

# ALSTON & BIRD LLP

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February 9, 2007

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

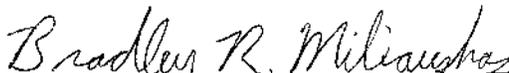
**Re: California Independent System Operator Corporation  
Docket No. ES07-\_\_\_\_-000**

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 are also enclosed. Please stamp these 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 assistance with this matter.

Respectfully submitted,

  
Bradley R. Miliauskas

Counsel for the California Independent  
System Operator Corporation



The ISO currently projects that approximately \$52 million of the proposed bond funding is required to meet capital expenditure needs into 2008. The balance of the total proceeds from the offering would be used to pay issuance costs and 2007 capitalized interest costs (\$2 million) and establish a DSRF of \$6 million.<sup>2</sup> These amounts total \$60 million, the anticipated issuance amount.

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

In December 2006, the ISO Governing Board approved a project plan, including a schedule and budget, which provides for the completion of the ISO's Market Redesign and Technology Upgrade ("MRTU") project. This \$189 million project has already been partially funded through Grid Management Charge ("GMC") rates collected during 2002-2004, in the amount of \$47 million, and through \$92 million in bond funding from an issuance in December 2004. An additional \$50 million in funding for MRTU is required for 2007-2008. The project is to be operational by January 31, 2008 for the February 1, 2008 trade date.

The proposed issuance would also provide funding for other capital projects that the ISO anticipates undertaking during 2007 and 2008. The ISO has budgeted approximately \$7.5 million for capital projects, other than MRTU. A list of potential capital projects under consideration by the ISO for completion in 2007 was posted to the ISO's website on December 7, 2006. That list of potential capital projects is provided in Exhibit H to the present filing.<sup>3</sup> The \$2 million in funding for 2007/2008 will fund a subset of the projects listed or other

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<sup>2</sup> Exhibit G to the present filing contains a financial summary, prepared by Banc of America Securities LLC, of the terms of the proposed bond offering for which Commission approval is sought herein.

unforeseen projects. Cumulatively, the ISO estimates that the MRTU (through 2008) and other projects through 2008 will require \$52 million in bond funding (\$50 million for MRTU plus \$2 million for other capital projects).

## **2. The DSRF**

The ISO proposes to establish a DSRF in the amount of \$6 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 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. The \$6 million in the DSRF will be used to meet final year principal amortization payments, and earnings on the DSRF until then will be used to offset bond interest expense.

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

The ISO anticipates the issuance of variable rate demand bonds with a term of six years to meet these funding needs. The proposed amortization schedule for the bonds would be tailored to facilitate a stable-to-declining overall ISO bundled pro-forma GMC from 2007 through 2013. Annual bond amortization would be higher in 2010 to 2013 than in earlier years. As debt service for the ISO's existing debt is no longer collected in the ISO's revenue requirement after

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<sup>3</sup> The following address on the ISO's website also contains additional information about these potential capital projects: <http://www.caiso.com/18c5/18c5a4bc5d2b0.pdf>, starting at page 172.

2009, there will be additional capacity within the revenue requirement to cover higher debt service payments for the new bonds in those years.

The ISO intends to incorporate the debt service costs for this new bond program into its GMC for 2007 through 2013. The ISO's GMC for 2007 includes debt service for earlier bond offerings and \$1.5 million in interest costs related to this offering. (The ISO's initial bond offering occurred in 1998 and the bond offering was refinanced in 2000. Additional bonds were offered in 2004.) A portion of these existing bonds is amortized and retired annually. They are scheduled to be retired in 2009 and 2010.<sup>4</sup> As of the expected issuance date in mid-April, \$139.7 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, which were established by the Commission's acceptance of the Offer of Partial Settlement of the 2004 GMC Rate Case (Docket Nos. ER04-115-000, *et al.*) ("Offer of Partial Settlement") and the extension of the settlement GMC rate structure in Docket No. ER06-1282-000. The GMC rate formula in the ISO Tariff provides that the ISO may adjust the GMC charges for 2007, without filing a rate case pursuant to Section 205 of the Federal Power Act, as long as the ISO's overall annual revenue requirement is below \$195 million. 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 stay below this threshold. The

revenue requirement in 2007 is below the threshold established in Docket No. ER06-1282-000, 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 2007 to 2013 and the GMC adjustment provisions of the modified 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 2007 and to decline substantially thereafter.

Without bond financing of the capital spending program in 2007, 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 ratings in January 2001. With the restoration of the ISO's 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.

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<sup>4</sup> Though debt service on the 2004 bond issue ends in 2009, the bonds are not retired until February 2010.

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  
Alston & Bird LLP  
950 F Street, NW  
Washington, DC 20004  
Tel: (202) 756-3300  
Fax: (202) 756-3333

**(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 April 2, 2007. The ISO seeks to execute its bond offering in mid-April 2007.

**(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, 2000 and 2004 bond issuances. The ISO expects to enter into a variable to fixed interest rate swap agreement 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 six years.

**2. Amount of securities.**

The value of the bonds to be issued is not to exceed \$60 million.

**3. Interest or dividend rate.**

Variable rate demand bonds have interest rates that are periodically reset on a daily, weekly, or monthly basis. Data regarding ISO's current variable rate demand bonds with a weekly interest rate reset period (proposed for this issuance) since April 13, 2000 follows:

Minimum rate:	0.45%
Maximum rate:	6.70% (in January 2001 during the Energy Crisis)
Average rate:	2.39%

Fees and costs for a bank standby bond purchase agreement, bond insurance, remarketing agent fees, and amortization of issuance costs are additional costs to be considered along with the interest costs on the bonds, and these costs add approximately 0.75% to the bond interest costs. Additionally, the ISO will enter into an interest rate swap to cover approximately 60% of the outstanding principal amount of these bonds as a hedge against interest rate volatility. "All-in true interest costs" for this issuance are likely to be between 4.0% - 4.5%.

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

The target issuance date for the bonds is early to mid-April 2007. Final maturity of the bonds will occur in not later than December 2013.

**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: A3

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 AMBAC 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 to provide the required credit enhancement.

**(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 2008. Most of the bond funding (\$50 million) will be used to fund completion of the 2008 release of the ISO's MRTU project. The remainder of the funds (\$2 million) 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. This may supplement the \$7.5 million funding in non-MRTU capital expenditures included in the 2007 revenue requirement (the ISO posted a listing of projects in mid-December 2006 consistent with the \$7.5 million stated need for 2007).

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 were issued through the California Economic Development Financing Authority in 1998 and the

California Infrastructure and Economic Development Bank, in 2000 and 2004. (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 have been developed and presented to the ISO stakeholders and ISO Governing Board during the 2007 budgeting processes. The results of these budgeting processes were posted on the ISO's website in December 2006.

The ISO has presented this proposed bond offering to its Governing Board on January 24-25, 2007, and will request formal approval of the transaction at the March 7-8, 2007 Board meeting. The ISO will provide the Commission with the record of the Board's approval of the transaction subsequent to that meeting.

The offering will also further assist the ISO in maintaining rate stability and the proper matching of project costs with the beneficiaries of those projects. Without the bond offering that is the subject of this application, the ISO would have to substantially increase its revenue requirement in 2007 to collect the funds required for the MRTU and other capital projects, and accordingly, would be required to increase its GMC charges. Financing MRTU and other capital projects through the planned bond offering will allow the ISO to maintain a 2007 revenue requirement that is below the \$195 million threshold established in Docket No. ER06-1282-000. Further, the ISO is aiming to maintain a stable bundled GMC of approximately \$0.76 per MWh or less over the life of these bonds.

**(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 years 2000 and 2004, 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 \$368 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 January 1, 2006 through December 31, 2006. The ISO's updated rates for the 2007 GMC were posted on the ISO website on December 7, 2006. The revenue requirement for 2007, on which those GMC rates are based, includes 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, §11.2.1 and Appendix F, Schedule 1, Part C. No changes in the GMC rates are requested or anticipated as a result of the bond offering that is the subject of this application.

**(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**

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

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

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

Exhibit B- (1) Resolutions adopted by the ISO Governing Board authorizing the ISO's initial year 1998 bond issuance;  
(2) Resolution adopted by the ISO Governing Board authorizing the ISO's year 2000 bond restructuring and additional proceeds offering;  
(3) Resolution adopted by the ISO Governing Board authorizing the ISO's 2004 bond issuance;

- (4) The Meeting Agenda for the ISO Governing Board Executive Session meeting at which the Board was briefed on the proposed 2007 bond offering;
- (5) Resolution adopted by the ISO Governing Board declaring the official intent of the ISO to use proceeds of indebtedness to pay or reimburse itself for expenditures incurred in connection with the capital budget for the MRTU program, prior to and in anticipation of the issuance of indebtedness for the purpose of financing the capital expenditures on a long-term basis.

Exhibit C- Projected Pro Forma Balance Sheets of the ISO, for the twelve months ending 12/31/2006 and Schedule of Pro Forma Adjustments

Exhibit D- Projected Pro Forma Income Statements for the twelve months ending 12/31/2006

Exhibit E- Projected Pro Forma Statement of Cash Flows for the twelve months ending 12/31/2006 and calculation of interest coverage

Exhibit F- Official Statement for the year 2004 bonds

Exhibit G- Bond Financial Information Related to Proposed New Money Issuance

Exhibit H- Potential 2007 capital projects listing (posted to the ISO's website 12/7/2006). See original document located on the California ISO website at:  
<http://www.caiso.com/18c5/18c5a4bc5d2b0.pdf>, starting at page 172.

**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 year 1998 were issued through the California Economic Development Financing Authority and for years 2000 and 2004 through the California Infrastructure and Economic Development Bank. (The first-named organization was replaced by the latter subsequent to 1998.) The ISO has selected Banc of America Securities LLC and J.P. Morgan Securities, Inc. to act as underwriters of the bonds. Banc of America Securities LLC was selected as lead manager for the transaction. The ISO requested proposals from both firms and selected the lead manager on the basis of lower costs and other factors. 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 bond offerings in 1998, 2000, and 2004.

The ISO notes that the Commission exempted the ISO's three 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**

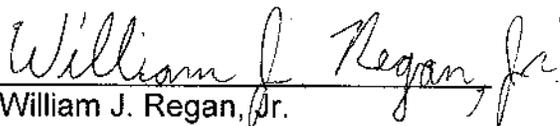
In addition to this transmittal letter and the exhibits described above in Section II, this filing contains a form of notice, suitable for publication in the Federal Register (Attachment A), together with the form of notice in electronic format.

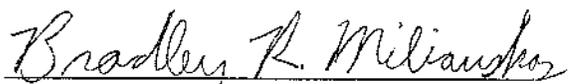
**V. CONCLUSION**

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 \$60 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 April 2, 2007.

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  
Alston & Bird LLP

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

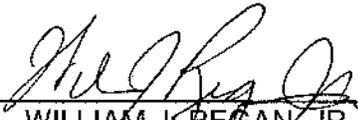
Dated: February 9, 2007

**VERIFICATION**

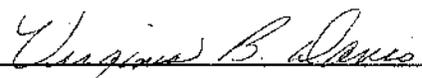
STATE OF CALIFORNIA            )  
  )  
CITY OF FOLSOM                    )  
COUNTY OF SACRAMENTO        )

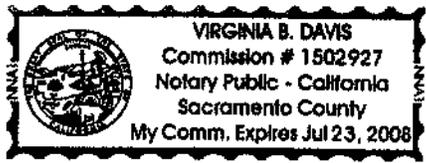
DOCKET NO.  
ES07-\_\_\_-000

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 Attachment; 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 8 day of February, 2007

  
\_\_\_\_\_  
Notary Public



**EXHIBIT A**

State of California



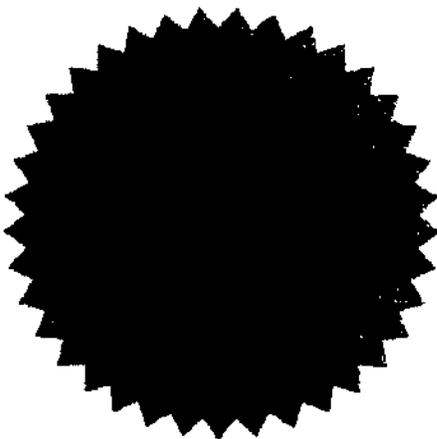
SECRETARY OF STATE

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



*Bill Jones*

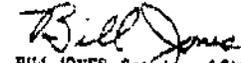
Secretary of State

2009677

ENDORSED  
FILED

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

MAY - 5 1997

  
BILL JONES, 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.

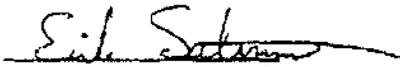
These articles of incorporation may be amended by the vote of at least two-thirds of all of the members of the corporation's Governing Board then in office, provided that the Oversight Board has approved such amendment. In addition, if and to the extent required by applicable law, the effectiveness of 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.

Attachment B  
(amended)

**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>						Board Action: <b>Passed</b> Vote Count: <b>25-0-0</b>					
Moved: Roscoe Second: Johanson						Moved: Second:					
	C	B		C	B		C	B		C	B
Barkovich			Edwards			Kashiwada			McNally		
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	

Board of Governors 11/10/2004 Approval of Bond Issuance

Moved, that the Board approve the Borrowing Resolution set forth below:

Borrowing Resolution (2004-11-10)

MOVED, that the interim 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 the behalf of the CAISO, to perform the following:

- Issue variable rate demand bonds in an amount not to exceed \$127,000,000 through the California Infrastructure and Economic Development Bank.
- Borrow money, incur other obligations and guarantee the obligations of the CAISO in an amount not to exceed \$127,000,000, 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.
- Procure a standby bond purchase agreement from Bank of America and JPMorganChase Bank for a term not to exceed three years at a cost not to exceed 35 basis points annually plus other associated expenses.
- Procure a bond insurance policy from Ambac at a cost not to exceed 66 basis points of principal, interest paid over the life of the bond, and potential swap unwind payment of \$3.5 million and other associated expenses.

MOVED FURTHER, that Management be authorized and directed to take any and all actions necessary and appropriate to execute an interest rate swap to partially hedge the bonds and provide for synthetic fixed rate debt for not more than 60% of the bond principal amount.

MOVED FURTHER, that with respect to any single transaction covered by the foregoing motions, the interim Chief Executive Officer or the Chief Financial Officer of the CAISO may delegate in writing to any one or more Officers of the CAISO the power to sign such instruments, agreements or other documents on his or her behalf as may be required to effectuate such transaction.

Moved: Florio Second: Gage

<b>Finance Committee Action: Passed Vote Count: 2-0-0</b>	
Florio	Y
Gage	Y

**Moved: Gage Second: Florio**

<b>Board Action: Passed Vote Count: 5-0-0</b>	
Cazalet	Y
Florio	Y
Gage	Y
Kahn	Y
Wiseman	Y

**Motion Number: <number>**



## PUBLIC NOTICE OF ISO BOARD OF GOVERNORS MEETING

The California Independent System Operator Board of Governors will meet:

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Date: January 24, 2007  
January 25, 2007

Time: **Executive Session**  
January 24, 2007: 12:00p.m. – 1:00 p.m.

**General Session**  
January 24, 2007: 1:00 p.m. – 5:30 p.m.  
January 25, 2007: 9:00 a.m. – 12:00 p.m.

URL: **Free Internet Audio Transmission of the General Session Board Meeting will be available. Please go to:**  
**<http://www.caiso.com/docs/2005/10/08/2005100820255829142.html>** for the URL address.

Location: **Offices of the California ISO**  
January 24, 2007: 12:00 – 5:30: Conference Room 101A – 1A & 1B  
January 25, 2007: 9:00 – 12:00 Conference Room 101A – 1A & 1B

Dial In: **(866) 254-5941 (General Session Only)**  
***Listen Only***

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During the above-noticed meeting, the Board of Governors will discuss and possibly take action on the following agenda items:

### **EXECUTIVE SESSION**

January 24, 2007      **12:00 – 1:00**

- 1) Decision on Executive Session Minutes
  - 12/12/06
  - 12/19/06
- 2) Briefing on 2007 Proposed Bond Issuance
- 3) Legal Update
- 4) Board Planning Issues
- 5) Personnel Update

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

## Page 2 – Board of Governors Meeting

### GENERAL SESSION

January 24, 2007      **1:00 – 5:30**

- 1) Public Comment (comment on same day decisional items preferred)
- 2) Decision on General Session Minutes
  - 12/12/06
  - 12/19/06
- 3) CEO Report
- 4) Briefing on CAISO Transmission Plan
- 5) Decision on Tehachapi Project
- 6) Market Surveillance Committee Update
- 7) Decision on Long-Term Congestion Revenue Rights Compliance Filing

### GENERAL SESSION

January 25, 2007      **9:00 – 12:00**

- 1) Public Comment (comment on same day decisional items preferred)
- 2) Decision on Compliance Program
- 3) Acceptance of Review of Code of Conduct Audit Procedures
- 4) Briefing on 2006 SAS 70 Audit
- 5) Decision on Market Surveillance Committee Reappointment
- 6) Decision Regarding Refinements to Load Scheduling Requirements
- 7) Briefing on 2007 Proposed Bond Issuance and Decision on Reimbursement Resolution
- 8) Briefing on Seams
- 9) Briefing on the Monthly Market Performance Report
- 10) Potential Discussion regarding Informational Reports
  - a) Peer ISO 2007 Budget & Rate Comparison
  - b) MRTU Update
  - c) Monthly Operations Report
  - d) Regulatory Report
  - e) 3<sup>rd</sup> Quarter FERC Report
  - f) Legislative Report
  - g) Transmission Maintenance Coordination Committee Report
- 11) New General Session Business Issues and Future Agenda Items

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>

**RESOLUTION DECLARING OFFICIAL INTENT OF  
 CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION  
 TO REIMBURSE CERTAIN EXPENDITURES FROM PROCEEDS OF INDEBTEDNESS  
 ADOPTED JANUARY 25, 2007**

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

WHEREAS, the Corporation reasonably expects that debt obligations will be issued in one or more series and that certain of the proceeds of such debt obligations will be issued to pay or reimburse the Expenditures for the Project in the amount of \$55,000,000; and

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

**NOW, THEREFORE, THE CORPORATION hereby resolves:**

1. The Corporation finds and determines that the foregoing recitals are true and correct.
2. The Corporation hereby declares its official intent to use proceeds of indebtedness to pay or reimburse itself for Expenditures in an amount not expected to exceed \$55,000,000.
3. This Resolution shall take effect from and after its adoption.

**Moved: Wiseman Second: Cazalet**

<b>Board Action: Passed</b>		<b>Vote Count: 4-0-0</b>
Cazalet	Y	
Lowe	Y	
Willrich	Y	
Wiseman	Y	

Motion Number: 2007-01-G7

**EXHIBIT C**

Exhibit C  
California Independent System Operator Corporation  
Balance Sheet (Unaudited)  
December 31, 2006

Line No.	Title of Account (FERC Account)	Balance December 31, 2006	Pro Forma Adjustments For Issuance of Bonds	Balance After Pro Forma Adjustments	Pro Forma Adjustments For Bond Amortization	12/31/2007 Balance After Pro Forma Adjustments
1	<b>ASSETS AND OTHER DEBITS</b>					
2	<b>Utility Plant</b>					
3	Utility Plant (101-106,114)	\$ 247,280,106		\$ 247,280,106		\$ 247,280,106
4	Construction Work in Progress (107)	143,458,488		143,458,488		143,458,488
5	Total Utility Plant	390,738,594		390,738,594		390,738,594
6	(Less) Accum. Prov. For Depr. Amor. Depl. (108,110,111,115)	221,081,594		221,081,594		221,081,594
7	Net Utility Plant	169,657,000		169,657,000		169,657,000
8						
9	<b>Other Property and Investments</b>					
10	Other Investments (124)	93,561,182		93,561,182		93,561,182
11	Sinking Funds (125)	32,209,576		32,209,576		32,209,576
12	Other Special Funds (128)	62,587,409	\$ 52,096,680	114,684,089		114,684,089
13	Total Other Property and Investments	188,358,167	52,096,680	240,454,847		240,454,847
14						
15	<b>Current and Accrued Assets</b>					
16	Cash (131)	47,828,144		47,828,144	(3,616,023)	44,212,121
17	Special Deposits (132-134)	31,835,436	6,570,000	38,405,436	\$ (570,000)	37,835,436
18	Working Fund (135)	2,453		2,453		2,453
19	Customer Accounts Receivable (142)	1,418,769		1,418,769		1,418,769
20	Other Accounts Receivable (143)	739,266		739,266		739,266
21	Prepayments (165)	1,978,878		1,978,878		1,978,878
22	Interest and Dividends Receivable (171)	1,747,809		1,747,809		1,747,809
23	Accrued Utility Revenues (173)	38,688,941		38,688,941		38,688,941
24	Total Current and Accrued Assets	124,239,696	6,570,000	130,809,696	(4,186,023)	126,623,673
25						
26	<b>Deferred Debits</b>					
27	Unamortized Debt Expense (181)	878,873	1,333,320	2,212,193	(222,220)	1,989,973
28	Clearing Accounts (184)	(55,229)		(55,229)		(55,229)
29	Total Deferred Debits	823,644	1,333,320	2,156,964	(222,220)	1,934,744
30						
31	<b>TOTAL ASSETS</b>	\$ 483,078,507	\$ 60,000,000	\$ 543,078,507	\$ (4,408,243)	\$ 538,670,264
32						
33	See notes to Balance Sheet					

Exhibit C  
California Independent System Operator Corporation  
Balance Sheet (Unaudited)  
December 31, 2006

Line No.	Title of Account (FERC Account)	Balance December 31, 2006	Pro Forma Adjustments For Issuance of Bonds	Balance After Pro Forma Adjustments	Pro Forma Adjustments For Bond Amortization	Balance After Pro Forma Adjustments
33	LIABILITIES AND OTHER CREDITS					
34	Proprietary Capital					
35	Retained Earnings (215, 215.1, 216)	\$ 165,369,458		\$ 165,369,458	\$(2,843,243)	\$ 162,526,215
36	Total Proprietary Capital	<u>165,369,458</u>		<u>165,369,458</u>	<u>(2,843,243)</u>	<u>162,526,215</u>
37						
38	Long-Term Debt					
39	Bonds (221)	188,400,000	\$ 60,000,000	248,400,000	(1,565,000)	246,835,000
40	Total Long-Term Debt	<u>188,400,000</u>	<u>60,000,000</u>	<u>248,400,000</u>	<u>(1,565,000)</u>	<u>246,835,000</u>
41						
42	Other NonCurrent Liabilities					
43	Accumulated Provision for Pensions and Benefits (228.3)	8,348,846		8,348,846		8,348,846
44	Long-term Portion of Derivative Instrument Liabilities	438,496		438,496		438,496
45	Total Other NonCurrent Liabilities	<u>8,787,342</u>		<u>8,787,342</u>		<u>8,787,342</u>
46						
47	Current and Accrued Liabilities					
48	Accounts Payable (232)	29,834,828		29,834,828		29,834,828
49	Customer Deposits (235)	41,546,153		41,546,153		41,546,153
50	Taxes Accrued (236)	173,955		173,955		173,955
51	Total Current and Accrued Liabilities	<u>71,554,936</u>		<u>71,554,936</u>		<u>71,554,936</u>
52						
53	Deferred Credits					
54	Other Deferred Credits (253)	48,966,771		48,966,771		48,966,771
55	Total Deferred Credits	<u>48,966,771</u>		<u>48,966,771</u>		<u>48,966,771</u>
56						
57	TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	<u>\$ 483,078,507</u>	<u>\$ 60,000,000</u>	<u>\$ 543,078,507</u>	<u>\$(4,408,243)</u>	<u>\$ 538,670,264</u>
58						
59	See notes to Balance Sheet					

Exhibit C  
California Independent System Operator Corporation  
Notes to Balance Sheet (Unaudited)  
December 31, 2006

Line No.	Description	Pro Forma Adjustments
<b>1</b>	<b>Issuance of Bonds</b>	
2	The Proforma adjustments reflecting the issuance of bonds have the following components:	
3		
4	Source and Use of Bond Proceeds	
5	Bond Proceeds	\$ 60,000,000
6		
7	Use of Proceeds	
8	Special Deposits - Debt Service Reserve Fund	\$ 6,000,000
9	Special Deposits - Capitalized Interest Fund	570,000
10	Unamortized Debt Expense - Costs of issuance	900,000
11	Unamortized Debt Expense - Bond Issuance premium	433,320
12	Special Funds - Construction Fund	52,096,680
13	Bonds issued	<u>\$ 60,000,000</u>
14	No construction costs funded during initial period	
15		
<b>16</b>	<b>Bond Amortization</b>	
17	The Proforma adjustments reflecting the amortization of bonds have the following components:	
18		
19	Issuance date - January 1, 2007 (Actual issuance will be on during April 2007 - 1/1/2007 is assumed for purposes of	
20	of this pro-forma statement.	
21	Amortization date - December 31, 2007	
22	Interest rate - all in	4.368372%
23	Interest cost - Year 1 (line 13 x line 6)	<u>\$ 2,621,023</u>
24	Principal reduction:	
25	Year 1	\$ 1,565,000
26	Year 2	1,845,000
27	Year 3	20,750,000
28	Year 4	16,280,000
29	Year 5	12,470,000
30	Year 6	7,090,000
31	Total	<u>\$ 60,000,000</u>
32	Unamortized Debt Expense	
33	Method - ratably over 6 years	
34	Expense - Year 1 (line 10 + line 11 / 6)	<u>\$ 222,220</u>
35	Interest and principal reduction paid from cash account, except 2007 capitalized interest which is paid from	
36	Special Deposits - Debt Service Reserve Fund	
<b>37</b>	<b>Revenues</b>	
38	No adjustment was made to increase GMC revenues to cover the proforma debt service	

