be continuing under the Indenture.

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

## **Tender of Bonds for Purchase**

***Optional Tender During Weekly Rate Period.*** The Holders or Beneficial Owners of Bonds bearing interest at a Weekly Rate shall have the right to tender any such Bonds (or portions thereof in amounts such that the amount purchased and the amount not purchased are in Authorized Denominations) to the Tender Agent for purchase on any Business Day at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest from the Interest Payment Date next preceding the Purchase Date to but not including the Purchase Date (unless the Purchase Date shall be an Interest Payment Date, in which case the Purchase Price shall be equal to the principal amount thereof), payable in immediately available funds, upon (A) delivery by the Holder or Beneficial Owner of such Bond to the Tender Agent at its Principal Office of an irrevocable notice by telephone (promptly confirmed in writing) or written or Electronic notice by 5:00 p.m. (New York City time) on any Business Day at least seven (7) days prior to the Purchase Date, which states the principal amount of such Bond to be tendered for purchase and the Purchase Date, and (B) delivery of such Bond to the Tender Agent on the Purchase Date in accordance with the Indenture.

***Optional Tender During Daily Rate Period.*** The Holders or Beneficial Owners of Bonds bearing interest at a Daily Rate shall have the right to tender any such Bonds (or portions thereof in amounts such that the amount purchased and the amount not purchased are in Authorized Denominations) to the Tender Agent for purchase on any Business Day at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest from the Interest Payment Date next preceding the Purchase Date to but not including the Purchase Date (unless the Purchase Date shall be an Interest Payment Date, in which case the Purchase Price shall be equal to the principal amount thereof), payable in immediately available funds, upon (A) delivery by the Holder or Beneficial Owner of such Bond to the Tender Agent at its Principal Office of an irrevocable notice by telephone (promptly confirmed in writing) or written or Electronic notice by 11:00 a.m. (New York City time) on the Purchase Date, and (B) delivery of such Bond to the Tender Agent on the Purchase Date in accordance with the Indenture.

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

**IF A BONDHOLDER OR BENEFICIAL OWNER FAILS TO DELIVER ANY BOND TO THE TENDER AGENT ON OR BEFORE THE PURCHASE DATE, SUCH BOND SHALL BE DEEMED TO HAVE BEEN PROPERLY TENDERED TO THE TENDER AGENT AND, TO THE EXTENT THAT THERE SHALL BE ON DEPOSIT WITH THE TENDER AGENT ON SUCH PURCHASE DATE AN AMOUNT SUFFICIENT TO PAY THE PURCHASE PRICE THEREOF, SUCH BOND SHALL CEASE TO CONSTITUTE OR REPRESENT A RIGHT TO PAYMENT OF PRINCIPAL THEREOF OR INTEREST THEREON OF THE FORMER HOLDER AND SHALL CONSTITUTE AND REPRESENT ONLY THE FORMER HOLDER'S RIGHT TO PAYMENT OF THE PURCHASE PRICE PAYABLE ON SUCH DATE. THE FOREGOING SHALL NOT LIMIT THE ENTITLEMENT OF ANY BONDHOLDER ON ANY RECORD DATE TO RECEIPT OF INTEREST, IF ANY, DUE ON ANY SUCH PURCHASE DATE UNLESS SUCH INTEREST IS PAID AS PART OF THE PURCHASE PRICE.**

**SEE "APPENDIX A — BOOK-ENTRY SYSTEM" FOR THE TENDER PROVISIONS APPLICABLE WHILE THE BONDS ARE IN THE BOOK-ENTRY-ONLY SYSTEM. THE**



**INFRASTRUCTURE BANK, THE CORPORATION, THE TENDER AGENT AND THE TRUSTEE SHALL NOT BE RESPONSIBLE IN THE EVENT DTC DOES NOT TENDER OR DELIVER BONDS FOR TENDER IN ACCORDANCE WITH DIRECTIONS DTC RECEIVES FROM A DTC PARTICIPANT.**

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

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

With respect to Bonds subject to mandatory tender for purchase pursuant to clause (i) above, the Trustee will give notice as described under the caption "Conversion of Interest Rate Determination Method – Notice to Bondholders" herein. With respect to Bonds subject to mandatory tender for purchase pursuant to clause (ii) above, no notice is required to be given pursuant to the Indenture. With respect to Bonds subject to mandatory tender for purchase pursuant to clause (iii), (iv) or (vi) above, the Trustee shall give notice by first-class mail to the Holders of the Bonds at their address shown on the registration books kept by the Registrar, not later than the fifteenth (15<sup>th</sup>) day prior to the date on which the Bonds are subject to mandatory tender. With respect to Bonds subject to mandatory tender pursuant to clause (v) above, the Trustee shall give notice by first-class mail to the Holders of the affected Bonds within two (2) Business Days of receipt of the notice that an event has occurred under the Liquidity Agreement permitting the termination of the Liquidity Facility from the Liquidity Provider and directing a mandatory tender of Bonds, that such Bonds are subject to mandatory tender for purchase on the Purchase Date specified in such notice.

**IF A BONDHOLDER OR BENEFICIAL OWNER FAILS TO DELIVER ANY BOND TO THE TENDER AGENT ON OR BEFORE ANY PURCHASE DATE SPECIFIED ABOVE, SUCH BOND SHALL BE DEEMED TO HAVE BEEN PROPERLY TENDERED TO THE TENDER AGENT AND, TO THE EXTENT THAT THERE SHALL BE ON DEPOSIT WITH THE TENDER AGENT ON SUCH PURCHASE DATE AN AMOUNT SUFFICIENT TO PAY THE PURCHASE PRICE THEREOF, SUCH BOND SHALL CEASE TO CONSTITUTE OR REPRESENT A RIGHT TO PAYMENT OF PRINCIPAL THEREOF OR INTEREST THEREON OF THE FORMER HOLDER AND SHALL CONSTITUTE AND REPRESENT ONLY THE FORMER HOLDER'S RIGHT TO PAYMENT OF THE PURCHASE PRICE PAYABLE ON SUCH DATE.**

***Purchase of Tendered Bonds.*** On each Purchase Date that any Bonds are tendered for purchase (or deemed tendered for purchase) in accordance with the Indenture, the Tender Agent will purchase (but solely from funds received by the Tender Agent in accordance with the terms of the Indenture) such Bonds (or portions thereof in Authorized Denominations) at the applicable Purchase Price. Funds for the payment of the Purchase Price of such Bonds (or portions thereof in Authorized Denominations) shall be paid by the Tender Agent solely from the following sources and in the following order of priority:

- (i) Proceeds of the remarketing of such Bonds (or portions thereof in Authorized Denominations); and
- (ii) Money drawn or received under Liquidity Facility for such Bonds.

#### **Remarketing**

Bear, Stearns & Co. Inc. will serve as Remarketing Agent for the Bonds pursuant to the terms of the Indenture and a Remarketing Agreement with the Corporation. The Remarketing Agent may resign, or the Corporation or the Infrastructure Bank may remove the Remarketing Agent, pursuant to the terms of the Remarketing Agreement.

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

#### **Redemption**

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

***Optional Redemption.*** The Bonds as shall be designated by the Corporation will be subject to redemption upon prepayment of the Repayment Installments at the option of the Corporation, in whole, or in part by lot in Authorized Denominations, prior to their maturity dates, but only from Available Amounts (provided that the portion of the redemption price that is accrued interest need not be paid with Available Amounts if the redemption date is an Interest Payment Date for the Bonds to be redeemed) as follows:

- (1) During any Daily Rate Period or Weekly Rate Period, the Bonds shall be subject to such redemption on any Interest Payment Date at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date;
- (2) On the day next succeeding the last scheduled day of any Commercial Paper Rate Period for any Bond, such Bond shall be subject to such redemption at a redemption price of 100% of the principal amount thereof;

(3) During any Fixed Rate Period, the Bonds shall be subject to such redemption during the periods specified below, on any date for redemption set forth below, at the direction of the Corporation, at the redemption prices (expressed as percentages of principal amount) hereinafter indicated (unless different redemption terms shall be specified by the Corporation pursuant to the Indenture):

<b><u>Length of Time to Maturity</u></b>	<b><u>Redemption Dates and Prices<sup>(1)</sup></u></b>
Less than or equal to 10 years and greater than 5 years.	At any time after the 5 <sup>th</sup> anniversary of the effective date commencing on such Interest Payment Date at 101%, declining by 1% annually to 100%.
Less than or equal to 5 years.	Not callable.

<sup>(1)</sup> Dates measured from the start of the currently applicable adjustable Rate Period.

***Optional Redemption Upon Extraordinary Events.*** The Bonds as shall be designated by an Authorized Corporation Representative shall be redeemed in whole or in part, and if in part by lot, at any time, but only from Available Amounts (provided that the portion of the redemption price that is accrued interest need not be paid with Available Amounts if the redemption date is an Interest Payment Date for the Bonds to be redeemed), at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date upon receipt by the Trustee of a written notice from the Corporation stating that any of the following events has occurred and that the Corporation therefore intends to exercise its option to prepay the payments due under the Loan Agreement and thereby effect the redemption of Bonds in whole or in part to the extent of such prepayments:

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

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

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

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

***Redemption Upon Mandatory Prepayment.*** The Bonds shall be subject to redemption from amounts which are required to be prepaid by the Corporation pursuant to the Loan Agreement, but only from Available Amounts (provided that the portion of the redemption price that is accrued interest need not be paid with Available Amounts if the redemption date is an Interest Payment Date for the Bonds to be redeemed), upon the occurrence of a Determination of Taxability, in whole or in part (as described below) on any date at a redemption price equal to the principal amount thereof plus interest accrued to the redemption date, which shall be within 180 days after the occurrence of such Determination of Taxability; provided, however, that if,

in an opinion of Bond Counsel delivered to the Trustee, the redemption of a specified portion of such Bonds outstanding would have the result that interest payable on such Bonds remaining outstanding after such redemption would remain Tax-Exempt, then such Bonds shall be redeemed in part by lot (in Authorized Denominations), in such amounts as Bond Counsel in such opinion shall have determined is necessary to accomplish that result, and such partial redemption shall be allocated among the outstanding Bonds as designated by an Authorized Corporation Representative.

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

<b>Payment Date (April 1)</b>	<b><u>Principal Amount</u></b>
2001	\$11,300,000
2002	11,600,000
2003	12,100,000
2004	12,500,000
2005	13,000,000
2006	13,500,000
2007	14,000,000
2008	14,500,000
2009	3,900,000†

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† Maturity.

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

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

With respect to any notice of optional redemption or redemption upon mandatory prepayment as described above, unless upon the giving of such notice the Bonds to be redeemed are deemed to have been paid, such notice must state that such redemption is conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of Available Amounts sufficient to pay the principal of, and premium, if any, and interest on, the Bonds to be redeemed, and that if such Available Amounts are not received, such notice will be of no force and effect and the Infrastructure Bank will not be required to redeem such Bonds. If

such redemption is not effectuated, the Trustee will, within a reasonable time thereafter, give notice that such Available Amounts were not so received.

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

***Selection of Bonds to be Redeemed.*** The principal amount of Bonds to be redeemed by the Corporation pursuant to the optional prepayment by the Corporation of Repayment Installments under the Loan Agreement shall be as specified by the Corporation. If less than all the Bonds are called for redemption, the Trustee will select the Bonds or any portion thereof to be redeemed first from the outstanding Liquidity Provider Bonds, if any, or such portion thereof not previously called for redemption, by lot in such manner as it may determine, until all Liquidity Provider Bonds, if any, shall have been redeemed, and then from the outstanding Bonds or such portion thereof not previously called for redemption, by lot. If less than all the Bonds are to be redeemed and so long as DTC or its nominee is the sole registered owner of the Bonds under the book-entry system, selection of Bonds for redemption will be in accordance with DTC's customary practices. If the Bonds are not held in a book-entry system, the Trustee will select the Bonds to be redeemed by lot. If less than all the Bonds are to be redeemed, the Bonds that remain outstanding must be in Authorized Denominations.

#### **Book-Entry System**

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

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

### **SECURITY FOR THE BONDS**

#### **Payments by the Corporation Under the Loan Agreement**

Payment of the principal of, and premium, if any, and interest on the Bonds (and the 2000 Series A and B Bonds) will be secured by an assignment by the Infrastructure Bank to the Trustee of the Infrastructure Bank's interest in the Loan Agreement, including all Repayment Installments to be made by the Corporation to the Infrastructure Bank under the Loan Agreement (except the Infrastructure Bank's rights with respect to notices, consents and approvals, rights to receive certain payments with respect to expenses and indemnification rights). Pursuant to the Loan Agreement, the Corporation has pledged its Net Operating Revenues to secure its obligation to make payments of principal of and interest on the Bonds (and the 2000 Series A and B Bonds), which pledge is on a parity with the pledge of such Net Operating Revenues securing

certain other obligations. Payment of the principal of and interest on the Bonds when due (not including acceleration or redemption except mandatory sinking fund redemption) will be insured by the Policy to be issued by the Insurer. The Purchase Price of Bonds tendered or deemed tendered for purchase is payable solely from amounts drawn under the Liquidity Facility and from remarketing proceeds, and is not otherwise payable from or secured by Net Operating Revenues of the Corporation. While the Bonds are in a Weekly Rate Period, prospective investors should base their investment decision on the credit worthiness of the Insurer and the Liquidity Banks. See "BONDS INSURANCE," "THE STANDBY BOND PURCHASE AGREEMENT" and "THE LIQUIDITY BANKS" herein. The Bonds will not be secured by a mortgage or a security interest in the Project or any other property of the Corporation.

**THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE INFRASTRUCTURE BANK. THE BONDS DO NOT CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, BUT WILL BE SPECIAL OBLIGATIONS OF THE INFRASTRUCTURE BANK PAYABLE SOLELY FROM REVENUES AND OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE INFRASTRUCTURE BANK, THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF WILL BE OBLIGATED TO LEVY ANY TAXES OR APPROPRIATE OR EXPEND ANY FUNDS FOR THE PAYMENT OF PRINCIPAL, PREMIUM OR INTEREST ON, OR PURCHASE PRICE OF, THE BONDS.**

#### **Parity Obligations**

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

#### **Limitations on Remedies**

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

#### **BOND INSURANCE**

*The following information has been furnished by the Insurer for use in this Official Statement. Such information has not been independently confirmed or verified by the Infrastructure Bank or the Corporation. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of*

*material adverse changes in such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. Reference is made to Appendix E for a specimen of the Insurer's Policy.*

### **The Insurance Policy**

The Insurer's Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Infrastructure Bank to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on the Bonds as such payments will become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's Policy does not insure against loss of any redemption premium which may at any time be payable with respect to any Bond. The Insurer's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemption (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Trustee or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Trustee payment of the insured amounts due on such Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has two European branches, one in the Republic of France and the other in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

As of December 31, 1998, the Insurer had admitted assets of \$6.5 billion (audited), total liabilities of \$4.2 billion (audited), and total capital and surplus of \$2.3 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 1999, the Insurer had admitted assets of \$6.9 billion (unaudited), total liabilities of \$4.5 billion (unaudited), and total capital and surplus of \$2.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Furthermore, copies of the Insurer's year end financial statements prepared in accordance with statutory accounting practices are available without charge from the Insurer. A copy of the Annual Report on Form 10-K of the Company is available from the Insurer or the Securities and Exchange Commission. The address of the Insurer is 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

Moody's Investors Service, Inc. rates the financial strength of the Insurer "Aaa."

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., rates the financial strength of the Insurer "AAA."

Fitch IBCA, Inc. (formerly known as Fitch Investors Service, L.P.) rates the financial strength of the Insurer "AAA."

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds, nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.4 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

## **THE STANDBY BOND PURCHASE AGREEMENT**

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

The Standby Bond Purchase Agreement will be issued by the Banks, pursuant to which the Banks provide an Available Commitment severally, and not jointly, in an amount equal to \$296,275,178.08. The Trustee, upon compliance with the terms of the Standby Bond Purchase Agreement, is authorized and directed to draw up to an amount sufficient to pay the portion of the purchase price of Variable Rate Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed equal to the principal amount of such Variable Rate Bonds, plus an amount not to exceed thirty-four (34) days of accrued interest on such Bonds at a rate of 12% per annum to pay interest on Variable Rate Bonds when due.



The Banks' Available Commitment under the Liquidity Facility will terminate on the earlier of (a) April 12, 2001 (unless renewed or extended); (b) the occurrence of a Conversion to a Fixed Rate under the Indenture with respect to all outstanding Variable Rate Bonds; (c) the date on which the Trustee accepts a Substitute Liquidity Facility; (d) the date on which the Banks are no longer required to purchase tendered Variable Rate Bonds following an event of termination as described below; or (e) the date on which no Variable Rate Bonds are outstanding.

Upon the occurrence of any event of termination described in clauses (a) or (c) below, the Available Commitment and the obligation of the Banks to purchase Variable Rate Bonds shall immediately terminate without notice or demand, and thereafter the Banks shall be under no obligation to purchase Variable Rate Bonds.

Upon the occurrence of any event of termination described in clauses (e) or (j) below the Banks may terminate the Available Commitment by giving written notice to the Trustee and the Insurer, specifying the date on which the Available Commitment shall terminate, which shall not be less than thirty (30) days from the date of receipt of such notice by the Trustee, and after such date, the Banks shall be under no further obligation to purchase Variable Rate Bonds under the Standby Bond Purchase Agreement.

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

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

In addition to the rights and remedies set forth above, in the case of any event of termination specified below, upon the election of the Banks: (i) all amounts payable under the Liquidity Facility Agreement (other than payments of principal and interest on the Variable Rate Bonds or payments of deferred interest or any deferred interest fee amounts) shall upon notice to the Corporation become immediately due and payable, without presentment, demand, protest or further notice of any kind, and/or (ii) the Banks shall have all the rights and remedies available to them under the Variable Rate Agreement, the Related Documents (as defined below), the Policy or otherwise pursuant to law or equity.

*"Events of Termination"* under the Liquidity Facility Agreement include the following:

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

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

(c) a proceeding is instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect to the Insurer or for any substantial part of its property under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) and such proceeding is not terminated for a period of thirty (30) consecutive days or such court enters an order granting the relief sought in such proceeding or the Insurer shall institute or take any corporate action for the purpose of instituting any such proceeding; or the Insurer becomes the subject of a proceeding under Article 74 of the New York Insurance Law (or any successor provision), shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the Insurer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts or claims as they become due, or shall take any corporate action in furtherance of any of the foregoing; or

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

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

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

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

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

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

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

*"Insurer Adverse Change"* means the failure by the Insurer to maintain a claims-paying ability rating of at least "AA" by S&P, "AA" by Fitch and at least "Aa2" by Moody's and such claims paying ability ratings shall remain below "AA" by S&P, "AA" by Fitch and "Aa2" by Moody's for a period of ninety (90) consecutive days.

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

## **Substitute Liquidity Facility**

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

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

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

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

- (i) the substitute Liquidity Facility must be a Liquidity Facility entered into by, or issued by, a commercial bank or other financial institution;
- (ii) the terms and provisions of the substitute Liquidity Facility with respect to the purchase of Bonds thereunder must be in all material respects no less favorable to the Trustee than the terms and provisions of the initial Liquidity Facility;
- (iii) the substitute Liquidity Facility must take effect on or before the date of termination of the existing Liquidity Facility and the term of the substitute Liquidity Facility must be at least 364 days (or, if shorter, the period to maturity of the Bonds); and
- (iv) the substitute Liquidity Facility must be in an amount sufficient to pay the maximum purchase price of the Bonds which will be applicable during the then current Rate Period.

Pursuant to the Trust Agreement, if there shall have been delivered to the Infrastructure Bank and the Trustee (i) a substitute Liquidity Facility meeting the requirements of the Loan Agreement and (ii) the opinions and documents required by the Loan Agreement, then the Trustee shall accept such substitute Liquidity Facility and, if so directed by the Corporation, on or about the fifth (5<sup>th</sup>) Business Day succeeding the effective date of such substitute Liquidity Facility promptly surrender the Liquidity Facility theretofore in effect in accordance with the respective terms thereof for cancellation. In the event that the Corporation elects to provide a substitute Liquidity Facility, the Bonds shall be subject to mandatory tender as provided in the Indenture. See "THE BONDS – Tender of Bonds for Purchase – Mandatory Tender" herein. Pursuant to the Indenture, the Trustee shall give notice by first class mail of the provision of any substitute Liquidity Facility with respect to the Bonds to the Holders of such Bonds at their addresses shown on the registration books kept

by the Registrar, not later than the fifteenth (15<sup>th</sup>) day prior to the date on which the Bonds are subject to mandatory tender.

