California ISO
Retirement Savings Benefits Plan
Financial Statements and Supplemental Schedule
December 31, 2007 and 2006

California ISO
Retirement Savings Benefits Plan
Index
December 31, 2007 and 2006

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Report of Independent Auditors

To the Participants and Plan Administrator of
California ISO Retirement Savings Benefits Plan

We were engaged to audit the financial statements and supplemental schedule of the California ISO Retirement Savings Benefits Plan (the "Plan") as of and for the years ended December 31, 2007 and 2006, as listed in the accompanying index. These financial statements and schedule are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 4, which was certified by The Charles Schwab Trust Company, the trustee of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedule. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained certifications from the trustee as of December 31, 2007 and 2006 and for the years then ended, that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedule taken as a whole. The form and content of the information included in the financial statements and schedule, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

As discussed in Note 2, the financial statements of the Plan are intended to present the fiduciary net assets and the changes in fiduciary net assets, where applicable, of only that portion of the pension trust funds of the California Independent System Operator Corporation that is attributable to the transactions of the Plan. They do not purport to, and do not, present fairly the financial position of the California Independent System Operator Corporation, as of December 31, 2007 and 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, presented on pages 2 and 3, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures on the information as of and for the years ended December 31, 2007 and 2006, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

Sacramento, California
August 18, 2008

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

BACKGROUND

The Plan is a defined contribution plan and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Substantially all employees of the California Independent System Operator Corporation (the Company) are eligible to participate in the Plan. Participants are eligible to participate in the Plan on the first day of the month coinciding with or following date of hire.

The Company is the Plan's named fiduciary and plan administrator and has designated an advisory committee and retained the services of a third party to assist in the administration of the Plan. The advisory committee is appointed by the Company and has the responsibility of making discretionary determinations under the Plan and providing distribution directions to the trustee. The Company has appointed The Charles Schwab Trust Company (Schwab or Trustee) as the Plan's Trustee and has retained the services of Milliman, Inc. (Milliman) to assist in the administration of the Plan.

FINANCIAL HIGHLIGHTS

Overview of Financial Statements
This discussion and analysis is intended to serve as an introduction to the Plan's financial statements, which are comprised of the following:

- Statements of Fiduciary Net Assets
- Statements of Changes in Fiduciary Net Assets
- Notes to Financial Statements

The Statements of Fiduciary Net Assets present information on the Plan's assets and liabilities and the resulting fiduciary net assets as of December 31, 2007 and 2006. These Statements reflect the Plan's investments at fair value, receivables and liabilities.

The Statements of Changes in Fiduciary Net Assets present information showing how the Plan's fiduciary net assets held in trust for pension benefits changed during the years ended December 31, 2007 and 2006. These Statements reflect contributions by participants and the Company along with investment income (or losses) during the period from investing activities. Deductions for benefit payments to participants and administrative expenses are also presented.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The supplemental information on page 13 details the schedule of assets held at December 31, 2007. It is the same schedule that is submitted with the Plan's Internal Revenue Service/U.S. Department of Labor Form 5500 Schedule H. This information is presented for the purposes of additional analysis and is not a required part of the financial statements.

Financial Analysis
The Plans' investments as of December 31, 2007 amounted to $89.8 million, compared to $78.3 million at December 31, 2006 and $66.8 million at December 31, 2005.

Additions to the Plan's net assets held in trust for pension benefits include contributions, rollovers, and net appreciation in fair value and any investment income. Participant contributions and rollovers for the 2007 plan year amounted to $6.7 million, compared to $5.5 million in 2006 and $5.3 million in 2005. Employer contributions in 2007 amounted to $6.8 million, compared to $5.2 million in 2006 and $5.2 million in 2005. The increase in employee and employer contributions in 2007 as compared to 2006 was primarily due to increases in IRS-prescribed contribution and compensation limits, an increase in staffing levels from 2006 to 2007 and the enhancement of the Company's annual retirement contribution formula in 2007. The increase in employee and employer contributions in 2006 as compared to 2005 was primarily due to increases in IRS-prescribed contribution and compensation limits.