**EXHIBIT D**

Exhibit D  
California Independent System Operator Corporation  
Statement of Income (Unaudited)  
For the Year Ended December 31, 2006

Line No.	Title of Account (FERC Account)	Year Ended December 31, 2006	Pro Forma Adjustments For Bond Amortization	12/31/2007 Balance After Pro Forma Adjustments
1	<b>Utility Operating Income</b>			
2	Operating Revenues (400)	\$ 190,191,406		\$ 190,191,406
3				
4	Operating Expenses			
5	Operating Expenses (401)	104,559,652		104,559,652
6	Maintenance Expenses (402)	25,106,579		25,106,579
7	Depreciation Expense (403)	14,661,394		14,661,394
8	Taxes Other Than Income Taxes (408.1)	383,707		383,707
9	Total Utility Operating Expenses	<u>144,711,332</u>		<u>144,711,332</u>
10				
11	Net Utility Operating Income	<u>45,480,074</u>		<u>45,480,074</u>
12				
13	<b>Other Income</b>			
14	Interest and Dividend Income (419)	9,916,406	262,102	10,178,508
15	Miscellaneous Non-operating Income (421)	120,563		120,563
16	Total Other Income	<u>10,036,969</u>	<u>262,102</u>	<u>10,299,071</u>
17				
18	<b>Interest Charges</b>			
19	Interest on Long-term Debt (427)	6,252,607	\$ 2,621,023	8,873,630
20	Amortization of Debt Discount and Expense (428)	470,539	222,220	692,759
21	Other Interest Expense (431)	4,465,682		4,465,682
22	Net Interest Charges	<u>11,188,828</u>	<u>2,843,243</u>	<u>14,032,071</u>
23				
24	Net Income	<u>\$ 44,328,215</u>	<u>\$ (2,581,141)</u>	<u>\$ 41,747,074</u>
25				
26	See notes to Statement of Income			

Exhibit D  
California Independent System Operator Corporation  
Notes to Statement of Income (Unaudited)  
December 31, 2006

Line No.	Description	Pro Forma Adjustments
1	<b>Issuance of Bonds</b>	
2	The Proforma adjustments reflecting the issuance of bonds have the following components:	
3		
4	<u>Source and Use of Bond Proceeds</u>	
5	Bond Proceeds	\$ 60,000,000
6		
7	Use of Proceeds	
8	Special Deposits - Debt Service Reserve Fund	\$ 6,000,000
9	Special Deposits - Capitalized Interest Fund	570,000
10	Unamortized Debt Expense - Costs of issuance	900,000
11	Unamortized Debt Expense - Bond Issuance premium	433,320
12	Special Funds - Construction Fund	52,096,680
13	Bonds issued	<u>\$ 60,000,000</u>
14	No construction costs funded during period	
15		
16	<b>Bond Amortization</b>	
17	The Proforma adjustments reflecting the amortization of bonds have the following components:	
18		
19	Issuance date - January 1, 2007 (Actual issuance will be on during April 2007--1/1/2007 is assumed for purposes of	
20	of this pro-forma statement.	
21	Amortization date - December 31, 2007	4.368372%
22	Interest rate - all in	<u>\$ 2,621,023</u>
23	Interest cost - Year 1 (line 13 x line 6)	
24	Principal reduction:	
25	Year 1	\$ 1,565,000
26	Year 2	1,845,000
27	Year 3	20,750,000
28	Year 4	16,280,000
29	Year 5	12,470,000
30	Year 6	7,090,000
31	Total	<u>\$ 60,000,000</u>
32	Unamortized Debt Expense	
33	Method - ratably over 6 years	
34	Expense - Year 1 (line 10 + line 11 / 6)	\$ 222,220
35	Interest and principal reduction paid from cash account, except 2007 capitalized interest which is paid from	
36	Special Deposits - Debt Service Reserve Fund	
37		
38	<b>Other Income</b>	
39	Interest earnings on the Debt Service Reserve fund are shown on line 14.	
39		
40	<b>Revenues</b>	
41	No adjustment was made to increase GMC revenues to cover the proforma debt service	

**EXHIBIT E**

Exhibit E  
California Independent System Operator Corporation  
Statement of Cash Flows (Unaudited)  
For the Year Ended December 31, 2006

Line No.	Account Description	Year Ended December 31, 2006	Pro Forma Adjustments of Bonds	Balance After Pro Forma Adjustments	Pro Forma Adjustments For Bond Amortization	12/31/2007 Balance After Pro Forma Adjustments
1	Net Cash Flow from Operating Activities					
2	Net Income	\$ 44,428,215		\$ 44,428,215	\$ (2,581,141)	\$ 41,847,074
3	Noncash Charges (Credits) to Income:					
4	Depreciation and Depletion	14,661,394		14,661,394		14,661,394
5	Amortization of Debt Expenses	470,539		470,539	222,220	692,759
6	Net (Increase) Decrease in Receivables	11,039,186		11,039,186		11,039,186
7	Net Increase (Decrease) in Payables and Accrued Expenses	2,002,542		2,002,542		2,002,542
8	Net Increase (Decrease) in Other Deferred Credits	5,533,388		5,533,388		5,533,388
9	Net Cash Provided by (Used In) Operating Activities	<u>78,135,264</u>		<u>78,135,264</u>	<u>(2,358,921)</u>	<u>75,776,343</u>
10						
11	Cash Flows From Investment Activities					
12	Gross Additions to Common Utility Plant	(67,215,614)		(67,215,614)		(67,215,614)
13	Net Proceeds from Sales (Purchases) of Investments	18,878,918		18,878,918		18,878,918
14	Net Cash Provided By (Used In) Investing Activities	<u>(48,336,696)</u>		<u>(48,336,696)</u>		<u>(48,336,696)</u>
15						
16	Cash Flows from Financing Activities					
17	Issuance of Long-Term Debt	(58,800,000)	\$ 60,000,000	1,200,000		1,200,000
18	Decrease (Increase) in deferred debits	-	(1,333,320)	(1,333,320)		(1,333,320)
19	Decrease in Customer Deposits	(21,402,745)		(21,402,745)		(21,402,745)
20	Payments for Retirement of Long-Term Debt				(1,565,000)	(1,565,000)
21	Increase in Sinking Funds	1,681,494		1,681,494		1,681,494
22	(Increase) Decrease in Special Deposits	(2,117,197)	(6,570,000)	(8,687,197)	570,000	(8,117,197)
23	Net Decrease (Increase) Other Special Funds	86,231,178	(52,096,680)	34,134,498		34,134,498
24	Net Cash Provided By (Used In) Financing Activities	<u>5,592,730</u>	<u>-</u>	<u>5,592,730</u>	<u>(995,000)</u>	<u>4,597,730</u>
25						
26	Net Increase (Decrease) in Cash and Cash Equivalents	35,391,298	-	35,391,298	(3,353,921)	32,037,377
27						
28	Cash and Cash Equivalents at Beginning of Period	12,436,846		12,436,846		12,436,846
29						
30	Cash and Cash Equivalents at End of Period	<u>\$ 47,828,144</u>	<u>\$ -</u>	<u>\$ 47,828,144</u>	<u>\$ (3,353,921)</u>	<u>\$ 44,474,223</u>
31						
32	See notes to Statement of Cash Flows					

Exhibit E  
California Independent System Operator Corporation  
Notes to Statement of Cash Flows (Unaudited)  
December 31, 2006

Line No.	Description	Pro Forma Adjustments
<b>1</b>	<b>Issuance of Bonds</b>	
2	The Proforma adjustments reflecting the issuance of bonds have the following components:	
3		
4	Source and Use of Bond Proceeds	
5	Bond Proceeds	\$ 60,000,000
6		
7	Use of Proceeds	
8	Special Deposits - Debt Service Reserve Fund	\$ 6,000,000
9	Special Deposits - Capitalized Interest Fund	570,000
10	Unamortized Debt Expense - Costs of issuance	900,000
11	Unamortized Debt Expense - Bond Issuance premium	433,320
12	Special Funds - Construction Fund	52,096,680
13	Bonds issued	<u>\$ 60,000,000</u>
14	No construction costs funded during period	
15		
<b>16</b>	<b>Bond Amortization</b>	
17	The Proforma adjustments reflecting the amortization of bonds have the following components:	
18		
19	Issuance date - January 1, 2007 (Actual issuance will be on during April 2007 -- 1/1/2007 is assumed for purposes of	
20	of this pro-forma statement.	
21	Amortization date - December 31, 2007	
22	Interest rate - all in	4.368372%
23	Interest cost - Year 1 (line 13 x line 6)	<u>\$ 2,621,023</u>
24	Principal reduction:	
25	Year 1	\$ 1,565,000
26	Year 2	1,845,000
27	Year 3	20,750,000
28	Year 4	16,280,000
29	Year 5	12,470,000
30	Year 6	7,090,000
31	Total	<u>\$ 60,000,000</u>
32	Unamortized Debt Expense	
33	Method - ratably over 6 years	
34	Expense - Year 1 (line 10 + line 11 / 6)	<u>\$ 222,220</u>
35	Interest and principal reduction paid from cash account, except 2007 capitalized interest which is paid from	
36	Special Deposits - Debt Service Reserve Fund	
<b>37</b>	<b>Revenues</b>	
38	No adjustment was made to increase GMC revenues to cover the proforma debt service	

Exhibit E  
California Independent System Operator Corporation  
Schedule of Interest Coverage  
For the Year Ended December 31, 2006

Line No.	Description	Year Ended December 31, 2006	Pro Forma Adjustments For Bond Amortization	12/31/2007 Balance After Pro Forma Adjustments
1	Net Income	\$ 44,328,215	\$ (2,581,141)	\$ 41,747,074
2				
3	Add Back Interest Expense:			
4	Interest on Long-Term Debt	6,252,607	2,621,023	8,873,630
5	Amortization of Debt Discount and Expense	470,539	222,220	692,759
6	Other Interest Expense	4,465,682		4,465,682
7	Total Interest Expense	<u>11,188,828</u>	<u>2,843,243</u>	<u>14,032,071</u>
8				
9	Income before Interest	<u>\$ 55,517,043</u>	<u>\$ 262,102</u>	<u>\$ 55,779,145</u>
10				
11	Total Interest Expense (line 7)	\$ 11,188,828	\$ 2,843,243	\$ 14,032,071
12	Interest capitalized to Utility Plant	1,600,000		1,600,000
13	Total Interest Incurred	<u>\$ 12,788,828</u>	<u>\$ 2,843,243</u>	<u>\$ 15,632,071</u>
14				
15	Computation of Interest Coverage			
16	Interest coverage (line 9 / line 13)	<u>4.34</u>		<u>3.57</u>

Exhibit E  
California Independent System Operator Corporation  
Notes to Schedule of Interest Coverage  
December 31, 2006

Line No.	Description	Pro Forma Adjustments
1	<b>Issuance of Bonds</b>	
2	The Proforma adjustments reflecting the issuance of bonds have the following components:	
3		
4	Source and Use of Bond Proceeds	\$ 60,000,000
5	Bond Proceeds	
6		
7	Use of Proceeds	
8	Special Deposits - Debt Service Reserve Fund	\$ 6,000,000
9	Special Deposits - Capitalized Interest Fund	570,000
10	Unamortized Debt Expense - Costs of Issuance	900,000
11	Unamortized Debt Expense - Bond Issuance premium	433,320
12	Special Funds - Construction Fund	52,096,680
13	Bonds issued	<u>\$ 60,000,000</u>
14	No construction costs funded during period	
15		
16	<b>Bond Amortization</b>	
17	The Proforma adjustments reflecting the amortization of bonds have the following components:	
18		
19	Issuance date - January 1, 2007 (Actual issuance will be on during April 2007 - 1/1/2007 is assumed for purposes of	
20	of this pro-forma statement.	
20	Amortization date - December 31, 2007	
21	Interest rate - all in	4.368372%
22	Interest cost - Year 1 (line 13 x line 6)	<u>\$ 2,621,023</u>
23	Principal reduction:	
24	Year 1	\$ 1,565,000
25	Year 2	1,845,000
26	Year 3	20,750,000
27	Year 4	16,280,000
28	Year 5	12,470,000
29	Year 6	7,090,000
30	Total	<u>\$ 60,000,000</u>
31	Unamortized Debt Expense	
32	Method - ratably over 6 years	
33	Expense - Year 1 (line 10 + line 11 / 6)	\$ 222,220
34	Interest and principal reduction paid from cash account, except 2007 capitalized interest which is paid from	
35	Special Deposits - Debt Service Reserve Fund	
36	<b>Revenues</b>	
37	No adjustment was made to increase GMC revenues to cover the proforma debt service	

**EXHIBIT F**

**NEW ISSUE - FULL BOOK-ENTRY ONLY**

Ratings: (See "EXPECTED RATINGS" herein)

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

**\$124,100,000****CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK****Variable Rate Demand Revenue Bonds****(California Independent System Operator Corporation Project)****\$84,100,000****2004 Series A****\$40,000,000****2004 Series B****Dated:** Date of Issuance**Price:** 100%**Due:** February 1, 2010

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 \$84,100,000 aggregate principal amount of 2004 Series A Bonds (the "Series A Bonds") and the \$40,000,000 aggregate principal amount of 2004 Series B Bonds (the "Series B Bonds") and, together with the Series A Bonds, the "Bonds") are being issued by the California Infrastructure and Economic Development Bank (the "Infrastructure Bank") for the purpose of providing funds to (i) finance a portion of the costs of the California Independent System Operator Corporation's (the "Corporation") market redesign and technology upgrade project and other planned capital projects, which consist primarily of computer hardware and software systems, related development costs and other associated costs (the "Project"); (ii) fund a debt service reserve fund; and (iii) pay costs of issuance of the Bonds. See "PLAN OF FINANCE" herein. The Bonds are being issued pursuant to an Indenture of Trust, dated as of December 1, 2004, between the Infrastructure Bank and Deutsche Bank National Trust Company, as trustee (the "Trustee").

In order to finance the Project, the Infrastructure Bank will loan the proceeds of the Bonds to the Corporation pursuant to a Loan Agreement, dated as of December 1, 2004 (the "Loan Agreement"), by and between the Infrastructure Bank and the Corporation. Pursuant to the Loan Agreement, the Corporation has pledged its Net Operating Revenues to secure its obligation to make payments of principal of and interest on the Bonds, which pledge is on a parity with the pledge of such Net Operating Revenues securing the \$159,700,000 aggregate principal amount of outstanding California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Project) 2000 Series A, 2000 Series B and 2000 Series C and certain other Parity Obligations as described herein. See "SECURITY FOR THE BONDS-Outstanding Parity Obligations" herein.

The Bonds will be issuable as fully registered bonds initially in authorized denominations of \$100,000 or any integral multiple of \$5,000 in excess 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 B --- BOOK-ENTRY ONLY SYSTEM" herein.

Each Series of the Bonds will initially be in a Weekly Rate Period and will bear interest at a Weekly Rate as described herein. The Rate Period for each Series of the Bonds may be converted to a Daily Rate Period, Commercial Paper Rate Period, M-STARS Rate Period or Fixed Rate Period as described herein. All of the Bonds of a Series must be in the same Rate Period at the same time. This Official Statement is not intended to provide certain information with respect to the Bonds (including the terms of such Bonds) in any Rate Period other than the Weekly Rate Period. Owners and prospective purchasers of the Bonds should not rely on this Official Statement for information concerning the Bonds in connection with any Conversion of the Bonds, but should look solely to the offering document to be used in connection with any such Conversion.

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

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

**Ambac**

Payment of the Purchase Price of the Bonds of a Series tendered or deemed tendered for purchase but not remarketed in an amount equal to the principal amount thereof and up to 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 December 1, 2004, by and among the Corporation, the Trustee, Bank of America, N.A. and JPMorgan Chase Bank, N.A. (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 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, INCLUDING THE INFRASTRUCTURE BANK, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR 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 Underwriters, subject to prior sale or withdrawal or modification of the offer without notice, and subject to receipt of an approving legal opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Certain legal matters will be passed upon for the Infrastructure Bank by its General Counsel, Brooke Bassett, Esq., for the Corporation by its General Counsel and by its special counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, for the Liquidity Banks by their counsel, Chapman & Cutler, and for the Underwriters by their counsel, Sidley Austin 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 December 16, 2004.

**JPMorgan****Banc of America Securities LLC**

Dated: December 8, 2004

No broker, dealer, salesperson or other person has been authorized by the Infrastructure Bank, the Corporation or the Underwriters to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements in this Official Statement which involve estimates, forecasts or matters of opinion whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information contained in this Official Statement has been obtained from the 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 Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. EXCEPT WHEN BEARING INTEREST AT AN M-STARS RATE OR THE FIXED RATE, THE BONDS ARE EXEMPT FROM THE CONTINUING DISCLOSURE REQUIREMENTS OF RULE 15c2-12 OF THE SECURITIES AND EXCHANGE COMMISSION.

In connection with the offering of the Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Bonds to certain dealers, institutional investors and others at prices lower than the public offering price stated on the cover page hereof and such public offering price may be changed from time to time by the Underwriters.

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CAUTIONARY STATEMENTS REGARDING  
FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

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

**CALIFORNIA INFRASTRUCTURE AND  
ECONOMIC DEVELOPMENT BANK**

**Members**

Sunne Wright McPeak, *Chair*  
Tom Campbell  
Philip Angelides  
Fred Aguiar

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR**

**Officers**

Marcie Edwards, *Interim Chief Executive Officer*  
William J. Regan, Jr., *Chief Financial Officer and Treasurer*  
Randall T. Abernathy, *Vice President Market Services*  
Jim Detmers, *Vice President Operations*  
Charles Robinson, *Vice President, General Counsel and Corporate Secretary*  
Daniel Yee, *Chief Information Officer*

**SPECIAL SERVICES**

**Bond Counsel**

Orrick, Herrington & Sutcliffe LLP  
Los Angeles, California

**Pricing Advisor**

Gibbs Consulting  
Tiburon, California

**Remarketing Agent for the Series A Bonds**

JPMorgan Securities Inc.

**Remarketing Agent for the Series B Bonds**

Banc of America Securities LLC

**Trustee, Tender Agent, Registrar and Paying Agent**

Deutsche Bank National Trust Company  
New York, New York

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**OFFICIAL STATEMENT**  
relating to  
**\$124,100,000**  
**California Infrastructure and Economic Development Bank**  
**Variable Rate Demand Revenue Bonds**  
**(California Independent System Operator Corporation Project)**

**\$84,100,000**  
**2004 Series A**

**\$40,000,000**  
**2004 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 A - SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS" herein.*

**Purpose**

This Official Statement, which includes the cover page and Appendices hereto, of the California Infrastructure and Economic Development Bank (the "Infrastructure Bank") is being furnished to provide certain information concerning the Infrastructure Bank's Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2004 Series A in the principal amount of \$84,100,000 (the "Series A Bonds") and 2004 Series B in the principal amount of \$40,000,000 (the "Series B Bonds" and together with the Series A Bonds, the "Bonds"). The Bonds are being issued by the Infrastructure Bank under and pursuant to an Indenture of Trust, dated as of December 1, 2004 (the "Indenture"), by and between the Infrastructure Bank and Deutsche Bank National Trust Company, as trustee (the "Trustee"), for the purpose of providing funds to: (i) finance a portion of the costs of the California Independent System Operator Corporation's (the "Corporation") market redesign and technology upgrade project and other planned capital projects, which consist primarily of computer hardware and software systems, related development costs and other associated costs (the "Project"); (ii) fund a debt service reserve fund; and (iii) pay costs of issuance of the Bonds. See "PLAN OF FINANCE" herein.

**Plan of Finance**

The Bonds are being issued for the purpose of financing the costs of the Project. The Corporation intends to enter into an interest rate swap agreement in connection with the Bonds pursuant to which the Corporation will convert 60% of the total floating interest amounts on the Bonds into substantially fixed payments. To effectuate this conversion, the Corporation will agree in such swap agreement to pay a fixed interest rate on a notional amount of \$74,460,000 and in return, JPMorgan Chase Bank, N.A will agree to pay a variable rate of interest on a like notional amount. 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.

### **The Corporation**

The Corporation is a California nonprofit public benefit corporation organized as directed by the California legislation providing for the restructuring of the electric industry in California (Assembly Bill 1890 enacted as Chapter 854 of the California Statutes of 1996, "AB 1890") and subsequent legislation. The Corporation has received a determination letter from the Internal Revenue Service that it has qualified as a corporation described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The Corporation assumed operational control of the transmission facilities of the three largest investor-owned electric utilities in California in March 1998 and has since assumed control of the transmission facilities of five additional transmission-owning entities, providing open, nondiscriminatory access to such facilities for energy suppliers. Since 1998, numerous changes have affected the structure of the California energy industry, including legislative, regulatory and competitive factors; however the Corporation's essential mission to provide open access transmission service remains unchanged. The Corporation is the operator of the transmission grid covering most of California, which is composed of over 25,000 circuit miles of transmission lines. See "THE CORPORATION" 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 Liquidity Facility as hereinafter described. 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.

### **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 December 1, 2004 (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. 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, which pledge is on a parity with the pledge of such Net Operating Revenues securing the \$159,700,000 aggregate principal amount of outstanding California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Project) 2000 Series A, 2000 Series B and 2000 Series C (the "2000 Bonds") and certain other Parity Obligations as described herein. See "SECURITY FOR THE BONDS—Outstanding Parity Obligations" herein. The Purchase Price of Bonds tendered or deemed tendered for purchase and not remarketed 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. The Bonds will not be secured by a legal or equitable pledge of, or mortgage upon, the Project.

**THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN A LIMITED OBLIGATION OF THE INFRASTRUCTURE BANK PAYABLE SOLELY FROM REVENUES. THE BONDS DO NOT CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, BUT WILL BE PAYABLE SOLELY FROM THE**

**FUNDS PROVIDED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR INTEREST ON, THE BONDS; AND NO HOLDER OR BENEFICIAL OWNER OF ANY BONDS SHALL HAVE ANY RIGHT TO DEMAND PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE BONDS BY THE INFRASTRUCTURE BANK, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OUT OF ANY FUNDS TO BE RAISED BY TAXATION OR APPROPRIATION.**

#### **Rate Covenant**

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

#### **Debt Service Reserve**

A Debt Service Reserve Fund is established pursuant to the Indenture in an amount equal to the Debt Service Reserve Requirement (as defined in the Indenture). The Debt Service Reserve Requirement for the Bonds shall be approximately \$12,410,000 upon the issuance of the Bonds. See "SECURITY FOR THE BONDS—Debt Service Reserve Fund" herein. Amounts on deposit in the Debt Service Reserve Fund shall be applied to the payment of the principal or redemption price of, or interest on, the Bonds in the event that amounts on deposit in the Bond Fund are insufficient therefor.

#### **Bond Insurance**

Payment of the principal of and interest on each Series of the Bonds when due will be insured by a financial guaranty insurance policy (the "Policy") to be issued by Ambac Assurance Corporation (the "Insurer" or "Ambac") 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 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 December 1, 2004 (the "Standby Bond Purchase Agreement"), by and among the Corporation, the Trustee and Bank of America, N.A. and JPMorgan Chase Bank, N.A. (the "Liquidity Banks"). The Standby Bond Purchase Agreement is a several, not joint, obligation of the Liquidity Banks. Each Liquidity Bank's obligation under the Standby Bond Purchase Agreement is limited to 50% of the Available Commitment contained therein. The Standby Bond Purchase Agreement constitutes a Liquidity Facility and a Liquidity Agreement under 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.

### **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 Underwriters during the period of the offering. All references to the Bonds are qualified in their entirety by reference to the definitive form thereof and the information with respect thereto included in the aforesaid documents. Unless otherwise indicated, capitalized terms not defined herein have the meanings specified in "APPENDIX A - SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—Definitions" or if not defined therein, in the Indenture.

## **PLAN OF FINANCE**

### **The Project**

A portion of the proceeds of the Bonds will be applied to finance a portion of the costs of the Corporation's market redesign and technology upgrade project ("MRTU") and other planned capital projects, which consist primarily of computer hardware and software systems, related development costs and other associated costs. Approximately \$92 million of proceeds of the Bonds will be applied to the MRTU project. The market redesign portion of the MRTU project will restructure the market rules that govern the Corporation's spot energy and reserve power auctions, manage congestion on the high-voltage grid, and ensure that the energy market operates efficiently and minimizes opportunities for manipulation. The technology upgrade portion of the MRTU project will update other computer systems necessary to operate the electric grid. Additional projects to be funded from the proceeds of the Bonds include approximately \$20 million in other capital projects deemed necessary by the Corporation in 2005 and 2006. The projects include other computer software and hardware and other equipment or facilities upgrades.

