

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
501(c)(3) REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	California Independent System Operator Corporation (ISO or Borrower)	Amount Requested:	Not to exceed \$210,000,000
Applicant Description:	A California nonprofit public benefit corporation organized to ensure the efficient use and reliable operation of the electrical transmission grid within most of the State of California.		
Type of Bonds:	Refunding		
Bonds to be Refunded:	California Infrastructure and Economic Development Bank Revenue Bonds (California Independent System Operator Corporation Project) 2009 Series A (2009 Bonds)		
Prior Project(s):	Design and construction of a new headquarters building, acquisition or development of computer hardware and software systems, and acquisition of office equipment (Prior Project)		
Prior Project Address(s):	250 Outcropping Way, Folsom, CA 95630 1000 S. Fremont Avenue, Alhambra, CA 91803		
Plan of Finance:	Bond proceeds will be used to refund the 2009 Bonds, and pay for costs of issuance.		
Type of Issue:	One or more series of publicly offered fixed rate securities initially bearing interest at a fixed rate and sold in denominations of \$5,000 or any integral multiple thereof.		
Tax Status:	Tax-exempt.		
Term:	26 years.		
Enhancement:	None.		
Credit Rating:	Expected to be "A" by Standard & Poor's "AA-" by Fitch Ratings, and "A1" by Moody's Investors Service based upon the financial strength of the ISO.		
Est. Sources of Funds:		Est. Uses of Funds:	
2013 Bonds	\$210,000,000	Escrow Fund - 2009 Bonds	\$208,905,000
		Costs of Issuance	1,095,000
TOTAL SOURCES	\$210,000,000	TOTAL USES	\$210,000,000
Financing Team:	Bond Counsel: Polsinelli LLP Special Counsel: Orrick Herrington & Sutcliffe LLP Financial Advisors: Sperry Capital Inc. Underwriters: RBC Capital Markets LLC and Citi Global Markets Inc. Underwriters' Counsel: Ashurst LLP Trustee: U.S. Bank, N.A.		
Public Benefits:	By advance refunding the 2009 Bonds, the ISO estimates it will achieve approximately \$1.5 million in annual cash flow savings directly reducing the annual expense of operating the transmission grid in California.		
Date of Board Meeting:	Resolution Number:	Prepared by:	
July 23, 2013	13-09	Tara Dunn	
Staff Recommendation:			
Staff recommends approval of Resolution 13-09 authorizing the issuance of tax-exempt 501(c)(3) bonds in an amount not to exceed \$210,000,000 for the California Independent System Operator Corporation.			

BACKGROUND AND HISTORY

The California Independent System Operator Corporation (ISO or Borrower) is a non-profit public benefit corporation incorporated in May 1997 that is responsible for the operation of the long-distance, high voltage power lines that deliver electricity throughout most of California, known as the California Grid, and also between the California Grid, neighboring control areas, neighboring states, Canada and Mexico. The ISO's mission is to operate the California Grid reliably and efficiently, provide fair and open transmission access, facilitate effective electric power markets and promote infrastructure development through the provision of timely and accurate information.

The ISO was established as an independent entity to operate the State's electric transmission grid as a result of the wholesale electricity industry restructuring that occurred in the 1990's through federal regulatory actions and subsequent state legislation. In 1998, the ISO assumed operational control of the transmission facilities of the three largest investor-owned electric utilities in California (Pacific Gas and Electric, Southern California Edison, and San Diego Gas and Electric) and since then has assumed operational control of several other transmission-owning entities.

The ISO is responsible for the reliable operation of the long-distance, high-voltage power lines under its operational control. The ISO manages the flow of electricity across approximately 26,000 miles of power lines and monitors or oversees the dispatch of an estimated 60,000 megawatts of generating capacity associated with approximately 760 power plants.

The ISO directs generation and dispatchable power loads to ensure that the supply of power matches demand every few seconds, and 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 ISO 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 ISO charges a Grid Management Charge (GMC) to market participants designed to recover the ISO's operating, capital expenditure and debt service costs, and to provide funds for an operating reserve. The GMC rates, which are approved by the Federal Energy Regulatory Commission (FERC), are comprised of several components based on energy volumes and use of the ISO's markets.

The ISO is regulated by FERC and governed by a five-member board appointed by the Governor and confirmed by the State Senate. The Corporate Management and current members of the ISO's Board of Trustees are listed in Attachment A.