The Plan recognized net investment income of $5.4 million in 2007, compared to $9.3 million in 2006 and $4.1 million in 2005. Investment gains were lower in 2007 due to poor economic conditions during the latter part of the year. The investment gain in 2006 was primarily due to a recovery in the domestic and foreign equity markets and decrease in interest rates. Additionally, investment gains were lower in 2005 due to the reduction-in-force which resulted in withdrawals of participant funds towards the end of the year.

Deductions from the Plan's net assets held in trust for pension benefits include benefit payments to participants and administrative expenses. For 2007, deductions amounted to $6.2 million compared to $8.3 million in 2006 and $6.6 million in 2005. The increase in deductions in 2006 compared to 2007 and 2005 was primarily due to an increase in benefit payments resulting from the reduction-in-force program that occurred in late 2005.

Condensed Statements of Fiduciary Net Assets (millions):

	2007	2006	2005
Assets:			
Investments	$ 89.8	$ 78.3	$ 66.8
Employer contribution receivable	3.6	2.4	2.2
Net assets held in trust for pension benefits	$ 93.4	$ 80.7	$ 69.0

Condensed Statements of Changes in Fiduciary Net Assets (millions):

	2007	2006	2005
Additions:			
Investment income	$ 5.4	$ 9.3	$ 4.1
Contributions	13.5	10.7	10.5
Total additions	18.9	20.0	14.6
Deductions:			
Benefits paid to participants and administrative expenses	6.2	8.3	6.6
Net increase in net assets held in trust for pension benefits	12.7	11.7	8.0
Net assets held in trust for pension benefits, beginning of year	80.7	69.0	61.0
Net assets held in trust for pension benefits, end of year	$ 93.4	$ 80.7	$ 69.0

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Statements of Fiduciary Net Assets
December 31, 2007 and 2006

	2007	2006
Assets		
Cash	$ 8,083	$ -
Investments at fair value (Note 3)	89,793,866	78,349,223
Participant contributions receivable	-	489
Employer contributions receivable	3,580,852	2,359,678
Total assets	93,382,801	80,709,390
Liabilities		
Accrued liabilities	9,781	6,636
Net assets held in trust for pension benefits	$ 93,373,020	$ 80,702,754

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

California ISO
Retirement Savings Benefits Plan
Statements of Changes in Fiduciary Net Assets
For the years ended December 31, 2007 and 2006

	2007	2006
Additions:		
Investment income:		
Interest and dividends	$ 1,066,242	$ 686,518
Net appreciation in fair value of investments (Note 3)	4,382,730	8,599,224
	5,448,972	9,285,742
Contributions:		
Participant	6,711,157	5,480,816
Employer	6,783,725	5,243,485
	13,494,882	10,724,301
Total additions	18,943,854	20,010,043
Deductions:		
Benefits paid to participants	6,247,545	8,330,710
Administrative expenses	26,043	24,154
Total deductions	6,273,588	8,354,864
Net increase in net assets held in trust for pension benefits	12,670,266	11,655,179
Net assets held in trust for pension benefits, beginning of year	80,702,754	69,047,575
Net assets held in trust for pension benefits, end of year	$ 93,373,020	$ 80,702,754

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

1. Description of the Plan

The following brief description of the California ISO Retirement Savings Benefits Plan (the Plan) provides only general information. Participants should refer to the plan document for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Substantially all employees of the California Independent System Operator Corporation (the Company) are eligible to participate in the Plan. Participants are eligible to participate in the Plan on the first day of the month coinciding with or following date of hire.