### **Swap Agreement**

The Corporation intends to enter into an interest rate swap agreement in the form of an ISDA Master Agreement and Schedule and related Transaction (the "2004 Swap Agreement") with JPMorgan Chase Bank, N.A. ("JPMorgan") in connection with the Bonds for the purpose of converting 60% of the floating interest payments the Corporation is required to make on the Bonds into substantially fixed payments. The effect of the 2004 Swap Agreement is to modify the Corporation's risk of interest rate changes with respect to a specified percentage of the interest payments on the Bonds. Pursuant to the Transaction under the 2004 Swap Agreement, the Corporation agrees to pay a fixed interest rate on an initial notional amount equal to \$74,460,000. In return, JPMorgan agrees to pay a variable rate of interest, equal to 60% of the London Interbank Offering Rate ("LIBOR") one month index plus a specified spread of 0.32% (thirty-two basis points) on a like notional amount. The amounts payable by a party under the 2004 Swap Agreement are due monthly but are netted against the payments to be received by such party thereunder. The 2004 Swap Agreement constitutes a Parity Obligation for purposes of the Indenture. Under certain circumstances, the 2004 Swap Agreement is subject to termination and the

Corporation may be required to make a substantial termination payment to the counterparty thereunder. Any amounts payable upon early termination thereof are payable on a parity with the payment of the Bonds. Ambac will insure the regularly scheduled amounts payable by the Corporation under the 2004 Swap Agreement, as well as termination payments up to \$3.7 million. None of the Infrastructure Bank, the Trustee nor the Bondholders shall have any interest in or rights under the 2004 Swap Agreement. See "SECURITY FOR THE BONDS – Outstanding Parity Obligations" herein.

### ESTIMATED APPLICATION OF PROCEEDS

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

Construction Fund	\$109,920,042
Debt Service Reserve Fund	12,410,000
Costs of Issuance <sup>(1)</sup>	1,432,888
Underwriters' Discount	337,070
Total	<u>\$124,100,000</u>

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

### THE INFRASTRUCTURE BANK

The Infrastructure Bank is located within the Business, Transportation and Housing Agency and is governed by a five-member board of directors (the "Infrastructure Bank Board") consisting of the Secretary of the Business, Transportation and Housing Agency, who serves as chair, the State Director of Finance, the State Treasurer, the Secretary of the State and Consumer Services Agency and an appointee of the Governor. The Governor appointee member is currently vacant. The Infrastructure Bank Board members serve without compensation.

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

### THE CORPORATION

The restructuring of the wholesale electricity industry in California, which occurred during the 1990s, was the result of certain Federal Energy Regulatory Commission ("FERC") Orders (Orders 888 and 889), which provided a framework for open access to the nation's transmission networks, and State legislation (AB 1890), which, among other things, directed the establishment of the Corporation as an independent entity to operate the State's electric transmission grid. 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, the Corporation began preparing to take over operational control of the investor-owned electric transmission facilities in California. Prior to such date, development of 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.

The Corporation was established in May 1997 as a nonprofit public benefit California corporation governed by a Board of Governors representing the various classes of stakeholders interested in the restructuring of the electric industry in California; and on March 31, 1998, the Corporation commenced operations and exercised operational control of the electric transmission facilities of the three largest investor-owned California utilities. Since that time, five municipal utilities, the cities of Vernon, Riverside, Anaheim, Azusa and Banning, have turned over operational control of their transmission facilities to the Corporation with two additional applications pending approval of the FERC. The Corporation is the operator of an interconnected transmission grid with 11 adjacent control areas, 30 transmission interconnections and over 800 generation units with markets for transmission congestion and ancillary services, and balancing energy.

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.

Since its startup, the Corporation has successfully operated the electric transmission system through a period of significant changes in the California electric industry. The Corporation's fundamental mission has remained largely unchanged throughout this period. Facilitating open access to the 25,000 circuit-mile wholesale transmission network grid, the Corporation acts as the impartial link between the power plants and utilities that provide electricity to customers. The Corporation also operates 30 transmission lines connecting California with neighboring control areas including Mexico and British Columbia. The Corporation directs generation and dispatchable load to ensure that the supply of power matches demand every few seconds. The Corporation has a fundamental role in ensuring the coordination and availability of both generation and transmission resources, both of which are critical to ensuring the availability of reliable and accessible power. The Corporation has modified its computer systems and market rules to enhance the robustness of the competitive energy markets, to ensure the reliable operation of the grid and to be responsive to the market participants it serves.

The Corporation is regulated by FERC. Until January 2001, the Corporation was governed by a Board of Governors representing various stakeholders participating in the electric utility industry in California. Under this structure, most of the Corporation's transactions were executed with organizations that were directly or indirectly represented on the Corporation's Board of Governors, including the three California investor-owned utilities, which own most of the transmission facilities operated by the Corporation. In January 2001, the State of California enacted legislation that changed the composition of the Board of Governors of the Corporation to a five-member board appointed by the State Governor and confirmed by the State Electricity Oversight Board (the "EOB"). The new Board was subsequently appointed by the State Governor, confirmed by the EOB, and seated under this legislation in January 2001. Subsequent state legislation provided that, effective January 2002, the Board members were to be confirmed by the State Senate instead of the EOB. The current members of the Board of Governors are Michael Kahn (Chairperson), Michael Florio, Tim Gage, Edward Cazalet and Ken Wiseman. Mr. Kahn and Mr. Florio were reappointed by the Governor in January 2002 and were confirmed by the State Senate in January 2003. Mr. Gage was appointed by the Governor in March 2003

and was confirmed by the State Senate in September 2003. Mr. Cazalet and Mr. Wisemen were appointed by the Governor in October 2004 and serve pending confirmation by the State Senate.

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

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds for the complete text thereof and to the Indenture for a more detailed description of such provisions. The discussion herein is qualified by such reference. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS" herein. This Official Statement provides information as of its date with respect to the Bonds (including the terms of such Bonds) in a Weekly Rate Period. Purchasers of the Bonds should not rely on this Official Statement for information concerning the Bonds in connection with any Conversion of the Bonds from a Weekly Rate Period, but should look solely to the offering document to be used in connection with any such Conversion.

### General

The Bonds of each Series will be dated their date of issuance and will be issued in the principal amount indicated on the cover page of this Official Statement. The Bonds of each Series will mature on February 1, 2010 (the "Maturity Date").

Pursuant to the Indenture, the Bonds of each Series shall bear interest at the Daily Rate, Weekly Rate, Commercial Paper Rate (each, a "Variable Rate"), M-STARS Rate or a Fixed Rate, based on the Interest Rate Determination Method specified from time to time by the Corporation. The interest rate for all the Bonds of a Series shall be determined based on the same Interest Rate Determination Method and (except as to Liquidity Provider Bonds) shall bear interest at the same interest rate. The Bonds of each Series will initially bear interest at the Weekly Rate, determined as described herein. The maximum rate of interest any of the Bonds (other than Liquidity Provider Bonds) may bear is 12% per annum. 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. The Bonds will initially be issued in authorized denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof.

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

Deutsche Bank National Trust Company is the Trustee, Tender Agent, Registrar and Paying Agent for the Bonds. J.P. Morgan Securities Inc. and Banc of America Securities LLC have been

appointed under the Indenture and under separate Remarketing Agreements with the Corporation to serve as Remarketing Agents for the Series A Bonds and Series B Bonds, respectively. The Remarketing Agents may resign or be removed and successor Remarketing Agents may be appointed, all in accordance with the terms of the Indenture and the Remarketing Agreements.

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 Facility) 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.

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

Upon issuance, the Bonds of each Series will initially bear interest at a Weekly Rate, provided that during the period from the date of issuance of the Bonds of each Series through the first Tuesday thereafter, the Bonds of each 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. Each Weekly Rate shall be the rate of interest which, if borne by Bonds of a Series in the Weekly Rate Period, would, in the judgment of the applicable Remarketing Agent, having due regard for the prevailing financial market conditions for Tax-Exempt Securities which are of the same general nature as such Bonds of a Series 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 of a Series 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 the Calendar Week for which such Weekly Rate is established.

The interest on each Bond of a Series 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 Registrar 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.

The Bonds of each Series 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 B — BOOK-ENTRY ONLY SYSTEM" herein.

The Interest Rate Determination Method for the Bonds of each 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 of such Series to be converted at least 20 days before such Conversion and the Holders (and Beneficial Owners) of the Bonds to be converted shall be required to tender their Bonds of such Series for purchase as provided in the Indenture.

***Failure to Determine Rate for Certain Rate Periods.*** If, for any reason, the Rate on any Bond is not established as aforesaid by the applicable Remarketing Agent for such Bond of a Series or no Remarketing Agent shall be serving as such for such Bond of a Series 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.

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

**Absence of Remarketing Agent.** If no Remarketing Agent shall be serving under the Indenture for the Bonds of a Series, the determination of the Rate pursuant to the applicable Rate Index for the Bonds of such Series shall be made by the Corporation. The determination of any Rate or Rate Index by a Remarketing Agent or the Corporation (as aforesaid in the immediately preceding sentence) shall be conclusive and binding upon the Infrastructure Bank, the Corporation, the Trustee, the applicable Remarketing Agent and the Bondholders.

**No Liability.** In determining the interest rate that the Bonds of a Series shall bear as provided in the Indenture, the applicable Remarketing Agent and the Corporation (as aforesaid in the immediately preceding sentence) 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 from Weekly Rate**

**Right of Conversion.** With the consent of the Insurer, the Interest Rate Determination Method for the outstanding Bonds of each 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, the Infrastructure Bank, the Trustee and the applicable Remarketing Agent for the Bonds of the Series to be converted 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 Period, M-STARS Rate Period or Commercial Paper Rate Period; 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 Period.

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 of a Series are converted there will be either a change of Liquidity Provider or any modification of the Liquidity Facility applicable to the Bonds of such Series, 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 of a Series to a Commercial Paper Rate.

**Limitations.** Any Conversion from the Weekly Rate must comply with certain requirements under the Indenture, including, but not limited to the following: (A) the Conversion Date must be an Interest Payment Date on which the Bonds of a Series 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 of a Series being converted to be held by the Trustee after a Conversion to another 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 to

be converted; provided that if the number of days of interest coverage provided by the Liquidity Facility is being changed, the Trustee shall have received a Rating Confirmation; (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; (E) no Conversion from a Weekly Rate Period to a M-STARS Rate Period shall become effective unless the Conversion Date shall be a regularly scheduled Interest Payment Date on which interest is payable for the Weekly Rate Period; and (F) upon Conversion of the Bonds of a Series to a Fixed Rate or to a M-STARS Rate, an Authorized Corporation Representative may provide in the Conversion Notice to the Liquidity Provider for the Bonds of a Series being converted a request for termination of the Liquidity Facility to be effective upon such Conversion Date to a Fixed Rate or to a M-STARS 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 by first-class mail to the Bondholders, which notice shall state in substance: (A) that the interest rate on the Bonds of a Series so selected shall be converted to the specified Variable Rate, M-STARS 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 of a Series 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 of a Series 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 of such Series; (F) that all the Bonds of such Series 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 of such Series 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 Conversion 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 of a Series to be converted, the Interest Rate Determination Method shall not be converted but the Bonds of such Series 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 proposed Conversion Date specified in the Conversion Notice and the Bonds of such Series shall continue to bear interest at the Interest Rate Determination Method in effect for the Bonds of such Series prior to the proposed Conversion Date specified in the proposed Conversion Notice; provided, however, that the rate of interest on such Bonds of such Series shall be determined on the proposed Conversion Date. In such event, the Infrastructure Bank and the Holders of such Bonds of such Series shall be restored (except as aforesaid with respect to the purchase of the Bonds of such Series) to their former positions and rights under the Indenture with respect to the Bonds of such Series, and all rights of the Infrastructure Bank and the Corporation shall continue as if no such proceedings, for the Conversion of the Interest Rate Determination Method on the Bonds of such Series 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 of a Series or extend the period for tendering any of the Bonds of a Series 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 of any Bonds of a Series shall occur under the Indenture if at the time of such proposed 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 Conversion Date by giving written notice thereof to the Infrastructure Bank, the Trustee, the Liquidity Provider and the applicable Remarketing Agent prior to such proposed Conversion 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 of such rescission after the Trustee has given notice to the Holders of the Series of Bonds to be converted, then such Series of Bonds shall continue to be subject to mandatory tender for purchase on the proposed Conversion Date specified in the Conversion Notice and the Rate Period for the Bonds of such Series shall automatically adjust to, or continue as, a Weekly Rate Period on the proposed 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 each Weekly Rate Period, any Bond or portion thereof in an Authorized Denomination shall be subject to tender for purchase at the option of the Holder of such Bond on any Business Day at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon to but not including the date of purchase (provided, however, if the date of such purchase 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) payable in immediately available funds, upon 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. The Purchase Price of such tendered Bond shall be payable only upon delivery of such Bond to the Tender Agent in accordance with the Indenture.

**Effect of Tender.** Any instrument delivered to the Trustee or Tender Agent in accordance with the above paragraph 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 moneys sufficient to pay the Purchase Price of Bonds to be purchased pursuant to an optional tender shall be held by the Tender Agent on the date such Bonds are to be purchased, such Bonds shall be deemed to have been purchased for all purposes of the Indenture, irrespective of whether or not such Bonds shall have been delivered to the Tender Agent or transferred on the books of DTC in accordance with the Indenture, and neither the former Holder nor the former Beneficial Owner of such Bonds shall have any claim thereon, under the Indenture or otherwise, for any amount other than the purchase price thereof without interest on and after the Purchase Date.

**SEE "APPENDIX B—BOOK-ENTRY ONLY 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 During Weekly Rate Period.* The Bonds of a Series shall be subject to mandatory tender for purchase at a Purchase Price equal to 100% of the principal amount of any Bond of a Series tendered or deemed tendered to the Trustee for purchase, plus accrued and unpaid interest thereon to but not including the date of purchase (provided, however, if the date of such purchase 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 of a Series;

(ii) 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 a Series pursuant to the Loan Agreement;

(iii) on the day before the effective date of any amendment or modification of the Liquidity Facility applicable to the Bonds of such Series unless the Trustee shall have received a Rating Confirmation with respect to such amendment or modification;

(iv) 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 of such Series under the Liquidity Agreement, on a Business Day selected by the Trustee not more than five (5) days after receipt of such notice; or

(v) on the last Business Day that is not less than five (5) calendar days preceding the expiration, or the termination by the Corporation, of the Liquidity Facility then in effect with respect to such Series, in the event that at least 35 days prior to the expiration in whole of any Liquidity Facility then in effect with respect to such Bonds of a Series (other than an expiration of the Liquidity Facility at the maturity of the such Bonds of a Series) 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 of a Series) or (b) a substitute Liquidity Facility meeting the requirements of the Loan Agreement.

With respect to Bonds of a Series 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 from Weekly Rate – Notice to Bondholders" herein. With respect to Bonds of a Series subject to mandatory tender for purchase pursuant to clause (ii), (iii) or (v) above, the Trustee shall give notice by first-class mail to the Holders of the Bonds of a Series 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 such Bonds are subject to mandatory tender. With respect to Bonds of a Series subject to mandatory tender pursuant to clause (iv) above, the Trustee shall give notice by first-class mail to the Holders of the affected Bonds of the applicable Series at their addresses shown on the registration books kept by the Registrar within two (2) Business Days of receipt of the notice pursuant to clause (iv) above.

If moneys sufficient to pay the Purchase Price of Bonds to be purchased pursuant to a mandatory tender shall be held by the Tender Agent on the date such Bonds are to be purchased, such Bonds shall be deemed to have been purchased for all purposes of the Indenture, irrespective of whether or not such Bonds shall have been delivered to the Tender Agent or transferred on the books of DTC in accordance with the Indenture, and neither the former Holder nor the former Beneficial Owner of such Bonds shall have any claim thereon, under the Indenture or otherwise, for any amount other than the purchase price thereof without interest on and after the Purchase Date.

**Funds for Purchase of Tendered Bonds.** 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; and
- (ii) If the proceeds from the remarketing of such Bonds on any Purchase Date are insufficient to purchase all such tendered Bonds, money drawn or received under Liquidity Facility for such Bonds.

### **Remarketing**

J.P. Morgan Securities Inc. and Banc of America Securities LLC will serve as Remarketing Agents for the Series A Bonds and the Series B Bonds, respectively, pursuant to the terms of the Indenture and separate Remarketing Agreements with the Corporation. The Remarketing Agents may resign, or the Corporation or the Infrastructure Bank may remove the Remarketing Agents, pursuant to the terms of the Remarketing Agreements.

Upon receipt of notice that any Bonds of a Series 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 respective 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 of each Series as shall be designated by the Corporation will be subject to redemption on any Interest Payment Date at a redemption price equal to 100% of the principal amount thereof, 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.

***Optional Redemption Upon Extraordinary Events.*** The Bonds of such 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 of a Series 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 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 outstanding 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 of each Series shall be subject to redemption from amounts which are required to be prepaid by the Corporation pursuant to the Loan Agreement, (but only after such amounts have become 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 of a Series 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 the Bonds outstanding would have the result that interest payable on the Bonds remaining outstanding after such redemption would remain Tax-Exempt, then the 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 of each maturity as designated by an Authorized Corporation Representative.

***Mandatory Sinking Fund Redemption.***

**Series A Bonds.** The Series A 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 Series A 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>Redemption Date (February 1)</b>	<b>Principal Amount</b>
2006	\$14,000,000
2007	12,900,000
2008	6,300,000
2009	19,600,000
2010 <sup>†</sup>	31,300,000

<sup>†</sup> Maturity.

**Series B Bonds.** The Series B 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 Series B 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>Redemption Date (February 1)</b>	<b>Principal Amount</b>
2006	\$ 6,700,000
2007	6,100,000
2008	3,000,000
2009	9,300,000
2010 <sup>†</sup>	14,900,000

<sup>†</sup> Maturity.

In the event Bonds of a 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 the Bonds of such Series shall be reduced, in an aggregate amount equal to the principal amount of the Bonds of such Series 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 of a Series (other than mandatory sinking fund redemption), by first-class mail, postage prepaid, to the registered owners of all Bonds of such Series 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 of a Series will identify the Bonds of such Series 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 of a Series 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 of a Series 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, such 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 effected, the Trustee will, within a reasonable time thereafter, give notice that such Available Amounts were not so received to such persons and entities that received the original notice of redemption.

***Effect of Redemption.*** Notice of redemption having been duly given and moneys for the payment of the redemption price being held by the Trustee, the Bonds of a Series 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 of such Series 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 of such Series.

***Selection of Bonds to be Redeemed.*** The principal amount of Bonds of each Series to be redeemed with prepayments 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 pursuant to the Loan Agreement. If less than all of the Bonds of any Series are called for redemption, the Trustee shall select the Bonds of such Series or any given 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 of such Series, if any, shall have been redeemed. If there are no Liquidity Provider Bonds of a Series and less than all of the Bonds of any Series are called for redemption, the Trustee shall select the Bonds of such Series or any given portion thereof to be redeemed, from the Outstanding Bonds of such Series, or such portion thereof not previously called for redemption, by lot in such manner as it may determine. For the purpose of any such selection the Trustee shall assign a separate number for each minimum Authorized Denomination of each Bond of a denomination of more than such minimum; provided that following any such selection, both the portion of such Bond to be redeemed and the portion remaining shall be in Authorized Denominations. The Trustee shall promptly notify the Infrastructure Bank and the Corporation in writing of the numbers of the Bonds or portions thereof so selected for redemption. Notwithstanding the foregoing, if less than all of the Bonds of any Series are to be redeemed at any time while the Bonds are Book-Entry Bonds, selection of the Bonds to be redeemed after Liquidity Provider Bonds have been redeemed shall be made in accordance with customary practices of DTC or the applicable successor depository, as the case may be.

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

The Infrastructure Bank, the Corporation, the Trustee, the Paying Agent, the Tender Agent and the Remarketing Agents 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 will be secured by an assignment by the Infrastructure Bank to the Trustee of all of the Revenues and any and all of the Infrastructure Bank's rights and privileges under the Loan Agreement, including all Repayment Installments to be made by the Corporation to the Infrastructure Bank under the Loan Agreement (except the Infrastructure Bank's rights with respect to notices, consents and approvals, and its rights to receive certain payments with respect to fees, expenses and indemnification rights). 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, 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, other than Net Operating Revenues.

**THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN A LIMITED OBLIGATION OF THE INFRASTRUCTURE BANK PAYABLE SOLELY FROM REVENUES. THE BONDS DO NOT CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, BUT WILL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR INTEREST ON, THE BONDS; AND NO HOLDER OR BENEFICIAL OWNER OF ANY BONDS SHALL HAVE ANY RIGHT TO DEMAND PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE BONDS BY THE INFRASTRUCTURE BANK, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OUT OF ANY FUNDS TO BE RAISED BY TAXATION OR APPROPRIATION.**

### Rate Covenant

The Corporation has covenanted in the Loan Agreement that, so long as any Bonds remain Outstanding, for each year it shall establish a Grid Management Charge in accordance with the Grid Management Charge Formula which shall include in its budgeted revenue requirements a Coverage Requirement with respect to budgeted debt service on the Bonds and any Parity Obligations of not less than 25% and shall not take any action to modify the Grid Management Charge Formula in any manner

which would adversely affect the security afforded the Bondholders under the Loan Agreement including, without limitation, ceasing to maintain the Reserve Requirement at 15% of its annual Operating Expenses for purposes of the Grid Management Charge Formula. "Grid Management Charge" 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. "Grid Management Charge Formula" means the formula according to which the Grid Management Charge is calculated, which is set forth in the Tariff and which includes: (i) an amount necessary to fully amortize the Corporation's start-up and development costs over a period of not less than 5 years, (ii) budgeted annual operating costs, (iii) financing costs and (iv) budgeted annual costs of pay-as-you-go capital expenditures and reasonable coverage of debt service obligations.

### **Outstanding Parity Obligations**

As of September 30, 2004, there was outstanding \$159,700,000 aggregate principal amount of 2000 Bonds, comprised of \$62,800,000 principal amount of 2000 Series A Bonds, \$38,000,000 principal amount of 2000 Series B Bonds and \$58,900,000 principal amount of 2000 Series C Bonds. Payment of the principal of and interest on the 2000 Bonds by the Corporation is secured by a pledge of Net Operating Revenues of the Corporation on a parity with the pledge of such Net Operating Revenues securing the Corporation's obligation to make payments of principal of and interest on the Bonds and such 2000 Bonds constitute Parity Obligations for purposes of the Indenture.

In connection with the 2000 Series A Bonds and the 2000 Series B Bonds, the Corporation entered into an interest rate swap agreement in the form of an ISDA Master Agreement and Schedule and related Transactions (the "2000 Swap Agreement") with Morgan Guaranty Trust Company of New York, which has been succeeded by JPMorgan Chase Bank, N.A. ("Morgan Guaranty"). Pursuant to the Transactions under the 2000 Swap Agreement, the Corporation agreed to pay a fixed interest rate on an initial notional amount of \$163,400,000 and declining in accordance with the amortization of the 2000 Series A Bonds and 2000 Series B Bonds. In return, Morgan Guaranty agreed 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 2000 Swap Agreement are due monthly but are netted against the payments to be received by such party thereunder. The 2000 Swap Agreement constitutes a Parity Obligation for purposes of the Indenture. Under certain circumstances, the 2000 Swap Agreement is subject to termination and the Corporation may be required to make a substantial termination payment to the counterparty thereunder. Any amounts payable upon early termination thereof are also payable on a parity with the payment of the 2000 Bonds and the Bonds. Liquidity for the 2000 Bonds is provided by a standby bond purchase agreement. Unreimbursed draws on such agreement bear interest payable by the Corporation up to 20% per annum or the maximum rate permitted by law. The obligations of the Corporation under the 2000 standby bond purchase agreement constitute Parity Obligations pursuant to the Indenture.

The Corporation's payment obligations under the Liquidity Agreement for the Bonds and the 2004 Swap Agreement also constitute Parity Obligations pursuant to the Indenture. See "PLAN OF FINANCE —Swap Agreement" above.

### **Additional Parity Obligations**

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%.

### **Debt Service Reserve Fund**

Upon the issuance of the Bonds, there will be deposited from the proceeds of the Bonds in the Debt Service Reserve Fund an amount equal to the least of (i) 10% of the initial offering price to the public of the Bonds as determined under the Code, or (b) the greatest amount of Bond Debt Service in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Bond is due, or (c) 125% of the sum of the Bond Debt Service for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the execution and delivery of any Bonds) and terminating with the last Fiscal Year in which any Bond Debt Service is due, divided by the number of such Fiscal Years, all as computed and determined by the Corporation and specified in writing to the Trustee; provided, however that in determining Bond Debt Service during any Weekly Rate Period, the interest rate on such Bonds for any period as to which such interest rate has not been established shall be assumed to be 110% of the daily average interest rate on such Bonds during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Bonds shall have been Outstanding (the "Debt Service Reserve Requirement") (approximately \$12,410,000 upon the delivery of the Bonds).

"Bond Debt Service" means, for any period of time, the sum of (a) the interest payable during such period on all Outstanding Bonds, assuming that all Outstanding Bonds which are Serial Bonds are retired as scheduled and that all Outstanding Bonds which are Term Bonds are redeemed or paid from mandatory sinking fund payments as scheduled, (b) that portion of the principal amount of all Outstanding Bonds which are Serial Bonds maturing on each principal payment date during such period, and (c) that portion of the principal amount of all Outstanding Bonds which are Term Bonds required to be redeemed or paid from mandatory sinking fund payments during such period (together with the redemption premiums, if any, thereon).

Pursuant to the terms of the Loan Agreement, within two Business Days after a withdrawal of moneys from the Debt Service Reserve Fund and on each Debt Service Reserve Valuation Date, the Corporation will deposit an amount necessary to bring the balance in the Debt Service Reserve Fund to be at least equal to the Debt Service Reserve Requirement.