The ISO operates two control centers on a year-round, 24-hour basis. The main control center is located in an approximately 278,000 square foot facility located in Folsom, California and was financed with a portion of the 2009 Bonds. The new headquarters received a Leadership in Energy and Environmental Design (LEED) "platinum" certification, the highest possible certification, under the rating system for green buildings. A second approximately 31,000 square feet fully functioning control center is located in Southern California in the city of Alhambra and operates as a back-up control room ready to assume control of the California Grid if needed. See Attachment B -- Photos for photos of the main control center in Folsom.

Previous I-Bank Financing

Since 2000, the I-Bank has issued several series of bonds to finance and refinance capital projects of the ISO including computer hardware and software systems. The construction and development of an approximately 278,000 square foot office headquarters complex associated with the bonds currently outstanding is complete. However, the headquarters component was completed early and under budget. The remaining unspent 2009 Bonds proceeds will be transferred to a 2009 construction fund under the indenture of the 2013 Bonds that will be used for eligible project costs related to the ISO's control systems. The current outstanding series of bonds issued by the I-Bank are as follows:

Series	Issue Date	Original Principal Amount	Outstanding Principal Amount As of 6/30/2013
Series 2008 (2008 Bonds) ¹	6/19/2008	\$196,970,000	\$23,465,000
Series 2009 (2009 Bonds)	7/22/2009	\$200,000,000	\$192,990,000
Total Outstanding:		\$396,970,000	\$216,455,000

PLAN OF FINANCE

The ISO requests the advance refunding of the outstanding California Infrastructure and Economic Development Bank Revenue Bonds, Series 2009A (2009 Bonds) and the issuance of tax-exempt 501(c)(3) bonds in an amount not to exceed \$210,000,000 (2013 Bonds).

The 2009 Bonds were used to finance and refinance the design and construction of an approximately 278,000 square foot new headquarters building for the ISO, acquiring and developing computer hardware and software systems, acquiring office equipment (collectively, the Prior Project) (see Attachment B – Photos), to pay initial interest on the 2009 Bonds, to pay costs of issuance, and to fund a debt service reserve account for the 2009 Bonds.

Prior Projects	Facility
Costs of designing and constructing the ISO's new headquarters building	250 Outcropping Way, Folsom
Acquisition and development of ISO New Market, a combination of computer systems and services used for energy management, replaced outdated computer systems and provided new tools to match electrical supply with demand and resolved transmission constraints.	250 Outcropping Way, Folsom and 1000 S. Fremont Avenue, Alhambra

The 2013 Bonds will be used to (i) refund the 2009 Bonds, and (ii) pay for costs of issuance. The purpose of the refunding is to lower the interest rates on the ISO's tax-exempt debt.

¹ The final maturity of the 2008 Bonds is 2/1/2014.

The 2013 Bonds will be issued pursuant to one or more indentures between the I-Bank and U.S. Bank, N.A. as Trustee (Indenture), and a loan of the proceeds of the 2013 Bonds will be made through one or more loan agreements between the I-Bank and the ISO (Loan Agreement). The 2013 Bonds are expected to be rated "A" by Standard & Poor's "AA-" by Fitch Ratings, and "A1" by Moody's Investors Service based upon the financial strength of the ISO.

In no event shall the 2013 Bonds constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State, including the I-Bank, shall be liable to make any appropriation for the repayment of the 2013 Bonds. The 2013 Bonds constitute a limited obligation of the I-Bank, payable solely from revenues pledged under the indenture. Such revenues consist primarily of loan repayments made by the ISO pursuant to the Loan Agreement by the ISO.

PUBLIC BENEFITS

By refunding the Prior Bonds, the ISO estimates it will achieve approximately \$1.5 million in annual cash flow savings directly reducing the annual expense of operating the transmission grid in California.

The ISO's efficient operation of the wholesale electric market is necessary to further the goal of providing for a low-cost and stable electric power supply in the State. A low-cost and stable electric power supply is vital to the interests of all Californians who depend on electricity for their residential and business needs.

The ISO also works with the local community to promote green technology education. The new headquarters contains an educational center housing a Smart Grid Lab showcasing and demonstrating advanced clean engineering technologies as a way to continue to educate and promote the use of green technologies. The ISO works closely with Folsom High School and other nearby schools to promote engineering by offering field trips to the ISO's control room. The ISO has also been asked by Folsom Lake College to assist with developing curriculum for a green certificate program focusing on green technology.

ATTACHMENT A - CORPORATE MANAGEMENT AND BOARD OF TRUSTEES

Below is a list of the ISO's current corporate officers and Board members.

Corporate Management:

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

Board of Trustees:

Robert Foster, Chair
Ashutosh Bhagwat
Angelina Galiteva
Richard Maullin
David Olsen

ATTACHMENT B -- PHOTOS