## THE LIQUIDITY BANKS

### **Westdeutsche Landesbank Girozentrale**

**Background Information.** Westdeutsche Landesbank Girozentrale, which traces its history to 1832, was created by the merger of two central banks, or Landesbanks (German State Banks), in the State of North Rhine-Westphalia, the Federal Republic of Germany ("Germany") on January 1, 1969. As a German universal bank, Westdeutsche Landesbank Girozentrale provides commercial and investment banking services regionally, nationally and internationally to public, corporate and bank customers. Westdeutsche Landesbank Girozentrale is the largest of the Landesbanks and, on the basis of total assets at December 31, 1998, was the fourth largest bank in Germany. At December 31, 1998, Westdeutsche Landesbank Girozentrale had total assets of approximately DM 540.8 billion (US\$ 323.2 billion).

Westdeutsche Landesbank Girozentrale also performs the functions of a state and municipal bank for the State of North Rhine-Westphalia and acts as the central bank of the Sparkassen (savings banks) in North Rhine-Westphalia (Germany's most populous state). It conducts a comprehensive range of wholesale banking business and has the power to issue mortgage bonds, municipal bonds and other bonds and is the largest continuous issuer of long term debt in Germany. In its capacity as central bank, Westdeutsche Landesbank Girozentrale acts as the clearing and depository bank for the savings banks in North Rhine-Westphalia. As a state bank, Westdeutsche Landesbank Girozentrale provides trustee services for state-supported lending programs for housing, regional economic assistance, middle market firms and environmental protection. Internationally, the Westdeutsche Landesbank Girozentrale Group (the "Group") operates through an extensive network of banking subsidiaries, branches and representative offices to provide a range of financial services to its clients.

Pursuant to a guaranty obligation (Gewährträgerhaftung) set forth in Section 37 of the North Rhine-Westphalia Savings Bank Act and Section 5 of the Ordinances of Westdeutsche Landesbank Girozentrale, North Rhine-Westphalia together with the other guarantors specified therein (including regional authorities and savings bank associations) are jointly and severally liable without restriction for all obligations of Westdeutsche Landesbank Girozentrale, including all obligations of the New York Branch of Westdeutsche Landesbank Girozentrale (hereinafter, "WestLB New York"). The guaranty obligation gives creditors a direct claim against North Rhine-Westphalia only if the claims of the creditors have not first been satisfied out of the assets of Westdeutsche Landesbank Girozentrale, including the assets of WestLB New York.

In addition to being liable under the guaranty obligation, North Rhine-Westphalia, having established Westdeutsche Landesbank Girozentrale, is responsible to Westdeutsche Landesbank Girozentrale for the performance of Westdeutsche Landesbank Girozentrale's obligations, including all obligations of WestLB New York. This maintenance obligation (Anstaltslast), while not a formal guaranty affording creditors of Westdeutsche Landesbank Girozentrale a direct claim against North Rhine-Westphalia, requires North Rhine-Westphalia to keep Westdeutsche Landesbank Girozentrale in a position to perform its functions and to enable it, in the event of financial difficulties, to perform its obligations, when due.

**The New York Branch.** WestLB New York is licensed and subject to supervision and regulation by the Superintendent of Banks of the State of New York. WestLB New York is examined by the New York State Banking Department and is subject to banking laws and regulations applicable to a foreign bank that operates a New York branch. In addition to being subject to New York banking laws and regulations, Westdeutsche Landesbank Girozentrale and WestLB New York are also subject to the International Banking Act of 1978 (the "IBA") and the Foreign Bank Supervision Enhancement Act of 1991, and Westdeutsche

Landesbank Girozentrale is subject to federal regulation under the IBA and the Bank Holding Company Act of 1956.

***Summary of Results of Operations and Financial Condition for the Fiscal Year Ended December 31, 1998.*** In the fiscal year ended December 31, 1998, Westdeutsche Landesbank Girozentrale's total assets grew by 18.4% from DM 456.7 billion to DM 540.8 billion (US\$ 323.2 billion). As of December 31, 1998, total deposits and borrowed funds totaled DM 495 billion (US\$ 296 billion), an increase of 18% from the previous year's amount by DM 76 billion. Westdeutsche Landesbank Girozentrale's capital and reserves (including supplementary capital) increased to DM 22,438 million (US\$ 13,411 million) as of December 31, 1998 (as compared to DM 19,246 million as of December 31, 1997).

Westdeutsche Landesbank Girozentrale's operating profit before risk provisions/result of evaluation of DM 1,548 million (US\$ 925 million) increased by 15.3% over the previous year. Interest surplus increased by 11.7% (from DM 3,064 million in 1997 to DM 3,422 million in 1998). Commission surplus increased by 15.2% (from DM 395 million in 1997 to DM 455 million in 1998). Staff expenses increased by 8.6% to DM 1,381 million (US\$ 825 million) in 1998, with other administrative expenses showing an increase of 25.0% to DM 1,325 million (US\$ 792 million) in 1998.

***United States and German Exchange Rates and Generally Accepted Accounting Principles.*** The financial information for the year ended December 31, 1998 is derived from the audited statements of Westdeutsche Landesbank Girozentrale, does not include the consolidated subsidiaries of the Westdeutsche Landesbank Girozentrale Group and has been prepared in accordance with accounting principles, practices, laws and regulations generally accepted in Germany. German accounting principles differ in certain respects from accounting principles generally accepted in the United States.

Unless indicated otherwise, currency amounts are stated in Deutsche Marks ("DM" or "Deutsche Marks") or United States dollars ("US\$" or "U.S. dollars"). Merely for the convenience of the reader, this summary contains translations of certain Deutsche Mark amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the Deutsche Mark amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollar amounts at the rate indicated. Unless otherwise indicated, the translations of Deutsche Marks into U.S. dollars have been made at **DM 1.6730 = US\$ 1.00**, which was the official (Frankfurt fixing) exchange rate on December 30, 1998. In certain instances, figures reflect the effect of rounding.

### **Bayerische Landesbank Girozentrale**

Bayerische Landesbank Girozentrale was incorporated as a public law financial institution (Rechtsfahige Anstalt des Oeffentlichen Rechts) by the Law Establishing Bayerische Landesbank Girozentrale (Gesetz ueber die Errichtung der Bayerischen Landesbank Girozentrale) of June 27, 1972, as amended, as adopted by the Parliament of the Free State of Bavaria, and is subject to the German Federal Banking Act of July 10, 1961, as amended (Gesetz ueber das Kreditwesen) (the "Federal Banking Act"). Its statutes authorize Bayerische Landesbank Girozentrale to provide universal financial services including both commercial and investment banking as well as brokerage activities. The Free State of Bavaria owns 50% of Bayerische Landesbank Girozentrale's share capital, the other 50% being owned by the Bavarian Savings Bank and Clearing Association (Bayerischer Sparkassen-und Giroverband) (which is the central organization of the Bavarian Savings Banks).

Bayerische Landesbank Girozentrale is equipped to provide a full range of domestic and international banking services; with regard to local banking functions, Bayerische Landesbank Girozentrale also makes use of the Bavarian Savings Bank's network. In the domestic field, Bayerische Landesbank Girozentrale places emphasis on wholesale banking, lending to federal and local authorities and mortgage lending, together with industrial credit. Bayerische Landesbank Girozentrale holds the function of a banker of the Free State of

Bavaria and its municipalities, and also finances public and private development projects, administers public funds and performs certain treasury functions for the Free State of Bavaria.

The Free State of Bavaria and the Bavarian Savings Bank and Clearing Association are jointly and severally liable for the obligations of Bayerische Landesbank Girozentrale if the liabilities cannot be satisfied from Bayerische Landesbank Girozentrale's assets (Gewährtraeger). The owners of Bayerische Landesbank Girozentrale also have an obligation to maintain Bayerische Landesbank Girozentrale in a financial position which enables it to carry out its functions. This liability (Anstaltslast), which is peculiar to German law, obliges the owners to provide funds for Bayerische Landesbank Girozentrale that are necessary to enable it to fulfill its functions, to meet its liabilities and to keep its finances sound. As an additional safeguard, it is noted that as a public law institution Bayerische Landesbank Girozentrale can only be put into liquidation through a specific law to this effect.

Bayerische Landesbank Girozentrale established a Representative Office in New York in October 1979 and obtained a license from the office of the Comptroller of the Currency in October 1981 to operate through a branch located in the City of New York.

The New York Branch engages in a diversified banking business, and is a major wholesale lending participant throughout the United States, offering a full range of domestic and international financial services, including loans, foreign exchange and money market operations.

All banking institutions in the Federal Republic of Germany are subject to governmental supervision and regulation exercised by the Federal Banking Supervisory Authority (Bundesaufsichtsamt fuer das Kreditwesen), an independent federal authority with regulatory powers and by the Deutsche Bundesbank (the "German Federal Central Bank") in accordance with the Federal Banking Act. The Federal Banking Act contains major rules for banking supervision and regulates Bayerische Landesbank Girozentrale's business activities, capital adequacy and liquidity. In addition to the above-mentioned general banking supervision, the group of Landesbanks is subject to special supervision by their respective federal states.

As reported in Bayerische Landesbank Girozentrale's Annual Report for the Fiscal Year ended December 31, 1998, Bayerische Landesbank Girozentrale had total assets of Deutsche Mark ("DM") 439.8 billion (DM 475.2 billion on a consolidated basis). Business volume (balance sheet total, own drawings charged to borrowers, endorsement liabilities, and guarantees) expanded by 9.5% to DM 468.1 billion from the previous year end. Bayerische Landesbank Girozentrale's lending volume increased by DM 21.1 billion to DM 300.5 billion from year end 1997. Total equity of Bayerische Landesbank Girozentrale, including, among other items, nominal capital of DM 1.6 billion, profits participation rights with a nominal value of DM 3.88 billion and capital contributions of silent partners in an amount of DM 4.16 billion, totaled DM 15.78 billion or 3.6% of the unconsolidated balance sheet. Net income after tax was DM 512.0 million, a decrease of 13.4% compared to year end 1997. DM 400 million of such amount has been allocated to revenue reserves, raising Bayerische Landesbank Girozentrale's published reserve to DM 6.03 billion. The accounting principles applied in the preparation of Bayerische Landesbank Girozentrale's financial statements comply with generally accepted accounting principles in the Federal Republic of Germany and may not conform to generally accepted accounting principles applied by United States banks.

The rate of exchange between the DM and the dollar is determined by the forces of supply and demand in the foreign exchange markets, which, in turn, are affected by changes in the balance of payments and other economic and financial conditions, government intervention, speculation and other factors. The foregoing information relating to Bayerische Landesbank Girozentrale is based upon facts and circumstances present on the dates referenced above. Such facts and circumstances may change from time to time. Bayerische Landesbank Girozentrale shall have no obligation to update the foregoing information to reflect any such change.

Copies of Bayerische Landesbank Girozentrale's Annual Report for the most recent available fiscal year may be obtained at the New York Branch in person during normal business hours or by mail by writing to the New York Branch at: Bayerische Landesbank Girozentrale, 560 Lexington Avenue, New York, New York 10022, Attention: Corporate Finance.

Bayerische Landesbank Girozentrale has supplied the information relating to it in the previous paragraphs. Bayerische Landesbank Girozentrale does not accept responsibility for any information contained in this Official Statement other than the information contained in this Section relating to Bayerische Landesbank Girozentrale.

### **Morgan Guaranty Trust Company of New York**

Morgan Guaranty Trust Company of New York is a wholly owned subsidiary and the principal asset of J.P. Morgan & Co. Incorporated ("Morgan"), a Delaware corporation whose principal office is located in New York, New York. Morgan Guaranty Trust Company of New York is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. Its business is subject to examination and regulation by Federal and New York State banking authorities. As of December 31, 1999, Morgan Guaranty Trust Company of New York and its subsidiaries had total assets of \$167.7 billion, total net loans of \$26.1 billion, total deposits of \$47.7 billion, and stockholder's equity of \$10.6 billion. As of December 31, 1998, Morgan Guaranty Trust Company of New York and its subsidiaries had total assets of \$175.2 billion, total net loans of \$24.9 billion, total deposits of \$56.2 billion, and stockholder's equity of \$10.5 billion.

The Consolidated statement of condition of Morgan Guaranty Trust Company of New York as of December 31, 1999, is set forth on page 12 of Exhibit 99a to Form 8-K dated January 18, 2000, as filed by Morgan with the Securities and Exchange Commission. Morgan Guaranty Trust Company of New York will provide without charge to each person to whom this Official Statement is delivered, on the request of any such person, a copy of the Form 8-K referred to above. Written request should be directed to: Morgan Guaranty Trust Company of New York, 60 Wall Street, New York, New York 10260-0060, Attention: Office of the Secretary.

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

### **ABSENCE OF LITIGATION**

#### **The Infrastructure Bank**

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

## **The Corporation**

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

## **VERIFICATION**

Upon the delivery of the Bonds, Grant Thornton LLP, independent accountants, will deliver a report on the mathematical accuracy of certain computations contained in the schedules provided to them relating to the adequacy of the maturing principal amount of the Government Obligations held in the escrow fund established with respect to the Refunded Bonds, interest earned thereon and certain moneys on deposit in said fund for the payment of the principal and interest requirements on the Refunded Bonds (including the purchase price of any Refunded Bonds tendered for purchase by the holders thereof and not remarketed) until the applicable redemption date therefor and upon the redemption of the Refunded Bonds on such redemption date. The report of Grant Thornton LLP will include a statement that the scope of their engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of any event occurring, or data or information coming to their attention, subsequent to the date of their report.

## **RATINGS**

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

## **UNDERWRITING**

J.P. Morgan Securities Inc., the Underwriter, is expected to agree, subject to certain conditions, to purchase the Bonds from the Infrastructure Bank at an aggregate Underwriter's discount of \$115,622. The Bond Purchase Contract for the Bonds provides that the Underwriter is obligated to purchase all of the Bonds if any are purchased. The Bonds may be offered and sold by the Underwriter 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 Underwriter. The Corporation has agreed to indemnify the Infrastructure Bank and the Underwriter against certain liabilities, including certain liabilities under federal securities laws.

## **TAX MATTERS**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative maximum taxable liability of such corporations. A copy of the proposed form of the opinion of Bond Counsel is set forth in "APPENDIX B - FORM OF OPINION OF BOND COUNSEL."

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the Bonds is based upon certain representations of fact and certifications made by the Infrastructure Bank, the Corporation, the Underwriter and others and is subject to the condition that the Infrastructure Bank and the Corporation comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to assure that interest on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Infrastructure Bank and the Corporation have covenanted to comply with all such requirements.

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

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for federal income tax purposes provided that the Infrastructure Bank and the Corporation comply with certain requirements of the Code, the ownership of Bonds and the accrual or receipt of interest thereon may otherwise affect the tax liability of certain persons. The extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences.

Accordingly, all potential purchasers should consult their tax advisors with respect to such consequences before purchasing any of the Bonds.

## **OTHER LEGAL MATTERS**

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

## **EXECUTION AND DELIVERY**

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

### **CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK**

By: /s/ Lon S. Hatamiya  
Title: Chair

Approved by:

### **CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

By: /s/ Terry M. Winter  
Title: President and Chief Executive Officer

## APPENDIX A

### BOOK-ENTRY SYSTEM

*The following information concerning DTC and DTC's book-entry system has been obtained from DTC. The Infrastructure Bank, the Corporation and the Underwriter make no representation as to the accuracy or completeness of such information.*

#### General

Initially, DTC will act as securities depository for the Bonds. The Bonds will be issued solely in book-entry form to be held under DTC's book-entry system, registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for the Bonds, in the aggregate principal amount of the Bonds, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended.

DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants ("Direct Participants") include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are 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 interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The 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.

As long as the book-entry system is used for the Bonds, redemption notices will be sent to Cede & Co. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

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

Principal, Purchase Price, premium, if any, and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payment date. 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, the Corporation or the Infrastructure Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, Purchase Price, premium, if any, and interest to DTC is the responsibility of the Infrastructure Bank or the Trustee, and disbursement of such payments to the Participants or the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants, Indirect DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in

such Bonds and other related transactions by and between DTC, the DTC Participants, the Indirect DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants, the Indirect DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR HOLDERS OF BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

#### **Discontinuance of DTC Services**

DTC may discontinue providing its services as Securities Depository with respect to the Bonds at any time by giving notice to the Infrastructure Bank, the Corporation, the Trustee and the Tender Agent. In addition, the Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Securities Depository). Under either of such circumstances, in the event that a successor Securities Depository is not obtained, Bond certificates are required to be printed and delivered.

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## APPENDIX B

### FORM OF OPINION OF BOND COUNSEL

[Closing Date]

California Infrastructure and Economic Development Bank  
801 K Street, Suite 1700  
Sacramento, California 95814

*Re:* \$106,400,000 California Infrastructure and Economic Development Bank  
Variable Rate Demand Revenue Bonds  
(California Independent System Operator Corporation Project)  
2000 Series C

Ladies and Gentlemen:

We have acted as bond counsel for the California Infrastructure and Economic Development Bank, a public instrumentality of the State of California (the "Infrastructure Bank"), in connection with its authorization and issuance of the above-referenced bonds (the "Bonds") under and pursuant to the provisions of the Bergeson-Peace Infrastructure and Economic Development Act constituting Division 1 of Title 6.7 of the Government Code of the State of California (the "Act") and an Indenture of Trust, dated as of March 1, 2000 (the "Indenture"), by and between the Infrastructure Bank and Bankers Trust Company of California, N.A., as trustee (the "Trustee"). The Bonds are issued for the purpose of making a loan of the proceeds thereof to California Independent System Operator Corporation ("ISO") pursuant to a Loan Agreement, dated as of March 1, 2000, by and between the Infrastructure Bank and ISO. All terms not defined herein have the meanings ascribed to those terms in the Indenture.

In such connection, we have examined originals or copies identified to our satisfaction as being true copies of the Indenture, the Loan Agreement, the Tax Certificate, dated the date hereof, by and between the Infrastructure Bank and ISO, opinions of counsel to the Infrastructure Bank, ISO and the Trustee, and certain other documents and records of the Infrastructure Bank and ISO. As to questions of fact material to our opinion, we have relied upon certifications of officers of the Infrastructure Bank, ISO, the Trustee and others which have been furnished to us, but we have not undertaken to verify the accuracy thereof through independent investigation. We have also relied upon, without independent verification, the legal conclusions set forth in the opinions referred to above. Finally, we have assumed the genuineness of all signatures, the legal capacity of all natural persons executing the documents referred to above, the authenticity of all documents submitted to us as originals, the conformity to originals of all documents submitted to us as copies, and the due and legal authorization, execution and delivery thereof by, and validity against, any parties to such documents other than the Infrastructure Bank.

Based upon and subject to the foregoing, and in reliance thereon, we are of the following opinions:

1. The Infrastructure Bank has lawful authority to issue the Bonds; it has duly authorized and issued the Bonds in accordance with the Constitution and laws of the State of California, including the Act, and the Indenture; and the Bonds constitute legal, valid and binding obligations of the Infrastructure Bank enforceable against the Infrastructure Bank in accordance with their terms. The Bonds are special obligations of the Infrastructure Bank payable solely from the Revenues and other amounts held by the Trustee under the Indenture (except the Rebate Fund); the Bonds are not a lien or charge upon the funds or property of the Infrastructure Bank except to the extent provided in the Indenture. The Bonds are not an obligation of the

State of California or any instrumentality or local agency thereof (other than the Infrastructure Bank); and neither the faith and credit nor the taxing power of the State of California or any instrumentality or local agency thereof is pledged for the payment of the Bonds.

2. The Infrastructure Bank has lawful authority under the Act to enter into the Indenture; it has duly authorized, executed and delivered the Indenture; and the Indenture is a legal, valid and binding obligation of the Infrastructure Bank enforceable against the Infrastructure Bank in accordance with its terms. The Indenture creates a valid pledge of the Revenues and other amounts held by the Trustee under the Indenture (except the Rebate Fund), subject to the provisions of the Indenture permitting the application of the Revenues and such amounts for the purposes and on the terms and conditions set forth therein. The Indenture also creates a valid assignment to the Trustee, for the benefit of the Holders of the Bonds, of the Infrastructure Bank's right, title and interest in and to the Loan Agreement to the extent described in the Indenture.