In lieu of deposits and transfers to the Debt Service Reserve Fund, the Corporation may cause to be deposited in the Debt Service Reserve Fund a Reserve Financial Guaranty or Reserve Financial Guaranties in an amount equal to the difference between the Debt Service Reserve Requirement and the sums, if any, then on deposit in the Debt Service Reserve Fund or being deposited in such Fund concurrently with such Reserve Financial Guaranty or Guaranties.

### **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 Ambac 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 D for a specimen of Ambac's Policy.*

### **The Policy**

Ambac has made a commitment to issue a financial guaranty insurance policy (the "Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Policy, Ambac will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Policy). Ambac will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac.

The Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on an Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

The Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;

2. payment of any redemption, prepayment or acceleration premium; or

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac to the extent of the payment under the Policy. Payment of interest pursuant to the Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac.

Upon payment of the insurance benefits, Ambac will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Holder's rights to payment.

The Policy does not insure against loss relating to payments of the purchase price of Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of Bonds upon tender by a registered owner thereof.

In the event that Ambac were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

### **Ambac Assurance Corporation**

Ambac is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$8,069,000,000 (unaudited) and statutory capital of approximately \$5,015,000,000 (unaudited) as of September 30, 2004. Statutory capital consists of Ambac's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac.

Ambac has obtained a ruling from the Internal Revenue Service to the effect that the insuring of a municipal bond by Ambac will not affect the treatment for federal income tax purposes of interest on such bond and that insurance proceeds representing maturing interest paid by Ambac under policy provisions substantially identical to those contained in its Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the obligor for such municipal bond.

Ambac makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac and presented under the heading "BOND INSURANCE" herein.

### **Available Information**

The parent company of Ambac, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read

and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac's financial statements prepared in accordance with statutory accounting standards are available from Ambac. The address of Ambac's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

#### **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;
2. The Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004;
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004;
4. The Company's Current Report on Form 8-K dated July 21, 2004 and filed on July 22, 2004;
5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2004 and filed on August 9, 2004;
6. The Company's Current Report on Form 8-K dated August 19, 2004 and filed on August 20, 2004;
7. The Company's Current Report on Form 8-K dated October 20, 2004 and filed on October 20, 2004; and
8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2004 and filed on November 9, 2004.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

#### **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.*

Pursuant to the Standby Bond Purchase Agreement, the Liquidity Banks provide an Available Commitment severally, and not jointly, in an amount equal to \$125,487,200. Each Liquidity Bank's obligation under the Standby Bond Purchase Agreement is limited to 50% of the Available Commitment

contained therein. 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 Bonds in a Daily Rate Period or a Weekly Rate Period 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 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 Bonds when due.

The Liquidity Banks' Available Commitment under the Liquidity Facility will terminate on the earlier of (a) December 17, 2007 (unless renewed or extended); (b) the Business Day immediately following a Conversion to a Fixed Rate under the Indenture with respect to all outstanding Bonds covered by the Liquidity Facility; (c) the date on which the Trustee accepts a Substitute Liquidity Facility; (d) the date on which the Liquidity Banks are no longer required to purchase tendered Bonds following an event of termination as described below; or (e) the date on which no Bonds covered by the Liquidity Facility are outstanding.

Each of the following events shall constitute an "*Event of Termination*" under the Standby Bond Purchase Agreement:

(a) any principal or interest due on the 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 Ambac as the Insurer without the prior written consent of the Liquidity 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 the Insurance Commissioner of the State of Wisconsin or 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 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 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 10 Business Days after the Corporation, the Trustee, the Insurer and the Infrastructure Bank have received written notice from the Liquidity 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 10 Business Days after written notice thereon to the Corporation, the Infrastructure Bank and the Insurer by the Liquidity 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 30 days after written notice thereof shall have been received by the Corporation from the Liquidity 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; or

(k) the Insurer shall fail to make any payment required under any insurance policy (other than the Policy) or surety bond (other than a fee surety bond) issued by it insuring obligations rated by Moody's and S&P when due and such failure shall continue for a period of five Business Days (it being understood by the Liquidity Banks that default, for purposes of this paragraph, shall not mean a situation whereby the Insurer contests in good faith its liability under any such policy or policies in light of claims made thereunder); or

(l) each of Moody's and S&P shall downgrade the rating of the financial strength or claims-paying ability of the Insurer to below Investment Grade or each of Moody's and S&P shall suspend or withdraw such financial strength or claims-paying ability rating.

*"Insurer Adverse Change" means the lowering of the Insurer's claims-paying ability or financial strength rating below "AA-" by S&P or "Aa2" by Moody's.*

*"Investment Grade" means a rating of "Baa3" (or its equivalent) or better by Moody's or "BBB-" (or its equivalent) or better by S&P.*

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

Upon the occurrence of any Event of Termination described in clauses (a), (b)(i), (c), (k) or (l) above, the Available Commitment and the obligation of the Liquidity Banks to purchase Bonds shall immediately terminate without notice or demand, and thereafter the Liquidity Banks shall be under no obligation to purchase Bonds.

Upon the occurrence of any Event of Termination described in clauses (d) through (j) above, the Liquidity Banks may terminate the Available Commitment by giving written notice to the Corporation, the Infrastructure Bank, Trustee and the Insurer, specifying the date on which the Available Commitment

shall terminate and directing the Trustee to cause a mandatory tender with respect to the Bonds, which shall not be less than thirty (30) days from the date of receipt of such notice by the Trustee, and after such termination date, the Liquidity Banks shall be under no further obligation to purchase Bonds under the Standby Bond Purchase Agreement.

Upon the occurrence of an Event of Termination described in clause (b)(ii) above, the obligations of the Liquidity Banks to purchase 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 any event which, with the passage of time, the giving of notice, or both, would become an Event of Termination described in clause (c) above, which, with the passage of time, the giving of notice, or both, would become an event of termination specified above, the obligations of the Liquidity 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 Liquidity Banks to purchase 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 described above, in the case of any Event of Termination described above, upon the election of the Liquidity Banks: (i) all amounts payable under the Standby Bond Purchase Agreement (other than payments of principal and interest on the Liquidity Provider Bonds or payments of deferred interest or any deferred interest amounts) shall upon notice to the Corporation, the Infrastructure Bank, the Trustee and the Insurer, become immediately due and payable, without presentment, demand, protest or further notice of any kind, and/or (ii) the Liquidity Banks shall have all the rights and remedies available to them under the Standby Bond Purchase Agreement, the Related Documents or otherwise pursuant to law or equity.

### **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 Bonds bearing interest at a Variable Rate.

With respect to the Bonds of a Series 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 of such Series, 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 Agents): (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 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 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, and (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.

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 provided under the Loan 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.

Pursuant to the Indenture, if there shall have been delivered to the Infrastructure Bank and the Trustee in connection with a Series of Bonds (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 for such Series of Bonds in accordance with the respective terms thereof for cancellation by the applicable Bank. 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 during Weekly Rate Period" 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 applicable 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**

### **Bank of America, N.A.**

Bank of America, N.A. ("BofA"), is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. BofA is a wholly-owned indirect subsidiary of Bank of America Corporation and is engaged in general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of September 30, 2004, BofA had consolidated assets of \$741 billion, consolidated deposits of \$507 billion and stockholder's equity of \$52 billion based on regulatory accounting principles.

Bank of America Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding Bank of America Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2003, together with any subsequent documents it filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act").

**Recent Developments.** On April 1, 2004, Bank of America Corporation completed its merger with FleetBoston Financial Corporation ("FleetBoston"). As a result of the merger, FleetBoston stockholders received .5553 shares of Bank of America Corporation common stock for each of their FleetBoston shares.

Moody's Investors Service, Inc. ("Moody's") currently rates BofA's long-term certificates of deposit as "Aa1" and short-term certificates of deposit as "P-1." Standard & Poor's rates BofA's long-term certificates of deposit as "AA-" and its short-term certificates of deposit as "A-1+." Fitch Ratings, Inc. ("Fitch") rates long-term certificates of deposit of BofA as "AA" and short-term certificates of deposit as "F1+." Further information with respect to such ratings may be obtained from Moody's, Standard & Poor's and Fitch, respectively. No assurances can be given that the current ratings of BofA's instruments will be maintained.

BofA will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the Securities and Exchange Commission pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of BofA delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications  
100 North Tryon Street, 18th Floor  
Charlotte, North Carolina 28255  
Attention: Corporate Communications

PAYMENTS OF THE PURCHASE PRICE OF THE BONDS TENDERED OR DEEMED TENDERED FOR PURCHASE BUT NOT REMARKETED WILL BE MADE PURSUANT TO AND SUBJECT TO THE TERMS OF THE STANDBY BOND PURCHASE AGREEMENT. ALTHOUGH THE STANDBY BOND PURCHASE AGREEMENT IS A BINDING OBLIGATION OF BOFA, THE BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF BANK OF AMERICA CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The information contained in this section relates to and has been obtained from BofA. The information concerning Bank of America Corporation and BofA contained herein is furnished solely to provide limited introductory information regarding Bank of America Corporation and BofA and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced above.

The delivery hereof shall not create any implication that there has been no change in the affairs of Bank of America Corporation or BofA since the date hereof, or that the information contained or referred to in this section is correct as of any time subsequent to its date.

## **JPMorgan Chase Bank, N.A.**

JPMorgan Chase Bank, N.A. ("JPMCB") is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. JPMCB is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. It is chartered, and its business is subject to examination and regulation, by the Office of the Comptroller of the Currency, a bureau of the United States Department of the Treasury. JPMCB's main office is located in Columbus, Ohio. It is a member of the Federal Reserve System and its deposits are insured by the Federal Deposit Insurance Corporation.

Effective July 1, 2004, Bank One Corporation merged with and into JPMorgan Chase & Co., the surviving corporation in the merger, pursuant to the Agreement and Plan of Merger dated as of January 14, 2004.

Prior to November 13, 2004, JPMCB was in the legal form of a banking corporation organized under the laws of the State of New York and was named JPMorgan Chase Bank. On that date, it became a national banking association and its name was changed to JPMorgan Chase Bank, N.A. Immediately thereafter, Bank One, N.A. (Chicago) and Bank One, N.A. (Columbus) merged into JPMCB.

Additional information, including the most recent Form 10-K for the year ended December 31, 2003 of JPMorgan Chase & Co. and additional annual, quarterly and current reports filed with the Securities and Exchange Commission by JPMorgan Chase & Co., as they become available, may be obtained from the Securities and Exchange Commission's Internet site (<http://www.sec.gov>), or without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017.

The information contained in this section relates to and has been obtained from JPMCB. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of JPMCB since the date hereof, or that the information contained or referred to in this section 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 or the Loan Agreement.

### **The Corporation**

There is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body known to the Corporation to be pending or threatened against the Corporation wherein an unfavorable decision, ruling or finding would adversely affect (i) the corporate

existence or organization of the Corporation or the title to office of any member of the Corporation's Board of Governors or officer of the Corporation or any power of the Corporation material to the transaction, or (ii) the validity of the proceedings taken by the Corporation for the adoption, authorization, execution, delivery and performance by the Corporation of, or the validity or enforceability of, the Bonds, the Loan Agreement or the Standby Bond Purchase Agreement.

### **EXPECTED 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 (with respect to Bonds in a Daily Rate Period or Weekly Rate Period) 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 either 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 judgment, circumstances so warrant. Neither the Infrastructure Bank nor the Corporation undertakes any responsibility to oppose any such revision or withdrawal or to inform any Bondholder of any such revision or withdrawal. Any such downward revision, suspension or withdrawal of a rating may have an adverse affect on the market price of the Bonds.

### **UNDERWRITING**

The Underwriters named on the cover page hereof (the "Underwriters") are expected to agree, subject to certain conditions, to purchase the Bonds from the Infrastructure Bank at a price of \$123,762,930.40 (which reflects an Underwriters' discount of \$337,069.60). The Bond Purchase Contract provides that the Underwriters are obligated to purchase all of the Bonds if any are purchased. The Bonds may be offered and sold by the Underwriters to certain dealers and others at prices lower than the public offering price indicated on the cover of this Official Statement, and the public offering price may be changed, from time to time, by the Underwriters. The Corporation has agreed to indemnify the Infrastructure Bank and the Underwriters against certain liabilities, including certain liabilities under federal securities laws.

### **CERTAIN RELATIONSHIPS**

JPMorgan Chase Bank, N.A., which is serving as a Liquidity Provider, is also the swap counterparty in connection with the 2004 Swap Agreement and is an affiliate of J.P. Morgan Securities Inc., an Underwriter and the Remarketing Agent for the Series A Bonds. Bank of America, National Association, which is serving as a Liquidity Provider, is an affiliate of Banc of America Securities Inc., an Underwriter and the Remarketing Agent for the Series B Bonds.

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, ruling and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

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

The opinion of Bond Counsel assumes that the Corporation is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). Orrick, Herrington & Sutcliffe LLP expects to issue a separate opinion to the Infrastructure Bank regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. Such opinion will be subject to a number of qualifications and limitations and will rely upon representations of the Corporation regarding the use of the assets financed with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code. This opinion regarding the qualification of the Corporation as an organization described in Section 501(c)(3) of the Code will not address Section 513 of the Code. Failure of the Corporation to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the Bond-financed assets in activities that are considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The interest rate mode and certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or dispositions of, or the accrual or receipt of the interest on, the Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other taxes

consequences depend upon the particular tax status of the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Corporation or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Corporation has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Corporation or the beneficial owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Corporation and its appointed counsel, including the beneficial owners, would have no right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Corporation legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Corporation or the beneficial owners to incur significant expense.

#### **OTHER LEGAL MATTERS**

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

Approved by:

**CALIFORNIA INDEPENDENT SYSTEM  
OPERATOR CORPORATION**

By:           /s/ William J. Regan, Jr.            
William J. Regan, Jr.  
Chief Financial Officer

## APPENDIX A

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

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

#### DEFINITIONS

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

"Acquire" means, with respect to the Project, the acquisition of all or a portion of the Project from the developers thereof, the development of all or a portion of the Project by the Corporation, the installation of the Project into Corporation Facilities and equipment, the testing of the Project, the training of Corporation personnel and others with respect to the Project and all other activities necessary or useful in integrating the Project into the Corporation's Facilities, equipment and operations.

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

"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; (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; (c) such Person shall admit in writing its inability to pay its debts generally as they become due; (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; (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.

"Agreement" means the loan agreement, of even date with the Indenture, between the Infrastructure Bank and the Corporation and relating to the loan of the proceeds of the Bonds, as originally executed or as it may from time to time be supplemented or amended.

"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.

"Amendment" means any amendment or modification of any of the Documents.

"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 with respect to Bonds of any Series, during any Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period, \$100,000 or any multiple of \$5,000 above that amount.

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

“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 the Bonds of any Series 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 Holder 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 Fund” means the Bond Fund established pursuant to the Indenture.

“Bond Insurance Policy” means the financial guaranty insurance policy issued by the Insurer with respect to the Bonds.

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

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

“Business Day” means a day 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 days from and including Wednesday of any week to and including Tuesday of the next following week.

“Certificate of the Corporation” means a certificate signed by an Authorized Corporation Representative.

“Certificate of the Infrastructure Bank” means a certificate signed by an Authorized Infrastructure Bank Representative.

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

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

“Commercial Paper Rate” means the interest rate on a Bond of any Series in a Commercial Paper Rate Period for a Commercial Paper Term established pursuant to the Indenture.

“Commercial Paper Rate Period” means a period during which the Bonds of any Series bear interest at Commercial Paper Rates.

“Commercial Paper Term” means a period during which a Bond in a Commercial Paper Rate Period bears interest at a specific rate of interest determined for such Bond in accordance with the Indenture.

“Completion Date” means the date of completion of the last portion of any part of the Project as that date shall be certified as provided in the Agreement.

“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.

“Construction Fund” means the fund by that name established pursuant to the Indenture.

“Conversion” means any conversion from time to time in accordance with the terms of the Indenture of the Bonds of a 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).

“Corporate Trust Office” means the corporate trust office of the Trustee as designated in the Indenture or such other office designated by the Trustee from time to time.

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

“Costs” means, with respect to the Project, the sum of the items, or any such item, authorized to be paid from the Construction Fund pursuant to the provisions of the Act and the Agreement with respect to the Acquisition of the Project, but shall not include any Costs of Issuance of the Bonds.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Infrastructure Bank or the Corporation and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds which constitutes a “cost of issuance” within the meaning of Section 147(g) of the Code.

“Costs of Issuance Fund” means the fund by that name established pursuant to the Indenture.

“Coverage Requirement” means the coverage of the Corporation’s debt service obligations that is required to be included in the Grid Management Charge pursuant to the Grid Management Charge Formula.

“Daily Rate” means an interest rate on the Bonds of any Series in a Daily Rate Period established pursuant to the Indenture.

“Daily Rate Period” means a period during which the Bonds of any Series bear interest at Daily Rates.

“Debt Service Reserve Fund” means the Debt Service Reserve Fund established pursuant to the Indenture.

“Debt Service Reserve Valuation Date” means the Business Day preceding each February 1 and August 1, commencing August 1, 2005.

“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 such proceeding shall not be subject to a further right of appeal or shall not have been timely appealed.

“Documents” means, collectively, the Indenture, the Agreement, the Bond Insurance Policy and any Liquidity Facility.

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

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

“Electronic” notice means notice through a time-sharing terminal.

“Event of Default” as used with respect to the Indenture has the meaning specified in the provisions of the Indenture described under the caption “Indenture of Trust—Default—Events of Default; Acceleration; Waiver of Default,” and as used with respect to the Agreement has the meaning specified in such provisions.

“Existing Parity Obligations” means, collectively, (1) the obligations of the Corporation under the 2000 Loan Agreement, (2) the obligations of the Corporation under any Liquidity Facility or Liquidity Agreement, and any substitute Liquidity Facility and any Liquidity Agreement related thereto (for purposes of this clause (2) of this definition of “Existing Parity Obligations,” the terms Liquidity Facility and Liquidity Agreement have the meanings given those terms in the 2000 Indenture), (3) the obligations of the Corporation under the Swap Agreement (for purposes of this clause (3) of this definition of “Existing Parity Obligations,” the term Swap Agreement has the meaning given that term in the 2000 Indenture), (4) the obligations of the Corporation under the Agreement, and (5) the obligations of the Corporation under any Liquidity Facility or Liquidity Agreement and any substitute Liquidity Facility and any Liquidity Agreement related thereto (as such terms are defined in the Indenture), and (6) the Swap Agreement (as such term is defined in the Indenture).

“Facilities” means the physical facilities of the Corporation at which all or a portion of the Project is being utilized and the equipment of the Corporation necessary for the operation of Project.

“Fiscal Year” means the period beginning on January 1 of each year and ending on the next succeeding December 31, or any other twelve-month period selected and designated as the official Fiscal Year of the Corporation.

“Fitch” means Fitch Ratings Inc., and any successor thereto.

“Fixed Rate” means the fixed interest rate borne by each maturity of the Bonds of any Series from the Fixed Rate Conversion Date established in accordance with the Indenture.

“Government Obligations” means any of the following:

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

“Grid Management Charge” means the Corporation’s 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.

“Grid Management Charge Formula” means the formula according to which the Grid Management Charge is calculated, which is set forth in the Tariff and which includes: (i) an amount necessary to fully amortize the Corporation’s start-up and development costs over a period of not less than 5 years, (ii) budgeted annual operating costs, (iii) financing costs and (iv) budgeted annual costs of pay-as-you-go capital expenditures and reasonable coverage of debt service obligations.

“Holder” or “Bondholder” means the registered owner of any Bond, and for the purposes and subject to the limitations described in the Indenture, the Insurer.

“Indenture” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture entered into pursuant to the provisions of the Indenture.

“Infrastructure Bank” means the California Infrastructure and Economic Development Bank, and any successor to its functions.

“Insurer” means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, and its successors.

“Interest Payment Date” means (i) with respect to each Liquidity Provider Bond and each Bond bearing interest in a Daily Rate Period or Weekly Rate Period, the first Business Day of each calendar month, and (ii) 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 the Bonds of any Series from time to time as described in the Indenture.

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

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

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

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

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

—Obligations of the Resolution Funding Corporation (REFCORP)  
—Senior debt obligations of the Federal Home Loan Bank System  
—Senior debt obligations of other Government Sponsored Agencies approved by  
the Insurer.

(3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

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

(5) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

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

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

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

(7) Municipal Obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P.

(8) Investment Agreements approved in writing by the Insurer (supported by appropriate opinions of counsel); and

(9) Other forms of investments (including repurchase agreements) approved in writing by the Insurer.

"Issue Date" means the date of delivery of the Bonds.

"Liquidity Agreement" means, with respect to any Liquidity Facility, the agreement or agreements between the Corporation and the applicable Liquidity Provider, as originally executed or as it or they 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, with respect to any Series of Bonds, 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 Bond of such Series or any combination of the foregoing, provided by the Corporation, pursuant to the Agreement and the Indenture. A Liquidity Facility and the related Liquidity Agreement may be a single document.

“Liquidity Facility Purchase Account” means the account by that name established within the Bond Purchase Fund.

“Liquidity Provider” means the issuer or issuers or other provider or providers of a Liquidity Facility as permitted under the 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 Bank of America, N.A. and JPMorgan Chase Bank severally but not jointly, as described in the Standby Bond Purchase Agreement.

“Liquidity Provider Bonds” means any Bonds of any Series 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 as to the Bonds of any Series, other than Liquidity Provider Bonds, (a) while a Liquidity Facility is in effect with respect to the Bonds of such 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; provided, however, that, notwithstanding the foregoing, the term “Maximum Interest Rate” shall never be an interest rate that exceeds the maximum rate allowed by law.

“M-STARS” means the Bonds of any Series, while such M-STARS are bearing interest in the M-STARS Rate Period.

“M-STARS Rate” means the rate of interest to be borne by the M-STARS determined in accordance with the Indenture.

“M-STARS Rate Period” means the period during which the Bonds of any Series bear interest at a M-STARS Rate.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, and any successor thereto.

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

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

“Notice by Mail” or “notice” of any action or condition “by Mail” shall mean a written notice meeting the requirements of the Indenture mailed by first class mail to the Holders of specified Bonds, at the addresses shown on the registration books maintained pursuant to the Indenture.

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

“Operating Expenses” means all expenses that are incurred by the ISO 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 of the ISO, 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 Agreement, the Swap Agreement and any other agreement evidencing Parity Obligations.

“Operating Fund” means those bank accounts specified in the Indenture.

“Operating Revenues” means all revenues received by the ISO for the account of the ISO from all sources, including but not limited to the Grid Management Charge, interest on all ISO 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 moneys received by the ISO in trust for third parties i.e., (i) moneys 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 moneys payable as the Grid Management Charge, (ii) moneys 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) moneys in any like account established by the ISO pursuant to the Tariff.

“Opinion of Bond Counsel” means an Opinion of Counsel from a Bond Counsel.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Corporation) acceptable to the Infrastructure Bank, the Insurer and the Corporation.

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

- (a) Bonds theretofore cancelled by the Registrar or surrendered to the Registrar for cancellation;
- (b) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the terms of the Indenture;
- (c) Bonds with respect to which the liability of the Infrastructure Bank and the Corporation have been discharged to the extent provided in, and pursuant to the requirements of, the Indenture; and
- (d) Bonds deemed purchased pursuant to the Indenture.

“Parity Obligations” means, collectively, (1) the Existing Parity Obligations and (2) any obligation of the Corporation secured by a lien on Net Operating Revenues on par with the pledge of Net Operating Revenues set forth in the Agreement.

“Paying Agent” means any paying agent appointed as provided in the Indenture, or any successor thereto.

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

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

“Principal Installment Date” means any date on which any Bonds mature or any date on which any of the Bonds are subject to redemption from mandatory sinking fund payments.

“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, at the address set forth in the Indenture, (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 at the address set forth in the Indenture; (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; (iv) of the initial Liquidity Provider means the office of Bank of America, N.A., designated in writing to the Infrastructure Bank, the Trustee, the Tender Agent and the Corporation, which initially, shall be located in Sacramento, California at the address set forth in the Indenture; and (v) of any subsequent 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.

“Purchase Contract” means, with respect to each Series of the Bonds, the Bond Purchase Contract among the Infrastructure Bank, the Treasurer of the State, the Corporation and the underwriter for such Series of the Bonds named therein, relating to the sale of such Series of the Bonds from the Infrastructure Bank to such underwriter.

“Purchase Date” means any date on which any Bond is required to be purchased pursuant to optional tender and mandatory tender provisions of the Indenture.

“Qualified Newspaper” means The Wall Street Journal or The Bond Buyer or any other newspaper or journal containing financial news, printed in the English language and customarily published on each Business Day, of general circulation in New York, New York, and selected by the Corporation, approved by the Infrastructure Bank and designated to the Trustee.

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

“Rate Index” means, during such times as the Bonds of any Series are in a Weekly Rate Period, the Weekly Rate Index.

“Rate Period” means any Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period, M-STARS Rate Period, or Fixed Rate Period.

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

“Rating Confirmation” means, with respect to the Variable Rate Bonds of any Series, written evidence from each Rating Agency then rating such Variable Rate Bonds to the effect that, following one of the events which requires a Rating Confirmation, such Variable Rate Bonds 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.

“Rebate Requirement” has the meaning assigned to such term in the Tax Certificate.

“Record Date” means 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.

“Registrar” means any registrar appointed as provided in the Indenture, or any successor thereto.

“Remarketing Agent” means, with respect to any Series of Bonds and as the context may require, the initial Remarketing Agent designated for such Series of the Bonds in the Indenture and any successor to such initial Remarketing Agent appointed pursuant to the Indenture.