The Company is the Plan's named fiduciary and plan administrator and has designated an advisory committee and retained the services of a third party to assist in the administration of the Plan. The advisory committee is appointed by the Company and has the responsibility of making discretionary determinations under the Plan and providing distribution directions to the trustee. The Company has appointed The Charles Schwab Trust Company (Schwab or Trustee) as the Plan's Trustee and has retained the services of Milliman, Inc. (Milliman) to assist in the administration of the Plan.

Membership

At December 31, 2007, the Plan's membership consisted of:

Active members	533
Inactive vested members	136
Retired members	7
Survivors and beneficiaries	1
Total	677

Contributions

Beginning in 2007, participants may contribute up to 100% of their eligible compensation, as defined in the Plan, subject to the maximum allowed by the Internal Revenue Code (IRC). These contributions may be made either on a pre-tax basis or on an after-tax (Roth) basis. Participants may also contribute amounts representing rollovers from other qualified defined benefit or defined contribution plans. Total rollover contributions during the years ended December 31, 2007 and 2006, were $922,938 and $280,283, respectively. The Company makes matching contributions equal to 100% of the first 6% of eligible compensation that a participant contributes to the Plan. Additionally, regardless of a participant's elective contributions, the Company makes an Annual Retirement Contribution based on years of credited service with the Company, as follows:

Years of Credited Service	Retirement Contribution (% of Eligible Compensation)
0 to 5	5%
6 to 10	7%
11 to 15	8%
16 to 19	9%
20 or more	10%

To receive the Annual Retirement Contribution, participants must complete one hour of service during the plan year and be employed by the Company on the last day of the plan year.

Participant contributions, Company matching contributions, and the annual retirement contributions are recorded in the period the related payroll is paid by the Company. Participant contributions and Company matching contributions are funded each payroll period. The annual retirement contribution is funded annually, subsequent to the Plan's year end.

Participant accounts
Each participant's account is credited with the participant's contribution, the Company's contributions, and an allocation of plan earnings. Allocations are based on participant compensation or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Participants direct the investment of their accounts into two types of investment options offered by the Plan. The Plan currently offers the core option investment account, consisting of ten mutual funds, one common collective trust and one money market fund, or the personal choice investment account, which is a self-directed brokerage account.

Vesting
Participants are vested immediately in their contributions plus actual earnings thereon. Participants vest in Company contributions and earnings thereon ratably over four years at 25% per year. Upon death, disability, or reaching normal retirement age of 60 years old, participants are immediately vested in all Company contributions.

Payment of benefits
On termination of service due to death, disability, retirement, or upon termination of employment, a participant or their beneficiary may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or installments over a fixed period.

Forfeited accounts
In the event participants terminate their employment for reasons other than death, disability, or retirement, forfeitures of the unvested portion of their employer contribution accounts are used to reduce the Company's matching contributions for the plan year in which the forfeiture occurs. Forfeitures during the years ended December 31, 2007 and 2006, were $91,640 and $185,344, and were used to reduce Company contributions.

Participant notes receivable
Participants may borrow from their account a minimum of $1,000 up to a maximum equal to the lesser

of $50,000 or 50% of their vested account balance. The loans are collateralized by the vested balance in the participant's account and bear interest at rates ranging from 5.0% to 10.5% at December 31, 2007. Principal and interest is paid ratably through biweekly payroll deductions. Loan terms generally range from one to five years or up to 15 years if the proceeds are to be used for the purchase of a primary residence. Participant notes receivable amounted to $1,314,504 and $1,061,596 at December 31, 2007 and 2006, respectively.

Administrative expenses
Administrative expenses of the Plan, other than fees for participant-initiated transactions, are generally paid by the Company. Investment transaction charges are paid by the Plan.

Plan amendments
In 2007, the governing board approved the following Plan amendment effective January 1, 2008:

- Provided participants the ability to redirect 401(k) contributions as frequently as daily.
- Added a real estate investment fund option to the investment menu.
- A $150 annual administrative fee payable by terminated participants maintaining an account balance in the Plan.
- Permitting a non-spouse death beneficiary to rollover a distribution of death benefits to an inherited IRA.