3. The Infrastructure Bank has lawful authority under the Act to enter into the Loan Agreement; it has duly authorized, executed and delivered the Loan Agreement; and the Loan Agreement is a legal, valid and binding obligation of the Infrastructure Bank enforceable against the Infrastructure Bank in accordance with its terms.

4. Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

5. Interest on the Bonds is exempt from State of California personal income tax.

The opinions expressed herein as to the exclusion from gross income of interest on the Bonds are subject to the condition that the Infrastructure Bank and ISO comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Infrastructure Bank and ISO have covenanted to comply with all such requirements. The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether or not any such actions or events are taken or do occur. The Indenture, the Loan Agreement and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the exclusion from gross income of interest for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences of the Bonds.

We have not undertaken to review the Official Statement relating to the Bonds on behalf of the Holders or beneficial owners of the Bonds, and we assume no responsibility to such Holders or beneficial owners for the accuracy or completeness of the information contained therein.



The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Loan Agreement are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or transfer, and other similar laws affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

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## APPENDIX C

### GLOSSARY OF TERMS

Unless the context otherwise requires, the terms defined in this APPENDIX C shall have the meanings specified below.

"Act" means the Bergeson-Peace Infrastructure and Economic Development Bank Act, constituting Division 1 of Title 6.7 of the Government Code of the State, commencing with Section 63000.

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

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

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

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

"Authorized Denomination" means (a) with respect to Bonds of any Series during any Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period of one year or less, \$100,000 or any multiple of \$100,000 above that amount; and (b) with respect to Bonds of any Series during any Fixed Rate Period, \$5,000 or any multiple of \$5,000 above that amount.

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

Section 547 of the Bankruptcy Code in the event of the occurrence of an Act of Bankruptcy of the Corporation or the Infrastructure Bank; or (e) proceeds of the investment of funds qualifying as Available Amounts under the foregoing clauses.

"Bank Rate" means with respect to Liquidity Provider Bonds, the lesser of (i) the interest rate to be borne by such Bonds pursuant to the terms of the related Liquidity Agreement and (ii) the maximum interest rate permitted by law to be paid on obligations issued or incurred by the Infrastructure Bank in the exercise of its borrowing powers.

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

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

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

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

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

"Calendar Week" means the period of seven (7) days from and including Wednesday of any week to and including Tuesday of the next following week.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commercial Paper Rate" means the interest rate on Bonds of any Series established from time to time pursuant to the applicable provisions of the Indenture.

"Commercial Paper Rate Period" means, with respect to any Bond bearing interest, or to bear interest, at a Commercial Paper Rate, the period during which such Bond bears interest at a specific rate of interest for such Commercial Paper Rate Period in accordance with the applicable provisions of the Indenture.

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

"Conversion" means any conversion from time to time in accordance with the terms of the Indenture of the Bonds of any Series from one Interest Rate Determination Method to another.

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

"Conversion Notice" shall have the meaning set forth in the Indenture.

"Daily Rate" means the interest rate on any Bond established from time to time pursuant to the applicable provisions of the Indenture.

"Daily Rate Index" means, on any Business Day, the Tax-Exempt Daily Interest Rate ("TEDIR") established by the Remarketing Agent at its principal office as of the opening of business on such Business Day as a base rate of interest which is indicative of current bid-side yields of securities the interest on which is excluded from gross income for federal income tax purposes and which are repriced and can be tendered for payment on any Business Day; provided, that, if TEDIR shall not be established as aforesaid, the Daily Rate Index for any Business Day shall be an Alternate Daily Index selected by the Remarketing Agent with the consent of the Infrastructure Bank or, if no such Alternate Daily Index shall have been so selected, shall be the sum of (A) the product of (i) the interest rate for thirty-day taxable commercial paper (prime paper placed through dealers) announced for such day by the Federal Reserve Bank of New York, converted to a coupon equivalent rate, multiplied by (ii) 1 minus the maximum federal income tax rate payable by individuals at the time on interest income, plus (B) 2.00% or, if interest on the Bonds is an item of tax preference in determining alternative minimum taxable income (as evidenced by an Opinion of Bond Counsel), 2.25%.

"Daily Rate Period" means any period during which any Bonds bear interest at the Daily Rate.

"Determination of Taxability" means a determination that, interest on the Bonds, or any of them, is determined not to be Tax-Exempt by a final administrative determination of the Internal Revenue Service or a final judicial decision of a court of competent jurisdiction in a proceeding of which the Corporation received notice and was afforded an opportunity to participate to the full extent permitted by law. A determination or decision will not be considered final for purposes of the preceding sentence unless (A) the Infrastructure Bank or the Holder or Holders of the Bonds involved in the proceeding in which the issue is raised (i) shall have given the Corporation, the Trustee and the Liquidity Provider, if any, prompt written notice of the commencement thereof, and (ii) shall have offered the Corporation the opportunity to control the proceeding; provided the Corporation agrees to pay all expenses in connection therewith and to indemnify such Holder or Holders against all liability for such expenses (except that any such Holder may engage separate counsel, and the Corporation shall not be liable for the fees or expenses of such counsel); and (B) such proceeding shall not be subject to a further right of appeal or shall not have been timely appealed.

"Electronic" notice means notice through a time-sharing terminal.

"Fixed Rate" means the fixed rate borne by any Bond either from its date of issuance hereunder or from the Fixed Rate Conversion Date relating to such Bond, which rate shall be established in accordance with the applicable provisions of the Indenture.

"Fixed Rate Conversion Date" means the Conversion Date on which the interest rate on any Bond shall be converted to a Fixed Rate.

"Fixed Rate Index" means the rate of interest per annum determined by the Remarketing Agent to be equal to the Fixed Rate Percentage of the weekly "Bond Buyer Revenue Bond Index" (or, if the "Bond Buyer Revenue Bond Index" is unavailable or discontinued, any comparable index selected by the Remarketing Agent) for the date immediately preceding the date of determination or, if any comparable index selected is unavailable or discontinued, 110% of the then current yield on United States Treasury obligations which have remaining terms equal approximately to the remaining term of such Bond as of the Fixed Rate Conversion Date and which are publicly traded at a price closest to the principal amount thereof.

"Fixed Rate Percentage" means: (a) if interest on the Bonds of a Series to be converted to a Fixed Rate is not an item of tax preference in determining alternative minimum taxable income under the Code (as evidenced by an Opinion of Bond Counsel): (i) 102%, if, on the Computation Date relating to any Fixed Rate Conversion Date, the Bonds to be converted to a Fixed Rate have received or are expected to receive a rating to be applicable to such Bonds on the Fixed Rate Conversion Date in respect of the Fixed Rate Period of "AA" or better (or its equivalent) by a Rating Agency, (ii) 105%, if, on the Computation Date relating to any Fixed Rate Conversion Date, the Bonds to be converted to a Fixed Rate have received or are expected to receive a rating to be applicable to such Bonds on the Fixed Rate Conversion Date in respect of the Fixed Rate Period of

"A" or better (or its equivalent) but less than "AA" (or its equivalent) by a Rating Agency, and (iii) 110%, in all other cases; and (b) if interest on the Bonds of a Series to be converted to a Fixed Rate is an item of tax preference in determining alternative minimum taxable income under the Code (as evidenced by an Opinion of Bond Counsel): (i) 102.5%, if, on the Computation Date relating to any Fixed Rate Conversion Date, the Bonds to be converted to a Fixed Rate having received or are expected to receive a rating to be applicable to such Bonds on the Fixed Rate Conversion Date in respect of the Fixed Rate Period of "AA" or better (or its equivalent) by a Rating Agency, (ii) 105.5%, if, on the Computation Date relating to any Fixed Rate Conversion Date, the Bonds to be converted to a Fixed Rate have received or are expected to receive a rating to be applicable to such Bonds on the Fixed Rate Conversion Date in respect of the Fixed Rate Period of "A" or better (or its equivalent) but less than "AA" (or its equivalent) by a Rating Agency, and (iii) 110.5%, in all other cases.

"Fixed Rate Period" means the period from and including the date of issuance or the Fixed Rate Conversion Date of Bonds of a Series bearing a Fixed Rate to and including the Maturity Date.

"Grid Management Charge" or "GMC" means the Corporation's monthly charge on certain entities that is 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.

"Holder" or "Bondholder" means the registered owner of any Bond.

"Interest Payment Date" means (i) with respect to each Liquidity Provider Bond and each Bond bearing interest at a Daily Rate or Weekly Rate, the first Business Day of each calendar month, (ii) with respect to each Bond bearing interest at a Commercial Paper Rate, the day immediately succeeding the last day of each Commercial Paper Rate Period applicable to such Bond, (iii) each Conversion Date, (iv) with respect to any Fixed Rate Period, each Semi-Annual Interest Payment Date, and (v) in all events, the final maturity date of each Bond.

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

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

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

"Liquidity Provider" means the issuer or issuers or other provider or providers of a Liquidity Facility with respect to the Bonds of any Series as permitted under the Loan Agreement and the Indenture (except the Corporation), and the respective successors and assigns of the business thereof and any surviving, resulting or transferee entity with or into which it may be consolidated or merged or to which it may transfer all or substantially all of its business. The initial Liquidity Provider for the Bonds shall be Westdeutsche Landesbank Girozentrale, Bayerische Landesbank Girozentrale and Morgan Guaranty Trust Company of New York, severally but not jointly, as described in the Standby Bond Purchase Agreement.

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

"Maximum Interest Rate" means (a) while a Liquidity Facility is in effect with respect to the Bonds of any Series, the rate of interest specified in such Liquidity Facility which is used to determine the amount available under such Liquidity Facility for payment of interest due and payable to Holders of the Bonds, but in no event greater than 12% per annum, and (b) at all other times, 12% per annum.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns.

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

"1998 Project" means the computer and telecommunications hardware and software systems required by the Corporation to act as an independent system operator of electric transmission facilities placed under the Corporation's operating control, together with other facilities, start-up costs and initial working capital requirements in connection with the new business activity, financed with the proceeds of the Refunded Bonds.

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

"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 reserve accounts, communication fees, Western Systems Coordinating Council security fees, application fees, training reimbursements and any other revenues from ancillary services, but excluding any monies received by the Corporation in trust for third parties, *i.e.*, (i) monies in the Clearing Account established pursuant to the Tariff in Section 2.2.3 of the Settlement and Billing Protocol included in the Tariff, other than those monies payable as the Grid Management Charge, (ii) monies in the accounts established pursuant to the Tariff in Section 2.1 of Annex 1 to the Settlement and Billing Protocol included in the Tariff and (iii) monies in any like account established by the Corporation pursuant to the Tariff.

"Parity Obligations" means the Corporation's payment obligations under the Liquidity Agreement, the Swap Agreement and any other indebtedness permitted under a Liquidity Facility or Facilities securing the Bonds or any Liquidity Agreement pursuant to which any such Liquidity Facility was issued.

"Principal Office" (i) of the Tender Agent, the Registrar or the Paying Agent means the office thereof designated in writing by the Tender Agent, the Registrar or the Paying Agent, as the case may be, to the Infrastructure Bank, the Trustee, the Liquidity Provider and the Corporation, which initially shall be located in Irvine, California; (ii) of the Trustee means the principal corporate trust office of the Trustee designated in writing to the Infrastructure Bank, the Registrar, the Paying Agent, the Tender Agent, the Liquidity Provider and the Corporation, which initially shall be located in Irvine, California; (iii) of the Remarketing Agent means its office designated in writing to the Infrastructure Bank, the Trustee, the Tender Agent, the Liquidity Provider and the Corporation; and (iv) of the Liquidity Provider means its office located at such address as such Liquidity Provider shall designate in writing to the Infrastructure Bank, the Trustee, the Tender Agent and the Corporation.

"Project" means collectively the 1998 Project and the 2000 Project.

"Purchase Date" means any date on which any Bond is required to be purchased as a result of optional or mandatory tender provisions of the Indenture.

"Purchase Price" means an amount equal to 100% of the principal amount of any Bond tendered or deemed tendered to the Trustee for purchase pursuant to the optional or mandatory tender provisions of the Indenture, plus accrued and unpaid interest thereon to but not including the Purchase Date; provided, however, if the Purchase Date occurs after the Record Date applicable to the interest accrued on such Bond from the last occurring Interest Payment Date, then the Purchase Price shall not include accrued and unpaid interest, which shall be paid to the Holder of record on the applicable Record Date.

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

"Rate Index" means the Alternate Daily Index, the Daily Rate Index or both, as the context may require.

"Rate Period" means any Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period, or Fixed Rate Period.

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

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

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

"Record Date" means (a) with respect to any Interest Payment Date in respect of any Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period the Business Day next preceding such Interest Payment Date; and (b) with respect to any Interest Payment Date in respect of any Fixed Rate Period, the fifteenth day (whether or not a Business Day) of the month preceding such Interest Payment Date.

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

"Reserve Requirement" has the meaning provided in Appendix M to the Tariff.

"Revenues" means all receipts, installment payments and other income derived by the Infrastructure Bank or the Trustee under the Agreement or otherwise in respect of the financing or refinancing of the Project Facilities as contemplated by the Agreement, and any income or revenue derived from the investment of any money in any fund or account established pursuant to this Indenture (other than the Bond Purchase Fund, the Rebate Fund and the accounts therein), including all Repayment Installments, amounts received under the Bond Insurance Policy to pay principal of and interest on the Bonds and any other payments made by the Corporation with respect to the Bonds pursuant to the Agreement; provided, however, that such term shall not



include payments to the Infrastructure Bank or the Trustee for fees, expenses or indemnifications pursuant to the Agreement or any amounts on deposit in the Bond Purchase Fund, the Rebate Fund or accounts therein.

"Semi-Annual Interest Payment Date" means April 1 or October 1.

"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, its successors and assigns.

"Tariff" means the Corporation Tariff and Pro Forma Agreements as posted from time to time pursuant to an order of the Federal Energy Regulatory Commission. References contained in the Indenture to specific sections of the Tariff shall mean the Tariff as posted on November 4, 1999.

"Tax Certificate" means, for each Series of Bonds, the Tax Certificate and Agreement, dated as of the date of initial issuance of such Series, by and between the Infrastructure Bank and the Corporation, as the same may be amended from time to time.

"Tax-Exempt" means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from the gross income of the Holders thereof (other than any Holder who is a "substantial user" of facilities financed with such obligations or a "related person" within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

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

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

"2000 Project" means the land, improvements, computer and telecommunications hardware and software systems, and other facilities and equipment used to provide operational control services in connection with system operation of the electric transmission facilities, all as generally described in the Agreement.

"Variable Rate" means any of the Daily Rate, the Weekly Rate or the Commercial Paper Rate.

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

"Weekly Rate" means the variable interest rate on the Bonds of any Series established in accordance with the Indenture.

"Weekly Rate Period" means each period during which Weekly Rates are in effect.

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## APPENDIX D

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

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

#### INDENTURE OF TRUST

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

- (a) The Trustee will have received an executed copy of the Agreement, the Escrow Agreement and the Indenture;
- (b) The Trustee will have received the Bond Insurance Policy and an executed copy of the Standby Bond Purchase Agreement, and opinions of Bond Counsel, counsel to the Insurer and counsel to the Liquidity Provider under the Standby Bond Purchase Agreement meeting the requirements of the applicable Purchase Contract; and
- (c) The Trustee will have received a Written Request of the Infrastructure Bank certifying that all conditions precedent to the issuance of that Series of Bonds have been complied with and directing the Trustee to authenticate and deliver such Series of Bonds.

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

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

**Bond Register.** The Registrar will keep or cause to be kept at its Principal Office sufficient books for the registration and the registration of transfer of the Bonds, which will at all times, during regular business hours, be open to inspection by the Infrastructure Bank, the Trustee, the Insurer, the Liquidity Provider, if any, and the Corporation; and, upon presentation for such purpose, the Registrar will, under such reasonable regulations as it may prescribe, register the transfer or cause to be registered the transfer, on said books, of Bonds as provided in the Indenture.

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

**Construction Fund.** (a) The Trustee will establish the 2000 California Independent System Operator Corporation Construction Fund (the "Construction Fund"). Upon written direction from an Authorized Corporation Representative, the Trustee will establish within the Construction Fund such accounts and subaccounts as may be necessary or convenient to carry out the purposes of the Tax Certificate.

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

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

(c) Upon the receipt by the Trustee of a certificate conforming with the requirements of the Agreement, and after payment of costs payable from the Construction Fund or provision having been made for payment of such costs not yet due by retaining such costs in the Construction Fund or otherwise as directed in such certificate, the Trustee will transfer any remaining balance in the Construction Fund into a separate account within the Bond Fund, which the Trustee will establish and hold in trust, and which will be entitled the "Surplus Account." The moneys in any Surplus Account will be used and applied subject to the Indenture, at the written direction of the Corporation (unless some other application of such moneys is requested by the Corporation and would not, in the opinion of Bond Counsel, cause interest on the Bonds to become no longer Tax-Exempt) to the purchase for cancellation or redemption of Bonds of any Series as designated by an Authorized Corporation Representative in Authorized Denominations, to the maximum degree permissible, and at the earliest possible dates at which such Bonds can be purchased or redeemed pursuant to the Indenture. Notwithstanding the Investment of Moneys provision of the Indenture, the moneys in such Surplus Account will be invested at the written instruction of the Corporation at a yield no higher than the yield on the Outstanding Bonds (unless in the opinion of Bond Counsel investment at a higher yield would not cause interest on the Bonds to become no longer Tax-Exempt), and all such investment income will be deposited in such Surplus Account and expended or reinvested as provided in the Indenture.

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

**Costs of Issuance Fund.** The Trustee will establish the 2000 Costs of Issuance Fund (the "Costs of Issuance Fund"). The Trustee will establish such accounts and subaccounts within the Costs of Issuance Fund as may be specified in a written direction from an Authorized Corporate Representative. The moneys in the Costs of Issuance Fund will be held by the Trustee in trust and applied to the payment of Costs of Issuance, upon a requisition filed with the Trustee in the form attached to the Indenture as Exhibit C, signed by an Authorized Corporation Representative. All payments from the Costs of Issuance Fund will be reflected in the Trustee's regular accounting statements. Any amounts remaining in an account of the Costs of Issuance Fund three months following the date of delivery of the respective Series of Bonds will be transferred to the Construction Fund and deposited in such accounts as are directed by an Authorized Corporation Representative.

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

**Investment of Moneys.** Subject to the arbitrage covenants of the Indenture, any moneys in any of the funds and accounts to be established by the Trustee pursuant to the Indenture (other than the Bond Purchase Fund) 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), by the Trustee, if and to the extent then permitted by law, 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 obligations issued by, or guaranteed by the full faith and credit of, the United States of America which is rated by each Rating Agency at least as high as the then current rating of such Rating Agency on the Bonds if such Rating Agency is then rating the Bonds. Moneys in any fund or account (other than the Bond Purchase Fund) 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 Holder) not later than the date on which such moneys will be required by the Trustee.

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

Any interest, profit or loss on any investments of moneys in any fund or account under the Indenture will be credited or charged to the respective funds from which such investments are made. The Trustee may sell or present for redemption any obligations so purchased whenever it 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 Agreement. Unless otherwise directed by the Corporation, the Trustee may make any investment permitted under the Indenture of Moneys provision through or with its own commercial banking or investment departments.

The Infrastructure Bank (and the Corporation by its execution of the Agreement) acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the

Infrastructure Bank or the Corporation the right to receive brokerage confirmations of security transactions as they occur, the Infrastructure Bank and the Corporation specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Infrastructure Bank and the Corporation periodic cash transaction statements which include detail for all investment transactions made by the Trustee pursuant to the Indenture.