“Remarketing Agreement” means any agreement or agreements meeting the requirements of the Indenture.

“Repayment Installment” means any amount that the Corporation is required to pay to the Trustee pursuant to the provisions of the Agreement described below under the caption “The Loan Agreement—Loan to the Corporation; Repayment Provisions—Repayment and Payment of Other Amounts Payable” as a repayment of the loan made by the Infrastructure Bank under the Agreement.

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

“Reserve Financial Guaranty” means a policy of municipal bond insurance or surety bond issued by a municipal bond insurer or a letter of credit issued by a bank or other institution if the obligations insured by such insurer or issued by such bank or other institution, as the case may be, have ratings at the time of issuance of such policy or surety bond or letter of credit in the highest rating category (without regard to qualifiers) by S&P and Moody’s and, if rated by A.M. Best & Company, also in the highest rating category (without regard to qualifiers) by A.M. Best & Company.

“Reserve Financial Guaranty Provider” means an issuer of a Reserve Financial Guaranty.

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

“Revenues” means all receipts, installment payments and other income derived by the Infrastructure Bank or the Trustee under the Agreement or otherwise in respect of the financing or refinancing of the Project 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 the 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 certain payments to the Infrastructure Bank or the Trustee with respect to certain provisions of the Indenture including the fees, expenses and indemnification rights of the Infrastructure Bank and the Trustee, certain payments described under “The Loan Agreement—Special Covenants and Agreements—Tax-Exempt Status of Interest on Bonds” and such term shall not include any amounts on deposit in the Bond Purchase Fund, the Rebate Fund or accounts therein.

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

“Securities Depositories” means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories, or no such depositories, as the Infrastructure Bank may designate in a Certificate of the Infrastructure Bank delivered to the Trustee.

“Series” means, with respect to the Bonds, each of the Infrastructure Bank’s Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2004 Series A and Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2004 Series B.

“Serial Bonds” means Bonds for which no mandatory sinking fund payments are established.

“SID” means the state information depository, if any, of the State recognized by the Securities and Exchange Commission pursuant to Rule 15c2-12.

“Standby Bond Purchase Agreement” means, the Standby Bond Purchase Agreement, dated as of December 1, 2004, among the Corporation, the Trustee, and Bank of America, N.A., individually and as Administrative Agent, and JPMorgan Chase Bank, as the same may be supplemented and amended from time to time in accordance with its terms and the terms of the Indenture.

“Standard & Poor’s” means Standard & Poor’s Ratings Service, a Division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, and any successors thereto.

“State” means the State of California.

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

“Swap Agreement” means the ISDA Master Agreement, between the Corporation and JPMorgan Chase Bank, N.A., as amended and supplemented by the parties in accordance with the terms thereof.

“Tariff” means the ISO 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 29, 2004.

“Tax Certificate” means, for each Series of Bonds, the Tax Certificate and Agreement related to such Series of Bonds, dated as of the Issue Date for 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.

“Tender Agent” means, with respect to the Bonds of any Series, the tender agent for the Bonds of such Series, if any, selected by the Corporation and meeting the requirements of the Indenture.

“Term Bonds” means Bonds which are payable on or before their specified maturity dates from mandatory sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

“Trustee” means Deutsche Bank National Trust Company, a national banking association organized under the laws of the United States, and its successors and assigns or any successor Trustee appointed pursuant to the Indenture.

“2000 Indenture” means that certain Indenture, dated as of March 1, 2000, by and between the Infrastructure Bank and Deutsche Bank National Trust Company (f/k/a Bankers Trust Company of California, N.A.), as trustee.

“2000 Loan Agreement” means that certain Loan Agreement, dated as of March 1, 2000, by and between the Infrastructure Bank and the Corporation.

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

“Weekly Rate” means an interest rate on the Bonds of any Series in a Weekly Rate Period established in accordance with the Indenture.

“Weekly Rate 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.

“Weekly Rate Period” means a period during which the Bonds of any Series bear interest at Weekly Rates.

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

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

## INDENTURE OF TRUST

### The Bonds

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

(a) The Trustee shall have received an executed copy of the Agreement, the applicable Purchase Contract and the Indenture;

(b) The Trustee shall 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 shall have received a Written Request of the Infrastructure Bank certifying that all conditions precedent to the issuance of such 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 shall be surrendered for registration of transfer, the Infrastructure Bank shall execute and the Trustee shall 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 shall 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 15 days next preceding the date on which the Trustee gives any notice of redemption, nor shall 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 shall 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 shall be no other charge to any Bondholders for any such exchange. Except with respect to Bonds purchased pursuant to the Indenture, no exchange of Bonds shall 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 15 days next preceding the date on which the Trustee gives notice of redemption, nor shall 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 shall 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 shall, under such reasonable regulations as it may prescribe, register the transfer or cause to be registered the transfer, on said books, of Bonds as before provided.

**Bonds Mutilated, Lost, Destroyed or Stolen.** If any Bond shall become mutilated, the Infrastructure Bank, upon the request and at the expense of the Holder of said Bond, shall execute, and the Trustee shall 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 shall be cancelled by it and destroyed and, upon the written request of the Infrastructure Bank, a certificate evidencing such destruction shall be delivered to the Infrastructure Bank, with a copy to the Corporation. If any Bond issued under the Indenture shall be 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 shall 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, shall execute, and the Trustee shall 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 shall 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 paragraph and payment of the expenses which may be incurred by the Infrastructure Bank and the Registrar. Any Bond issued under the provisions of this paragraph in lieu of any Bond mutilated or alleged to be lost, destroyed or stolen shall 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 shall be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of the Indenture with all other Bonds secured by the Indenture.

#### **Construction Fund; Costs of Issuance Fund**

**Construction Fund.** (a) The Trustee shall establish the "2004 California Independent System Operator Corporation Construction Fund" (the "Construction Fund"). The Trustee shall establish within the Construction Fund such accounts and subaccounts as are specified in the Tax Certificate and, upon written direction from an Authorized Corporation Representative, such additional accounts and subaccounts as may be necessary or convenient to carry out the purposes of the Tax Certificate and the Indenture.

(b) Before each payment is made from the Construction Fund (including any account established therein) by the Trustee, there shall be filed with the Trustee a requisition conforming with the requirements of the Agreement.

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

(c) Upon the receipt by the Trustee of a certificate conforming with the requirements of the Agreement, and after payment of Costs payable from the Construction Fund or provision having been made for payment of such Costs not yet due by retaining the amount of such Costs in the Construction Fund or otherwise as directed in such certificate, the Trustee shall transfer any remaining

balance in the Construction Fund into a separate account within the Bond Fund, which the Trustee shall establish and hold in trust, and which shall be entitled the "Surplus Account." The moneys in any Surplus Account shall be used and applied to pay the principal, including redemption price and purchase price, and interest on the Bonds as directed by an Authorized Corporation Representative (unless some other application of such moneys is requested by the Corporation and would not, in the Opinion of Bond Counsel, in and of itself, adversely affect the Tax-Exempt status of interest on the Bonds) 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 provisions of the Indenture described below under "Revenues—Investment of Moneys," the moneys in such Surplus Account shall 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 in and of itself, adversely affect the Tax-Exempt status of interest on the Bonds), and all such investment income shall be deposited in such Surplus Account and expended or reinvested as provided above.

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

**Costs of Issuance Fund.** The Trustee shall establish the 2004 Costs of Issuance Fund (the "Costs of Issuance Fund"). The Trustee shall 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 shall be held by the Trustee in trust and applied to the payment of Costs of Issuance of the Bonds. All payments from the Costs of Issuance Fund shall 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 Issue Date shall be transferred to the Construction Fund and deposited in such accounts as are specified in the applicable Tax Certificate or, in the absence of any such specification, as directed by an Authorized Corporation Representative.

## **Revenues**

**Pledge of Revenues and Liquidity Facility.** All of the Revenues are irrevocably pledged to the punctual payment of the principal of and interest and premium, if any, on the Bonds (including Liquidity Provider Bonds), and thereafter to the payment of obligations due to the Liquidity Provider under the Liquidity Agreement, to the extent of its interests in such Revenues; and Revenues shall not be used for any other purpose, except as provided in the Indenture, while any of the Bonds (including Liquidity Provider Bonds) remain Outstanding. Said pledge shall constitute a first and exclusive lien on the Revenues for the payment of the Bonds (including Liquidity Provider Bonds), and payment to the Liquidity Provider in accordance with the terms of the Indenture and of the Liquidity Agreement. All Revenues shall be held in trust for the benefit of the Holders from time to time of the Bonds (including Liquidity Provider Bonds), and thereafter to the Liquidity Provider, to the extent of its interests in such Revenues but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

Each Liquidity Facility, if any, provided with respect to a Series of the Bonds is irrevocably pledged to the punctual payment of the Purchase Price of the Bonds of such Series, and proceeds of any drawing on such Liquidity Facility shall not be used for any other purpose. Said pledge shall constitute a first and exclusive lien on such Liquidity Facility in favor of the Trustee for the benefit of the Holders of the Bonds of the Series secured by such Liquidity Facility and any payments thereunder for the payment

of the Purchase Price of the Bonds of such Series in accordance with the terms thereof. Each Liquidity Facility, if any, and any payments thereunder shall be held in trust for the benefit of the Holders from time to time of the Bonds of the Series secured by such Liquidity Facility but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

The Corporation may at its sole discretion from time to time deliver to the Trustee such additional or other security interests permitted by the Indenture or the Infrastructure Bank to secure the payment of the principal of and interest and premium, if any, on, and Purchase Price of, the Bonds or the Bonds of any Series and any such additional or other security delivered by the Corporation shall be pledged to such payment, provided that there is delivered to the Trustee an Opinion of Bond Counsel to the effect that the delivery of such additional or other security does not, in and of itself, adversely affect the Tax-Exempt status of interest on the Bonds.

The Bonds shall not constitute a debt or liability of the State or any political subdivision thereof, other than a limited obligation of the Infrastructure Bank payable solely from Revenues. The Bonds do not constitute a pledge of the faith and credit of the State or any political subdivision thereof, but shall be payable solely from the funds provided therefor in the Indenture. Neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal of, or interest on, the Bonds; and no Holder or Beneficial Owner of any Bond shall have any right to demand payment of the principal of, premium, if any, or interest on, the Bonds by the Infrastructure Bank, the State or any political subdivision thereof, out of any funds to be raised by taxation or appropriation.

**Bond Fund.** Upon the receipt thereof, the Trustee shall deposit all Revenues in the "California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) Series 2004 Bond Fund" (the "Bond Fund"), which the Trustee shall establish and maintain and hold in trust, and which shall be disbursed and applied only as authorized in the Indenture. Except as provided in the Indenture, moneys in the Bond Fund shall be used solely for the payment of the principal of and premium, if any, and interest on all Series of the Bonds as the same shall become due, *pari passu*, whether at maturity or upon redemption or acceleration.

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

In making payments of principal of, premium, if any, and interest on the Bonds, the Trustee shall use any Revenues received by the Trustee, and shall not be limited to Available Amounts.

Except to the extent such moneys are required to be held for the payment of principal of, redemption premium, if any, or interest on the Bonds then due and payable or to effect the defeasance of Bonds pursuant to the provisions of the Indenture described below under "Defeasance," so long as no Event of Default (or any event which would be an Event of Default under the Indenture with the passage of time or the giving of notice) exists under the Indenture, on the fifth day after each Interest Payment Date, the Trustee, unless otherwise instructed by the Corporation, shall return to the Corporation (free and clear of the pledge and lien of the Indenture) any moneys then on deposit in the Bond Fund or shall deposit such funds in the Rebate Fund if so instructed by the Corporation; provided, however, that no payment shall be made to the Corporation if the Corporation has any obligations to a Liquidity Provider which are then due and payable, as certified by the Liquidity Provider to the Trustee.

**Debt Service Reserve Fund.** The Trustee shall establish and maintain and hold in trust the "California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) Series 2004 Debt Service Reserve Fund" (the "Debt Service Reserve Fund"). If, on any date on which the principal or redemption price of, or interest on, Bonds is due, the amount in the Bond Fund available for such payment is less than the amount of the principal and redemption price of and interest on the Bonds due on such date, the Trustee shall apply amounts from the Debt Service Reserve Fund to the extent necessary to make good the deficiency. For purposes of determining the amount on deposit in the Debt Service Reserve Fund, all investments shall be valued two Business Days before each Debt Service Reserve Valuation Date at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions).

Except as provided in the Indenture, if on any Debt Service Reserve Valuation Date the amount on deposit in the Debt Service Reserve Fund shall exceed the Debt Service Reserve Requirement, such excess shall be applied to the reimbursement of each drawing on a Reserve Financial Guaranty deposited in or credited to such Fund and to the payment of interest or other amounts due with respect to such a Reserve Financial Guaranty and any remaining moneys shall be deposited in the Bond Fund.

Whenever the amount in the Debt Service Reserve Fund (excluding Reserve Financial Guaranties), together with the amount in the Bond Fund, is sufficient to pay in full all of the Outstanding Bonds in accordance with their terms (including principal or redemption price and interest thereon), the funds on deposit in the Debt Service Reserve Fund, subject to the provisions of the Indenture, shall be transferred to the Bond Fund.

In the event of the refunding of one or more Bonds (or portions thereof), the Trustee shall, upon the written direction of an Authorized Corporation Representative, withdraw from the Debt Service Reserve Fund any or all of the amounts on deposit therein (excluding Reserve Financial Guaranties) and deposit such amounts with itself as Trustee, or the escrow agent for the Bonds to be refunded, to be held for the payment of the principal or redemption price, if any, of, and interest on, the Bonds (or portions thereof) being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds (or portions thereof) being refunded shall be deemed to have been paid pursuant to the Indenture, and (b) the amount remaining in the Debt Service Reserve Fund after such withdrawal, taking into account any deposits to be made in the Debt Service Reserve Fund in connection with such refunding, shall not be less than the Debt Service Reserve Requirement.

In lieu of the deposits and transfers to the Debt Service Reserve Fund required by the Agreement, the Corporation may cause to be deposited in the Debt Service Reserve Fund a Reserve Financial Guaranty or Reserve Financial Guaranties in an amount equal to the difference between the Debt Service Reserve Requirement and the sums, if any, then on deposit in the Debt Service Reserve Fund or being deposited in such Fund concurrently with such Reserve Financial Guaranty or Guaranties. The Trustee shall draw upon or otherwise take such action as is necessary in accordance with the terms of the Reserve Financial Guaranties to receive payments with respect to the Reserve Financial Guaranties (including the giving of notice as required thereunder): (i) on any date on which moneys shall be required to be withdrawn from the Debt Service Reserve Fund and applied to the payment of principal or redemption price of, or interest on, any Bonds and such withdrawal cannot be met by amounts on deposit in the Debt Service Reserve Fund; (ii) on the first Business Day which is at least ten (10) days prior to the expiration date of each Reserve Financial Guaranty, in an amount equal to the deficiency which would exist in the Debt Service Reserve Fund if the Reserve Financial Guaranty expired, unless a substitute Reserve Financial Guaranty with an expiration date not earlier than 180 days after the expiration date of the expiring Reserve Financial Guaranty is acquired prior to such date or the Corporation deposits funds in the Debt Service Reserve Fund on or before such date such that the amount in the Debt Service Reserve

Fund on such date (without regard to such expiring Reserve Financial Guaranty) is at least equal to the Debt Service Reserve Requirement.

If, upon the deposit of a Reserve Financial Guaranty into the Debt Service Reserve Fund pursuant to immediately preceding paragraph, there shall be any amount in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement, such excess amount may be applied to the cost of acquiring such Reserve Financial Guaranty and, to the extent not so applied, shall be transferred to the Bond Fund.

**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 any 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 provisions 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) shall 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 shall 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. Moneys in any fund or account (other than the Bond Purchase Fund) shall 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 shall be held uninvested unless such moneys are invested in accordance with the provisions of the Indenture described below under the caption "Defeasance" 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 shall 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 shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss, fee, tax or other charge resulting from any investment, reinvestment or liquidation under the Indenture. Unless otherwise directed by the Corporation, the Trustee may make any investment permitted under these provisions of the Indenture relating to the investment of moneys 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 Corporation and, if requested,

the Infrastructure Bank, periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

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

**Enforcement of Obligations.** (a) The Trustee also shall 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, other than the Tax Certificate, 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.

**Liquidity Facilities; Liquidity Provider Bonds.** 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 shall have been delivered to the Infrastructure Bank and the Trustee in connection with a Series of the Bonds (i) a substitute Liquidity Facility meeting the requirements of the Agreement and (ii) the opinions and documents required by the Agreement, then the Trustee shall 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 with respect to such Series of Bonds in accordance with the respective terms thereof for cancellation; provided the Trustee shall 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 in connection with a Series of the Bonds, the Bonds of such Series shall be subject to mandatory tender as described in body of this Official Statement under subparagraph (ii) under the caption "The Bonds—Tender of Bonds for Purchase—Mandatory Tender During Weekly Rate Period." If at any time all Bonds of a Series secured by a Liquidity Facility shall cease to be Outstanding under the Indenture or all the Outstanding Bonds of a Series secured by a Liquidity Facility have been converted to a Fixed Rate or a M-STARS Rate, or a Liquidity Facility shall be terminated pursuant to its terms, the Trustee shall promptly surrender such Liquidity Facility in accordance with its terms for cancellation. The Trustee shall comply with the procedures set forth in each Liquidity Facility relating to the termination thereof.

In the event that a Liquidity Facility is in effect, the Trustee shall make a demand for payment under such Liquidity Facility subject to and in accordance with its terms, in order to receive payment thereunder as provided in the Indenture.

Each demand for payment under a Liquidity Facility shall 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 shall give notice of each such demand for payment to the Corporation at the time of each such demand. The proceeds of each such demand shall be deposited in the Liquidity Facility Purchase Account, and used in the order of priority established by the Indenture. At the time of making any demand under a Liquidity Facility pursuant to the Indenture, the Trustee shall 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 shall 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.

Any Bonds purchased with payments made under a Liquidity Facility pursuant to the Indenture shall constitute Liquidity Provider Bonds and shall 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 shall immediately upon making any demand for payment on a Liquidity Facility pursuant to the Indenture notify the Tender Agent. Upon receipt of such notice, the Tender Agent shall 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 shall be held in the name of or for the account of the Liquidity Provider or as may be directed by such Liquidity Provider.

Unless otherwise provided in the Liquidity Agreement, Liquidity Provider Bonds shall be remarketed by the Remarketing Agent prior to any other Bonds tendered for purchase under the Indenture, and shall be remarketed in accordance with the terms of the applicable 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 shall be made available to the purchasers thereof and shall no longer constitute Liquidity Provider Bonds for purposes of the Indenture. The proceeds of any remarketing of Liquidity Provider Bonds shall be paid to the Liquidity Provider by the Tender Agent on such remarketing date in immediately available funds.

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.

Notwithstanding anything to the contrary in the Indenture 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) shall be governed by the terms of such Liquidity Agreement.

The Trustee shall provide to each Rating Agency written notice of the extension of any Liquidity Facility in effect with respect to the Bonds.

Whenever requested in writing by the Corporation, the Trustee shall 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.

### **Covenants of the Infrastructure Bank**

**Payment of Principal and Interest.** The Infrastructure Bank shall 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 shall be made by the Trustee as provided in the Indenture. When and as paid in full, all Bonds, if any, shall be delivered to the Trustee and shall forthwith be cancelled by the Trustee, who shall deliver

a certificate evidencing such cancellation to the Corporation and, if requested, the Infrastructure Bank. The Trustee may retain or destroy such cancelled Bonds.

**Extension or Funding of Claims for Interest.** In order to prevent any accumulation of claims for interest after maturity, the Infrastructure Bank shall 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 shall 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 shall be extended or funded, whether or not with the consent of the Infrastructure Bank, such claim for interest so extended or funded shall 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 shall 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 shall 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. The Paying Agent initially appointed under the Indenture is the Trustee.

**Preservation of Revenues.** The Infrastructure Bank shall not waive any provision of the Agreement or take any action to interfere with or impair the pledge and assignment under the Indenture of Revenues and the assignment to the Trustee of rights under the 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 shall 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 shall not suffer or permit any default to occur under the Indenture, but shall faithfully observe and perform all the covenants, conditions and requirements of the Indenture.

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

The Trustee shall 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 2004 (California Independent System Operator Corporation Project) Rebate Fund" (herein called the "Rebate Fund"). Within the Rebate Fund, the Trustee shall maintain such accounts as shall be directed by the Corporation as necessary in order for the Infrastructure Bank and the Corporation to comply with the terms and requirements of the Tax Certificate. Subject to the transfer provisions provided in paragraph (c) below, all money at any time deposited in the Rebate Fund shall 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 none of the Corporation, the Infrastructure Bank nor the Bondholders shall have any rights in or claim to such

moneys. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the applicable provisions of the Indenture and the Agreement and by the Tax Certificate. The Trustee shall 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 shall not be required to take any actions thereunder in the absence of written directions from the Corporation.

Upon receipt of the Corporation's written instructions, the Trustee shall 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 and payment of all other amounts due and owing pursuant to the Agreement shall be withdrawn and remitted to the Corporation upon its written request.

Notwithstanding any provision of the Indenture, the obligation of the Corporation to pay the Rebate Requirement to the United States Government and to comply with all other requirements of the Indenture described under the applicable provisions of the Indenture and the Agreement and the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

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

**Other Liens.** So long as any Bonds are Outstanding, the Infrastructure Bank shall not create or allow 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 shall 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.

## **Default**

**Events of Default; Acceleration; Waiver of Default.** Each of the following events shall constitute an "Event of Default" under the Indenture:

(a) Failure to make payment of any installment of interest upon any Bond when such payment shall 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 shall 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; or

(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, shall 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;

No default specified in (d) above shall constitute an Event of Default unless the Infrastructure Bank and the Corporation shall have failed to correct such default within the applicable 30-day period; provided, however, that if the default shall be such that it can be corrected, but cannot be corrected within such period, it shall 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 the Indenture, the Infrastructure Bank 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 shall 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, shall, 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 shall thereupon become and be immediately due and payable. Notwithstanding the foregoing, the Trustee shall not be required to take any action upon the occurrence and continuation of an Event of Default under paragraphs (c) or (d) above until a Responsible Officer of the Trustee has actual knowledge of such Event of Default. After any declaration of acceleration of the Bonds under the provisions of the Indenture described under this caption "—Events of Default; Acceleration; Waiver of Default" the Trustee shall 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 shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Indenture, there shall 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) shall 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 shall 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 shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Notwithstanding anything else in the provisions of the Indenture described under this caption “—Events of Default; Acceleration; Waiver of Default” 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, shall not constitute an Event of Default under the Indenture if the Bonds are redeemed pursuant to provisions of the Indenture relating to redemption upon mandatory prepayments. Payment of the redemption price for such Bonds shall 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.

The provisions of the Indenture described under this caption “—Events of Default; Acceleration; Waiver of Default” are expressly subject to the rights of the Insurer set forth under the provisions of the Indenture described below under “Bond Insurance Policy Provisions—Right To Control Remedies.”

**Institution of Legal Proceedings by Trustee.** In addition, if one or more of the Events of Default under the Indenture shall 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) shall, 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 in the Indenture, or in aid of the execution of any power granted in the Indenture, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall 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 shall 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 shall not be so applied.

Second: In case the principal of none of the Outstanding Bonds shall 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 shall 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 shall have been paid.

Third: In case the principal of any of the Outstanding Bonds shall 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 shall 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.

Fifth: To the payment of fees and costs due and owing to the Infrastructure Bank and the Trustee, not covered under paragraph "First" above.

**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 shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every power and remedy given by the Indenture to the Trustee or to the Holders may be exercised from time to time and as often as shall be deemed expedient. In case the Trustee shall have proceeded to enforce any right under the Indenture, and such proceedings shall have been discontinued or abandoned because of waiver or for any other reason, or shall 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, shall 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 shall continue as though no such proceedings had been taken.

**Remedies Cumulative.** No remedy conferred upon or reserved to the Trustee or to any Holder of the Bonds in the Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter 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 by the Indenture, 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 shall fail to pay the same forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, shall 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, shall be limited to, and payable solely out of, Revenues as provided in the Indenture and not otherwise. The Trustee shall 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 shall 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, shall 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 shall 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 shall 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 by the Indenture which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee shall 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 shall 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 shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Indenture; (b) the Holders of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (c) said Holders shall 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 shall have refused or omitted to comply with such request for a period of thirty (30) days after such written request shall have been received by, and said tender of indemnity shall 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 any remedy under the Indenture; it being understood and intended that no one or more Holders shall 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 shall be instituted, had and maintained in the manner provided in the Indenture 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 provided therein and in the Indenture, 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, shall not be impaired or affected without the consent of such Holder, notwithstanding the foregoing provisions or any other provision of the Indenture.

**Limitation of Liability to Revenues.** Notwithstanding anything in the Indenture contained, the Infrastructure Bank shall not be required to advance any moneys derived from any source of income of any governmental body or political subdivision of the State or the Infrastructure Bank other than the Revenues, 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 Bank, 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 shall 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.

#### **The Trustee, The Registrar, The Tender Agent and the Remarketing Agent**

**Duties, Immunities and Liabilities of Trustee and Registrar.** The Trustee shall, prior to an Event of Default under the Indenture, and after the curing of all Events of Default under the Indenture which may have occurred, and the Registrar at all times shall, perform such duties and only such duties as are specifically set forth in the Indenture. The Trustee shall, 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 shall 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 under the Indenture 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, shall at all times be determined solely by the express provisions of the Indenture; the Trustee or the Registrar, as the case may be, shall 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 shall 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 shall exist,

(i) the Trustee and the Registrar shall 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 shall 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 shall 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, shall be under a duty to examine the same to determine whether or not it conforms to the requirements of the Indenture.