In 2006, the governing board approved the following Plan amendments, effective January 1, 2007:

- Increased the 5% employer contribution based on years of service: 5% for up to 5 years of service, 7% for six to ten years, 8% for eleven to fifteen years, 9% for sixteen to nineteen years, and 10% for 20 years and over.
- Provides for ability to make Roth 401(k) contributions.
- Clarifies eligible compensation.
- Consistent with recent IRS regulations, removes 50% eligible compensation limitation

2. Summary of Significant Accounting Policies

Financial reporting entity and basis of accounting
The Plan is governed by the same board as the Company. The Company's five-member board is currently appointed by the California governor and approved by the California state senate. The Plan uses the economic resources measurement focus and the accrual basis of accounting in accordance with standards of the Governmental Accounting Standards Board (GASB).

Use of estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Investment valuation and income recognition
The Plan’s investments are stated at fair value, generally as quoted on a recognized securities exchange. Participant notes receivable are valued at cost, which approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date.

The net appreciation or depreciation in the fair value of investments consists of the realized gains and losses and the unrealized appreciation or depreciation on the Plan's investments.

Risks and uncertainties
Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of fiduciary net assets.

Contributions
Contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

Benefits
Benefits paid to participants are recorded as deductions from net assets held in trust for pension benefits when approved and paid by the Plan.

3. Investments

Investments at fair value as of December 31, 2007 and 2006 are as follows:

	2007	2006
Pooled mutual funds	$ 76,079,151	$ 67,348,045
Common collective trust	4,142,015	3,308,076
Self-directed brokerage accounts	8,258,196	6,631,506
Participant notes receivable	1,314,504	1,061,596
	$ 89,793,866	$ 78,349,223

The pooled mutual funds and common collective trust ("funds") offered by the Plan are initially selected based on criteria including risk and relative performance versus similar funds within an investment category, the level of expense ratios, and consistency/tenure of the fund's management. After a fund has been selected, the advisory committee (the Committee) reviews the fund for continued conformance with these criteria. If a fund does not conform to these retention criteria, it is flagged for continued attention and placed on a "watch" list, or removed as a continuing investment option for Plan participants. The Committee reviews quarterly and annual performance of funds versus benchmarks. The Committee also reviews funds for potential departures from the investment styles that were in place at the time of fund selection.

The Plan also permits participants to establish self-directed brokerage accounts, which provide participants with the ability to purchase most legally permissible investments for a retirement account. Neither the Company nor the Committee will monitor investments made within the brokerage account (other than such review as may be necessary to ensure that the investment is permitted by ERISA.)

Credit risk
Credit risk for investments is the risk that an issuer or other counterparty will not fulfill its obligations to the Plan and custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Plan will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Plan policies do not specify policies relative to credit risk. The Plan's investments are not rated.

Concentration of credit risk
This is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. In 2007 and 2006, investments that represent 5% or more of the Plan's net assets held in trust for pension benefits at December 31, are as follows:

	2007	2006
Schwab Value Advantage Money Fund	$ 14,446,670	$ 13,433,746
Templeton Institutional Emerging Markets	$ 12,287,946	$ 7,822,020
Vanguard Institutional Index	$ 11,963,771	$ 11,157,725
American Beacon International Equity	$ 9,074,983	$ 7,918,174
Vanguard Windsor II Admiral	$ 6,165,942	$ 5,766,089
DFA U.S. Small Cap	$ 6,149,497	$ 6,572,815
Mainstay Small Capital Opportunity Fund	$ -	$ 5,893,845

Interest rate risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. The Plan has direct investments in debt instruments, such as certificates of deposit and corporate and government bonds, and indirect investments, such as fixed income mutual funds other than money market funds, that are subject to interest rate risk. The Plan attempts to mitigate interest rate risk through portfolio diversification. The Plan's investments include the following fixed income investments (including assets held in the self-directed brokerage accounts):