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

**Assignment to Trustee; Enforcement of Obligations.** (a) Pursuant to the Indenture the Infrastructure Bank transfers, assigns and sets over to the Trustee all of the Revenues and any and all rights and privileges it had under the Agreement with respect to the Bonds, except (i) the Infrastructure Bank's rights to receive any notices under the Indenture or the Agreement, (ii) the Infrastructure Bank's right to receive payments, if any, with respect to fees, expenses and indemnification and certain other purposes under the Agreement and (iii) the Infrastructure Bank's rights to give approvals or consents pursuant to the Agreement, but including, without limitation, the right to collect and receive directly all of the Revenues and the right to hold and enforce any security interest; and any Revenues collected or received by the Infrastructure Bank will be deemed to be held, and to have been collected or received, by the Infrastructure Bank as the agent of the Trustee, and will forthwith be paid by the Infrastructure Bank to the Trustee. The assignment under the Indenture is to the Trustee solely in its capacity as Trustee under the Indenture and subject to the provisions of the Indenture and in taking or refraining from taking any action under the Agreement pursuant to such assignment, the Trustee will be entitled to the protections and limitations from liability afforded it as Trustee under the Indenture. The Trustee also will be entitled to take all steps, actions and proceedings reasonably necessary in its judgment (1) to enforce the terms, covenants and conditions of, and preserve and protect the priority of its interest in and under, the Agreement, the Bond Insurance Policy, any Liquidity Facility and any other security agreement with respect to the Project or the Bonds, and (2) to assure compliance with all covenants, agreements and conditions on the part of the Infrastructure Bank contained in the Indenture with respect to the Revenues.

**Repayment to Corporation or Liquidity Provider.** When there are no longer any Bonds Outstanding or provision for payment of the Bonds has been made in accordance with the Defeasance provisions of the Indenture, and all fees, charges and expenses of the Trustee, the Registrar, the Liquidity Provider, any Tender Agent, any Remarketing Agent and any Paying Agent have been paid or provided for, payment of the full amount owing the United States Government, as determined under the Agreement, the Arbitrage Covenants of the Indenture and the Tax Certificate, all expenses of the Infrastructure Bank relating to the Project and the Indenture have been paid or provided for, and all other amounts payable under the Indenture and under the Agreement have been paid, and the Indenture has been discharged and satisfied, the Trustee will pay to the Corporation any amounts remaining in any fund established and held pursuant to the Indenture; provided, however, that any amounts remaining in the Liquidity Facility Debt Service Account will be paid to the Liquidity Provider when there are no longer any Bonds Outstanding or provision for payment of such Bonds has been made in accordance with the Defeasance Provisions of the Indenture, regardless of whether all other amounts payable under the Indenture or under the Agreement have been paid.

**Liquidity Facilities; Liquidity Provider Bonds.** (a) The Trustee acknowledges the right of the Corporation at any time to provide a substitute Liquidity Facility with respect to any Series of Bonds bearing interest at a Variable Rate for the Liquidity Facility then in effect. If there will have been delivered to the Infrastructure Bank and the Trustee (i) a substitute Liquidity Facility meeting the requirements of the Agreement and (ii) the opinions and documents required by the Agreement, then the Trustee will accept such substitute Liquidity Facility and, if so directed by the Corporation, on or about the fifth Business Day succeeding the effective date of such substitute Liquidity Facility promptly surrender the Liquidity Facility theretofore in effect in accordance with the respective terms thereof for cancellation; provided the Trustee will not surrender any Liquidity Facility until all draws or requests to purchase Bonds made under such Liquidity Facility have been honored. In the event that the Corporation elects to provide a substitute Liquidity Facility,

the Bonds of the affected Series will be subject to mandatory tender as provided in the Mandatory Tender for Purchase provision of the Indenture. If at any time all Bonds of a Series will cease to be Outstanding under the Indenture or all the Outstanding Bonds of a Series have been converted to a Fixed Rate, or a Liquidity Facility will be terminated pursuant to its terms, the Trustee will promptly surrender such Liquidity Facility in accordance with its terms for cancellation. The Trustee will comply with the procedures set forth in each Liquidity Facility relating to the termination thereof.

(b) In the event that a Liquidity Facility is in effect, the Trustee will make a demand for payment under such Liquidity Facility subject to and in accordance with its terms, in order to receive payment thereunder.

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

(d) Any Bonds purchased with payments made under a Liquidity Facility pursuant to the Mandatory Tender Bonds provision will constitute Liquidity Provider Bonds and will be registered in the name of, or as otherwise directed by, the Liquidity Provider and delivered to or upon the order of, or as otherwise directed by, such Liquidity Provider; provided, that if such Bonds are Book-Entry Bonds, the Trustee will immediately upon making any demand for payment on a Liquidity Facility pursuant to the Mandatory Tender Bonds provision notify the Tender Agent. Upon receipt of such notice, the Tender Agent will direct DTC to cause any Bonds purchased with the proceeds of such demand to be transferred to such account at DTC, as directed by the Liquidity Provider, and such Bonds will be held in the name of or for the account of the Liquidity Provider or as may be directed by such Liquidity Provider.

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

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

(g) Notwithstanding anything to the contrary therein or in the Bonds, all obligations of the Corporation under or in connection with any Liquidity Agreement (including, without limitation, reimbursement obligations of the Corporation to any participating Liquidity Providers with respect to a

Liquidity Facility and any Liquidity Provider Bonds) will be governed by the terms of such Liquidity Agreement.

(h) The Trustee will provide to each Rating Agency then rating the Bonds written notice of the extension of any Liquidity Facility in effect with respect to the Bonds.

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

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

**Extension or Funding of Claims for Interest.** In order to prevent any accumulation of claims for interest after maturity, the Infrastructure Bank will not, directly or indirectly, extend or assent to the extension of the time for the payment of any claim for interest on any of the Bonds, and will not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding such claims or in any other manner. In case any such claim for interest will be extended or funded, whether or not with the consent of the Infrastructure Bank, such claim for interest so extended or funded will not be entitled, in case of default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which will not have been so extended or funded.

**Paying Agents.** The Infrastructure Bank, with the written approval of the Trustee and the Corporation, may appoint and at all times have one or more Paying Agents (which will meet the qualifications of the Trustee set forth in the Indenture) in such place or places as the Corporation may designate, for the payment of the principal of, and the interest (and premium, if any) on, the Bonds. All provisions of the Indenture which apply to the Trustee will also apply to any Paying Agent appointed under the Indenture. It will be the duty of the Trustee to make such arrangements with any such Paying Agent as may be necessary to assure, to the extent of the moneys held by the Trustee for such payment, the prompt payment of the principal of and interest and premium, if any, on the Bonds presented at either place of payment. The Paying Agent initially appointed under the Indenture is the Trustee.

**Preservation of Revenues.** The Infrastructure Bank will not waive any provision of the Agreement or take any action to interfere with or impair the pledge and assignment under Indenture of Revenues and the assignment to the Trustee of rights under the Agreement, or the Trustee's enforcement of any rights thereunder, without the prior written consent of the Trustee. The Trustee may give such written consent, and may itself take any such action, or consent to any Amendment, only in accordance with the provisions of the Indenture.

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

**Arbitrage Covenants; Rebate Fund.** (a) The Infrastructure Bank covenants with all persons who hold or at any time held Bonds that the Infrastructure Bank will not directly or indirectly use the proceeds of



any of the Bonds or any other funds of the Infrastructure Bank or permit the use of the proceeds of any of the Bonds or any other funds of the Infrastructure Bank or take or omit to take any other action which will cause any of the Bonds to be "arbitrage bonds" or otherwise subject to federal income taxation by reason of Sections 103 and 141 through 150 of the Code and any applicable regulations promulgated thereunder. To that end the Infrastructure Bank covenants to comply with all covenants set forth in the Tax Certificate, which is incorporated into the Indenture by reference as though fully set forth therein.

(b) The Trustee will establish and maintain a fund separate from any other fund established and maintained under the Indenture designated the "California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds, Series 2000 (California Independent System Operator Corporation Project) Rebate Fund" (the "Rebate Fund"). Within the Rebate Fund, the Trustee will maintain such accounts as will be directed by the Corporation as necessary in order for the Infrastructure Bank and the Corporation to comply with the terms and requirements of the Tax Certificate. Subject to the transfer provisions provided in the Indenture below, all money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States Government, and neither the Corporation, the Infrastructure Bank nor the Bondholders will have any rights in or claim to such moneys. All amounts deposited into or on deposit in the Rebate Fund will be governed by the Arbitrage Covenants, by the Agreement and by the Tax Certificate. The Trustee will conclusively be deemed to have complied with such provisions if it follows the directions of the Corporation, including supplying all necessary information requested by the Corporation and the Infrastructure Bank in the manner set forth in the Tax Certificate, and will not be required to take any actions thereunder in the absence of written directions from the Corporation.

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

(d) Notwithstanding any provision of the Indenture, including in particular the Defeasances provisions therein, the obligation of the Corporation to pay the Rebate Requirement to the United States Government and to comply with all other requirements of the Arbitrage Covenants, the Agreement and the Tax Certificate will survive the defeasance or payment in full of the Bonds.

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

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

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

**Events of Default; Acceleration; Waiver of Default.** Each of the following events will constitute an "Event of Default" under the Indenture: (a) Failure to make payment of any installment of interest upon any Bond when such payment will have become due and payable; (b) Failure to make due and punctual payment of the principal of or premium, if any, on any Bond when such payment will have become due and payable, whether at the stated maturity thereof, or upon proceedings for redemption thereof or upon the maturity thereof by declaration; (c) The occurrence of an "Event of Default" under the Agreement; (d) Default by the Infrastructure Bank in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, and the continuance of such default for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, 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 holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or (e) The Infrastructure Bank's or the Corporation's application for or consent to the appointment of a receiver, trustee, liquidator or custodian of the Infrastructure Bank or the Corporation, as the case may be, or of all or a substantial part of its property, or the commencement by the Infrastructure Bank or the Corporation of a voluntary case or other proceeding seeking liquidation, reorganization or other such relief under any bankruptcy, insolvency or other similar law, now or hereafter in effect, or the Infrastructure Bank's 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.

No default specified in (d) above will constitute an Event of Default unless the Infrastructure Bank and the Corporation 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 or, the Corporation within the applicable period and diligently pursued until the default is corrected. With regard to any alleged default concerning which notice is given to the Corporation under the provisions of this Section, the Infrastructure Bank thereby grants the Corporation full authority for the account of the Infrastructure Bank to perform any covenant or obligation the non-performance of which is alleged in said notice to constitute a default in the name and stead of the Infrastructure Bank with full power to do any and all things and acts to the same extent that the Infrastructure Bank could do and perform any such things and acts and with power of substitution. Notwithstanding such grant, the Corporation will not have any obligation to cure any default of the Infrastructure Bank.

Upon the occurrence and continuation of an Event of Default, the Trustee may, and upon the written request of the holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding and with the consent of the Insurer, or upon the written request of the Insurer, if any, will, by notice in writing delivered to the Corporation and the Insurer, with copies of such notice being sent to the Infrastructure Bank, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest will thereupon become and be immediately due and payable. Interest on the Bonds will cease to accrue from and after the date of declaration of any such acceleration. Notwithstanding the foregoing, the Trustee will not be required to take any action upon the occurrence and continuation of an Event of Default until a Responsible Officer of the Trustee has actual knowledge of such Event of Default. After any declaration of acceleration under this provision the Trustee will immediately declare all indebtedness payable under the Agreement with respect to the Bonds to be immediately due and payable in accordance with the Agreement and may exercise and enforce such rights as exist under the Agreement.

The preceding paragraph, however, is subject to the condition that if, at any time after the principal of the Bonds will have been so declared due and payable, and before any judgment or decree for the payment of the moneys due will have been obtained or entered as thereafter provided, there will have been deposited with the Trustee a sum which, together with any other amounts then held in the Bond Fund, is sufficient to pay all the principal of such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable expenses (including reasonable attorneys' fees) of the Trustee, and

any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on such Bonds due and payable solely by reason of such declaration) will have been made good or cured to the satisfaction of the Trustee in its sole discretion or provision deemed by the Trustee to be adequate will have been made therefor, then, and in every such case, the holders of at least a majority in aggregate principal amount of the Bonds then Outstanding (by written notice to the Infrastructure Bank and to the Trustee accompanied by the written consent of the Insurer, may, on behalf of the Holders of all Bonds, rescind and annul such declaration with respect to the Bonds and its consequences and waive such default; provided that no such rescission and annulment will extend to or will affect any subsequent default, or will impair or exhaust any right or power consequent thereon.

Notwithstanding anything else under this provision of the Indenture to the contrary, the failure of the Corporation to observe any covenant, agreement or representation in the Agreement which results in a Determination of Taxability, will not constitute an Event of Default under the Indenture if the Bonds are redeemed pursuant to Redemption Upon Mandatory Prepayment provisions of the Indenture. Payment of the redemption price for such Bonds will constitute the full and complete payment and satisfaction to the Holders of the Bonds for any claims, damages, costs or expenses arising out any failure on the part of the Corporation described above in this paragraph.

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

**Application of Moneys Collected by Trustee.** Any moneys collected by the Trustee and 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 premium, if any) or interest, upon presentation of the Bonds, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

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

Second: In case the principal of none of the Outstanding Bonds will have become due and remains unpaid, to the payment of interest in default on the Outstanding Bonds in the order of the maturity thereof, such payments to be made ratably and proportionately to the persons entitled thereto without discrimination or preference, except as specified in the Indenture; provided, however, that no payment of interest will be made with respect to any Bonds held by the Infrastructure Bank, the Corporation or actually known by the Trustee to be held by any affiliate of the Corporation, or any nominee of the Infrastructure Bank, the Corporation, or any affiliate of the Corporation, until interest due on all Bonds not so registered will have been paid.

Third: In case the principal of any of the Outstanding Bonds will have become due by declaration or otherwise and remains unpaid, first to the payment of principal of all Outstanding Bonds then due and unpaid, then to the payment of interest in default in the order of maturity thereof,

and then to the payment of the premium thereon, if any; in every instance such payment to be made ratably to the persons entitled thereto without discrimination or preference, except as specified in the Indenture; provided, however, that no payment of principal or premium or interest will be made with respect to any Bonds held by the Infrastructure Bank, the Corporation or known by the Trustee to be held by any affiliate of the Corporation or any nominee of the Infrastructure Bank, the Corporation, or any affiliate of the Corporation, until all amounts due on all Bonds not so held have been paid.

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

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

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

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

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

**Power of Trustee to Control Proceedings.** In the event that the Trustee, upon the happening of an Event of Default, will have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of Holders of the Bonds, it will have full power, in the exercise of its discretion for the best interests of the Holders of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee will not, unless there no longer continues an Event of Default under the Indenture, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity,

if at the time there has been filed with it a written request signed by the Insurer, the Liquidity Provider, if any, or the holders of at least a majority in principal amount of the Bonds Outstanding under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

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

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

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

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

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

**Duties, Immunities and Liabilities of Trustee and Registrar.** The Trustee will, prior to an Event of Default and after the curing of all Events of Default which may have occurred, and the Registrar at all times will, perform such duties and only such duties as are specifically set forth in the Indenture. The Trustee will,

during the existence of any Event of Default under the Indenture (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as prudent persons would exercise or use under the circumstances in the conduct of their own affairs.

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

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

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

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

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

(iii) in the absence of bad faith on the part of the Trustee or the Registrar, as the case may be, the Trustee and the Registrar may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee or the Registrar, as the case may be, conforming to the requirements of the Indenture; but in the case of any such certificate or opinion which by any provision of the Indenture is specifically required to be furnished to the Trustee or the Registrar, as the case may be, the Trustee or the Registrar, as the case may be, will be under a duty to examine the same to determine whether or not it conforms to the requirements of the Indenture.

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

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

**Qualifications of Trustee and Registrar.** There will at all times be a trustee and a registrar which will be corporations or banking associations organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least fifty million dollars (\$50,000,000), subject to supervision or examination by federal or State authority. If such corporations or banking associations publish reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority referred to in the Indenture then for the purposes of this provision the combined capital and surplus of such corporations or banking

associations will be deemed to be their combined capital and surplus as set forth in their most recent reports of conditions so published. In case at any time the Trustee or the Registrar will cease to be eligible in accordance with the provisions of this provision, the Trustee or the Registrar, as the case may be, will resign immediately in the manner and with the effect specified in the Indenture.

**Resignation and Removal of Trustee or Registrar and Appointment of Successor Trustee or Registrar.** (a) The Trustee or the Registrar may at any time resign by giving written notice to the Infrastructure Bank, the Corporation, the Insurer and the Liquidity Provider, if any, and by giving to the Bondholders notice either by publication of such resignation, which notice will be published at least once in a Qualified Newspaper, or by giving Notice by Mail to such Bondholders. The Trustee will also mail a copy of any such notice of resignation to the Rating Agencies. Upon receiving such notice of resignation, the Infrastructure Bank, with the advice and consent of the Corporation and the consent of the Insurer (whose consent will not be unreasonably withheld), will promptly appoint a successor trustee or registrar, as the case may be, by an instrument in writing. If no successor trustee or registrar, as the case may be, will have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation by the Trustee or the Registrar, as the case may be, the resigning trustee or registrar, as the case may be, may petition any court of competent jurisdiction for the appointment of a successor trustee or registrar, as the case may be, or any Bondholder who has been a bona fide Holder for at least six (6) months may, on behalf of himself and others similarly situated, petition any such court for the appointment of a successor trustee or registrar, as the case may be. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, appoint a successor trustee or registrar, as the case may be.

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

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

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

then, in any such case, the Infrastructure Bank may remove the Trustee or the Registrar, as the case may be, and, with the advice and consent of the Corporation and the consent of the Insurer (whose consent will not be unreasonably withheld), appoint a successor trustee or registrar, as the case may be, by an instrument in writing, or any such Bondholder may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee or the Registrar, as the case may be, and the appointment of a successor trustee or registrar, as the case may be. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, remove the Trustee or the Registrar, as the case may be, and appoint a successor trustee or registrar, as the case may be. Upon any removal of the Trustee, any outstanding fees and expenses of such former Trustee will be paid in accordance with the Indenture.

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

(d) Any resignation or removal of the Trustee or the Registrar, as the case may be, and appointment of a successor trustee or registrar, as the case may be, pursuant to any of the provisions of this Section will become effective only upon acceptance of appointment by the successor trustee or registrar, as the

case may be, as provided in the Indenture, and upon transfer of the Liquidity Facility, if any, then in effect to the successor Trustee.

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

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

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

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

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

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

(c) The Tender Agent may resign by notifying the Infrastructure Bank, the Trustee, the Insurer, the Liquidity Provider, if any, the Remarketing Agent and the Bondholders at least thirty (30) days



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

**Appointment, Duties and Qualifications of Remarketing Agent.** (a) In order to carry out the duties and obligations contained in the Indenture, the Corporation, with the approval of the Liquidity Provider, will appoint the Remarketing Agent for each Series of Bonds subject to the conditions set forth below. A Remarketing Agent will be a bank, trust company or member of the National Association of Securities Dealers, Inc. organized and doing business under the laws of any state of the United States of America or the District of Columbia and will have together with its parent, if any, a capitalization of at least fifty million dollars (\$50,000,000) as shown in its or its parent's most recently published annual report. The Remarketing Agent initially appointed for the 2000 Series A Bonds is J.P. Morgan Securities, Inc. The Remarketing Agent initially appointed for the 2000 Series B Bonds is Lehman Brothers. The Remarketing Agent initially appointed for the 2000 Series C Bonds is Bear Stearns & Co. Inc.

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

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

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

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

(a) to add to the covenants and agreements of the Infrastructure Bank contained in the Indenture, or of the Corporation or of any Liquidity Provider contained in any Document, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for any of the Bonds, or to

surrender any right or power reserved to or conferred upon the Infrastructure Bank or the Corporation; provided, that no such covenant, agreement, assignment, pledge or surrender will materially adversely affect the interests of the Holders of the Bonds;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision contained in the Indenture or any Document, or in regard to matters or questions arising under the Indenture or any Document, as the Infrastructure Bank may deem necessary or desirable and not inconsistent with the Indenture and which will not materially adversely affect the interests of the Holders of the Bonds;

(c) to modify, amend or supplement the Indenture or any indenture supplemental hereto in such manner as to permit the qualification under the Trust Indenture Act of 1939 or any similar federal statute thereafter in effect, and, if they so determine, to add to the Indenture or any indenture supplemental thereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute, and which will not adversely affect the interests of the Holders of the Bonds;

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

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

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

(g) to provide for the appointment of a co-trustee or the succession of a new Trustee, Registrar or Paying Agent;

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

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

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

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

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

Before the Infrastructure Bank or the Trustee enters into an Indenture supplemental hereto and before the Trustee consents to any Amendment to any Document pursuant to the provisions of the Indenture, the Infrastructure Bank, or the Trustee, as the case may be, will cause notice of the proposed execution of the Supplemental Indenture or Amendment to a Document to be given by mail to the Insurer. 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 an opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (i) authorized or permitted by the Indenture, the Act and other applicable law; (ii) complies with their respective terms, in the case of a Supplemental Indenture, will upon the execution and delivery thereof; (iii) be valid and binding upon the Infrastructure Bank in accordance with its terms; and (iv) will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

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

Upon receipt by the Trustee of: (1) a Certified Resolution authorizing the execution of any such Supplemental Indenture or Amendment; (2) an opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (i) authorized or permitted by the Indenture, the Act and other applicable law; (ii) complies with their respective terms; (iii) in the case of a Supplemental Indenture, will, upon the execution and delivery thereof, be valid and binding upon the Infrastructure Bank in accordance with its terms; and (iv) will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds; and (3) evidence of the consent of the Bondholders and the Insurer, as aforesaid, the Trustee will join with the Infrastructure Bank in the execution of such Supplemental Indenture or will consent to such Amendment; provided, however, that (i) the Trustee will not be obligated to enter into any such Supplemental Indenture which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its sole discretion, but will not be obligated to, enter into such Supplemental Indenture; and (ii) the Trustee will not enter into such Supplemental Indenture or Amendment without first obtaining the Corporation's written consent thereto.