(c) The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it under the Indenture by or through attorneys, agents or receivers, and shall be entitled to advice of counsel concerning all matters of trust and concerning its duties under the Indenture and the Trustee shall 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 shall 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 shall not be construed as a duty or obligation under the Indenture.

**Qualifications of Trustee and Registrar.** There shall at all times be a trustee and a registrar under the Indenture which shall 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 seventy-five million dollars (\$75,000,000), 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 above referred to, then for the purposes of this paragraph the combined capital and surplus of such corporations or banking associations shall 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 shall cease to be eligible in accordance with the provisions of this paragraph, the Trustee or the Registrar, as the case may be, shall 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.** 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 shall be published at least once in a Qualified Newspaper, or by giving Notice by Mail to such Bondholders. The Trustee shall also mail a copy of any such notice of resignation to the Rating Agencies. Upon receiving such notice of resignation, the Infrastructure Bank, with the advice of the Corporation and the consent of the Insurer (whose consent shall not be unreasonably withheld), shall 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, shall have been so appointed and have accepted appointment within forty-five (45) 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.

In case at any time either of the following shall occur:

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

(ii) the Trustee or the Registrar shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or Registrar or of its property shall be appointed, or any public officer shall 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, (A) the Infrastructure Bank may remove the Trustee or the Registrar, as the case may be, and, with the advice of the Corporation and the consent of the Insurer (whose consent shall not be unreasonably withheld), appoint a successor Trustee or Registrar, as the case may be, by an instrument in writing, or (B) if the Insurer so requests in writing to the Infrastructure Bank, the Infrastructure Bank shall remove the Trustee or the Registrar, as the case may be, and, with the advice of the Corporation and the consent of the Insurer (whose consent shall not be unreasonably withheld), appoint a successor Trustee or Registrar, as the case may be, by an instrument in writing.

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, with the advice of the Corporation, at any time, or, upon the written request of the Insurer, the Infrastructure Bank shall, remove the Trustee or the Registrar, as the case may be, and, with the advice of the Corporation and the consent of the Insurer (whose consent shall not be unreasonably withheld), 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.

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 paragraph shall 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.

Notwithstanding the foregoing to the contrary, no successor Trustee shall be appointed under the Indenture without the written consent of the Insurer (which consent shall not be unreasonably withheld).

**Acceptance of Trust by Successor Trustee.** Any successor Trustee appointed as provided in the Indenture shall execute, acknowledge and deliver to the Infrastructure Bank, the Corporation, the Liquidity Provider, if any, and to its predecessor Trustee an instrument accepting such appointment under the Indenture, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusts under the Indenture, with like effect as if originally named as Trustee in the Indenture; but, nevertheless, on the Written Request of the Infrastructure Bank or the request of the successor Trustee, the Trustee ceasing to act shall execute and deliver an instrument transferring to such successor Trustee, upon the trusts expressed in the Indenture, all the rights, powers and trusts of the Trustee so ceasing to act. Upon request of any such successor Trustee, the Infrastructure Bank shall execute any and all instruments in writing necessary or desirable for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and duties. Any Trustee ceasing to act shall, nevertheless, retain a lien upon all property or funds held or collected by such Trustee to secure the amounts due it as compensation, reimbursement, expenses and indemnity afforded to it by the Indenture.

No successor Trustee shall accept an appointment as successor trustee unless at the time of such acceptance such successor Trustee shall be eligible under the provisions of the Indenture.

Upon acceptance of appointment by a successor Trustee as provided in the foregoing, the Infrastructure Bank or such successor Trustee shall give the Bondholders, the Insurer, the Liquidity Provider, if any, and each Rating Agency notice of the succession of such Trustee to the trusts under the Indenture in the manner prescribed in the Indenture for the giving of notice of resignation of the Trustee.

**Registrar.** The Infrastructure Bank, at the request of the Corporation, shall appoint a registrar for the Bonds. The Registrar shall 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 by the Indenture. The Registrar shall signify its acceptance of the duties and obligations imposed upon it by the Indenture 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.** In order to carry out the duties and obligations of the Tender Agent contained in the Indenture, the Infrastructure Bank, with the advice of the Corporation, shall appoint a Tender Agent in order to carry out such duties and obligations. The Tender Agent shall signify in writing its acceptance of the duties and obligations imposed upon it under the Indenture. The Tender Agent shall keep such books and records with respect to its activities as Tender Agent as shall 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.

Each Tender Agent shall 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 the combined capital and surplus of such banking corporation or banking association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

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 of the Corporation, may, or, upon written request of the Insurer, the Infrastructure Bank shall, 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 shall 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 shall 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 shall be a vacancy in the office of Tender Agent, the Trustee shall act as such Tender Agent to the extent it has operational capacity to perform such tasks. The Tender Agent shall be entitled to the same protections, immunities and limitations from liability afforded the Trustee under the Indenture.

**Appointment, Duties and Qualifications of Remarketing Agent.** In order to carry out the duties and obligations contained in the Indenture, the Corporation, with the approval of the Liquidity Provider, shall appoint the Remarketing Agent for each Series of Bonds subject to the conditions set forth

below. A Remarketing Agent shall 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 shall 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 Series A Bonds is J.P. Morgan Securities, Inc. The Remarketing Agent initially appointed for the Series B Bonds is Banc of America Securities LLC.

The Corporation shall enter into a Remarketing Agreement with each Remarketing Agent and such other parties as shall be appropriate, pursuant to which such Remarketing Agent shall 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 shall 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 shall not be entitled to any compensation from the Infrastructure Bank or the Trustee but rather shall only be entitled to compensation from the Corporation.

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

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 may remove the Remarketing Agent pursuant to the terms of the Remarketing Agreement. Any appointment of a successor Remarketing Agent by the Corporation shall be subject to the consent of the Insurer and the Liquidity Provider, if any.

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

**Modification 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 to the Indenture, which indenture or indentures thereafter shall 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 therein or in the Indenture; provided, that no such covenant, agreement, assignment, pledge or surrender shall 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 shall not materially adversely affect the interests of the Holders of the Bonds;

(c) to modify, amend or supplement the Indenture or any indenture supplemental to the Indenture in such manner as to permit the qualification of the Indenture or thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect, and, if they so determine, to add to the Indenture or any indenture supplemental to the Indenture such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute, and which shall 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 shall 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 the description of the Project contained in 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 to be based upon an Opinion of Bond 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 provisions of the Indenture described below under “—Modification with Consent of Insurer or Bondholders,” if the effective date of such 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 to the Indenture and before the Trustee consents to any Amendment pursuant to the provisions of the Indenture described under this caption “—Modification without Consent of Bondholders,” the Infrastructure Bank, or the Trustee, as the case may be, shall cause notice of the proposed execution of the Supplemental Indenture or Amendment to be given by mail to the Insurer and each Rating Agency. A copy of the proposed Supplemental Indenture or Amendment shall 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 shall have been delivered to the Trustee an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (1) authorized or permitted by the Indenture, the Act and other applicable law; (2) complies with their respective terms, in the case of a Supplemental Indenture, will upon the execution and delivery thereof; (3) be valid and binding upon the Infrastructure Bank in accordance with its terms; and (4) will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Notwithstanding the foregoing provisions of the Indenture described under this caption “—Modification without Consent of Bondholders,” the Trustee shall 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 shall not be obligated to, enter into such Supplemental Indenture, and the Trustee shall 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 provisions of the Indenture described under this caption “—Modification without Consent of Bondholders” to each Rating Agency. Any Supplemental Indenture or Amendment permitted pursuant to the provisions of the Indenture described under this caption “—Modification without Consent of Bondholders” may be approved by an Authorized Infrastructure Bank Representative and need not be approved by resolution or other action of the Board of Directors of the Infrastructure Bank.

**Modification with Consent of Insurer or Bondholders.** Subject to the provisions of the Indenture described below under the captions “Bond Insurance Policy Provisions—Amendments Affecting Insurer’s Rights” and “—Insurer Deemed Holder,” 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, (i) the Infrastructure Bank and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental to the Indenture 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; (ii) the Infrastructure Bank and/or the Corporation, as applicable, may enter into any Amendment; and (iii) the Trustee may consent to any Amendment to any Document and any other matters for which its consent is required pursuant to the Indenture; provided, however, that no such 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 the Liquidity Provider and all the Holders of the Bonds; and that no such Supplemental Indenture shall (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 in the Indenture, 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 Providers and the Holders of all the Bonds then Outstanding. Nothing in this paragraph shall be construed as making necessary the approval of any Bondholder of any Supplemental Indenture or Amendment permitted by the provisions of the Indenture described above under the caption “—Modification without Consent of Bondholders.”

Upon receipt by the Trustee of: (1) a Certified Resolution authorizing the execution of any such Supplemental Indenture or Amendment; (2) an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (i) authorized or permitted by the Indenture, the Act and other applicable

law; (ii) complies with 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 Insurer and, if required, the Bondholders and the Liquidity Providers, as aforesaid, the Trustee shall join with the Infrastructure Bank in the execution of such Supplemental Indenture or shall consent to such Amendment; provided, however, that (i) the Trustee shall 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 shall not be obligated to, enter into such Supplemental Indenture; and (ii) the Trustee shall not enter into such Supplemental Indenture or consent to any Amendment of any Document without first obtaining the Corporation's written consent thereto.

It shall not be necessary for the consent of the Insurer, the Liquidity Providers or the Bondholders under the foregoing provisions relating to amendments with the consent of the Insurer or the Bondholders to approve the particular form of any proposed Supplemental Indenture or Amendment, but it shall be sufficient if such consent shall 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 shall 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 Providers 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, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture or such Amendment.

**Effect of Supplemental Indenture or Amendment.** Upon the execution of any Supplemental Indenture or any Amendment to the Agreement pursuant to the provisions of the Indenture or the Agreement, as the case may be, shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture and the Agreement of the Infrastructure Bank, the Trustee, the Corporation and all Holders of Outstanding Bonds shall thereafter be determined, exercised and enforced under the Indenture and under the Agreement subject in all respects to such Supplemental Indentures and Amendments, and all the terms and conditions of any such Supplemental Indenture or Amendment shall be part of the terms and conditions of the Indenture or the Agreement, as the case may be, for any and all purposes.

**Required and Permitted Opinions of Counsel.** Subject to the provisions of the Indenture, the Trustee is entitled to receive an Opinion of Bond Counsel and rely on such Opinion of Bond Counsel as conclusive evidence that any Supplemental Indenture or Amendment executed pursuant to the provisions of the Indenture complies with the requirements of the Indenture, that the appropriate consents have been obtained and that such Supplemental Indenture or Amendment has been duly authorized by the Infrastructure Bank.

**Notation of Modification on Bonds; Preparation of New Bonds.** Bonds authenticated and delivered after the execution of any Supplemental Indenture pursuant to the provisions of the Indenture may bear a notation, at the Written Request of the Infrastructure Bank, as to any matter provided for in such Supplemental Indenture, and if such Supplemental Indenture shall so provide, new Bonds, so modified as to conform, in the opinion of the Trustee and the Infrastructure Bank, to any modification of the Indenture contained in any such Supplemental Indenture, may be prepared by the Infrastructure Bank, authenticated by the Trustee and delivered without cost to the Holders of the Bonds then Outstanding, upon surrender for cancellation of such Bonds in equal aggregate principal amounts.

**Notice to Rating Agency.** The Trustee shall give to each Rating Agency notice of any amendment made to the Indenture, the initial Liquidity Facility or the termination, expiration, extension or substitution of the initial Liquidity Facility or other Liquidity Facility, notice of any amendment made to the Agreement, notice of any extraordinary redemptions or any redemption, purchase or defeasance of all of the Bonds, notice of any adjustment to a new Rate Period and notice of any successor Trustee or Tender Agent under the Indenture or any successor Remarketing Agent. Notwithstanding the foregoing, it is expressly understood and agreed that failure to provide any such notice to any Rating Agency or any defect therein will not (i) constitute an Event of Default under the Indenture; and (ii) affect the validity of any action with respect to which notice is to be given or the effectiveness of any such action.

#### **Defeasance**

**Discharge of Indenture.** If all Bonds shall 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 as and when the same become due and payable; or
- (b) by providing for the payment of the principal of, premium, if any, and interest on all Bonds as provided in the provisions of the Indenture described below under “—Discharge of Liability on Particular Bonds”; or
- (c) by the delivery to the Registrar, for cancellation by it, of all Bonds;

and if all other sums payable under the Indenture by the Infrastructure Bank shall be paid and discharged, then thereupon the Indenture shall cease, terminate and become null and void, and thereupon the Trustee shall, upon Written Request of the Infrastructure Bank, and upon receipt by the Trustee of an Opinion of Bond Counsel to the effect that all conditions precedent to the satisfaction and discharge of the Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Indenture. The Trustee shall mail written notice of such payment and discharge to the Infrastructure Bank, the Corporation, each Rating Agency, to the Insurer and to the Liquidity Providers. The satisfaction and discharge of the Indenture shall 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.

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, shall be deemed to be paid and retired.

**Discharge of Liability on Particular Bonds.** Any Bond or a portion thereof shall be deemed to be paid within the meaning of the Indenture when payment of the principal of and premium, if any, on such Bond or a portion thereof plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption or by declaration as provided in the Indenture) shall have been provided for by (i) irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment moneys and/or nonprepayable, noncallable Government Obligations as provided in the Indenture; (ii) if such Bond or portion thereof is to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for giving such notice; (iii) arrangements satisfactory to the Trustee shall have been made to assure that Bonds tendered for purchase in accordance with the

optional and mandatory tender provisions of the Indenture can be paid and redeemed from such moneys and/or Government Obligations; and (iv) the Trustee shall 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.

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

Upon the deposit with the Trustee, in trust, at or before maturity or the redemption date, as applicable, of money and/or nonprepayable, noncallable Government Obligations as provided in the Indenture to pay or redeem a Bond or a portion thereof and the satisfaction of the other conditions specified in the Indenture, such Bond, or the applicable portion thereof, shall be deemed to be paid under the Indenture, shall 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 deposited with the Trustee for such purpose, and all liability of the Infrastructure Bank and the Corporation in respect of such Bond, or the applicable portion thereof, shall cease, terminate and be completely discharged, except that the Infrastructure Bank and the Corporation shall remain liable for the payment of the principal of, premium, if any, and interest on such Bond, or the applicable portion thereof, but only from, and the Bondholders shall thereafter be entitled only to payment (without interest accrued thereon after such redemption date or maturity date) out of, the money and/or Government Obligations deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture.

**Deposit of Money or Securities with Trustee.** Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or Government Obligations in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or nonprepayable, noncallable Government Obligations held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) Available Amounts 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 shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall 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 purchased with Available Amounts, the principal of and the interest on which when due will provide money at the times and in the amounts sufficient, together with the other moneys held by the Trustee for such purpose (as evidenced by an Accountant's Report) to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Written Request of the Infrastructure Bank) to apply such money and the payments on

such Government Obligations to the payment of such principal or redemption price and interest with respect to such Bonds. The Trustee shall not be responsible for verifying the sufficiency of money and Government Obligations deposited with the Trustee to provide for the payment of the principal of, premium, if any, and interest on Bonds pursuant to the provisions described under the caption “— Defeasance” but may conclusively rely for all purposes of the Indenture on an Accountant’s Report as to such sufficiency.

**Outstanding Bonds.** In the event that the principal or interest, or both, due on the Bonds shall be paid by the Insurer pursuant to the Bond Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Infrastructure Bank, and the assignment and pledge of the Revenues and all covenants, agreements and other obligations of the Infrastructure Bank to the Holders under the Indenture shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Holders.

### **Bond Insurance Policy Provisions**

**Amendments Affecting Insurer’s Rights.** Any provision of the Indenture or the Agreement expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer without the prior written consent of the Insurer.

**Insurer Deemed Holder.** Subject to the Indenture, for the purposes of (1) the giving of consents to amendments to the Indenture and the Agreement under of the applicable provisions thereof, and (2) the giving of any other consent of the Holders under the Indenture or the Agreement, the Insurer shall be deemed to be the sole Holder of the Bonds; provided, however, that, notwithstanding the foregoing, the Insurer shall not be deemed to be the Holder of the Bonds for any consent to an amendment or Supplemental Indenture to the Indenture that (1) extends the fixed maturity of any Bond or reduces the rate of interest thereon or extends the time of payment of interest, or reduces the amount of the principal thereof, or reduces any premium payable on the redemption thereof, or (2) reduces the aforesaid percentage of Holders whose consent is required for the execution of such Supplemental Indentures, or permits the creation of any lien on the Revenues prior to or on a parity with the lien of the Indenture, except as permitted in the Indenture, or permits the creation of any preference of any Bondholder over any other Bondholder, except as permitted in the Indenture, or deprives the Holders of the Bonds of the lien created by the Indenture upon the Revenues.

**Right To Control Remedies.** Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default under the Indenture, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders or the Trustee for the benefit of the Holders under the Indenture, including, without limitation: (a) the right to accelerate the principal of the Bonds as described in the Indenture, and (b) the right to annul any declaration of acceleration, and the Insurer shall also be entitled to approve all waivers of Events of Default under the Indenture.

### **Miscellaneous**

**Governing Law; Venue.** The Indenture shall be construed in accordance with and governed by the Constitution and laws of the State applicable to contracts made and performed in the State. The Indenture shall be enforceable in the State, and any action arising out of the Indenture shall be filed and maintained in the Sacramento County Superior Court, Sacramento, California, unless the Infrastructure Bank waives this requirement.

**Insurer.** All provisions of the Indenture regarding consents, approvals, directions, appointments or requests by the Insurer, including the rights of the Insurer under the Indenture, shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by the Insurer during any time in which the Insurer has failed to honor a demand for payment presented to it in strict conformance with the applicable provisions of the Bond Insurance Policy, or after the Bond Insurance Policy shall at any time for any reason cease to be valid and binding on the Insurer, or while the Insurer is denying further liability or obligation under the Bond Insurance Policy or after the Insurer has rescinded, repudiated or terminated the Bond Insurance Policy; provided, however, that nothing contained in this paragraph shall limit the rights of the Insurer as a Holder of Bonds.

**Liquidity Provider.** All provisions of the Indenture regarding consents, approvals, directions, appointments or requests by a Liquidity Provider shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by such Liquidity Provider during any time in which no Liquidity Facility issued by such Liquidity Provider is in effect, or such Liquidity Provider has failed to honor a demand for payment presented to it in strict conformance with the applicable provisions of the Liquidity Facility issued by such Liquidity Provider, or after the Liquidity Facility issued by such Liquidity Provider shall at any time for any reason cease to be valid and binding on such Liquidity Provider, or while such Liquidity Provider is denying further liability or obligation under the Liquidity Facility issued by such Liquidity Provider (unless such Liquidity Facility has been fully drawn or to the extent that the conditions to payment thereunder have not been fully satisfied) or after such Liquidity Provider has rescinded, repudiated or terminated the Liquidity Facility issued by such Liquidity Provider; provided, however, that nothing contained in this paragraph shall limit the rights of a Liquidity Provider as a Holder of Liquidity Provider Bonds.

All provisions in the Indenture relating to a Liquidity Provider shall be of no force and effect with respect to such Liquidity Provider if the applicable Liquidity Facility and Liquidity Agreement are not in effect, there are no related Liquidity Provider Bonds and all amounts owing to such Liquidity Provider under the applicable Liquidity Agreement have been paid.

**Unclaimed Moneys.** Notwithstanding any provisions of the Indenture to the contrary, and subject to applicable laws of the State, any moneys deposited with the Trustee or any Paying Agent, in trust for the payment of the principal of, or interest or premium on, any Bonds remaining unclaimed for two 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), shall then be repaid to the Corporation upon its written request, and the Holders of such Bonds shall thereafter be entitled to look only to the Corporation for payment thereof, and all liability of the Infrastructure Bank, the Trustee and each Paying Agent with respect to such moneys shall 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, shall (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 shall 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).

## LOAN AGREEMENT

### **Issuance of the Bonds; Application of Proceeds; Construction of Project Facilities**

**Agreement to Issue Bonds; Application of Bond Proceeds.** To provide funds to finance a portion of the Costs of the Project, the Infrastructure Bank agrees that it will issue the Bonds pursuant to the Indenture and sell and deliver the Bonds (or cause the Bonds to be sold and delivered) to the purchasers thereof pursuant to the Purchase Contracts. The Infrastructure Bank will thereupon apply the proceeds received from the sale of the Bonds as provided in the Indenture.

**Investment of Moneys In Funds.** Subject to the provisions of the Agreement, any moneys in any fund held by the Trustee shall, to the extent permitted under the Indenture, at the written request of an Authorized Corporation Representative, be invested or reinvested by the Trustee as provided in the Indenture. Such investments shall be deemed at all times a part of the fund from which such investments were made, and the interest accruing thereon and any profit or loss realized therefrom shall, except as otherwise provided in the Indenture, be credited or charged to such fund.

**Agreement to Acquire Project.** The Corporation agrees that it will Acquire the Project, and will acquire, equip, construct, furnish and install all other facilities and real and personal property deemed necessary for the operation of the Project, substantially in accordance with the description of the Project contained in 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 shall not be required for changes in such descriptions which do not substantially alter the purpose and description of the Project referred to above. The Corporation further agrees to proceed with due diligence to complete the Project within three years from the date of the Agreement and to ensure that the Project is consistent with any existing local or regional comprehensive plans.

In the event that the Corporation desires to alter or change the description of the Project, and such alteration or change either substantially alters the purpose and description of the Project from that contained in the Agreement, the Infrastructure Bank will enter into, and will instruct the Trustee to consent to, such amendment or supplement as shall be required to reflect such alteration or change to the Project upon receipt of:

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

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

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

The Corporation will authorize and direct the Trustee, upon compliance with the Indenture, to disburse the moneys in the Costs of Issuance Fund to or on behalf of the Corporation only for Costs of Issuance of the Bonds.

**Establishment of Completion Date; Obligation of Corporation to Complete.** As soon as the Acquisition of the Project is completed, the Authorized Corporation Representative, on behalf of the Corporation, shall evidence the Completion Date by providing a certificate to that effect to the Trustee stating the Costs of the 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, including any earnings resulting from the investment of such moneys, shall be used as provided in the Indenture.

In the event the moneys in the Construction Fund available for payment of the Costs of the Project should be insufficient to pay all costs of Acquiring the Project in full, the Corporation agrees to pay directly, or to deposit in the Construction Fund moneys sufficient to pay, any costs of completing the Acquisition of the 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 Project under the provisions of the Agreement, will be sufficient to pay all the amounts which may be incurred for all costs in connection with the Acquisition of the Project. 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 Acquisition of the Project pursuant to the provisions of the Indenture, it shall not be entitled to any reimbursement therefor from the Infrastructure Bank, from the Trustee or from the Holders of any of the Bonds, nor shall it be entitled to any diminution of the amounts payable under the Agreement.

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

**Loan to Corporation.** The Infrastructure Bank covenants and agrees, upon the terms and conditions in the Agreement, to make a loan to the Corporation for the purpose of financing a portion of the Costs of the Project. 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 finance a portion of the Costs of the Project will be deemed to be and treated for all purposes as a loan to the Corporation of an amount equal to the aggregate principal amount of the Bonds.

**Repayment and Payment of Other Amounts Payable.** 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 shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, in immediately available funds, for deposit in the Bond Fund, a sum equal to the amount then payable as principal (whether at maturity or upon redemption or acceleration), premium, if any, and interest upon the Bonds as provided in the Indenture.

Each payment made by the Corporation pursuant to the foregoing provisions shall 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 shall 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 and the Debt Service Reserve Fund are sufficient to pay all of the principal of and interest and premium, if any, on the Outstanding Bonds as such payments become due, the Corporation shall be relieved of any obligation to make any further payments with respect to the Bonds under these provisions of the Indenture relating to the repayment and payment of other amounts payable. 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 shall forthwith pay such deficiency as a Repayment Installment under the Agreement.

Without limiting the generality of the obligations of the Corporation under the foregoing provisions to ensure that the moneys available in the Bond Fund are sufficient to pay when due the principal of, premium, if any, and interest on the Outstanding Bonds, but without duplication, the Corporation shall make the deposits with the Trustee of the amounts described in (i) and (ii) below.

(i) *Interest Deposits.* (A) The Corporation agrees that it will deposit with the Trustee on the last Business Day of each calendar month an amount equal to the interest that accrued on the Outstanding Bonds, but which was not paid, during such calendar month and (B) if any Interest Payment Date is not on the first Business Day of a calendar month, the Corporation agrees that it will deposit with the Trustee on the Business Day immediately preceding such Interest Payment Date an amount equal to the amount of interest payable on the Bonds on such Interest Payment Date less any amounts then on deposit in the Bond Fund with respect to the interest payable on such Interest Payment Date.

(ii) *Principal Deposits.* The Corporation agrees that, on the first Business Day of each calendar month, commencing 12 months before the initial Principal Installment Date, it will deposit with the Trustee an amount equal to one-twelfth (1/12) of the Principal Installment due on the next succeeding Principal Installment Date.