	2007	2006
Certificate of deposits	$ 185,885	$ 16,999
Corporate and government bonds	38,390	35,962
Mutual funds	4,684,422	4,012,005
Participant notes receivable	1,314,504	1,061,596
	$ 6,223,202	$ 5,126,562

Foreign currency risk
Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan invests in exchange-traded funds that are specifically identified as having an investment focus outside the United States, international equity mutual funds and American Depository Receipts ("ADRs") of foreign corporations. The Plan attempts to mitigate foreign currency risk through portfolio diversification. The Plan's investments include the following foreign investments (including assets held in the self-directed brokerage accounts):

	2007	2006
Exchange-trade funds	$ 119,640	$ 36,560
Mutual Funds	22,249,532	16,160,041
ADRs	612,124	385,007
	$ 22,981,296	$ 16,581,608

Investment income
During 2007 and 2006, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value as follows:

	2007	2006
Mutual funds	$ 3,905,732	$ 8,039,775
Common collective trust	153,771	127,294
Self-directed brokerage accounts	323,227	432,155
	$ 4,382,730	$ 8,599,224

4. Financial Data Certified by The Charles Schwab Trust Company

The following information included in the financial statements and supplemental schedule is unaudited and is based on information supplied by the Trustee:

- Investments of $89,801,948 (including noninterest-bearing cash of $8,083) and $78,349,223 included in the statements of fiduciary net assets as of December 31, 2007 and 2006, respectively;
- Interest and dividends of $796,242 and $686,518 and net appreciation in the fair value of investments of $4,652,730 and $8,599,224 included in the statements of changes in fiduciary net assets for the years ended December 31, 2007 and 2006, respectively; and
- All information in the supplemental schedule of assets (held at end of year).

The Plan's Trustee has certified that the information provided is complete and accurate.

5. Related Party Transactions

Certain plan investments are shares of funds managed by Schwab. Because Schwab is the Trustee, these transactions qualify as party-in-interest transactions.

6. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants would become 100% vested in their employer contributions.

7. Tax Status

The Plan received a determination letter dated April 2003 from the Internal Revenue Service stating that the Plan is designed in accordance with applicable sections of the Internal Revenue Code (IRC). Although the Plan has been amended since receiving the determination letter, the plan administrator believes that the Plan is designed and is currently being operated in compliance with applicable requirements of the IRC.

California ISO
Retirement Savings Benefits Plan
Form 5500 - Schedule H, Line 4i
Schedule of Assets (Held at End of Year)
December 31, 2007

(a)	(b) Identity of Issue, Borrower, Lessor or Similar Party	(c) Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	(d) Cost**	(e) Current Value
	American Beacon International Equity	Mutual fund		$ 9,074,983
	Boston Company Large Cap	Mutual fund		3,510,624
	DFA U.S. Small Cap	Mutual fund		6,149,497
	INVESCO Retirement Trust Stable Value Fund	Common collective trust		4,142,015
	Columbia Small Cap Val II	Mutual fund		4,343,862
	Northeast Investors Trust	Mutual fund		962,797
	PIMCO Total Return Fund	Mutual fund		3,553,383
*	Schwab Value Advantage Money Fund	Money market fund		14,446,670
	T. Rowe Price Growth Stock	Mutual fund		3,619,676
	Templeton Institutional Emerging Markets	Mutual fund		12,287,946
	Vanguard Institutional Index	Mutual fund		11,963,771
	Vanguard Windsor II Admiral	Mutual fund		6,165,942
*	Participant Notes Receivable	Interest rates from 5.0% - 10.5%		1,314,504
	Self-Directed Brokerage Accounts (Personal Choice Investments)	Various		8,258,196
	Total investments			$ 89,793,866

* Party-in-Interest

** Not applicable for disclosure as investments are participant directed.

The information in this schedule has been certified as to its completeness and accuracy by The Charles Schwab Trust Company.