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

Promptly after the execution by the parties thereto of any Supplemental Indenture or Amendment as provided in the Indenture, the Trustee will mail a notice (prepared by the Corporation) setting forth in general terms the substance of such Supplemental Indenture or such Amendment to the Insurer, the Liquidity Provider, if any, to each Bondholder at the address contained in the bond register maintained by the Registrar and to the applicable Rating Agencies. Any failure of the Trustee to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture or such Amendment.

**Discharge of Indenture.** If the entire indebtedness on all Bonds Outstanding will be paid and discharged in any one or more of the following ways: (a) by the payment of the principal of, and premium, if any, and interest on all Bonds Outstanding, as and when the same become due and payable; or (b) by the delivery to the Registrar, for cancellation by it, of all Bonds Outstanding;

and if all other sums payable pursuant to the Indenture by the Infrastructure Bank will be paid and discharged, then thereupon the Indenture will cease, terminate and become null and void except only as provided in the Discharge of Liabilities on Bonds provision of the Indenture, and thereupon the Trustee will, upon Written Request of the Infrastructure Bank, and upon receipt by the Trustee of a Certificate of the Infrastructure Bank and an Opinion of Counsel, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of the Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Indenture. The Trustee will mail written notice of such payment and discharge to the applicable Rating Agencies to the Insurer and to the Liquidity Provider, if any. The satisfaction and discharge of the Indenture will be without prejudice to the rights of the Trustee to charge and be reimbursed by the Corporation for any expenditures which it may thereafter incur in connection with the Indenture.

Any Bond or Authorized Denomination thereof will be deemed to be paid within the meaning of the Indenture when (a) payment of the principal of and premium, if any, on such Bond or Authorized Denomination thereof, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided therein) either (i) will have been made or caused to be made in accordance with the terms thereof, or (ii) will have been provided for by irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment (1) moneys sufficient to make such payment and/or (2) nonprepayable, noncallable Government Obligations maturing as to principal and interest in such amount and at such time as will insure the availability of sufficient moneys to make such payment, and (b) all necessary and proper fees, compensation and expenses of the Trustee pertaining to any such deposit will have been paid or the payment thereof provided for to the satisfaction of the Trustee; provided that no Bond will be deemed to be paid within the meaning of the Indenture unless arrangements satisfactory to the Trustee will have been made to assure that Bonds tendered for purchase in accordance with Mandatory and Optional Redemption provisions of the Indenture can be paid and redeemed from such moneys and/or Government Obligations and the Trustee will have received written confirmation from each Rating Agency then rating the Bonds, if any, that such Rating Agency's then current rating on the Bonds will not be lowered or withdrawn as a result of such provision. At such time as a Bond or Authorized Denomination thereof will be deemed to be paid pursuant to the Indenture, such Bond or Authorized Denomination thereof will no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys and/or Government Obligations. The Trustee will not be responsible for verifying the sufficiency of funds provided to effect the defeasance of Bonds pursuant to the Defeasance provisions.

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

**Discharge of Liability on Bonds.** Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem Outstanding Bonds, whether upon or prior to their maturity or the redemption date of such Bonds, (provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for giving such notice), all liability of the Infrastructure Bank and the Corporation in respect of such Bonds will cease, terminate and be completely discharged, except that the Infrastructure Bank and the Corporation will remain liable for such payment but only from, and the Bondholders will thereafter be entitled only to payment (without interest accrued thereon after such redemption date or maturity date) out of, the money deposited with the Trustee for their payment, subject, however, to the provisions of the Indenture; provided that no Bond will be deemed to be paid within the meaning of the Indenture unless arrangements satisfactory to the Trustee will have been made to assure that such Bond, if tendered for purchase in accordance with Mandatory and Optional Redemption provisions of the Indenture, could be paid and redeemed from such moneys and/or Government Obligations.

**Payment of Bonds after Discharge of Indenture.** Notwithstanding any provisions of the Indenture, and subject to applicable laws of the State, any moneys deposited with the Trustee or any Paying Agent, in trust for the payment of the principal of, or interest or premium on, any Bonds remaining unclaimed for two (2) years after the principal of any or all of the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in the Indenture), will then be repaid to the Corporation upon its written request, and the holders of such Bonds will thereafter be entitled to look only to the Corporation for payment thereof, and all liability of the Trustee or any Paying Agent with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Corporation as aforesaid, the Trustee or Paying Agent, as the case may be, will (at the request and cost of the Corporation) first publish at least once in a Qualified Newspaper a notice, in such form as may be deemed appropriate by the Corporation and the Trustee, in respect of the Bonds so payable and not presented and in respect of the provisions relating to the repayment to the Corporation of the moneys held for the payment thereof. In the event of the repayment of any such moneys to the Corporation as aforesaid, the Holders of the Bonds in respect of which such moneys were deposited will thereafter be deemed to be unsecured creditors of the Corporation for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the Corporation (without interest thereon).

**Deposit of Money or Securities with Trustee.** Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be: (a) Lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice, the amount to be deposited or held will be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or (b) nonprepayable, noncallable Government Obligations, the principal of and the interest on which when due will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice; (c) provided, in each case, that the Trustee will have been irrevocably instructed (by the terms of the Indenture or by Written Request of the Infrastructure Bank) to apply such money to the payment of such principal or redemption price and interest with respect to such Bonds.

**Opinions of Bond Counsel.** The parties to the Indenture, and the Corporation, acknowledge that whenever in the Indenture or the Tax Certificate it is required that prior to the taking of any action (including but not limited to any modifications of arbitrage covenants contained in the Indenture) an opinion of Bond

Counsel is required to be delivered to the effect that such action will not adversely affect the Tax-Exempt status of interest on the Bonds, if such opinion is not given by Stradling Yocca Carlson & Rauth, a Professional Corporation, the original approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, on the Bonds dated the Issue Date may no longer be relied upon by any person, including subsequent owners of the Bonds. No contrary representation will be made by any party to the Indenture, or the Corporation, or any agent thereof.

## LOAN AGREEMENT

**Representations of the Corporation.** The Corporation makes the following representations as the basis for its undertakings contained in the Agreement:

(a) The Corporation is a nonprofit, public benefit corporation duly formed under the laws of the State and described under Section 501(c)(3) of the Code, is in good standing in the State, and has the power to enter into and has duly authorized, by proper corporate action, the execution and delivery of the Agreement and all other documents contemplated to be executed by the Corporation.

(b) Neither the execution and delivery of the Agreement, the Remarketing Agreements, the Liquidity Agreement, the consummation of the transactions contemplated thereby, nor the fulfillment of or compliance with the terms and conditions thereof, conflicts with or results in a breach of any of the terms, conditions or provisions of the Corporation's Articles of Incorporation or Bylaws or of any corporate actions or of any material agreement or instrument to which the Corporation is now a party or by which it is bound, or constitutes a default (with due notice or the passage of time or both) under any of the foregoing, or results in the creation or imposition of any prohibited lien, charge or encumbrance whatsoever upon any of the property or assets of the Corporation under the terms of any material instrument or agreement to which the Corporation is now a party or by which it is bound.

(c) The 2000 Project consists and will consist of those facilities and equipment, including computer hardware and software, described in Exhibit A to the Agreement, and, to the extent within its control, for so long as it owns or operates the Project, the Corporation will make no changes to the 2000 Project or to the operation thereof which would affect the qualification of the 2000 Project as "economic development facilities" under the Act. The Corporation will comply with all requirements set forth in the Tax Certificate.

(d) To the extent necessary to preserve the security for the Bonds and the Tax-Exempt status of interest on the Bonds, all material certificates, approvals, permits and authorizations of agencies of applicable local governmental agencies, the State and the federal government have been or will be obtained with respect to the acquisition, construction and installation of the 2000 Project and pursuant to such certificates, approvals, permits and authorizations the Project has been or will be acquired, constructed or installed and are or will be in operation.

(e) To the best knowledge of the Corporation, no member, officer or other official of the Infrastructure Bank has any interest whatsoever in the Corporation or in the transactions contemplated by the Agreement.

(f) The estimated costs of the 2000 Project are as set forth in the Tax Certificate, and such costs will be determined in accordance with standard engineering/construction and accounting principles. All the information and representations in the Tax Certificate are true and correct as of the date thereof.

(g) No event has occurred and no condition exists which would constitute an Event of Default (as defined in the Indenture) or which, with the passing of time or with the giving of notice or both would become such an Event of Default.

**Agreement to Acquire and Construct the Facilities.** The Corporation agrees that it will acquire, equip, construct, rehabilitate and install, or complete the acquisition, construction, equipping, rehabilitation and installation of, the Facilities included in the Project, and will acquire, equip, construct, rehabilitate and install all other facilities and real and personal property deemed necessary for the operation of the Facilities included in the Project, substantially in accordance with the description of the 1998 Project attached as Exhibit A to the Loan Agreement, dated as of May 1, 1998, by and between the Authority and the Corporation and the description of the 2000 Project attached as Exhibit A to the Agreement, including any and all supplements, amendments and additions or deletions thereto or therefrom, it being understood that the approval of the Infrastructure Bank will not be required for changes in such descriptions which do not substantially alter the purpose and description of the Facilities referred to above. The Corporation further agrees to proceed with due diligence to complete the Facilities within three years from the date of the Agreement.

In the event that the Corporation desires to alter or change the Facilities included in the Project, and such alteration or change either substantially alters the purpose and description of the Facilities included in the Project, as described above, or changes the location of any Facility to a location other than those specified in Exhibit A to the Agreement, the Infrastructure Bank will enter into, and will instruct the Trustee to consent to, such amendment or supplement as will be required to reflect such alteration or change to the Project upon receipt of:

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

**Disbursements of Bond Proceeds.** (a) Subject to the provisions of the Agreement, the Corporation will authorize and direct the Trustee, upon compliance with the Indenture, to disburse the moneys in the Construction Fund to or on behalf of the Corporation only to pay the cost of financing the 2000 Project (and not for Costs of Issuance).

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

Each of the payments referred to will be made upon receipt by the Trustee of a written requisition in the form prescribed by the Indenture, signed by the Authorized Corporation Representative.

(b) The Corporation will authorize and direct the Trustee, upon compliance with the Indenture, to disburse the moneys in the Costs of Issuance Fund to or on behalf of the Corporation only for Costs of Issuance. Each of the payments referred to will be made upon receipt by the Trustee of a written requisition in the form prescribed by the Indenture, signed by the Authorized Corporation Representative.

**Establishment of Completion Date; Obligation of Corporation to Complete.** As soon as the acquisition, construction and installation of the 2000 Project is completed, the Authorized Corporation Representative, on behalf of the Corporation, will evidence the Completion Date by providing a certificate to that effect to the Trustee and the Infrastructure Bank stating the Costs of the 2000 Project. Notwithstanding the foregoing, such certificate may state that it is given without prejudice to any rights of the Corporation against third parties for any claims or for the payment of any amount not then due and payable which exists at the date of such certificate or which may subsequently exist.

At the time such certificate is delivered to the Trustee, moneys remaining in the Construction Fund (other than moneys relating to provisional payments permitted by the Disbursement of Bond Proceeds provision of the Agreement), including any earnings resulting from the investment of such moneys, will be used as provided in Section 3.03 of the Indenture.

In the event the moneys in the Construction Fund available for payment of the Costs of the 2000 Project should be insufficient to pay the costs thereof in full, the Corporation agrees to pay directly, or to deposit in the Construction Fund moneys sufficient to pay, any costs of completing the 2000 Project in excess of the moneys available for such purpose in the Construction Fund. The Infrastructure Bank makes no express or implied warranty that the moneys deposited in the Construction Fund and available for payment of the Costs of the 2000 Project, under the provisions of the Agreement, will be sufficient to pay all the amounts which may be incurred for such Cost of the 2000 Project. The Corporation agrees that if, after exhaustion of the moneys in the Construction Fund, the Corporation should pay, or deposit moneys in the Construction Fund for the payment of, any portion of the Costs of the 2000 Project pursuant to the provisions of this Section, it will not be entitled to any reimbursement therefor from the Infrastructure Bank, from the Trustee or from the holders of any of the Bonds, nor will it be entitled to any diminution of the amounts payable under the Agreement.

**Loan to Corporation.** The Infrastructure Bank covenants and agrees, upon the terms and conditions in the Agreement, to make a loan to the Corporation for the purpose of refunding the Prior Bonds and financing a portion of the 2000 Project. Pursuant to said covenant and agreement, the Infrastructure Bank will issue each Series of the Bonds upon the terms and conditions contained in the Agreement and the Indenture. The Infrastructure Bank and the Corporation agree that the application of the proceeds of sale of each Series of the Bonds to refund the Prior Bonds and to finance a portion of the 2000 Project will be deemed to be and treated for all purposes as a loan to the Corporation of an amount equal to the aggregate principal amount of the Bonds so issued.

**Repayment and Payment of Other Amounts Payable.** (a) With respect to the Bonds, the Corporation covenants and agrees to pay to the Trustee as a Repayment Installment, on or before each date provided in or pursuant to the Indenture for the payment of principal of (whether at maturity or upon redemption or acceleration), premium, if any, and/or interest on the Bonds, until the principal of, premium, if any, and interest on the Bonds will have been fully paid or provision for the payment thereof will have been made in accordance with the Indenture, in immediately available funds, for deposit in the Bond Fund, a sum equal to the amount then payable as principal (whether at maturity or upon redemption or acceleration), premium, if any, and interest upon the Bonds as provided in the Indenture.

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

(b) The Corporation agrees that, so long as any of the Bonds remain Outstanding, all of the Operating Revenues will be deposited as soon as practicable upon receipt in a fund designated as the "Operating Fund" which the Corporation will establish and maintain, subject to the provisions of the Agreement, in an account or accounts at such banking institution or institutions as the Corporation will from



time to time designate in writing to the Trustee for such purpose (called the "Depository Bank(s)"). Subject only to the provisions of the Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Agreement, the Corporation pledges, grants a first lien on and grants a security interest in the Net Operating Revenues to the Infrastructure Bank (for the benefit of the holders from time to time of the Outstanding Bonds and the Liquidity Provider), to secure the payment of the principal of and interest on the Bonds and the performance by the Corporation of its other obligations under the Agreement and its obligations under the Liquidity Agreement. The pledge of and lien on the Net Operating Revenues made by the Agreement will rank pari passu with any pledge of and lien on Net Operating Revenues securing Parity Obligations. The Corporation will execute and cause to be filed Uniform Commercial Code financing statements, will execute and cause to be sent to each Depository Bank for the Operating Fund a notice of the security interest granted under the Agreement and will execute and deliver such other documents (including, but not limited to, 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.

(c) The Corporation also agrees to pay to the Trustee until the principal of, premium, if any, and interest on the Bonds will have been fully paid or provision for the payment thereof will have been made as required by the Indenture, (i) the annual fee of the Trustee for its ordinary services rendered as trustee, and its ordinary expenses incurred under the Indenture, as and when the same become due, (ii) the reasonable fees, charges and expenses of the Registrar, Paying Agent, Remarketing Agents, and Tender Agent, as and when the same become due, (iii) the reasonable fees, charges and expenses of the Trustee for the necessary extraordinary services rendered by it and extraordinary expenses (including reasonable attorneys' fees) incurred by it under the Indenture, as and when the same become due, (iv) the cost of printing any Bonds required to be furnished by the Infrastructure Bank, and (v) any fees required to be paid to the Infrastructure Bank in connection with the issuance of the Bonds. The Corporation agrees that these provisions will survive the discharge of the Indenture and the retirement of the Bonds or the resignation or removal of the Trustee.

(d) The Corporation also agrees to pay to the Infrastructure Bank, (i) its fees and reasonable expenses in connection with the loan to the Corporation under the Agreement, the Bonds, the Indenture or any other documents contemplated thereby, including without limitation reasonable expenses incurred by the Attorney General of the State or any attorneys representing the Infrastructure Bank (including attorneys that are employees of the Infrastructure Bank) in connection with any litigation, investigation or matter that may at any time be instituted or any other questions or matter involving such loan or the Bonds, the Indenture or any other documents contemplated thereby and reasonable expenses incurred by the Infrastructure Bank in supervision and inspection of the Corporation and its operations with respect to the use and application of the loan, 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, 2001. 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 each Purchase Contract executed by it in connection with the sale of the Bonds, and all reasonable expenses of the Infrastructure Bank related to the refunding of the Prior Bonds and the financing of the 2000 Project which are not otherwise required to be paid by the Corporation under the terms of the Agreement; provided that the Infrastructure Bank will have obtained the prior written approval of an Authorized Corporation Representative for any expenditures other than those provided for in the Agreement or in a Purchase Contract.

(e) The Corporation also agrees to pay to Standard & Poor's the annual surveillance fee charged by Standard & Poor's in connection with the Bonds, such payment to be made at such times and in such amounts as heretofore agreed to by the Corporation and Standard & Poor's.

(f) In the event the Corporation should fail to make any of the payments required by the Agreement, such payments will continue as obligations of the Corporation until such amounts will have been fully paid. The Corporation agrees to pay such amounts, together with interest thereon until paid, to the extent permitted by law, at the rate borne by the Bonds.

**Unconditional Obligation.** The obligations of the Corporation to make the payments required by the Agreement and to perform and observe the other agreements on its part contained in the Agreement will be absolute and unconditional, irrespective of any defense or any rights of setoff, recoupment or counterclaim it might otherwise have against the Infrastructure Bank, and during the term of the Agreement, the Corporation will pay absolutely the payments to be made on account of the loan as prescribed in the Agreement and all other payments required under the Agreement, free of any deductions and without abatement, diminution or setoff. Until such time as the principal of, premium, if any, and interest on the Bonds will have been fully paid, or provision for the payment thereof will have been made as required by the Indenture, the Corporation (i) will not suspend or discontinue any payments provided for in the Agreement with respect to the Bonds; (ii) will perform and observe all of its other covenants contained in the Agreement with respect to the Bonds and the Project; and (iii) except as provided in the Events of Default and Remedies provisions of the Agreement, will not terminate the Agreement for any cause, including, without limitation, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to, or taking or condemnation of, all or any part of the Project, termination of any lease relating to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either of these, or any failure of the Infrastructure Bank or the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with the Agreement or the Indenture.

**Assignment of Infrastructure Bank's Rights.** As security for the payment of the Bonds, the Infrastructure Bank will assign to the Trustee the Infrastructure Bank's rights, but not its obligations, under the Agreement, including the right to receive payments (except (i) the rights of the Infrastructure Bank to receive notices under the Agreement, (ii) the right of the Infrastructure Bank to receive certain payments, with respect to expenses and indemnification and certain other purposes under the Agreement, and (iii) the right of the Infrastructure Bank to give approvals or consents pursuant to the Agreement); and the Infrastructure Bank thereby directs the Corporation to make the payments required (except such payments for expenses and indemnification and certain other purposes) directly to the Trustee. The Corporation assents to such assignment and agrees to make payments directly to the Trustee without defense or setoff by reason of any dispute between the Corporation and the Infrastructure Bank or the Trustee.