Subject to the right of the Corporation to deposit a Reserve Financial Guaranty in lieu of a cash deposit as provided in the Indenture, within two Business Days after a withdrawal of moneys from the Debt Service Reserve Fund in accordance with the provisions of the Indenture (except a withdrawal of moneys therefrom pursuant to the provisions of the Indenture relating to the withdrawal of funds from the Debt Service Reserve Fund as a result of excess amounts on deposit therein) and on each Debt Service Reserve Valuation Date, the Corporation shall pay an amount such that, after the deposit of such amount in the Debt Service Reserve Fund, the amount on deposit in such Debt Service Reserve Fund shall be at least equal to the Debt Service Reserve Requirement, including amounts necessary to reinstate any Reserve Financial Guaranties on deposit in the Debt Service Reserve Fund. If at any time the Trustee shall draw upon any Reserve Financial Guaranty, then the Corporation shall promptly pay to the Reserve Financial Guaranty Provider thereof the amount of such draw. If at any time obligations insured or issued by a Reserve Financial Guaranty Provider shall no longer maintain the required ratings set forth in the definition of "Reserve Financial Guaranty" in the Indenture, the Corporation shall provide or cause to be provided cash or a substitute Reserve Financial Guaranty meeting such requirements to the extent necessary to satisfy the Debt Service Reserve Requirement with either cash, qualified Reserve Financial Guaranties or a combination thereof.

The Corporation agrees that, so long as any of the Bonds remain Outstanding, all of the Operating Revenues shall be deposited as soon as practicable upon receipt in a fund designated as the "Operating

Fund” which the Corporation shall establish and maintain, subject to the provisions of the Agreement, in an account or accounts at such banking institution or institutions as the Corporation shall from time to time designate in writing to the Trustee for such purpose (herein called the “Depository Bank(s)”).

In the event the Corporation should fail to make any of the payments required by the Agreement, such payments shall continue as obligations of the Corporation until such amounts shall have been fully paid. The Corporation agrees to pay such amounts, together with interest thereon until paid, to the extent permitted by law, at 10% per annum.

**Unconditional Obligation.** The obligations of the Corporation to make the payments required by the Agreement and to perform and observe the other agreements on its part contained in the Agreement shall be absolute and unconditional, irrespective of any defense or any rights of setoff, recoupment or counterclaim it might otherwise have against the Infrastructure Bank or any other Person, and during the term of the Agreement, the Corporation shall 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 shall have been fully paid, or provision for the payment thereof shall have been made as required by the Indenture, the Corporation (i) will not suspend or discontinue any payments provided for in the Agreement; (ii) will perform and observe all of its other covenants contained in the Agreement; and (iii) except as provided in the Agreement, will not terminate the Agreement for any cause, including, without limitation, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to, or taking or condemnation of, all or any part of the Project, termination of any lease relating to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either of these, or any failure of the Infrastructure Bank or the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with the Agreement or the Indenture.

**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 shall have been made as provided in the Indenture, (ii) the fees, charges and expenses of the Trustee, the Registrar, the Tender Agent, the Remarketing Agent, any Paying Agent, any Auction Agent, any Market Agent, any Broker-Dealer 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, shall be applied as provided in the Indenture.

**Liquidity Facility.** 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 shall 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 “—Liquidity Facility,” to provide a source of payment of the Purchase Price of all Variable Rate Bonds. If the short-term ratings assigned to the obligations of any Liquidity Provider then providing a Liquidity Facility (which obligations are payable on a parity with such Liquidity Provider’s obligations under the Liquidity Facility) shall be reduced below “A-1” by S&P, “VMIG-1” by Moody’s, or “F-1” by Fitch, then the Corporation shall use its best efforts to provide a substitute Liquidity Facility in accordance with the Agreement, within 60 days of the reduction of such ratings.

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 shall 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 shall not permit any Liquidity Facility in effect to terminate with respect to any Series of Bonds during any Variable Rate Period unless such Series of Bonds are then required to be tendered for purchase pursuant to the mandatory tender provisions of the Indenture.

(c) Subject to the consent of the Insurer, the Corporation may at any time provide a substitute Liquidity Facility with respect to a Series of Bonds during any Variable Rate Period in accordance with the provisions of the Agreement and of the Indenture and upon delivery to the Trustee of the items specified in the Agreement; provided, however, that the Corporation shall 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 under 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);

(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; and

(v) on the effective date of the substitution, the short-term ratings assigned to the obligations of each issuer or provider (which obligations are payable on a parity with the obligations of such issuer or provider under the substitute Liquidity Facility) of the substitute Liquidity Facility must be at least "A-1" by S&P, "VMIG-1" by Moody's, or "F-1" by Fitch.

On or prior to the date of the delivery of a substitute Liquidity Facility to the Trustee pursuant to the Agreement, the Corporation shall 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, and (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.

### **Special Covenants and Agreements**

**Right of Access to the Facilities.** The Corporation agrees that during the term of the Agreement, and, to the extent within its control, for so long as the Corporation owns or operates the Facilities, the Infrastructure Bank, the Trustee, the Insurer, the Liquidity Provider and the duly authorized agents of any

of them shall have the right (but not the duty) at all reasonable times during normal business hours to enter upon the sites of the Facilities to examine and inspect the Facilities; provided, however, that this right is subject to federal and State laws and regulations applicable to the sites of the Facilities; and provided further that the Corporation reserves the right to restrict access to the Facilities in accordance with reasonably adopted procedures relating to safety and security. The rights of access reserved to the Infrastructure Bank, the Trustee, the Insurer, the Liquidity Provider and their respective authorized agents may be exercised only after the party seeking such access shall have given reasonable advance notice and executed release of liability (which release shall not limit any of the Corporation's obligations under the Agreement) agreements if requested by the Corporation in the form then currently used by the Corporation. Nothing contained in this paragraph or in any other provision of the Agreement shall be construed to entitle the Infrastructure Bank, the Trustee, the Insurer or the Liquidity Provider or any agent of any of such parties to any information or inspection involving the confidential know-how of the Corporation or any computer software.

**Corporation's Maintenance of Its Existence; Assignments.** The Corporation agrees that during the term of the Agreement and so long as any Bond is Outstanding, it will maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets, and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; provided, that the Corporation may, without violating the agreements contained in the Agreement, consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets as an entirety and thereafter dissolve; provided, that in the event the Corporation is not the surviving, resulting or transferee corporation, as the case may be, that the surviving, resulting or transferee corporation (i) is a corporation organized under the laws of the United States or any state, district or territory thereof; (ii) is qualified to do business in the State; and (iii) assumes in writing all of the obligations of the Corporation under the Agreement. Notwithstanding the foregoing, as a condition precedent to any consolidation, merger, sale or other transfer, the Trustee and the Infrastructure Bank shall receive an Opinion of Bond Counsel to the effect that such merger, consolidation, sale or other transfer will not in and of itself affect the Tax-Exempt status of interest on the Bonds.

Notwithstanding any other provision of the Agreement described under "—Corporation's Maintenance of Its Existence; Assignments," the Corporation need not comply with any of the provisions of the preceding paragraph if, at the time of any transaction not satisfying the terms of the preceding paragraph, provision for the payment of all Outstanding Bonds will be made as provided in the Indenture.

The rights and obligations of the Corporation under the Agreement may be assigned by the Corporation, in whole or in part; provided, however, that any assignment other than pursuant to the first paragraph above shall be subject to each of the following conditions:

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

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

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

(iv) The Corporation shall cause to be delivered to the Infrastructure Bank and the Trustee an Opinion of Bond Counsel to the effect that such assignment will not, in and of itself, adversely affect the Tax-Exempt status of interest on the Bonds.

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

**Maintenance And Repair; Taxes; Utility And Other Charges; Insurance.** For so long as the Facilities are in operation, the Corporation agrees to maintain, to the extent permitted by applicable law and regulation, the Facilities, or cause the Facilities to be so maintained, during the term of the Agreement (i) in as reasonably safe condition as its operations shall permit and (ii) in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof.

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

Nothing contained in the foregoing shall constitute a limitation on any provision with respect to the maintenance of the Facilities or the payment of taxes and governmental and other charges in connection with the Facilities.

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

**Tax-Exempt Status of Interest On Bonds.**

(a) It is the intention of the parties to the Agreement that interest on the Bonds shall be and remain Tax-Exempt, and to that end the covenants and agreements of the Infrastructure Bank and the Corporation in the following provisions and the Tax Certificate are for the benefit of the Trustee and each and every person who at any time will be a Holder of the Bonds.

(b) Each of the Corporation and the Infrastructure Bank covenants and agrees that it will not directly or indirectly use or permit the use of any proceeds of the Bonds or other funds, or take or omit to

take any action that will cause any Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code. Each of the Corporation and the Infrastructure Bank further covenants and agrees that it will not direct the Trustee to invest any funds held by it under the Indenture or the Agreement, in such manner as would, or enter into or allow any related person to enter into any arrangement (formal or informal) that would, cause any Bond to be an "arbitrage bond" within the meaning of Section 148(a) of the Code. To such ends with respect to the Bonds, the Infrastructure Bank and the Corporation will comply with all requirements of Section 148 of the Code to the extent applicable to the Bonds. In the event that at any time the Infrastructure Bank or the Corporation is of the opinion that it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Agreement or the Indenture, the Infrastructure Bank or the Corporation shall so instruct the Trustee in writing and the Trustee shall comply with such written instructions.

Without limiting the generality of the foregoing, the Corporation and the Infrastructure Bank agree that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any applicable Treasury Regulations. This covenant shall survive payment in full of the Bonds or provision for the payment of the Bonds in accordance with the Indenture. The Corporation specifically covenants to calculate or cause to be calculated and to pay or cause to be paid for and on behalf of the Infrastructure Bank to the United States at the times and in the amounts determined under the Indenture the Rebate Requirement as described in the Tax Certificate, and under no circumstance shall payment of the Rebate Requirement be the obligation of the Infrastructure Bank.

(c) The Infrastructure Bank certifies, represents and agrees that it has not taken, and will not take, any action which will cause interest paid on the Bonds to become includable in gross income of the Holders of the Bonds for federal income tax purposes pursuant to Sections 103 and 141 through 150 of the Code; and the Corporation certifies and represents that it has not taken or, to the extent within its control, permitted to be taken, and the Corporation covenants and agrees that it will not take or, to the extent within its control, permit to be taken any action which will cause the interest on the Bonds to become includable in gross income of the Holders of the Bonds for federal income tax purposes pursuant to the provisions of Article XIII of the Tax Reform Act of 1986; provided that neither the Corporation nor the Infrastructure Bank shall have violated these covenants if the interest on any of the Bonds becomes taxable to a Person solely because such person is a "substantial user" of the financed facilities or a "related person" within the meaning of Section 103(b)(13) of the Code; and provided, further, that none of the covenants and agreements contained in the Agreement shall require either the Corporation or the Infrastructure Bank to enter an appearance or intervene in any administrative, legislative or judicial proceeding in connection with any changes in applicable laws, rules or regulations or in connection with any decisions of any court or administrative agency or other governmental body affecting the taxation of interest on the Bonds. The Corporation agrees to perform all duties imposed on it by the tax provisions of the Indenture, by provisions of the Agreement described under this "Tax-Exempt Status of Interest On Bonds" and by the Tax Certificate.

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

**Notice of Rate Periods.** The Corporation shall designate and give timely written notice to the Trustee as required by the Indenture prior to any change in Rate Periods for the Bonds. In addition, if the Corporation shall elect to change Rate Periods in accordance with the Indenture under circumstances requiring the delivery of an Opinion of Bond Counsel, the Corporation shall deliver such opinion to the Trustee concurrently with the giving of notice with respect thereto.

**Remarketing of the Bonds.** The Corporation agrees to perform all obligations and duties required of it by the Indenture and the Remarketing Agreement with respect to any remarketing of the Bonds. If requested in writing by the Insurer, the Corporation shall remove the Remarketing Agent pursuant to the terms of the Remarketing Agreement.

**Purchase of Bonds.** The Corporation agrees that it shall not purchase, and it shall cause any guarantor or affiliate of the Corporation not to purchase, Bonds from the Remarketing Agent or otherwise.

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

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

**Damage to Or Condemnation of Facilities.** As between the Infrastructure Bank and the Corporation, the Corporation shall be entitled to the Net Proceeds of any insurance or condemnation award or portion thereof made for damages to or takings of the Facilities.

### **Events of Default and Remedies**

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

(a) failure by the Corporation to pay or cause to be paid any amounts required to be paid under the Agreement when due or to make the deposits required to be made under the Agreement 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 shall specify such failure and request that it be remedied, unless the Infrastructure Bank and the Trustee shall agree in writing to an extension of such time period; provided, however, that if the failure stated in the notice cannot be corrected within such period, the Infrastructure Bank and the Trustee will not unreasonably withhold their consent to an extension of such time period if corrective action is instituted within such period and diligently pursued until the default is corrected;

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

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

(d) the occurrence of an Event of Default under the Indenture.

The provisions of subsection (b) of the preceding paragraph are subject to the limitation that the Corporation shall not be deemed in default if and so long as the Corporation is unable to carry out its agreements under the Agreement, other than its agreements to make payments, by reason of strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Corporation; it being agreed that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Corporation, and the Corporation shall 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 shall not apply to any default under subsections (a), (c) or (d) of the provisions described under "—Events of Default," or any agreement to make payments.

**Remedies On Default.** Whenever any Event of Default shall have occurred and shall 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, and, upon the written request of the Insurer, shall, declare the unpaid balance of the loan payable under the Agreement in an amount equal to the Outstanding principal amount of the Bonds, together with the interest accrued thereon, to be immediately due and payable, but may do so only if the Bonds have been accelerated as provided in the Indenture.

(b) The Trustee may have access to and may inspect, examine and make copies of the books and records and any and all accounts, data and federal income tax and other tax returns of the Corporation.

(c) The Infrastructure Bank or the Trustee may take whatever action or institute any proceeding, at law or in equity, as may be necessary or desirable for the collection of the payments and other amounts then due including enforcing the security interest in the Net Operating Revenues granted by the Corporation pursuant to the Agreement and thereafter to become due under the Agreement or the enforcement of the performance and observance of any obligation, agreement or covenant of the Corporation under the Agreement, including but not limited to instituting and prosecuting to judgment or final decree and enforcing any such judgment or decree against the Corporation and collect in the manner provided by law moneys decreed to be payable.

(d) The provisions of subsection (a) above, however, are subject to the condition that if, at any time after the loan shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Agreement, there shall have been deposited with the Trustee a sum sufficient to pay all the principal of the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all such Bonds, with interest on such overdue installments of principal as

provided in the Agreement, and the reasonable fees and expenses of the Trustee, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on such Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall 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 shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

In case the Trustee or the Infrastructure Bank shall have proceeded to enforce its rights under the Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall 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 shall 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 shall 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 shall not be disturbed by reason of this provision).

Notwithstanding the foregoing, upon the occurrence and continuance of an Event of Default under the Agreement, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders or the Trustee for the benefit of the Holders under the Agreement, including, without limitation: (a) the right to declare the unpaid balance of the loan payable under the Agreement, and (b) the right to annul any such declaration, and the Insurer shall also be entitled to approve all waivers of Events of Default under the Agreement.

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

**No Remedy Exclusive.** No remedy conferred upon or reserved to the Infrastructure Bank or the Trustee in the Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Infrastructure Bank or the Trustee to exercise any remedy reserved to it in the Indenture, it shall not be necessary to give any notice, other than such notice as may be expressly required in the Agreement. Such rights and remedies as are given the Infrastructure Bank under the Agreement shall also extend to the Trustee, and the Trustee and the Holders of the Bonds shall be deemed third party beneficiaries of all covenants and agreements contained in the Agreement. To the extent that any covenants and agreements in the Agreement expressly grant rights to the Insurer, it shall be deemed a third party beneficiary of such covenants and agreements.

**No Additional Waiver Implied By One Waiver.** In the event any agreement or covenant contained in the Agreement should be breached by the Corporation and thereafter waived by the Infrastructure Bank or the Trustee, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach under the Agreement.

#### **Nonliability of Infrastructure Bank**

**Nonliability of Infrastructure Bank.** The Infrastructure Bank shall 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 agrees that if the payments to be made under the Agreement shall ever prove insufficient to pay all principal of, and premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Corporation shall 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.

#### **Miscellaneous**

**Amendments, Changes and Modifications.** Except as otherwise provided in the Agreement or the Indenture, the Agreement may not be effectively amended, changed, modified, altered or terminated except in accordance with the Indenture.

**Governing Law; Venue.** The Agreement shall be construed in accordance with and governed by the Constitution and laws of the State applicable to contracts made and performed in the State. The Agreement shall be enforceable in the State, and any action arising out of the Agreement shall be filed and maintained in a court in Sacramento County, California, unless the Infrastructure Bank waives this requirement.

**Insurer.** All provisions of the Indenture regarding consents, approvals, directions, appointments or requests by the Insurer shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by the Insurer during any time in which the Insurer has failed to honor a demand for payment presented to it in strict conformance with the applicable provisions of the Bond Insurance Policy, or after the Bond Insurance Policy shall at anytime for any reason cease to be valid and binding on the Insurer, or while the Insurer is denying further liability or obligation under the Bond Insurance Policy or after the Insurer has rescinded, repudiated or terminated the Bond Insurance Policy.

**Liquidity Provider.** All provisions of the Indenture regarding consents, approvals, directions, appointments or requests by a Liquidity Provider shall be deemed not to require or permit such consents, approvals, directions, appointments or requests by such Liquidity Provider during any time in which no Liquidity Facility has been delivered, or such Liquidity Provider has failed to honor a demand for payment presented to it in strict conformance with the provisions of the applicable Liquidity Facility, or after the applicable Liquidity Facility shall at any time for any reason cease to be valid and binding on such Liquidity Provider, or while such Liquidity Provider is denying further liability or obligation under the applicable Liquidity Facility (unless such Liquidity Facility has been fully drawn or to the extent that the conditions to making a demand for payment thereunder have not been strictly satisfied) or after such Liquidity Provider has rescinded, repudiated or terminated the Liquidity Facility.

All provisions in the Agreement relating to a Liquidity Provider shall be of no force and effect with respect to such Liquidity Provider if the applicable Liquidity Facility is not in effect, there are no related Liquidity Provider Bonds with respect to the applicable Liquidity Facility and all amounts owing to such Liquidity Provider under the applicable Liquidity Facility have been paid.

## APPENDIX B

### BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from DTC and the Corporation takes no responsibility for the completeness or accuracy thereof. The Corporation cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.*

The DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of each Series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC," "GSCC," "MBSCC," and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of

the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Bonds will reduce the outstanding principal amount of Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Bonds for the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Indenture and will not be conducted by the Corporation or the Paying Agent.

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

Payments of principal of, premium, if any, and interest evidenced by the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation or the Paying Agent, on payable date in accordance with their

respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent, or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

*Procedures in the Event of a Tender of a Bond.* As more fully described in this Official Statement, the Owner of a Bond may have the right to or be required to tender its Bond for purchase 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 mechanics for exercising such tender for purchase 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 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 receive timely payment of the purchase price thereof in the manner described in this Official Statement. As noted above, neither the District nor the Trustee will have any responsibility to any Beneficial Owner with respect to the timely remittance by DTC or any Direct or Indirect Participant of the purchase price of the Bonds.

NEITHER THE CORPORATION, THE INFRASTRUCTURE BANK NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR PREPAYMENT.

Neither the Corporation, the Infrastructure Bank nor the Paying Agent can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Corporation or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, security certificates are required to be printed and delivered.

The Infrastructure Bank may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply. The foregoing information concerning DTC concerning and DTC's book-entry

system has been provided by DTC, and none of the Corporation, the Infrastructure Bank or the Paying Agent take any responsibility for the accuracy thereof.

The Corporation, the Infrastructure Bank and the Underwriters do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, 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 Corporation, the Infrastructure Bank nor the Underwriters is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

**APPENDIX C**

**FORM OF OPINION OF BOND COUNSEL**

*Upon issuance of the Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel, proposes to render its final opinion with respect to the Bonds in substantially the following form:*

[Date of Issuance]

California Infrastructure and Economic Development Bank  
1101 I Street  
Sacramento, California

California Infrastructure and Economic Development Bank  
Variable Rate Demand Revenue Bonds  
(California Independent System Operator Corporation Project)  
2004 Series A and 2004 Series B  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with issuance by the California Infrastructure and Economic Development Bank (the "Infrastructure Bank") of \$124,100,000 aggregate principal amount of California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds (California Independent System Operator Corporation Project) 2004 Series A and 2004 Series B (the "Bonds"), issued pursuant to the provisions of the Bergeson-Peace Infrastructure and Economic Development Bank Act of the State of California (constituting Division 1 of Title 6.7 of the Government Code of the State of California, commencing with Section 63000), and an Indenture of Trust, dated as of December 1, 2004 (the "Indenture"), between the Infrastructure Bank and Deutsche Bank National Trust Company, as trustee (the "Trustee"). The Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to the California Independent System Operator Corporation, a California nonprofit public benefit corporation (the "Corporation"), pursuant to a Loan Agreement, dated as of December 1, 2004 (the "Agreement"), between the Infrastructure Bank and the Corporation. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Agreement, the Tax Certificate and Agreement, dated the date hereof (the "Tax Agreement"), between the Infrastructure Bank and the Corporation, opinions of counsel to the Infrastructure Bank, the Trustee and the Corporation, certificates of the Infrastructure Bank, the Trustee, the Corporation and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein assume that the Corporation is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We are issuing a separate opinion to the Infrastructure Bank regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. We note that such opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Corporation regarding the use of the assets financed with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code. We note that our opinion regarding the qualification of the Corporation as an organization described in Section 501(c)(3) of the Code does not address Section 513 of the Code. Failure of the Corporation to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the Bond-financed assets in activities that are considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Agreement, the Tax Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Infrastructure Bank. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Agreement and the Tax Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against instrumentalities and agencies of the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the personal property described in or as subject to the lien of the Indenture or the Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Infrastructure Bank.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Infrastructure Bank. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid assignment to the Trustee, for the benefit of the holders from time to time of the Bonds, of the right, title and interest of the Infrastructure Bank in the Agreement (to the extent more particularly described in the Indenture).

3. The Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Infrastructure Bank.

4. The Bonds are not a lien or charge upon the funds or property of the Infrastructure Bank except to the extent of the aforementioned pledge and assignment. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

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**APPENDIX D**

**SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY**

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# Financial Guaranty Insurance Policy

Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

## Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

**In Witness Whereof**, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

### Ambac Assurance Corporation



President



Secretary

Authorized Representative

## Endorsement

Policy for

Attached to and forming part of Policy No.:

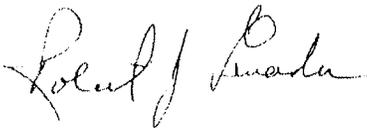
Effective Date of Endorsement:

The Policy to which this endorsement is attached and of which it forms a part is hereby amended to provide that the payment by Ambac to the Insurance Trustee, for the benefit of the Holders, of the principal of and interest on the Obligations which shall become Due for Payment but which are unpaid by reason of Nonpayment by the Obligor shall include (i) interest at the Bank Rate (as defined in the Standby Agreement referred to below) that shall become Due for Payment but which is unpaid by reason of Nonpayment on any Liquidity Provider Bond (as defined in the Standby Agreement), and (ii) the principal amount of such Liquidity Provider Bond on each mandatory redemption date of the Liquidity Provider Bonds pursuant to Section 5.0 (b) of the Standby Bond Purchase Agreement, dated as of December 1, 2004 (the "Standby Agreement"), among the California Independent System Operator Corporation, Deutsche Bank National Trust Company, Bank of America, N.A. and JPMorgan Chase Bank. Amounts Due for Payment under the Policy shall not, however, include (a) Deferred Interest (as defined in the Standby Agreement) to the extent such interest would cause Liquidity Provider Bonds to bear interest in excess of the Maximum Interest Rate (as defined in the Standby Agreement) and (b) interest accrued on Deferred Interest.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

**In Witness Whereof**, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative

### Ambac Assurance Corporation



President



Secretary

Form No. 2B-0076 (7/97)

Authorized Representative

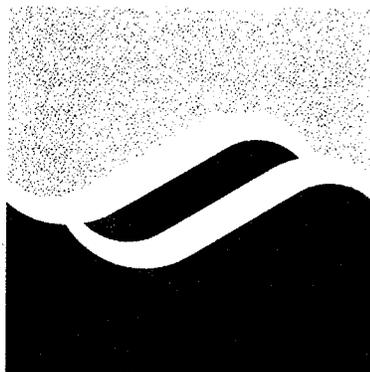
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**EXHIBIT G**

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California Independent System Operator Corp.  
New Money - Insured VRDBs  
Series 2007  
Based on Market Conditions as of 2/4/2007

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SOURCES AND USES OF FUNDS

California Independent System Operator Corp.  
New Money - Insured VRDBs  
Series 2007  
Based on Market Conditions as of 2/4/2007

Sources:

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Bond Proceeds:	
Par Amount	60,000,000.00
	<hr/>
	60,000,000.00

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Uses:

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Project Fund Deposits:	
Project Fund	52,096,679.58
Other Fund Deposits:	
Debt Service Reserve Fund	6,000,000.00
Capitalized Interest Fund	<hr/>
	570,000.00
	6,570,000.00
Cost of Issuance:	
Other Cost of Issuance	900,000.00
Other Delivery Date Expenses:	
Bond Insurance Premium (60 bps)	433,320.42
	<hr/>
	60,000,000.00

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**BOND SUMMARY STATISTICS**

California Independent System Operator Corp.  
 New Money - Insured VRDBs  
 Series 2007  
 Based on Market Conditions as of 2/4/2007

Dated Date	04/01/2007
Delivery Date	04/01/2007
Last Maturity	02/01/2013
Arbitrage Yield	3.867779%
True Interest Cost (TIC)	3.926382%
Net Interest Cost (NIC)	3.454570%
All-In TIC	4.368372%
Average Coupon	3.454570%
Average Life (years)	3.792
Duration of Issue (years)	3.477
Par Amount	60,000,000.00
Bond Proceeds	60,000,000.00
Total Interest	7,859,664.74
Net Interest	7,859,664.74
Total Debt Service	67,859,664.74
Maximum Annual Debt Service	22,702,354.97
Average Annual Debt Service	11,633,085.38
Underwriter's Fees (per \$1000)	
Average Takedown	
Other Fee	
Total Underwriter's Discount	
Bid Price	100.000000

Bond Component	Par Value	Price	Average Coupon	Average Life
VRDB Maturities	60,000,000.00	100.000	3.455%	3.792
	60,000,000.00			3.792

	TIC	All-In TIC	Arbitrage Yield
Par Value	60,000,000.00	60,000,000.00	60,000,000.00
+ Accrued Interest			
+ Premium (Discount)			
- Underwriter's Discount			
- Cost of Issuance Expense		-900,000.00	
- Other Amounts	-433,320.42	-433,320.42	-433,320.42
Target Value	59,566,679.58	58,666,679.58	59,566,679.58
Target Date	04/01/2007	04/01/2007	04/01/2007
Yield	3.926382%	4.368372%	3.867779%

BOND PRICING

California Independent System Operator Corp.  
 New Money - Insured VRDBs  
 Series 2007  
 Based on Market Conditions as of 2/4/2007

Bond Component	Maturity Date	Amount	Rate	Yield	Price
VRDB Maturities:					
	02/01/2008	1,565,000	3.450%	3.450%	100.000
	02/01/2009	1,845,000	3.450%	3.450%	100.000
	02/01/2010	20,750,000	3.450%	3.450%	100.000
	02/01/2011	16,280,000	3.450%	3.450%	100.000
	02/01/2012	12,470,000	3.450%	3.450%	100.000
	02/01/2013	7,090,000	3.450%	3.450%	100.000
		60,000,000			

Dated Date	04/01/2007	
Delivery Date	04/01/2007	
First Coupon	05/01/2007	
Par Amount	60,000,000.00	
Original Issue Discount		
Production	60,000,000.00	100.000000%
Underwriter's Discount		
Purchase Price	60,000,000.00	100.000000%
Accrued Interest		
Net Proceeds	60,000,000.00	

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PROJECT FUND

California Independent System Operator Corp.  
New Money - Insured VRDBs  
Series 2007  
Based on Market Conditions as of 2/4/2007

Project Fund

Date	Deposit	Interest @ 3.8677787%	Principal	Scheduled Draws	Balance
04/01/2007	52,096,679.58		52,096,679.58	52,096,679.58	
	52,096,679.58	0	52,096,679.58	52,096,679.58	

Arbitrage Yield: 3.8677787%

**BOND DEBT SERVICE**

California Independent System Operator Corp.  
 New Money - Insured VRDBs  
 Series 2007  
 Based on Market Conditions as of 2/4/2007

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service	Bond Balance	Total Bond Value
08/01/2007			691,890.42	691,890.42		60,000,000	60,000,000
02/01/2008	1,565,000	3.450%	1,043,506.86	2,608,506.86	3,300,397.28	58,435,000	58,435,000
08/01/2008			1,002,495.53	1,002,495.53		58,435,000	58,435,000
02/01/2009	1,845,000	3.450%	1,013,511.96	2,858,511.96	3,861,007.49	56,590,000	56,590,000
08/01/2009			968,154.11	968,154.11		56,590,000	56,590,000
02/01/2010	20,750,000	3.450%	984,200.86	21,734,200.86	22,702,354.97	35,840,000	35,840,000
08/01/2010			613,158.57	613,158.57		35,840,000	35,840,000
02/01/2011	16,280,000	3.450%	623,321.42	16,903,321.42	17,516,479.99	19,560,000	19,560,000
08/01/2011			334,636.77	334,636.77		19,560,000	19,560,000
02/01/2012	12,470,000	3.450%	340,183.24	12,810,183.24	13,144,820.01	7,090,000	7,090,000
08/01/2012			121,634.18	121,634.18		7,090,000	7,090,000
02/01/2013	7,090,000	3.450%	122,970.82	7,212,970.82	7,334,605.00		
	60,000,000		7,859,664.74	67,859,664.74	67,859,664.74		

RESERVE FUND

California Independent System Operator Corp.  
 New Money - Insured VRDBs  
 Series 2007  
 Based on Market Conditions as of 2/4/2007

Debt Service Reserve Fund

Date	Deposit	Interest @ 3.8677787%	Principal	Debt Service	Balance
04/01/2007	6,000,000				6,000,000
08/01/2007		77,355.57		-77,355.57	6,000,000
02/01/2008		116,033.36		-116,033.36	6,000,000
08/01/2008		116,033.36		-116,033.36	6,000,000
02/01/2009		116,033.36		-116,033.36	6,000,000
08/01/2009		116,033.36		-116,033.36	6,000,000
02/01/2010		116,033.36		-116,033.36	6,000,000
08/01/2010		116,033.36		-116,033.36	6,000,000
02/01/2011		116,033.36		-116,033.36	6,000,000
08/01/2011		116,033.36		-116,033.36	6,000,000
02/01/2012		116,033.36		-116,033.36	6,000,000
08/01/2012		116,033.36		-116,033.36	6,000,000
02/01/2013		116,033.36	6,000,000	-6,116,033.36	
	6,000,000	1,353,722.53	6,000,000	-7,353,722.53	

Yield To Receipt Date: 3.8685645%  
 Arbitrage Yield: 3.8677787%  
 Value of Negative Arbitrage: -244.06

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RESERVE FUND

California Independent System Operator Corp.  
New Money - Insured VRDBs  
Series 2007  
Based on Market Conditions as of 2/4/2007

Capitalized Interest Fund

Date	Deposit	Interest @ 3.8677787%	Principal	Scheduled Draws	Balance
04/01/2007	570,000				570,000.00
05/01/2007		1,822.56	168,314.43	170,136.99	401,685.57
06/01/2007		1,284.38	174,523.84	175,808.22	227,161.73
07/01/2007		726.35	169,410.64	170,136.99	57,751.09
08/01/2007		184.66	57,751.09	57,935.75	
	570,000	4,017.95	570,000.00	574,017.95	

Yield To Receipt Date: 3.8677804%  
Arbitrage Yield: 3.8677787%  
Value of Negative Arbitrage: -0.00

NET DEBT SERVICE

California Independent System Operator Corp.  
New Money - Insured VRDBs  
Series 2007

Based on Market Conditions as of 2/4/2007

Date	Principal	Interest	Total Debt Service	Remarketing Fee (5.75 bps)	Standby Bond Purchase Agmt (18 bps)	General Fund	Debt Service Reserve Fund	Capitalized Interest Fund	Net Debt Service
05/01/2007		170,136.99	170,136.99	2,835.62				170,136.99	2,835.62
06/01/2007		175,808.22	175,808.22					175,808.22	
07/01/2007		170,136.99	170,136.99					170,136.99	
08/01/2007		175,808.22	175,808.22	8,695.89	27,311.97		77,355.57	57,935.75	76,524.76
09/01/2007		175,808.22	175,808.22						175,808.22
10/01/2007		170,136.99	170,136.99						170,136.99
11/01/2007		175,808.22	175,808.22	8,695.89	27,311.97				170,136.99
12/01/2007		170,136.99	170,136.99						211,816.08
01/01/2008		175,808.22	175,808.22						170,136.99
02/01/2008	1,565,000	175,808.22	1,740,808.22	8,695.89	27,311.97		116,033.36		175,808.22
03/01/2008		159,738.30	159,738.30						1,660,782.72
04/01/2008		170,754.73	170,754.73						159,738.30
05/01/2008		165,246.52	165,246.52	8,284.96	26,021.33				170,754.73
06/01/2008		170,754.73	170,754.73						199,552.81
07/01/2008		165,246.52	165,246.52						170,754.73
08/01/2008		170,754.73	170,754.73	8,469.07	26,599.59		116,033.36		165,246.52
09/01/2008		170,754.73	170,754.73						89,790.03
10/01/2008		165,246.52	165,246.52						170,754.73
11/01/2008		170,754.73	170,754.73	8,469.07	26,599.59				165,246.52
12/01/2008		165,246.52	165,246.52						205,823.39
01/01/2009		170,754.73	170,754.73						165,246.52
02/01/2009	1,845,000	170,754.73	2,015,754.73	8,469.07	26,599.59		116,033.36		170,754.73
03/01/2009		149,769.70	149,769.70						1,934,790.03
04/01/2009		165,816.45	165,816.45						149,769.70
05/01/2009		160,467.53	160,467.53	7,934.23	24,919.75				165,816.45
06/01/2009		165,816.45	165,816.45						193,321.51
07/01/2009		160,467.53	160,467.53						165,816.45
08/01/2009		165,816.45	165,816.45	8,201.67	25,759.74		116,033.36		160,467.53
09/01/2009		165,816.45	165,816.45						83,744.50
10/01/2009		160,467.53	160,467.53						165,816.45
11/01/2009		165,816.45	165,816.45	8,201.67	25,759.74				160,467.53
12/01/2009		160,467.53	160,467.53						199,777.86
01/01/2010		165,816.45	165,816.45						160,467.53
02/01/2010	20,750,000	165,816.45	20,915,816.45	8,201.67	25,759.74		116,033.36		165,816.45
03/01/2010		94,853.26	94,853.26						20,833,744.50
									94,853.26

NET DEBT SERVICE

California Independent System Operator Corp.  
 New Money - Insured VRDBs  
 Series 2007  
 Based on Market Conditions as of 2/4/2007

Date	Principal	Interest	Total Debt Service	Remarketing Fee (5.75 bps)	Standby Bond Purchase Agmt (18 bps)	General Fund	Debt Service Reserve Fund	Capitalized Interest Fund	Net Debt Service
04/01/2010		105,016.11	105,016.11						105,016.11
05/01/2010		101,628.49	101,628.49	5,024.96	15,782.36				122,435.81
06/01/2010		105,016.11	105,016.11						105,016.11
07/01/2010		101,628.49	101,628.49	5,194.35	16,314.35		116,033.36		101,628.49
08/01/2010		105,016.11	105,016.11						10,491.45
09/01/2010		105,016.11	105,016.11						105,016.11
10/01/2010		101,628.49	101,628.49	5,194.35	16,314.35				101,628.49
11/01/2010		105,016.11	105,016.11						126,524.81
12/01/2010		101,628.49	101,628.49	5,194.35	16,314.35				101,628.49
01/01/2011		105,016.11	105,016.11						105,016.11
02/01/2011	16,280,000	105,016.11	16,385,016.11	5,194.35	16,314.35		116,033.36		16,290,491.45
03/01/2011		51,767.01	51,767.01						51,767.01
04/01/2011		57,313.48	57,313.48	2,742.42	8,613.37				57,313.48
05/01/2011		55,464.66	55,464.66						66,820.45
06/01/2011		57,313.48	57,313.48						57,313.48
07/01/2011		55,464.66	55,464.66						55,464.66
08/01/2011		57,313.48	57,313.48	2,834.86	8,903.70	-46,981.32	116,033.36		10,332.16
09/01/2011		57,313.48	57,313.48			46,981.32			55,464.66
10/01/2011		55,464.66	55,464.66	2,834.86	8,903.70				69,052.04
11/01/2011		57,313.48	57,313.48						55,464.66
12/01/2011		55,464.66	55,464.66						57,313.48
01/01/2012		57,313.48	57,313.48	2,834.86	8,903.70		116,033.36		12,423,018.68
02/01/2012	12,470,000	57,313.48	12,527,313.48						19,381.27
03/01/2012		19,381.27	19,381.27						20,717.91
04/01/2012		20,717.91	20,717.91	1,005.23	3,157.20				24,212.02
05/01/2012		20,049.59	20,049.59						20,717.91
06/01/2012		20,717.91	20,717.91						20,717.91
07/01/2012		20,049.59	20,049.59	1,027.56	3,227.36		116,033.36		20,049.59
08/01/2012		20,717.91	20,717.91			-91,060.53			
09/01/2012		20,717.91	20,717.91			20,717.91			
10/01/2012		20,049.59	20,049.59			20,049.59			

NET DEBT SERVICE

California Independent System Operator Corp.  
 New Money - Insured VRDBs  
 Series 2007  
 Based on Market Conditions as of 2/4/2007

Date	Principal	Interest	Total Debt Service	Remarketing Fee (5.75 bps)	Standby Bond Purchase Agmt (18 bps)	General Fund	Debt Service Reserve Fund	Capitalized Interest Fund	Net Debt Service
11/01/2012		20,717.91	20,717.91	1,027.56	3,227.36	24,972.83			
12/01/2012		20,049.59	20,049.59			20,049.59			
01/01/2013		20,717.91	20,717.91			5,270.61			15,447.30
02/01/2013	7,090,000	20,717.91	7,110,717.91	1,027.56	3,227.36		6,116,033.36		998,939.47
	60,000,000	7,859,664.74	67,859,664.74	131,097.62	402,844.14	0.00	7,353,722.53	574,017.95	60,465,866.02

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BOND SOLUTION

California Independent System Operator Corp.  
New Money - Insured VRDBs  
Series 2007  
Based on Market Conditions as of 2/4/2007

Period Ending	Proposed Principal	Proposed Debt Service	Debt Service Adjustments	Total Adj Debt Service	Revenue Constraints	Unused Revenues	Debt Serv Coverage
02/01/2008	1,565,000	3,300,397	110,859	3,411,256	5,451,950	2,040,694	159.82234%
02/01/2009	1,845,000	3,861,007	139,512	4,000,520	6,393,450	2,392,930	159.81548%
02/01/2010	20,750,000	22,702,355	134,738	22,837,093	36,489,950	13,652,857	159.78369%
02/01/2011	16,280,000	17,516,480	85,333	17,601,813	28,127,450	10,525,637	159.79859%
02/01/2012	12,470,000	13,144,820	46,571	13,191,391	21,075,450	7,884,059	159.76669%
02/01/2013	7,090,000	7,334,605	16,927	7,351,532	11,742,160	4,390,628	159.72398%
	60,000,000	67,859,665	533,942	68,393,607	109,280,410	40,886,804	

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PROOF OF ARBITRAGE YIELD

California Independent System Operator Corp.  
 New Money - Insured VRDBs  
 Series 2007  
 Based on Market Conditions as of 2/4/2007

Date	Debt Service	Expenses	Total	Present Value to 04/01/2007 @ 3.8677787%
05/01/2007	170,136.99		170,136.99	169,594.71
06/01/2007	175,808.22		175,808.22	174,689.30
07/01/2007	170,136.99		170,136.99	168,515.34
08/01/2007	175,808.22	27,311.97	203,120.19	200,542.93
09/01/2007	175,808.22		175,808.22	173,024.27
10/01/2007	170,136.99		170,136.99	166,909.15
11/01/2007	175,808.22	27,311.97	203,120.19	198,631.47
12/01/2007	170,136.99		170,136.99	165,846.87
01/01/2008	175,808.22		175,808.22	170,828.88
02/01/2008	1,740,808.22	27,311.97	1,768,120.19	1,712,566.55
03/01/2008	159,738.30		159,738.30	154,226.25
04/01/2008	170,754.73		170,754.73	164,337.07
05/01/2008	165,246.52	26,021.33	191,267.85	183,492.51
06/01/2008	170,754.73		170,754.73	163,291.16
07/01/2008	165,246.52		165,246.52	157,520.05
08/01/2008	170,754.73	26,599.59	197,354.32	187,526.96
09/01/2008	170,754.73		170,754.73	161,734.77
10/01/2008	165,246.52		165,246.52	156,018.66
11/01/2008	170,754.73	26,599.59	197,354.32	185,739.56
12/01/2008	165,246.52		165,246.52	155,025.69
01/01/2009	170,754.73		170,754.73	159,682.62
02/01/2009	2,015,754.73	26,599.59	2,042,354.32	1,903,836.17
03/01/2009	149,769.70		149,769.70	139,166.92
04/01/2009	165,816.45		165,816.45	153,586.57
05/01/2009	160,467.53	24,919.75	185,387.28	171,166.64
06/01/2009	165,816.45		165,816.45	152,609.08
07/01/2009	160,467.53		160,467.53	147,215.48
08/01/2009	165,816.45	25,759.74	191,576.19	175,194.88
09/01/2009	165,816.45		165,816.45	151,154.50
10/01/2009	160,467.53		160,467.53	145,812.31
11/01/2009	165,816.45	25,759.74	191,576.19	173,525.03
12/01/2009	160,467.53		160,467.53	144,884.30
01/01/2010	165,816.45		165,816.45	149,236.60
02/01/2010	20,915,816.45	25,759.74	20,941,576.19	18,787,572.09
03/01/2010	94,853.26		94,853.26	84,825.64
04/01/2010	105,016.11		105,016.11	93,614.77
05/01/2010	101,628.49	15,782.36	117,410.85	104,330.25
06/01/2010	105,016.11		105,016.11	93,018.96
07/01/2010	101,628.49		101,628.49	89,731.43
08/01/2010	105,016.11	16,314.35	121,330.46	106,785.56
09/01/2010	105,016.11		105,016.11	92,132.36
10/01/2010	101,628.49		101,628.49	88,876.16
11/01/2010	105,016.11	16,314.35	121,330.46	105,767.74
12/01/2010	101,628.49		101,628.49	88,310.52
01/01/2011	105,016.11		105,016.11	90,963.35
02/01/2011	16,385,016.11	16,314.35	16,401,330.46	14,161,301.93
03/01/2011	51,767.01		51,767.01	44,554.42
04/01/2011	57,313.48		57,313.48	49,170.88
05/01/2011	55,464.66	8,613.37	64,078.03	54,799.17
06/01/2011	57,313.48		57,313.48	48,857.94
07/01/2011	55,464.66		55,464.66	47,131.18
08/01/2011	57,313.48	8,903.70	66,217.18	56,088.81

PROOF OF ARBITRAGE YIELD

California Independent System Operator Corp.  
 New Money - Insured VRDBs  
 Series 2007  
 Based on Market Conditions as of 2/4/2007

Date	Debt Service	Expenses	Total	Present Value to 04/01/2007 @ 3.8677787%
09/01/2011	57,313.48		57,313.48	48,392.25
10/01/2011	55,464.66		55,464.66	46,681.95
11/01/2011	57,313.48	8,903.70	66,217.18	55,554.20
12/01/2011	55,464.66		55,464.66	46,384.85
01/01/2012	57,313.48		57,313.48	47,778.24
02/01/2012	12,527,313.48	8,903.70	12,536,217.18	10,417,258.00
03/01/2012	19,381.27		19,381.27	16,053.98
04/01/2012	20,717.91		20,717.91	17,106.45
05/01/2012	20,049.59	3,157.20	23,206.79	19,100.41
06/01/2012	20,717.91		20,717.91	16,997.58
07/01/2012	20,049.59		20,049.59	16,396.84
08/01/2012	20,717.91	3,227.36	23,945.27	19,520.37
09/01/2012	20,717.91		20,717.91	16,835.57
10/01/2012	20,049.59		20,049.59	16,240.56
11/01/2012	20,717.91	3,227.36	23,945.27	19,334.31
12/01/2012	20,049.59		20,049.59	16,137.20
01/01/2013	20,717.91		20,717.91	16,621.95
02/01/2013	7,110,717.91	3,227.36	7,113,945.27	5,689,318.43
	67,859,664.74	402,844.14	68,262,508.88	59,566,679.58

Proceeds Summary

Delivery date	04/01/2007
Par Value	60,000,000.00
Arbitrage expenses	-433,320.42
Target for yield calculation	59,566,679.58

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COST OF ISSUANCE

California Independent System Operator Corp.  
New Money - Insured VRDBs  
Series 2007  
Based on Market Conditions as of 2/4/2007

Cost of Issuance	\$/1000	Amount
Other Cost of Issuance	15.00	900,000.00
	15.00	900,000.00

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**EXHIBIT H**

Results

The following pages contain additional detail on anticipated 2007 capital and project expenditures:

1. Exhibit: Table: 2007 Capital Budget – Project Listing
2. Exhibit: Detail regarding Priority 1 Capital Projects to be considered for funding from the 2007 Capital Budget

**Exhibit: Table: 2007 Capital Budget – Indicative Project Listing**

Page	ID	Project Name	Priority	Cost Estimate	Evaluation Category
<b>Priority 1 Highest Probability to be Completed</b>					
176	173	Computer Direct Purchases - Hardware and Software and Office Equipment	1	High	A-i
178	286	Alhambra Infrastructure Upgrade	1	High	A-i
180	297	Oracle Ebusiness Suite Enhancements	1	High	A-m
181	316	2007 Facilities Leasehold Improvements/Furniture Purchase/Realignment Moves	1	High	A-g & B-i
182	370	Implement 2 new Network Application Tools - Voltage Stability & Dynamic Stability - <b>2 year Forecast</b>	1	High	A-a
184	383	Upgrade EMS Hardware from True 64 to HP UX and EMS Enhancements	1	High	A-i
185	172	Mandated Market Changes including SaMC(Various)	1	Medium	A-e-7
186	354	Implement Single Outage Management Application - <b>3 year Project</b>	1	Medium	A-e-1
187	377	Tools to Support MRTU Systems and Processes	1	Medium	A-k & e-7
188	382	NERC Required Change to Secure ICCP	1	Medium	A-e-7 & A-c
189	275	EMS Mapboard Upgrade	1	Low	A-e-1 & 6
<b>Funded Level of Projects In 2007 Revenue Requirement</b>				<b>\$ 7,500,000</b>	
<b>Secondary Listing of Priority 1 Projects</b>					
190	311	Folsom Control Room Remodel + Operations Training Simulator	1	High	A-a
191	381	MV-90/MDAS, CAPP Automation	1	High	A-e-5
193	141	EMS System Enhancements -	1	Medium	A-e-1
194	248	Modification of Settlements in support of Payment Acceleration	1	Medium	A-e-2 & 5
195	262	Security- Equipment Upgrade, Replacement, and Enhancement	1	Medium	A-g
196	333	Information Products & Services - Query & Delivery System	1	Medium	A-e-4
198	360	Reliability Capacity Services Tariff Version 2	1	Medium	A-c
200	361	Demand Response System Integration	1	Medium	A-e-10
201	372	ISO/RTO Network Applications Tool Set & State-of-Art Network Applications Technology	1	Medium	A-e-9
202	374	Increase the detail of Network Model and add SCADA to Neighboring Control Areas	1	Medium	A-a
203	367	Development of Monitoring Tools within Actuate	1	Low	A-e-10
205	379	LMP Graphics	1	Low	A-l
<b>Total, Secondary Priority 1 projects</b>				<b>\$ 6,115,500</b>	
<b>Subtotal Priority 1</b>				<b>\$ 13,615,500</b>	

Page	ID	Project Name	Priority	Cost Estimate	Evaluation Category
<b>Priority 2</b>					
N/A	358	Enterprise Local Area Network Infrastructure Upgrade	2	High	
N/A	384	Storage Virtualization	2	High	
N/A	134	Implement Corporate Library	2	Medium	
N/A	306	Market Agent Modeling	2	Medium	B-C
N/A	270	MSS Modifications	2	Medium	B-A
N/A	326	O&M and Capital Budget Tools Redesign	2	Medium	
N/A	371	Renewable Day-Ahead Forecasting Tool	2	Medium	B-A & B-D
N/A	179	Information Security Compliance and Policy Management	2	Medium	
N/A	373	Ramp Forecasting Tool for Renewable	2	Medium	B-A & B-D
N/A	140	EMS Grid Operations Training Simulator (GOTS)	2	Medium	
N/A	190	PI Process Template Upgrades	2	Low	
N/A	293	Client Relations: Automation of Stakeholder Meeting Request	2	Low	
N/A	274	Control Room Alarm System Upgrade	2	Low	
N/A	142	EMS AGC Tuning Tool	2	Low	
N/A	366	Development of Monitoring Tool for Market Trend Analysis	2	Low	B-A & B-I
N/A	277	EMS Date Engineering PDS System	2	Low	
N/A	369	Real-Time Dynamics Monitoring System	2	Low	B-I & B-D
<b>Total Priority 2</b>				<b>\$ 5,270,000</b>	
<b>Priority 3</b>					
N/A	240	Unit Contingent A/S and A/S Accounting	3	Medium	
N/A	295	Client Relations: Stakeholders Electronic Voting System	3	Low	
N/A	368	Enhanced Internal and External Website Functionality	3	Low	
<b>Total Priority 3</b>				<b>\$ 550,000</b>	
<b>Grand Total, Potential 2007 Projects</b>				<b>\$ 19,435,500</b>	
<b>Market Design Future Releases</b>					
Detail of Market Design Changes will be presented separately to CAISO Governing Board and Stakeholders, and funded from a 2007 Bond Offering. Cost estimates are currently under development as of the date of the development of this report.					
LEGEND: Low= <\$200L, Medium= \$201-500K, High=>\$500K					

**ATTACHMENT A**



subscribed docket(s). For assistance with any FERC Online service, please e-mail [FERCOnlineSupport@ferc.gov](mailto:FERCOnlineSupport@ferc.gov), or call toll-free (866) 208-3676 (toll free). For TTY, call (202) 502-8659.

Comment Date: \_\_\_\_\_