The Infrastructure Bank acknowledges that the Corporation will be obligated to reimburse each Liquidity Provider, for amounts provided under the applicable Liquidity Facility to purchase Bonds which are tendered for purchase and not remarketed pursuant to the applicable Remarketing Agreement, and acknowledges that any and all proceeds of any subsequent remarketing of the Bonds so purchased will be paid to the Liquidity Providers, in order to discharge the Corporation's reimbursement obligation (or any loan by such Liquidity Provider, to finance such reimbursement obligation) to the Liquidity Provider.

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

**Liquidity Facility.** (a) The Corporation will deliver (or cause to be delivered) to the Trustee on or prior to the Issue Date an executed counterpart of the Standby Bond Purchase Agreement as the initial Liquidity Facility for the Bonds. The Corporation will maintain one or more Liquidity Facilities, either by maintaining the Standby Bond Purchase Agreement or providing one or more substitute Liquidity Facilities as provided in this provision, to provide a source of payment of the Purchase Price of all Variable Rate Bonds.

(b) With respect to the Bonds of each Series bearing interest at a Variable Rate, at least thirty-five (35) days prior to the expiration or termination of any existing Liquidity Facility for such Series of Bonds,

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

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

Any such substitute Liquidity Facility must meet the following conditions: (i) the substitute Liquidity Facility must be a Liquidity Facility entered into by, or issued by, a commercial bank or other financial institution; (ii) the terms and provisions of the substitute Liquidity Facility with respect to the purchase of Bonds thereunder must be in all material respects no less favorable to the Trustee than the terms and provisions of the initial Liquidity Facility provided in the Agreement; (iii) the substitute Liquidity Facility must take effect on or before the date of termination of the existing Liquidity Facility and the term of the substitute Liquidity Facility must be at least 364 days (or, if shorter, the period to maturity of the applicable Series of Bonds); and (iv) the substitute Liquidity Facility must be in an amount sufficient to pay the maximum purchase price of the Series of Bonds which will be applicable during the then current Rate Period.

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

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

**Parity Obligations.** The Corporation will not, without the written consent of the Insurer, enter into or incur any Parity Obligation [other than the Standby Bond Purchase Agreement and the Swap Agreements.]

**Events of Default.** Any one of the following which occurs will constitute an Event of Default pursuant to the Agreement: (a) failure by the Corporation to pay or cause to be paid any amounts required to be paid under the Repayment and Payment of Other Amounts Payable provision when due; or (b) failure of the Corporation to observe and perform any covenant, condition or agreement on its part required to be observed or performed under the Agreement, other than making the payments referred to in (a) above, which continues for a period of thirty (30) days after written notice from the Trustee or the Infrastructure Bank, which notice 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; or (c) the occurrence of an Event of Default under the 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 Agreement 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) or (c) above.

**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 and the Insurer) and with the prior consent of the Insurer, may declare the unpaid balance of the loan with respect to which an Event of Default has occurred, in an amount equal to the Outstanding principal amount of the Bonds, together with the interest accrued thereon, to be immediately due and payable, and will do so if the Bonds have been accelerated as provided in the Indenture. After any such declaration of acceleration of the Bonds, the Trustee will immediately take such actions as necessary to realize moneys under the Bond Insurance Policy; (b) the Trustee may have access to and may inspect, examine and make copies of the books and records and any and all accounts, data and federal income tax and other tax returns of the Corporation; (c) the Infrastructure Bank or the Trustee may take whatever action or institute any proceeding, at law or in equity, as may be necessary or desirable for the collection of the payments and other amounts then due including enforcing the security interest in the Net Operating Revenues granted by the Corporation pursuant to the Agreement and thereafter to become due under the Agreement or the enforcement of the performance and observance of any obligation, agreement or covenant of the Corporation under the Agreement, including but not limited to instituting and prosecuting to judgment or final decree and enforcing any such judgment or decree against the Corporation and collect in the manner provided by law moneys decreed to be payable.

The provisions of subsection (a) above, however, are subject to the condition that if, at any time after any portion of the loan will have been so declared due and payable, and before any judgment or decree for the payment of the moneys due will have been obtained or entered as thereafter provided, there will have been deposited with the Trustee a sum sufficient to pay all the principal of the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all such Bonds, with interest on such overdue installments of principal as provided therein, and the reasonable fees and expenses of the Trustee, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on such Bonds due and payable solely by reason of such declaration) will have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will have been made therefor, then, and in every such case, the holders of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Infrastructure Bank and to the Trustee accompanied by the written consent of the Insurer may, on behalf of the holders of all the Bonds, rescind and annul such declaration and its consequences and waive such default; provided that no such rescission and annulment will extend to or will affect any subsequent default, or will impair or exhaust any right or power consequent thereon.

In case the Trustee or the Infrastructure Bank will have proceeded to enforce its rights under the Agreement and such proceedings will have been discontinued or abandoned for any reason or will have been determined adversely to the Trustee or the Infrastructure Bank, then, and in every such case, the Corporation, the Trustee and the Infrastructure Bank will be restored respectively to their several positions and rights under the Agreement, and all rights, remedies and powers of the Corporation, the Trustee and the Infrastructure Bank will continue as though no such action had been taken (provided, however, that any settlement of such proceedings duly entered into by the Infrastructure Bank, the Trustee or the Corporation will not be disturbed by reason of this provision).

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

**Redemption of Bonds With Prepayment Moneys.** By virtue of the assignment of the rights of the Infrastructure Bank under the Agreement to the Trustee, the Corporation agrees to and will pay (or cause to be paid) directly to the Trustee any amount permitted or required to be paid by it under the prepayment provisions of the Agreement. The Trustee will use the moneys so paid to it by the Corporation to effect redemption of the Bonds in accordance with Article IV of the Indenture on the date specified for such redemption in the Agreement.

**Options to Prepay Installments.** The Corporation will have the option to prepay the amounts payable under the Agreement with respect to the Bonds of any Series (the principal amount of each maturity and Series to be specified by an Authorized Corporation Representative) by paying to the Trustee, for deposit in the Bond Fund, the amount set forth in the Amount of Prepayment provision of the Agreement, under the circumstances set forth in the Indenture.

**Mandatory Prepayment.** The Corporation will have and thereby accepts the obligation to prepay Repayment Installments to the extent mandatory redemption of the Bonds of any Series is required pursuant to the Indenture or to the extent the maturity of the Bonds of any Series will have been accelerated pursuant to the Indenture. The Corporation will satisfy its obligation by prepaying such Repayment Installments (a) within one hundred eighty (180) days after the occurrence of any event set forth in the Indenture, (b) subject to any notice requirements contained in the Indenture with respect to the mandatory redemption of the Bonds, immediately upon the occurrence of any event set forth in the Indenture giving rise to such required prepayment, and (c) immediately upon receipt of notice from the Trustee of any acceleration of the maturity of the Bonds pursuant to the Indenture. The amount payable by the Corporation in the event of a prepayment required will be determined as set forth in Amount of Prepayment provision of the Agreement and will be deposited in the Bond Fund.

**Amount of Prepayment.** In the case of a prepayment of the entire amount due pursuant to the Agreement, the amount to be paid will be a sum sufficient, together with other funds and the yield on any securities then on deposit with the Trustee and available for such purpose, to pay (1) the principal of all Outstanding Bonds of the affected Series on the redemption date specified in the notice of redemption, plus interest accrued and to accrue to the payment or redemption date of such Bonds, plus premium, if any, pursuant to the Indenture, (2) all reasonable and necessary fees and expenses of the Infrastructure Bank, the Trustee, the Tender Agent, the Registrar, the Remarketing Agents and any Paying Agent accrued and to accrue through final payment of the Bonds of the affected Series, and (3) all other liabilities of the Corporation accrued and to accrue under the Agreement with respect to the Bonds of the affected Series.

In the case of partial prepayment of the Repayment Installments with respect to the Bonds of the affected Series, the amount payable will be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to pay the principal amount of and premium, if any, and accrued interest on the Bonds to be redeemed, as provided in the Indenture, and to pay expenses of redemption of such Bonds.

**Notice and Date of Prepayment.** In the event of a prepayment, the Corporation will give, at least fifteen (15) days prior to the last day by which the Trustee is permitted to give notice of redemption pursuant to the Indenture, written notice to the Infrastructure Bank and the Trustee specifying the date upon which any prepayment will be made, provided that the Infrastructure Bank and the Trustee may agree to waive their respective rights to receive such notice or may agree to a shorter notice period. If in the case of a mandatory prepayment, the Corporation fails to give such notice of a prepayment required by the Agreement, such notice may be given by the Infrastructure Bank, by the Trustee, or any holder or holders of 10% or more in aggregate principal amount of the Outstanding Bonds of the affected Series. The Infrastructure Bank and the Trustee, at the request of the Corporation, or Bondholders, will forthwith take all steps necessary under the Indenture (except that the Infrastructure Bank will not be required to make payment of any money required for such redemption other than from Revenues) to effect redemption of all or part of the then Outstanding Bonds of the affected Series, as the case may be, (a) in the case of redemption upon optional prepayment, on the date specified in such notice or if no such date is specified on the earliest practicable date thereafter on which such redemption may be made under applicable provisions of the Indenture and (b) in the case of redemption upon mandatory prepayment other than from mandatory sinking fund payments, on the earliest practicable date thereafter on which such redemption may be made under the applicable provisions of the Indenture.

Notwithstanding anything to the contrary in the Agreement, each notice contemplated that is given with respect to an optional prepayment will state that it is subject to and conditional upon receipt by the Trustee on or prior to the proposed prepayment date of an amount sufficient to effect such prepayment and such notice will be of no force and effect and the prepayment need not be made and the Repayment Installments will not become due and payable on the proposed prepayment date unless such an amount is so received on or prior to the proposed prepayment date.

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

**MBIA**  
**FINANCIAL GUARANTY INSURANCE POLICY**

**MBIA Insurance Corporation**  
**Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, it unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on such Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than the advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]  
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to effect the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owner or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Insurer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage under the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] [MONTH, YEAR].

**MBIA Insurance Corporation**

\_\_\_\_\_  
President

Attest

\_\_\_\_\_  
Assistant Secretary

**SPECIMEN**

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## EXHIBIT D

California Independent System Operator

Pro Forma Balance Sheet  
As of June 30, 2004  
Unaudited  
In Thousands

Line No.	Account Description	A Balance Sheet Before Transaction	B Pro Forma Adjustments: Issue Bonds	C Balance Sheet Immediately After Transaction	D Pro Forma Adjustments After First Year	E Balance Sheet After First Year	Line No.	Info. only FERC A/C #'s
<b>Utility Plant</b>								
1	Utility Plant	\$269,682		\$269,682	\$71,000	\$340,682	1	101 and 101.
2	Less: Accumulated Depreciation and Amortization	192,544		192,544		192,544	2	108 and 111
3	Net Utility Plant	77,138	0	77,138	71,000	148,138	3	
<b>Other Property and Investments</b>								
4	Special Funds-Construction Fund	0	112,000	\$112,000	(71,000)	\$41,000	4	125-128
5	Special Funds-Other	104,375		\$104,375		\$104,375	5	128
6	Other Investments	40,773		\$40,773		\$40,773	6	124
7	Total Other Property and Investments	145,148	112,000	257,148	(71,000)	186,148	7	
<b>Current and Accrued Assets</b>								
8	Cash - Unrestricted	102,470		\$102,470	(3,869)	\$98,601	8	131
9	- Restricted for payment of debt service	12,496		\$12,496		\$12,496	9	132
10	- Restricted for payment of debt service-Debt Service Reserve Fund	0	12,700	\$12,700	0	\$12,700	10	132
11	- Working Fund	1		\$1		\$1	11	135
12	Customer Accounts Receivable	122		\$122		\$122	12	142
13	Other Accounts Receivable	299		\$299		\$299	13	143
14	Accounts Receivable from Assoc. Companies	342		\$342		\$342	14	146
15	Prepayments	426		\$426		\$426	15	0 165
16	Accrued Utility Revenues	50,259		\$50,259		\$50,259	16	0 173
17	Total Current and Accrued Assets	166,416	12,700	179,116	(3,869)	175,248	17	
<b>Deferred Debits</b>								
18	Unamortized Debt Expense	374	2,300	\$2,674	(460)	\$2,214	18	181
19	Other	(2,349)		(\$2,349)		(\$2,349)	19	184
20	Total Deferred Debits	(1,974)	2,300	326	(460)	(134)	20	
21	Total Assets and Other Debits	\$386,728	\$127,000	\$513,728	(\$4,329)	\$509,399	21	

California Independent System Operator

Pro Forma Balance Sheet  
As of June 30, 2004  
Unaudited  
In Thousands

Line No.	Account Description	Balance Sheet Before Transaction	Pro Forma Adjustments: Issue Bonds	Balance Sheet Immediately After Transaction	Pro Forma Adjustments After First Year	Balance Sheet After First Year	Line No.	Info. only FERC A/C #'s
<b>Proprietary Capital</b>								
22	Unappropriated Retained Earnings	\$29,731		\$29,731	(\$4,329)	\$25,402	22	216
23	Total Proprietary Capital	29,732	0	29,731	(4,329)	25,402	23	
<b>Long-Term Debt</b>								
24	Bonds-Par Value	159,700	127,000	\$286,700	0	\$286,700	24	221
25	Unamortized Premium on Long Term Debt	0	0	\$0	0	\$0	25	225
26	Other Long Term Debt (Market Value of Interest Rate Swap)	7,489		\$7,489		\$7,489	26	224
27	Notes Payable	0	0	\$0	0	\$0	27	231
28	Net Long-Term Debt	167,189	127,000	294,189	0	294,189	28	
<b>Other NonCurrent Liabilities</b>								
29	Accumulated Provision for Pensions and Benefits	\$3,996		\$3,996		\$3,996	29	228
30	Total Proprietary Capital	3,996	0	3,996	0	3,996	30	
<b>Current and Accrued Liabilities</b>								
31	Accounts Payable	37,798		37,798		37,798	31	232
32	Long Term Debt due within one year			-		-	32	221
33	Taxes Accrued			-		-	33	236
34	Customer Deposits	101,534		101,534		101,534	34	235
35	Tax Collections Payable	39		39		39	35	241
36	Interest Accrued			-		-	36	237
37	Customer Accounts Payable: GMC Related Matters			-		-	37	
38	Total Current and Accrued Liabilities	139,371	0	139,371	0	139,371	38	
<b>Deferred Credits</b>								
39	Other			-		-	39	253
40	Other Deferred Credits	46,440		46,440		46,440	40	269
	Total Deferred Credits	46,440	0	46,440	0	46,440		
41	Total Liabilities and Other Credits	\$386,728	\$127,000	\$513,728	(\$4,329)	\$509,399	41	

Note:

Line 40 Amendment 33 fines that may be returnable to market participants based on market clearing price adjustments to energy prices during FERC refund period.

California Independent System Operator  
Pro Forma Balance Sheet  
As of June 30, 2004  
Unaudited  
In Thousands  
NOTES:

DEBIT

CREDIT

**COLUMN B: Pro forma Adjustments Reflecting Issuance of Bonds**

Debit	Account 128 Special Funds	112,000	
	Account 132 Debt Service Reserve Fund	12,700	
	Account 181 Unamortized Debt Expense	2,300	
Credit	Account 221 Bonds Par Value		127,000

Column A, "Before Transaction" is the ISO's balance sheet prior at 6/30/2004, prior to the proposed issuance of bonds. Column C "After Transaction" shows the effect of the bond issuance. This pro-forma financial statement assumes bond issuance on 6/30/2004, the date of the pro-forma balance sheet. The Source of the "before transaction" balances in the pro-forma balance sheet is the ISO's quarterly financial statement filing for 6/30/2004.

**Explanations**

Account 128 Special Funds: Construction Fund deposit. Bond proceeds available for capital projects.  
Account 132 Debt Service Reserve Fund: Bond proceeds set aside as a debt service reserve fund  
Account 181 Unamortized Debt Expense: Bond Issuance costs

**COLUMN D: Pro forma Adjustments Reflecting First Year of Activities with New Bonds**

Debit	Account 101 and 101.1 Utility Plant:	71,000	
	Account 216 Unappropriated Retained Earnings	\$4,329	
Credit	Account 131-Cash		3,869
	Account 125-128 Special Funds-Constuction Funds		71,000
	Account 181 Unamortized Debt Expense		460

**Explanations**

Account 101 and 101.1 Utility Plant: Construction of fixed assets:  
     Current year (2004) capital expenditure need: MR`                      10,000  
     Current year (2005) capital expenditure need: MR`                      51,000  
     Current year (2005) capital expenditure need: Other                      10,000  
     \_\_\_\_\_ 71,000

Account 216 Unappropriated Retained Earnings: From Line 17 of Income statement.

Account 131-Cash: See Line 38 of Statement of Cash Flows

Account 125-128 Special Funds-Constuction Funds: Spending of construction fund:  
     Current year (2004) capital expenditure need: MR`                      10,000  
     Current year (2005) capital expenditure need: MR`                      51,000  
     Current year (2005) capital expenditure need: Other                      10,000  
     \_\_\_\_\_ 71,000

Account 181 Unamortized Debt Expense: See line 14 of Income Statement

## **EXHIBIT E**

California Independent System Operator  
Pro Forma Income Statement  
For the 12 months ending June 30, 2004  
Unaudited  
In Thousands

Line No.	Account Description	12 months ended 6/30/2004			Line No.	FERC A/C #'s
		Before Transaction	Pro Forma Adjustments	After Transaction		
	<u>Utility Operating Income</u>					
1	Operating Revenues	\$243,303		\$243,303	1	400
2	Operating Expenses:				2	
3	Operating Expenses	\$144,132		\$144,132	3	401
4	Maintenance Expenses	\$21,815		\$21,815	4	402
5	Depreciation and Amortization Expenses	\$14,749		\$14,749	5	403
6	Taxes Other Than Income Taxes	\$522		\$522	6	408.1
7	Total Utility Operating Expenses	181,218	0	181,218	7	
8	Net Utility Operating Income	62,085	0	62,085	8	
	<u>Other Income and Deductions</u>					
9	Interest Income	\$2,005		\$2,005	9	419
10	Miscellaneous Non-operating Income			\$0	10	421
11	Miscellaneous Income Deductions	(\$744)		(\$744)	11	
12	Total Other income and Deductions	1,261	0	1,261		
	<u>Interest Charges</u>					
13	Interest on Long-term Debt	\$7,330	3,869	\$11,199	12	427
14	Amortization of Debt Discount and Expense	\$55	460	\$515	14	428
15	Other Interest Expense	(\$309)	-	(\$309)	15	431
16	Total Interest Charges	7,076	4,329	11,405	16	
17	Net Income	\$56,270	(\$4,329)	\$51,941	17	

Note:

- 17 The Pro-forma adjustments reflect debt related interest expense from issuance through the first annual principal amortization. Had these bonds been issued, rates would have been set to recover the debt service costs. ISO rates are established per the GMC formula in ISO Tariff Appendix F, Schedule 1, Part C. For the 12 months ended 6/30/2004, ISO rates were set to cover cash funded capital expenditures in lieu of this pro forma debt service.

California Independent System Operator  
Pro Forma Income Statement  
For the twelve month period ending June 30, 2004  
Unaudited  
In Thousands  
NOTES:

		<u>DEBIT</u>	<u>CREDIT</u>
Debit	Account 428 Amortization of Debt Discount and Expense	460	
	Account 427 Interest Expense	3,869	

The "Before Transaction" column in the income statement is prior to the proposed issuance of bonds. The "After Transaction" column shows the effect of the bond issuance, with the first year of debt service costs. The Source of the balances in the pro-forma income statement is from the ISO's general ledger.

Explanation of pro-forma income statements adjustments:

Account 427 Interest Expense

The pro-forma amount reflects debt service through from issuance through the first annual principal amortization.  
Calculated as follows:

Source: Page 6, Exhibit G

Jan-05	302	Net Debt Service
Feb-05	110	Net Debt Service
Mar-05	85	Net Debt Service
Apr-05	244	Net Debt Service
May-05	102	Net Debt Service
Jun-05	111	Net Debt Service
Jul-05	1,118	Net Debt Service
Aug-05	111	Net Debt Service
Sep-05	111	Net Debt Service
Oct-05	236	Net Debt Service
Nov-05	111	Net Debt Service
Dec-05	102	Net Debt Service
Jan-06	18,327	Net Debt Service
Jan-06	<u>(17,200)</u>	Less: Principal component of net debt service
	3,869	

#

Account 428 Amortization of Debt Discount and Expense

The pro-forma amount reflects 12 months amortization of bond issuance expenses:

Issuance Costs	\$2,300.00
Amortization Period	<u>60 months</u>
Amortization per month	<u>38.33</u>
Times 12 months	<u><u>460</u></u>



**EXHIBIT F**

California Independent System Operator  
Pro Forma Statement of Cash Flows  
For the 12 months ending June 30, 2004  
Unaudited  
In Thousands

Line No.	Account Description	12 months ended 6/30/2004			Line No.
		Before Transaction	Pro Forma Adjustments	After Transaction	
1	CASH FLOWS FROM OPERATING ACTIVITIES:				1
2	Net income (loss)	56,270	(\$4,329)	51,941	2
3	Adjustments to reconcile net loss to net				3
4	cash used in operating activities:				4
5	Depreciation and amortization	14,749		14,749	5
6	Extraordinary gain from refunding of bonds	0		-	6
7	Change in derivative liability	0		-	7
8	Amortization of bond issuance costs	102	460	562	8
9	Changes in operating assets/liabilities:				9
10	Accounts receivable and other assets	9,763	(2,300)	7,463	10
11	Accounts payable and other accrued expenses	16,190		16,190	11
12	Change in derivative liability	(3,300)		(3,300)	12
13	Generator Non Compliance fines refund obligation	2,792		2,792	13
14	=====				14
15	TOTAL OPERATING	96,567	(\$6,169)	90,398	15
16	=====				16
17	CASH FLOWS FROM INVESTING ACTIVITIES:				17
18	Purchases and development of fixed assets	(33,181)	(71,000)	(104,181)	18
19	Establishment of construction fund	0	(41,000)	(41,000)	19
20	Disposition and write off of fixed assets	0		-	20
21	Net maturities (purchases) of investments	(9,680)		(9,680)	21
22	=====				22
23	TOTAL INVESTING	(42,861)	(112,000)	(154,861)	23
24	=====				24
25	CASH FLOWS FROM FINANCING ACTIVITIES:			-	25
26	Proceeds from bond issuance	0	127,000	127,000	26
27	Establishment of debt service reserve fund	0	(12,700)	(12,700)	27
28	Repayment of bonds	(35,300)		(35,300)	28
29	Repayment of notes payable	0		-	29
30	Proceeds from the swap unwind	0		-	30
31	Payment to debt service account	(456)		(456)	31
32	=====				32
33	TOTAL FINANCING	(35,756)	114,300	78,544	33
34	=====			-	34
35	Net cash flow	17,950	(3,869)	14,081	35
36	=====				36
37	CASH/CASH EQUIVALENTS AT 06/30/03	84,520		84,520	37
38	CASH/CASH EQUIVALENTS AT 06/30/04	102,470	(3,869)	98,601	38
39	=====				39

California Independent System Operator  
Pro Forma Statement of Cash Flow Notes  
For the twelve month period ending June 30, 2004  
Unaudited  
In Thousands

SOURCE		<u>SOURCE OF CASH</u>		<u>USE OF CASH</u>
	Line 8 Amortization of Debt Issuance Costs		460	
	Line 26 Proceeds from Bond Issuance		127,000	
USE	Line 2 Net Income			(4,329)
	Line 18 Purchases and development of fixed assets			(71,000)
	Line 19 Establishment of construction fund			(41,000)

**Explanations:** The "Before Transaction" column in the statement of cash flow is prior to the proposed issuance of bonds. The "After Transaction" column shows the effect of the bond issuance and subsequent expenditures of bond proceeds during the first year of the bonds.

Line 8 The pro-forma amount reflects 12 months of debt expense amortization.  
Line 26 Proceeds from the bond issuance.

Line 2 Net income is reduced due to added interest expense for the new bonds.

Line 18 Purchases and development of fixed assets assumes:

Current year (2004) capital expenditure need: MRTU	10,000
Current year (2005) capital expenditure need: MRTU	51,000
Current year (2005) capital expenditure need: Other	<u>10,000</u>
	71,000

Line 19 Construction fund balance at end of period. Assumes initial construction fund proceeds of \$112,000 were drawn down to fund purchases and development of fixed assets of \$71,000 shown on line 18.

Initial construction fund deposit	\$ 112,000
Purchases and development of fixed assets:	<u>(71,000)</u>

California Independent System Operator  
Pro Forma Statement of Interest Coverage  
For the 12 months ending June 30, 2004  
Unaudited  
In Thousands

<u>Line No.</u>		<u>Actual for period ended 6/30/2004</u>	<u>Pro-Forma Adjustment</u>	<u>Pro-Forma for period ended 6/30/2004</u>	<u>Line No.</u>
1	Net Income	\$56,270	(\$4,329)	\$51,941	1
2	Add:				2
3	Interest on Long-Term Debt	\$7,330	\$3,869	\$11,199	3
4	Interest on Short-Term Debt	0	0	\$0	4
5	Other Interest Expense	(\$309)	\$0	(\$309)	5
6	Amortization of Debt Discount and Expense	\$55	\$460	\$515	6
7	Total Interest Expense	<u>\$7,076</u>	<u>\$4,329</u>	<u>\$11,405</u>	7
8	Income before Interest and Income Taxes	\$63,346	\$0	\$63,346	8
9	Computation of Interest Coverage				9
	Income before Interest and Income Taxes / Total				
10	Interest Expense = Interest Coverage	8.95		5.55	10

Notes:

The Pro-forma adjustments reflect debt related interest expense from issuance through the first annual principal amortization payment.

As a not-for-profit 501( c ) (3) corporation, the ISO is exempt from income taxes.

## EXHIBIT G

SOURCES AND USES OF FUNDS

California Independent System Operator  
New Money - SYNTHETIC FIXED Series  
Based on Market Conditions on August 27, 2004

Dated Date 12/01/2004  
Delivery Date 12/01/2004

Sources:

Bond Proceeds:	
Par Amount	127,000,000.00
	<u>127,000,000.00</u>

Uses:

Project Fund Deposits:	
Project Fund	112,000,000.00
Other Fund Deposits:	
Debt Service Reserve Fund	12,700,000.00
Delivery Date Expenses:	
Cost of Issuance	500,000.00
Underwriter's Discount	412,750.00
Insurance Premium (100 bps)	<u>1,384,308.81</u>
	2,297,058.81

Other Uses of Funds:	
Additional Proceeds	2,941.19
	<u>127,000,000.00</u>

# BOND SUMMARY STATISTICS

California Independent System Operator  
New Money - SYNTHETIC FIXED Series  
Based on Market Conditions on August 27, 2004

Dated Date	12/01/2004
Delivery Date	12/01/2004
Last Maturity	01/01/2010
Arbitrage Yield	3.265841%
True Interest Cost (TIC)	3.364668%
Net Interest Cost (NIC)	2.500831%
All-In TIC	3.693531%
Average Coupon	2.500831%
Average Life (years)	3.599
Duration of Issue (years)	3.317
Par Amount	127,000,000.00
Bond Proceeds	127,000,000.00
Total Interest	11,430,880.64
Net Interest	11,843,630.64
Total Debt Service	138,430,880.64
Maximum Annual Debt Service	45,304,743.62
Average Annual Debt Service	27,232,304.39
Underwriter's Fees (per \$1000)	
Average Takedown	1.250000
Management Fee	1.000000
Other Fee	1.000000
Total Underwriter's Discount	3.250000
Bid Price	99.675000

Bond Component	Par Value	Price	Average Coupon	Average Life
2004A VRDBs - 60% Swapped to Fixed	127,000,000.00	100.000	2.501%	3.599
	127,000,000.00			3.599

	TIC	All-In TIC	Arbitrage Yield
Par Value	127,000,000.00	127,000,000.00	127,000,000.00
+ Accrued Interest	-	-	-
+ Premium (Discount)	-	-	-
- Underwriter's Discount	-412,750.00	-412,750.00	
- Cost of Issuance Expense		-500,000.00	
- Other Amounts	-1,384,308.81	-1,384,308.81	-1,384,308.81
Target Value	125,202,941.19	124,702,941.19	125,615,691.19
Target Date	12/01/2004	12/01/2004	12/01/2004
Yield	3.364668%	3.693531%	3.265841%

# BOND PRICING

California Independent System Operator  
New Money - SYNTHETIC FIXED Series  
Based on Market Conditions on August 27, 2004

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Takedown
2004A VRDBs - 60% Swapped to Fixed:						
	01/01/2006	17,200,000.00	2.500%	2.500%	100.000	1.250
	01/01/2007	22,400,000.00	2.500%	2.500%	100.000	1.250
	01/01/2008	9,300,000.00	2.500%	2.500%	100.000	1.250
	01/01/2009	33,900,000.00	2.500%	2.500%	100.000	1.250
	01/01/2010	44,200,000.00	2.500%	2.500%	100.000	1.250
		127,000,000.00				

Dated Date	12/01/2004	
Delivery Date	12/01/2004	
First Coupon	01/01/2005	
Par Amount	127,000,000.00	
Original Issue Discount	-	
Production	127,000,000.00	100.000000%
Underwriter's Discount	-412,750.00	-0.325000%
Purchase Price	126,587,250.00	99.675000%
Accrued Interest	-	
Net Proceeds	126,587,250.00	



# BOND DEBT SERVICE

California Independent System Operator  
New Money - SYNTHETIC FIXED Series  
Based on Market Conditions on August 27, 2004

Dated Date 12/01/2004  
Delivery Date 12/01/2004

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
01/01/2005	-	-	268,920.77	268,920.77	268,920.77
07/01/2005	-	-	1,573,715.27	1,573,715.27	-
01/01/2006	17,200,000.00	2.500%	1,600,547.92	18,800,547.92	20,374,263.19
07/01/2006	-	-	1,361,219.19	1,361,219.19	-
01/01/2007	22,400,000.00	2.500%	1,383,780.84	23,783,780.84	25,145,000.03
07/01/2007	-	-	1,083,520.54	1,083,520.54	-
01/01/2008	9,300,000.00	2.500%	1,101,479.44	10,401,479.44	11,484,999.98
07/01/2008	-	-	971,368.37	971,368.37	-
01/01/2009	33,900,000.00	2.500%	981,584.68	34,881,584.68	35,852,953.05
07/01/2009	-	-	547,702.50	547,702.50	-
01/01/2010	44,200,000.00	2.500%	557,041.12	44,757,041.12	45,304,743.62
	127,000,000.00		11,430,880.64	138,430,880.64	138,430,880.64

DEBT SERVICE RESERVE FUND

California Independent System Operator  
New Money - SYNTHETIC FIXED Series  
Based on Market Conditions on August 27, 2004

Date	Deposit	Interest @ 3.2658405%	Principal	Debt Service	Balance
01/01/2005	12,700,000.00	34,563.48	-	-34,563.48	12,700,000.00
07/01/2005	-	207,380.87	-	-207,380.87	12,700,000.00
01/01/2006	-	207,380.87	-	-207,380.87	12,700,000.00
07/01/2006	-	207,380.87	-	-207,380.87	12,700,000.00
01/01/2007	-	207,380.87	-	-207,380.87	12,700,000.00
07/01/2007	-	207,380.87	-	-207,380.87	12,700,000.00
01/01/2008	-	207,380.87	-	-207,380.87	12,700,000.00
07/01/2008	-	207,380.87	-	-207,380.87	12,700,000.00
01/01/2009	-	207,380.87	-	-207,380.87	12,700,000.00
07/01/2009	-	207,380.87	-	-207,380.87	12,700,000.00
01/01/2010	-	207,380.87	12,700,000.00	-12,907,380.87	-
	12,700,000.00	2,108,372.18	12,700,000.00	-14,808,372.18	

Average Life (years): 5.0833  
Yield To Receipt Date: 3.2662338%  
Arbitrage Yield: 3.2658405%  
Value of Negative Arbitrage: -232.18

# NET DEBT SERVICE

California Independent System Operator  
New Money - SYNTHETIC FIXED Series  
Based on Market Conditions on August 27, 2004

Date	Principal	Interest	Total Debt Service	Remarketing Fees @ 7 bps	Liquidity Fees @ 35 bps	Floating Leg Swap Receipts (2.5%)	Fixed Leg Swap Payments (2.86%)	Debt Service Reserve Fund	Net Debt Service
01/01/2005	-	268,920.77	268,920.77	7,408.33	37,041.67	-158,750.00	181,610.00	34,563.48	301,667.29
02/01/2005	-	268,920.77	268,920.77	-	-	-158,750.00	-	-	110,170.77
03/01/2005	-	243,561.64	243,561.64	-	-	-158,750.00	-	-	84,811.64
04/01/2005	-	269,657.53	269,657.53	22,225.00	111,125.00	-158,750.00	-	-	244,257.53
05/01/2005	-	260,958.90	260,958.90	-	-	-158,750.00	-	-	102,208.90
06/01/2005	-	269,657.53	269,657.53	-	-	-158,750.00	-	-	110,907.53
07/01/2005	-	260,958.90	260,958.90	22,225.00	111,125.00	-158,750.00	1,089,660.00	207,380.87	1,117,838.03
08/01/2005	-	269,657.53	269,657.53	-	-	-158,750.00	-	-	110,907.53
09/01/2005	-	269,657.53	269,657.53	-	-	-158,750.00	-	-	110,907.53
10/01/2005	-	260,958.90	260,958.90	22,225.00	111,125.00	-158,750.00	-	-	235,558.90
11/01/2005	-	269,657.53	269,657.53	-	-	-158,750.00	-	-	110,907.53
12/01/2005	-	260,958.90	260,958.90	-	-	-158,750.00	-	-	102,208.90
01/01/2006	17,200,000.00	269,657.53	17,469,657.53	22,225.00	111,125.00	-158,750.00	1,089,660.00	207,380.87	18,326,536.66
02/01/2006	-	233,136.99	233,136.99	-	-	-137,250.00	-	-	95,886.99
03/01/2006	-	210,575.34	210,575.34	-	-	-137,250.00	-	-	73,325.34
04/01/2006	-	233,136.99	233,136.99	19,215.00	96,075.00	-137,250.00	-	-	211,176.99
05/01/2006	-	225,616.44	225,616.44	-	-	-137,250.00	-	-	88,366.44
06/01/2006	-	233,136.99	233,136.99	-	-	-137,250.00	-	-	95,886.99
07/01/2006	-	225,616.44	225,616.44	19,215.00	96,075.00	-137,250.00	942,084.00	207,380.87	938,359.57
08/01/2006	-	233,136.99	233,136.99	-	-	-137,250.00	-	-	95,886.99
09/01/2006	-	233,136.99	233,136.99	-	-	-137,250.00	-	-	95,886.99
10/01/2006	-	225,616.44	225,616.44	19,215.00	96,075.00	-137,250.00	-	-	203,656.44
11/01/2006	-	233,136.99	233,136.99	-	-	-137,250.00	-	-	95,886.99
12/01/2006	-	225,616.44	225,616.44	-	-	-137,250.00	-	-	88,366.44
01/01/2007	22,400,000.00	233,136.99	22,633,136.99	19,215.00	96,075.00	-137,250.00	942,084.00	207,380.87	23,345,880.12
02/01/2007	-	185,575.34	185,575.34	-	-	-109,250.00	-	-	76,325.34
03/01/2007	-	167,616.44	167,616.44	-	-	-109,250.00	-	-	58,366.44
04/01/2007	-	185,575.34	185,575.34	15,295.00	76,475.00	-109,250.00	-	-	168,095.34
05/01/2007	-	179,589.04	179,589.04	-	-	-109,250.00	-	-	70,339.04
06/01/2007	-	185,575.34	185,575.34	-	-	-109,250.00	-	-	76,325.34
07/01/2007	-	179,589.04	179,589.04	15,295.00	76,475.00	-109,250.00	749,892.00	207,380.87	704,620.17
08/01/2007	-	185,575.34	185,575.34	-	-	-109,250.00	-	-	76,325.34
09/01/2007	-	185,575.34	185,575.34	-	-	-109,250.00	-	-	76,325.34
10/01/2007	-	179,589.04	179,589.04	15,295.00	76,475.00	-109,250.00	-	-	162,109.04
11/01/2007	-	185,575.34	185,575.34	-	-	-109,250.00	-	-	76,325.34
12/01/2007	-	179,589.04	179,589.04	-	-	-109,250.00	-	-	70,339.04
01/01/2008	9,300,000.00	185,575.34	9,485,575.34	15,295.00	76,475.00	-109,250.00	749,892.00	207,380.87	10,010,606.47
02/01/2008	-	165,828.77	165,828.77	-	-	-97,625.00	-	-	68,203.77
03/01/2008	-	154,706.28	154,706.28	-	-	-97,625.00	-	-	57,081.28

# NET DEBT SERVICE

California Independent System Operator  
New Money - SYNTHETIC FIXED Series  
Based on Market Conditions on August 27, 2004

Date	Principal	Interest	Total Debt Service	Remarketing Fees @ 7 bps	Liquidity Fees @ 35 bps	Floating Leg Swap Receipts (2.5%)	Fixed Leg Swap Payments (2.86%)	Debt Service Reserve Fund	Net Debt Service
04/01/2008	-	165,375.68	165,375.68	13,667.50	68,337.50	-97,625.00	-	-	149,755.68
05/01/2008	-	160,040.98	160,040.98	-	-	-97,625.00	-	-	62,415.98
06/01/2008	-	165,375.68	165,375.68	-	-	-97,625.00	-	-	67,750.68
07/01/2008	-	160,040.98	160,040.98	13,667.50	68,337.50	-97,625.00	670,098.00	207,380.87	607,138.11
08/01/2008	-	165,375.68	165,375.68	-	-	-97,625.00	-	-	67,750.68
09/01/2008	-	165,375.68	165,375.68	-	-	-97,625.00	-	-	67,750.68
10/01/2008	-	160,040.98	160,040.98	13,667.50	68,337.50	-97,625.00	-	-	144,420.98
11/01/2008	-	165,375.68	165,375.68	-	-	-97,625.00	-	-	67,750.68
12/01/2008	-	160,040.98	160,040.98	-	-	-97,625.00	-	-	62,415.98
01/01/2009	33,900,000.00	165,375.68	34,065,375.68	13,667.50	68,337.50	-97,625.00	670,098.00	207,380.87	34,512,472.81
02/01/2009	-	93,592.90	93,592.90	-	-	-55,250.00	-	-	38,342.90
03/01/2009	-	84,767.12	84,767.12	-	-	-55,250.00	-	-	29,517.12
04/01/2009	-	93,849.32	93,849.32	7,735.00	38,675.00	-55,250.00	-	-	85,009.32
05/01/2009	-	90,821.92	90,821.92	-	-	-55,250.00	-	-	35,571.92
06/01/2009	-	93,849.32	93,849.32	-	-	-55,250.00	-	-	38,599.32
07/01/2009	-	90,821.92	90,821.92	7,735.00	38,675.00	-55,250.00	379,236.00	207,380.87	253,837.05
08/01/2009	-	93,849.32	93,849.32	-	-	-55,250.00	-	-	38,599.32
09/01/2009	-	93,849.32	93,849.32	-	-	-55,250.00	-	-	38,599.32
10/01/2009	-	90,821.92	90,821.92	7,735.00	38,675.00	-55,250.00	-	-	81,981.92
11/01/2009	-	93,849.32	93,849.32	-	-	-55,250.00	-	-	38,599.32
12/01/2009	-	90,821.92	90,821.92	-	-	-55,250.00	-	-	35,571.92
01/01/2010	44,200,000.00	93,849.32	44,293,849.32	7,735.00	38,675.00	-55,250.00	379,236.00	12,907,380.87	31,756,864.45
	127,000,000.00	11,430,880.64	138,430,880.64	319,958.33	1,599,791.67	-6,856,250.00	7,843,550.00	14,808,372.18	126,529,558.46

PROJECT FUND

California Independent System Operator  
 New Money - SYNTHETIC FIXED Series  
 Based on Market Conditions on August 27, 2004

Date	Deposit	Interest @ 3.2658405%	Principal	Scheduled Draws	Balance
01/01/2005	112,000,000.00	-	112,000,000.00	112,000,000.00	-
	112,000,000.00	0.00	112,000,000.00	112,000,000.00	

Arbitrage Yield: 3.2658405%

# BOND SOLUTION

California Independent System Operator  
New Money - SYNTHETIC FIXED Series  
Based on Market Conditions on August 27, 2004

Period Ending	Proposed Principal	Proposed Debt Service	Total Adj Debt Service	Revenue Constraints	Unused Revenues	Debt Serv Coverage
01/01/2005	-	268,921	268,921	-	-268,921	-
01/01/2006	17,200,000	20,374,263	20,374,263	18,236,800	-2,137,463	89.50900%
01/01/2007	22,400,000	25,145,000	25,145,000	22,503,300	-2,641,700	89.49413%
01/01/2008	9,300,000	11,485,000	11,485,000	10,233,970	-1,251,030	89.10727%
01/01/2009	33,900,000	35,852,953	35,852,953	32,002,770	-3,850,183	89.26118%
01/01/2010	44,200,000	45,304,744	45,304,744	40,435,770	-4,868,974	89.25284%
	127,000,000	138,430,881	138,430,881	123,412,610	-15,018,271	

PROOF OF ARBITRAGE YIELD

California Independent System Operator  
New Money - SYNTHETIC FIXED Series  
Based on Market Conditions on August 27, 2004

Date	Debt Service	Expenses	Total	Present Value to 12/01/2004 @ 3.2658405%
01/01/2005	268,920.77	44,450.00	313,370.77	312,525.95
02/01/2005	268,920.77	-	268,920.77	267,472.75
03/01/2005	243,561.64	-	243,561.64	241,597.08
04/01/2005	269,657.53	133,350.00	403,007.53	398,679.18
05/01/2005	260,958.90	-	260,958.90	257,460.20
06/01/2005	269,657.53	-	269,657.53	265,324.98
07/01/2005	260,958.90	133,350.00	394,308.90	386,927.66
08/01/2005	269,657.53	-	269,657.53	263,896.33
09/01/2005	269,657.53	-	269,657.53	263,184.89
10/01/2005	260,958.90	133,350.00	394,308.90	383,806.72
11/01/2005	269,657.53	-	269,657.53	261,767.75
12/01/2005	260,958.90	-	260,958.90	252,640.69
01/01/2006	17,469,657.53	133,350.00	17,603,007.53	16,995,958.62
02/01/2006	233,136.99	-	233,136.99	224,490.30
03/01/2006	210,575.34	-	210,575.34	202,218.79
04/01/2006	233,136.99	115,290.00	348,426.99	333,697.83
05/01/2006	225,616.44	-	225,616.44	215,496.36
06/01/2006	233,136.99	-	233,136.99	222,079.24
07/01/2006	225,616.44	115,290.00	340,906.44	323,861.70
08/01/2006	233,136.99	-	233,136.99	220,883.45
09/01/2006	233,136.99	-	233,136.99	220,287.96
10/01/2006	225,616.44	115,290.00	340,906.44	321,249.45
11/01/2006	233,136.99	-	233,136.99	219,101.81
12/01/2006	225,616.44	-	225,616.44	211,462.38
01/01/2007	22,633,136.99	115,290.00	22,748,426.99	21,263,823.20
02/01/2007	185,575.34	-	185,575.34	172,996.71
03/01/2007	167,616.44	-	167,616.44	155,833.85
04/01/2007	185,575.34	91,770.00	277,345.34	257,154.22
05/01/2007	179,589.04	-	179,589.04	166,065.80
06/01/2007	185,575.34	-	185,575.34	171,138.71
07/01/2007	179,589.04	91,770.00	271,359.04	249,574.31
08/01/2007	185,575.34	-	185,575.34	170,217.20
09/01/2007	185,575.34	-	185,575.34	169,758.31
10/01/2007	179,589.04	91,770.00	271,359.04	247,561.25
11/01/2007	185,575.34	-	185,575.34	168,844.24
12/01/2007	179,589.04	-	179,589.04	162,957.14
01/01/2008	9,485,575.34	91,770.00	9,577,345.34	8,666,950.57
02/01/2008	165,828.77	-	165,828.77	149,661.00
03/01/2008	154,706.28	-	154,706.28	139,246.51
04/01/2008	165,375.68	82,005.00	247,380.68	222,059.70
05/01/2008	160,040.98	-	160,040.98	143,272.48
06/01/2008	165,375.68	-	165,375.68	147,649.10
07/01/2008	160,040.98	82,005.00	242,045.98	215,518.54
08/01/2008	165,375.68	-	165,375.68	146,854.08
09/01/2008	165,375.68	-	165,375.68	146,458.17
10/01/2008	160,040.98	82,005.00	242,045.98	213,780.18
11/01/2008	165,375.68	-	165,375.68	145,669.56
12/01/2008	160,040.98	-	160,040.98	140,590.50
01/01/2009	34,065,375.68	82,005.00	34,147,380.68	29,916,429.49
02/01/2009	93,592.90	-	93,592.90	81,775.44
03/01/2009	84,767.12	-	84,767.12	73,864.37
04/01/2009	93,849.32	46,410.00	140,259.32	121,889.67
05/01/2009	90,821.92	-	90,821.92	78,714.26
06/01/2009	93,849.32	-	93,849.32	81,118.79
07/01/2009	90,821.92	46,410.00	137,231.92	118,296.83
08/01/2009	93,849.32	-	93,849.32	80,682.01

# PROOF OF ARBITRAGE YIELD

California Independent System Operator  
New Money - SYNTHETIC FIXED Series  
Based on Market Conditions on August 27, 2004

Date	Debt Service	Expenses	Total	Present Value to 12/01/2004 @ 3.2658405%
09/01/2009	93,849.32	-	93,849.32	80,464.49
10/01/2009	90,821.92	46,410.00	137,231.92	117,342.65
11/01/2009	93,849.32	-	93,849.32	80,031.23
12/01/2009	90,821.92	-	90,821.92	77,240.78
01/01/2010	44,293,849.32	46,410.00	44,340,259.32	37,608,133.78
	138,430,880.64	1,919,750.00	140,350,630.64	125,615,691.19

## Proceeds Summary

Delivery date	12/01/2004
Par Value	127,000,000.00
Arbitrage expenses	-1,384,308.81
Target for yield calculation	125,615,691.19



# UNDERWRITER'S DISCOUNT

California Independent System Operator  
New Money - SYNTHETIC FIXED Series  
Based on Market Conditions on August 27, 2004

Underwriter's Discount	\$/1000	Amount
Average Takedown	1.25000	158,750.00
Management Fee	1.00000	127,000.00
Expenses	1.00000	127,000.00
	3.25000	412,750.00

## EXHIBIT H

# CAISO 2005 Capital Budget Project Listing - Preliminary as of August 25, 2004

Page#	ID	Project Name	Priority	Cost Size	Sub Category*
		<b>Priority 1 - Top Listing</b>			
238	124	Software - Enterprise Licensing, License Compliance True-ups, Growth for OA, Growth for Test/Dev Personnel	1	Large	B
240	160	EMS User Interface Upgrade	1	Large	B/C
242	173	Computer Direct Purchases	1	Large	B
243	183	Accelerated or Early Market Payments (Payment Acceleration)	1	Large	B
245	210	Upgrade Tie-Line Metering and Real-Time Data	1	Large	A
246	283	Automated System Provisioning Infrastructure	1	Large	C
248	286	Alhambra (Facilities) Infrastructure Upgrade /Alternate Facilities	1	Large	A
249	13	Facilities Leasehold Improvements/Furniture Purchase/Data Center	1	Medium	E
250	139	EMS Network Applications	1	Medium	A
252	220	Console Management Software (ConsoleWorks)	1	Medium	B/C
253	228	Improve the Transmission Registry to Meet Future CAISO Business Requirements and Improve Client Satisfaction	1	Medium	A
255	230	Southern Muni's Model Improvements - Phase 2 and 3	1	Medium	B
256	239	Phase 1B - RTMA Required Enhancements	1	Medium	B
257	246	Market Quality Validation and Correction tools	1	Medium	B
258	280	SLIC 3	1	Medium	A
259	287	WAPA Transition Project	1	Medium	A
260	73	Oversight and Investigation	1	Small	B
262	153	Enhance NRI Tool to Accommodate Process Changes Associated with FERC Orders	1	Small	A/B
264	185	Anti-Virus Gateway	1	Small	B/C
266	191	Field Data Acquisition Replacement Vehicle	1	Small	B
268	206	Implementation of MSS Agreements ( Amendment 46)	1	Small	B
269	252	Additional Cooling in Alhambra Data Center	1	Small	A
270	256	Safety- Ergonomic Equipment and Resources	1	Small	E
271	270	MSS Modifications	1	Small	B
272	275	EMS Mapboard Upgrade	1	Small	B
273	285	HR Software Enhancements	1	Small	C
		Total Priority 1	25	\$ 10,000,000	<<--PROPOSED BUDGET
	*	<b>Sub-Categories - Preliminary Type Grouping for Priority 1 Projects</b>			
	A	* Critical to maintain grid system reliability			
	B	* Essential to enhance grid system reliability and/or maintain current CAISO operations (business)			
	C	* Increases operational (business) efficiencies and generates cost savings in 2005/2006 into future years			
	D	* Enhancements/improvements on today's business			
	E	* Facilities Related Items			

# CAISO 2005 Capital Budget Project Listing - Preliminary as of August 25, 2004

Page#	ID	Project Name	Priority	Cost Size	Sub Category*
<b>Priority 1.5 - Not Highest Priority</b>					
275	238	OASIS Improvements	1	Large	C
276	258	Additional UPS Power and Equipment For MD02	1	Large	E
277	172	Mandated Market Changes (Various)	1	Medium	B
278	187	Centralized Security Event Consolidation and Event Correlation	1	Medium	B/C
280	233	Wireless Local Area Network (WLAN) Proof of Concept and Pilot Project	1	Medium	C
282	245	Website Redesign	1	Medium	C
283	248	Modification to Existing BBS Settlements Interface to be Compliant with SOA	1	Medium	D
284	249	Physical Security Enhancements - Building 151	1	Medium	B
285	284	Backup Expansion	1	Medium	C
286	140	EMS Grid Operations Training Simulator (GOTS)	1	Small	B
287	142	EMS AGC Tuning Tool	1	Small	B
288	247	Copiers- End of Lease Buyout	1	Small	B
289	262	Security- Equipment Upgrade, Replacement and Enhancement	1	Small	E
290	263	Upgrade Load Forecasting Engine	1	Small	B
291	269	Transmission and Market Modeling Software	1	Small	B/D
		Total Priority 1 - Not Highest Priority	14	\$ 5,000,000	
<b>Priority 2</b>					
-	40	Control Area / BITS BITS/ETAG Phase 2	2	Large	N/A
-	199	Private Branch Exchange (PBX) Replacement	2	Large	N/A
-	282	Enterprise Application Management and Monitoring	2	Large	N/A
-	49	Develop Market Operations Reporting Tools - MORT Phase 2	2	Medium	N/A
-	104	Web-Based Training Programs	2	Medium	N/A
-	134	Implement Corporate Library	2	Medium	N/A
-	190	PI Process Template Upgrades	2	Medium	N/A
-	198	Telephony Technology Pilot	2	Medium	N/A
-	209	RMR Secure Server	2	Medium	N/A
-	211	Dynamic System Monitoring	2	Medium	N/A
-	212	Corporate Information Search, Categorization, and Retrieval System	2	Medium	N/A
-	250	RMR Tools Redesign	2	Medium	N/A
-	253	RMR Secure Web Server Redesign	2	Medium	N/A
-	259	Client Relations - CRM System	2	Medium	N/A
-	261	Enterprise Citrix Implementation	2	Medium	N/A
-	268	CHASE 5.5	2	Medium	N/A
-	281	Enterprise Compliance Storage Pilot	2	Medium	N/A
-	141	EMS System Enhancements	2	Small	N/A
-	175	Authentication Management Infrastructure (aka IPAM)	2	Small	N/A
-	179	Information Security Compliance Management	2	Small	N/A
-	188	Wireless Security Toolkit	2	Small	N/A
-	251	Windows Disc Space	2	Small	N/A
-	254	E-Mail Archiving System	2	Small	N/A
-	257	Client Relations - Consolidated Reporting Tool System	2	Small	N/A
-	271	Plexos Upgrade	2	Small	N/A
-	272	Actuate Developer Suite for DMA Analysts	2	Small	N/A
-	274	Control Room Alarm System	2	Small	N/A
-	276	Data Acquisition Server Upgrade	2	Small	N/A
-	277	EMS Data Engineering	2	Small	N/A
		Total Priority 2	29	\$ 8,945,000	

# CAISO 2005 Capital Budget Project Listing - Preliminary as of August 25, 2004

Page#	ID	Project Name	Priority	Cost Size	Sub Category*
		<b>Priority 3</b>			
-	105	Grid Restoration tool for recovery from a Blackout	3	Large	N/A
-	234	Load Forecast Improvements	3	Medium	N/A
-	240	Unit Contingent A/S and A/S Accounting	3	Medium	N/A
-	241	remote tie and dynamic scheduling	3	Medium	N/A
-	260	Compliance - Modify Existing Interfaces to comply with SOA requirements	3	Medium	N/A
-	281	Enterprise Compliance Storage Pilot	3	Medium	N/A
-	177	Token-Based Authentication	3	Small	N/A
-	278	EMS Alhambra Listening mode	3	Small	N/A
-	279	OSAT Development, Test, & Production Servers	3	Small	N/A
		<b>Total Priority 3</b>	<b>9</b>	<b>\$ 2,660,000</b>	
		<b>Market Redesign &amp; Technology Infrastructure Upgrade Program (MRTU)</b>			
		Reliability and Market Improvements	1	\$ 15,918,780	
		Technology and Infrastructure Upgrades	1	\$ 30,820,510	
		Contingency		\$ 4,000,000	
		<b>Total</b>	<b>12</b>	<b>\$ 50,739,290</b>	

# CAISO 2005 Capital Budget Project Listing - Preliminary

July 7, 2004

ID	Project Name	Priority	Cost Size	Sub Category*
	Priority 1			
124	Software - Enterprise Licensing, License Compliance True-ups, Growth for OA, Growth for Test/Dev Personnel	1	Large	B
160	EMS User Interface Upgrade	1	Large	B/C
173	Computer Direct Purchases	1	Large	B
183	Accelerated or Early Market Payments (Payment Acceleration)	1	Large	B
210	Upgrade Tie-Line Metering and Real-Time Data	1	Large	A
235	Transition Plan Implementation	1	Large	A
237	FTR New Auction System	1	Large	C
238	OASIS Improvements	1	Large	C
258	Additional UPS Power and Equipment For MD02	1	Large	E
283	Automated System Provisioning Infrastructure	1	Large	C
285	HR Software Enhancements	1	Large	C
13	Facilities Leasehold Improvements/Furniture Purchase/Data Center	1	Medium	E
139	EMS Network Applications	1	Medium	A
172	Mandated Market Changes (Various)	1	Medium	B
187	Centralized Security Event Consolidation and Event Correlation	1	Medium	B/C
220	Console Management Software (ConsoleWorks)	1	Medium	B/C
228	Improve the Transmission Registry to Meet Future CAISO Business Requirements and Improve Client Satisfaction	1	Medium	A
233	Wireless Local Area Network (WLAN) Proof of Concept and Pilot Project	1	Medium	C
239	Phase 1B - RTMA Required Enhancements	1	Medium	B
245	Website Redesign	1	Medium	C
246	Market Quality Validation and Correction tools	1	Medium	B
248	Modification to Existing BBS Settlements Interface to be Compliant with SOA	1	Medium	D

# CAISO 2005 Capital Budget Project Listing - Preliminary

July 7, 2004

ID	Project Name	Priority	Cost Size	Sub Category*
249	Physical Security Enhancements - Building 151	1	Medium	B
280	SLIC 3	1	Medium	A
284	Backup Expansion	1	Medium	C
73	Oversight and Investigation	1	Small	B
140	EMS Grid Operations Training Simulator (GOTS)	1	Small	B
142	EMS AGC Tuning Tool	1	Small	B
153	Enhance NRI Tool to Accommodate Process Changes Associated with FERC Orders	1	Small	A/B
185	Anti-Virus Gateway	1	Small	B/C
191	Field Data Acquisition Replacement Vehicle	1	Small	B
206	Implementation of WAPA MSS Agreements	1	Small	B
247	Copiers- End of Lease Buyout	1	Small	B
252	Additional Cooling in Alhambra Data Center	1	Small	A
256	Safety- Ergonomic Equipment and Resources	1	Small	E
262	Security- Equipment Upgrade, Replacement and Enhancement	1	Small	E
263	Upgrade Load Forecasting Engine	1	Small	B
269	Transmission and Market Modeling Software	1	Small	B/D
270	MSS Modifications	1	Small	B
275	EMS Mapboard Upgrade	1	Small	B
	Total Priority 1	40	\$ 19,980,000	
<b>* Sub-Categories - Preliminary Type Grouping for Priority 1 Projects</b>				
A	* Critical to maintain grid system reliability			
B	* Essential to enhance grid system reliability and/or maintain current CAISO operations (business)			
C	* Increases operational (business) efficiencies and generates cost savings in 2005/2006 into future years			
D	* Enhancements/improvements on today's business			
E	* Facilities Related Items			

**CAISO 2005 Capital Budget Project Listing - Preliminary**  
**July 7, 2004**

ID	Project Name	Priority	Cost Size	Sub Category*
	<b>Priority 2</b>			
40	Control Area / BITS BITS/ETAG Phase 2	2	Large	N/A
199	Private Branch Exchange (PBX) Replacement	2	Large	N/A
282	Enterprise Application Management and Monitoring	2	Large	N/A
49	Develop Market Operations Reporting Tools - MORT Phase 2	2	Medium	N/A
104	Web-Based Training Programs	2	Medium	N/A
134	Implement Corporate Library	2	Medium	N/A
190	PI Process Template Upgrades	2	Medium	N/A
198	Telephony Technology Pilot	2	Medium	N/A
209	RMR Secure Server	2	Medium	N/A
211	Dynamic System Monitoring	2	Medium	N/A
212	Corporate Information Search, Categorization, and Retrieval System	2	Medium	N/A
230	Southern Muni's Model Improvements - Phase 2 and 3	2	Medium	N/A
250	RMR Tools Redesign	2	Medium	N/A
253	RMR Secure Web Server Redesign	2	Medium	N/A
259	Client Relations - CRM System	2	Medium	N/A
261	Enterprise Citrix Implementation	2	Medium	N/A
268	CHASE 5.5	2	Medium	N/A
281	Enterprise Compliance Storage Pilot	2	Medium	N/A
141	EMS System Enhancements	2	Small	N/A
175	Authentication Management Infrastructure (aka IPAM)	2	Small	N/A
179	Information Security Compliance Management	2	Small	N/A
188	Wireless Security Toolkit	2	Small	N/A
251	Windows Disc Space	2	Small	N/A
254	E-Mail Archiving System	2	Small	N/A



**CAISO 2005 Capital Budget Project Listing - Preliminary**  
**July 7, 2004**

ID	Project Name	Priority	Cost Size	Sub Category*
257	Client Relations - Consolidated Reporting Tool System	2	Small	N/A
271	Plexos Upgrade	2	Small	N/A
272	Actuate Developer Suite for DMA Analysts	2	Small	N/A
274	Control Room Alarm System	2	Small	N/A
276	Data Acquisition Server Upgrade	2	Small	N/A
277	EMS Data Engineering	2	Small	N/A
	<b>Total Priority 2</b>	<b>30</b>	<b>\$ 8,945,000</b>	
	<b>Priority 3</b>			
105	Grid Restoration tool for recovery from a Blackout	3	Large	N/A
234	Load Forecast Improvements	3	Medium	N/A
240	Unit Contingent A/S and A/S Accounting	3	Medium	N/A
241	remote tie and dynamic scheduling	3	Medium	N/A
260	Compliance - Modify Existing Interfaces to comply with SOA requirements	3	Medium	N/A
281	Enterprise Compliance Storage Pilot	3	Medium	N/A
177	Token-Based Authentication	3	Small	N/A
278	EMS Alhambra Listening mode	3	Small	N/A
279	OSAT Development, Test, & Production Servers	3	Small	N/A
	<b>Total Priority 3</b>	<b>9</b>	<b>\$ 2,660,000</b>	
	<b>Market Design &amp; Infrastructure Upgrade Program</b>			
	Reliability and Market Improvements	1	\$ 15,918,780	
	Technology and Infrastructure Upgrades	1	\$ 30,820,510	
	Contingency		\$ 4,000,000	
	<b>Total</b>	<b>12</b>	<b>\$ 50,739,290</b>	

## **ATTACHMENT A**

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

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Comment Date: