

MONTHLY FINANCIAL REPORT

December 2006

Preliminary and Unaudited

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
MONTHLY FINANCIAL REPORT - December 2006 (Preliminary and Unaudited)

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CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY

For the year ended December 31, 2006

The ISO

OPERATIONS: (pages 1, 2, 7,8 and 9)

- ♦ Operating Revenues for December were \$15.0M.
 - Lower estimated GMC was offset by higher interest income.
 - Rate reductions for certain GMC components have been approved effective October 1, 2006.
- ♦ Operating Revenues for the year were \$199.4M, \$13.6M higher than budget.
 - The variance was primarily due to higher GMC and to higher interest income generated by the invested balance of the capital bond fund.
- ♦ O&M expenses for December were \$9.8M, \$1.2M lower than the budget.
 - The variance was primarily due to lower third-party contracts and legal costs.
- ♦ O&M expenses for the year were \$132.4M, \$1.5M lower than budget.
 - The variance was primarily due to lower than expected third-party vendor contracts expenses, legal and audit expenses, and training, travel and professional dues offset by higher salaries and benefits and professional and consulting services.
- ♦ At month end, there were 506 full-time employees compared to the 516 full-time employees budgeted.

BALANCE SHEET: (page 3)

- ♦ Changes in the balance sheet were primarily due to the reimbursements from the restricted construction funds to unrestricted funds for certain capital expenditures incurred during December and the prior months.

CAPITAL PROJECTS: (pages 1, 4 and 10)

- ♦ 2006 approved capital expenditures were budgeted for the year at \$81.7M. Actual expenditures to date for 2006 capital projects totaled \$59.7M. Expenditures for 2005 capital projects totaled \$3.8M.
- ♦ Capital expenditures for 2005 and 2006 approved projects will be funded by the proceeds of the 2004 bonds.
- ♦ 2006 capital projects approved through December totaled \$80.4M and include \$69.9M for MRTU projects.

OPERATING RESERVES AND REVENUE REQUIREMENTS: (pages 1, 5, 11 and 12)

- ♦ During December, the Operating Reserve increased by \$2.1M to \$63.6M. The increase during the month, as compared to the projected increase of \$0.3M, is due primarily to lower monthly operating expenses.
- ♦ The uncommitted Operating Reserve balance is \$41.7M, excluding the reserve requirement of \$20.1M (equal to 15% of 2006 budgeted operating expenses).
- ♦ The Revenue Requirement for the year-to-date was \$208.2M, \$1.1M lower than budget, primarily due to lower operating expenses.

INTEREST COSTS: (page 13)

- ♦ During December, the ISO bond interest rates averaged 3.90%, 0.25% higher than the budgeted rate of 3.65%. The December rate was higher than the 2005 average rate of 3.65%.

CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY

For the year ended December 31, 2006

The ISO Markets

MARKET CHARGES: (page 6)

- ♦ September trade month charges for the market (including GMC and FERC Fees) were \$127.3M vs. \$158.2 for August.

ISO MARKET COSTS: (page 14 and 15)

- ♦ The total costs managed by the ISO include GMC, RMR, A/S Capacity, Real Time Energy and Transmission.

OBLIGATIONS OF MARKET PARTICIPANTS: (pages 16 and 17)

- ♦ Both PG&E and SCE are now only required to collateralize their GMC obligations.
- ♦ The new credit policy took effect on May 12, 2006 and the report reflects the new standards, estimates, and credit limits.
- ♦ A new report has been created to reflect the breakdown of the SCs' Estimated Aggregate Liability (EAL) by Credit Quality.

IMPACT OF BILATERAL SETTLEMENTS: (page 18)

- ♦ Graph shows effects of the Williams (\$240M), Dynegy (\$241M), Duke (\$256M), Mirant (\$210M), Reliant (\$203M), Enron (\$38M), Public Service Company of Colorado (\$2M), and Idaho Power Company (\$24M) settlements on receivables from the PX.
- ♦ Past due obligations at the end of September 2006 trade month were \$1.24B, which represents amounts due from Cal PX.

TIMELINESS OF MARKET COLLECTIONS: (page 19)

- ♦ Nineteen payments (of 271 invoices) in the September 2006 market close was received late compared to thirteen payments (of 218 invoices) in the August 2006 market close. Payments are considered late if not received by 10:00 AM on the due date. These late payments were ultimately received at the end of the day or the day after the due date.

CALIFORNIA ISO
SUMMARY, DISCUSSION AND COMMENTARY
For the year ended December 31, 2006

Page ii

California ISO

Summary of Financial Results (Preliminary and Unaudited)

For the year ended December 31, 2006

(dollars in thousands)

<u>Category</u>	<u>Current Month</u>			<u>Year to Date</u>			<u>Annual 2006</u>
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Budget</u>
Operating Revenues	\$ 15,018	\$ 15,003	\$ 15	\$ 199,229	\$ 185,698	\$ 13,531	\$ 185,698
Operating Expenses	\$ 9,832	\$ 11,078	\$ (1,246)	\$ 132,359	\$ 133,936	\$ (1,577)	\$ 133,936
Capital Expenditures (Approved 2006 Projects)	\$ 7,885			\$ 59,709			\$ 81,673
Operating Reserve (Uncommitted)	\$ 18,191			\$ 18,191			
Revenue Requirement	\$ 16,081	\$ 17,309	\$ (1,228)	\$ 208,177	\$ 209,245	\$ (1,068)	\$ 209,247

CALIFORNIA ISO

Statement of Operations (Preliminary and Unaudited)

For the year ended December 31, 2006

(dollars in thousands)

	Month				Year to Date				2006 Budget
	Actual	Budget	Variance	Var (%)	Actual	Budget	Variance	Var (%)	
Revenues:									
Grid Management Charge	\$ 13,800	\$ 14,442	\$ (642)	-4%	\$ 184,556	\$ 178,971	\$ 5,585	3%	\$ 178,971
Fines, WSCC & Other Fees	532	438	94	21%	5,635	5,257	378	7%	5,257
Interest income & other	686	123	563	458%	9,038	1,470	7,568	515%	1,470
Total revenues	<u>15,018</u>	<u>15,003</u>	<u>15</u>	<u>0%</u>	<u>199,229</u>	<u>185,698</u>	<u>13,531</u>	<u>7%</u>	<u>185,698</u>
Operating Expenses:									
Salaries and Benefits	6,036	5,924	112	2%	79,251	76,824	2,427	3%	76,824
Building, Leases and Facility	1,175	708	467	66%	8,637	8,491	146	2%	8,491
Insurance	2	1	1	-	2,077	1,974	103	-	1,974
Third Party Vendor Contracts	68	2,877	(2,809)	-98%	23,494	27,749	(4,255)	-15%	27,749
Professional and Consulting Services	2,686	424	2,262	533%	7,044	4,981	2,063	41%	4,981
Legal and Audit	(346)	595	(941)	-158%	6,059	7,259	(1,200)	-17%	7,259
Training, Travel and Professional Dues	(234)	320	(554)	-173%	2,981	4,015	(1,034)	-26%	4,015
Other	445	229	216	94%	2,816	2,643	173	7%	2,643
Total operating expenses	<u>9,832</u>	<u>11,078</u>	<u>(1,246)</u>	<u>-11%</u>	<u>132,359</u>	<u>133,936</u>	<u>(1,577)</u>	<u>-1%</u>	<u>133,936</u>
Net operating income (loss)	<u>5,186</u>	<u>3,925</u>	<u>1,261</u>	<u>32%</u>	<u>66,870</u>	<u>51,762</u>	<u>15,108</u>	<u>29%</u>	<u>51,762</u>
Interest and Other Expenses									
Interest expense	940	576	364	63%	12,689	7,464	5,225	70%	7,464
Depreciation and amortization	1,217	1,217	-	-	15,878	15,878	-	-	14,818
Total interest and other expenses	<u>2,157</u>	<u>1,793</u>	<u>364</u>	<u>20%</u>	<u>28,567</u>	<u>23,342</u>	<u>5,225</u>	<u>22%</u>	<u>22,282</u>
Change in Net Assets, budgetary basis	<u>\$ 3,029</u>	<u>2,132</u>	<u>897</u>	<u>42%</u>	<u>\$ 38,303</u>	<u>28,420</u>	<u>9,883</u>	<u>35%</u>	<u>\$ 29,480</u>
Number of Full-time Employees	<u>506</u>	<u>516</u>	<u>(10)</u>	<u>-2%</u>					<u>516</u>

CALIFORNIA ISO
Balance Sheet (Preliminary and Unaudited)

As of December 31, 2006

(dollars in thousands)

	<u>Current Month</u>	<u>Prior Month</u>	<u>Change</u>
ASSETS			
NET ELECTRIC UTILITY PLANT	<u>\$ 161,840</u>	<u>\$ 154,150</u>	<u>\$ 7,690</u>
CURRENT ASSETS			
Unrestricted Cash and Cash Equivalents	47,828	34,979	12,849
Restricted Cash and Cash Equivalents	83,730	102,852	(19,122)
Accounts Receivable, net	40,850	43,015	(2,165)
Investments	93,561	93,483	78
Accrued Interest	748	638	110
Prepayments	<u>1,979</u>	<u>1,979</u>	<u>-</u>
Total Current Assets	<u>268,696</u>	<u>276,946</u>	<u>(8,250)</u>
NONCURRENT ASSET AND DEFERRED CHARGES			
Unamortized debt expenses and other	<u>2,180</u>	<u>1,177</u>	<u>1,003</u>
Total Noncurrent Asset and Deferred Charges	<u>2,180</u>	<u>1,177</u>	<u>1,003</u>
TOTAL ASSETS	<u>\$432,716</u>	<u>\$432,273</u>	<u>\$ 443</u>
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION			
Stakeholders' Surplus	\$ 156,552	\$ 151,800	\$ 4,752
Long-term Debt	<u>130,138</u>	<u>130,138</u>	<u>-</u>
TOTAL CAPITALIZATION	<u>286,690</u>	<u>281,938</u>	<u>4,752</u>
CURRENT LIABILITIES			
Long-term debt due within one year	58,700	58,700	-
Accounts Payable	30,011	36,044	(6,033)
Fines subject to refund	<u>56,307</u>	<u>54,583</u>	<u>1,724</u>
Total Current Liabilities	<u>145,018</u>	<u>149,327</u>	<u>(4,309)</u>
NONCURRENT LIABILITY AND DEFERRED CREDITS			
Other	<u>1,008</u>	<u>1,008</u>	<u>-</u>
Total Noncurrent Liability and Deferred Credits	<u>1,008</u>	<u>1,008</u>	<u>-</u>
TOTAL LIABILITIES	<u>146,026</u>	<u>150,335</u>	<u>(4,309)</u>
TOTAL CAPITALIZATION AND LIABILITIES	<u>\$432,716</u>	<u>\$432,273</u>	<u>\$ 443</u>

CALIFORNIA ISO
Capital Projects Report (Preliminary and Unaudited)

For the year ended December 31, 2006
(dollars in thousands)

Capital Spending

	Approved Projects					
	<u>Month</u> <u>Actual</u>	<u>YTD</u> <u>Actual</u>	<u>2006</u> <u>Approved</u> <u>Projects</u>	<u>Projected</u> <u>Costs for</u> <u>Approved</u> <u>Projects</u>	<u>2006</u> <u>Plan</u>	<u>Future</u> <u>O&M</u>
Facilities	\$ 22	\$ 152	\$ 914	\$ 908	\$ 2,444	\$ -
Market Redesign (1)	2,317	17,451	25,857	17,451 *	29,629	-
Technology Upgrade (2)	4,141	35,254	43,998	35,255 *	39,376	-
Main Operating Systems - All	578	2,321	3,183	3,077	3,845	-
Other Systems - Corporate Support	828	4,531	6,496	5,992	6,379	295
Total 2006 Capital Spending	<u>7,885</u>	<u>59,709</u>	<u>80,447</u>	<u>62,682</u>	<u>81,673</u>	<u>295</u>
2005 Capital Projects	<u>182</u>	<u>3,857</u>	<u>7,584</u>	<u>6,593</u>		
Total Capital	<u>\$ 8,067</u>	<u>\$ 63,566</u>	<u>\$ 88,032</u>	<u>\$ 69,275</u>	<u>\$ 81,673</u>	<u>\$ 295</u>

(1) MRTU Projected Costs for 2006 were adjusted to match actual costs in 2006, balance will be spent in 2007.

CALIFORNIA ISO

Operating Reserve and Gross Revenue Requirement (Preliminary and Unaudited)

For the year ended December 31, 2006

	Month				Year to Date				Budget 2006
	Actual	Budgeted	Variance	Var (%)	Actual	Budgeted	Variance	Var (%)	
Revenues									
GMC revenue collected (75 day lag from month scheduled)	\$ 16,830	\$16,242	\$ 588	3%	\$ 195,850	\$ 186,343	\$ 9,507	5%	\$ 186,343
Other gross revenue	1,218	561	657	54%	14,673	6,727	7,946	54%	6,727
Less: Restricted interest income	(312)	-	(312)		(3,227)	-	(3,227)	100%	-
Total Revenues	17,736	16,803	933	5%	207,296	193,070	14,226	7%	193,070
Operating Expenses									
	9,832	11,078	(1,246)	-13%	132,359	133,935	(1,576)	-1%	133,935
Net Before Debt Service and Capital	7,904	5,725	2,179	28%	74,937	59,135	15,802	21%	59,135
Debt Service and Other Interest									
Bond principal payments	4,847	4,847	-	-	58,167	58,167	-	-	58,167
Bond interest payments	940	577	363	39%	8,561	7,463	1,098	13%	7,464
Other interest expense	-	-	-	*%	4,127	-	4,127	*%	-
Total Debt Service and Other Interest	5,787	5,424	363	6%	70,855	65,630	5,225	7%	65,631
Increase (Decrease)	2,117	301	1,816	*%	4,082	(6,495)	10,577	*%	(6,496)
Operating Reserve Fund (Committed and Uncommitted)									
Beginning Balance	61,492	52,731	8,761	14%	59,527	59,527	-	0%	59,643
Ending Balance	\$ 63,609	\$53,032	\$ 10,577	17%	\$ 63,609	\$ 53,032	\$ 10,577	17%	\$ 53,147
Gross Revenue Requirement									
Net Operating Costs									
Operating Expenses	\$ 9,832	\$11,078	\$ (1,246)	-13%	\$ 132,359	\$ 133,935	\$ (1,576)	-1%	\$ 133,935
Less Interest & Other Revenue	(906)	(561)	(345)	38%	(11,446)	(6,727)	(4,719)	41%	(6,727)
Net Operating Costs	8,926	10,517	(1,591)	-18%	120,913	127,208	(6,295)	-5%	127,208
Debt Service and Other Interest									
Principal and interest payments	5,787	5,424	363	6%	66,728	65,630	1,098	2%	65,631
25% Debt Service Reserve	1,368	1,368	-	0%	16,409	16,407	2	0%	16,408
Other Interest	-	-	-	*%	4,127	-	4,127	*%	-
Total Debt Service and Other Interest	7,155	6,792	363	5%	87,264	82,037	5,227	6%	82,039
Revenue Requirement	\$ 16,081	\$17,309	\$ (1,228)	-8%	\$208,177	\$209,245	\$ (1,068)	-1%	\$ 209,247

CALIFORNIA ISO

Monthly Market Summary By Charge Type

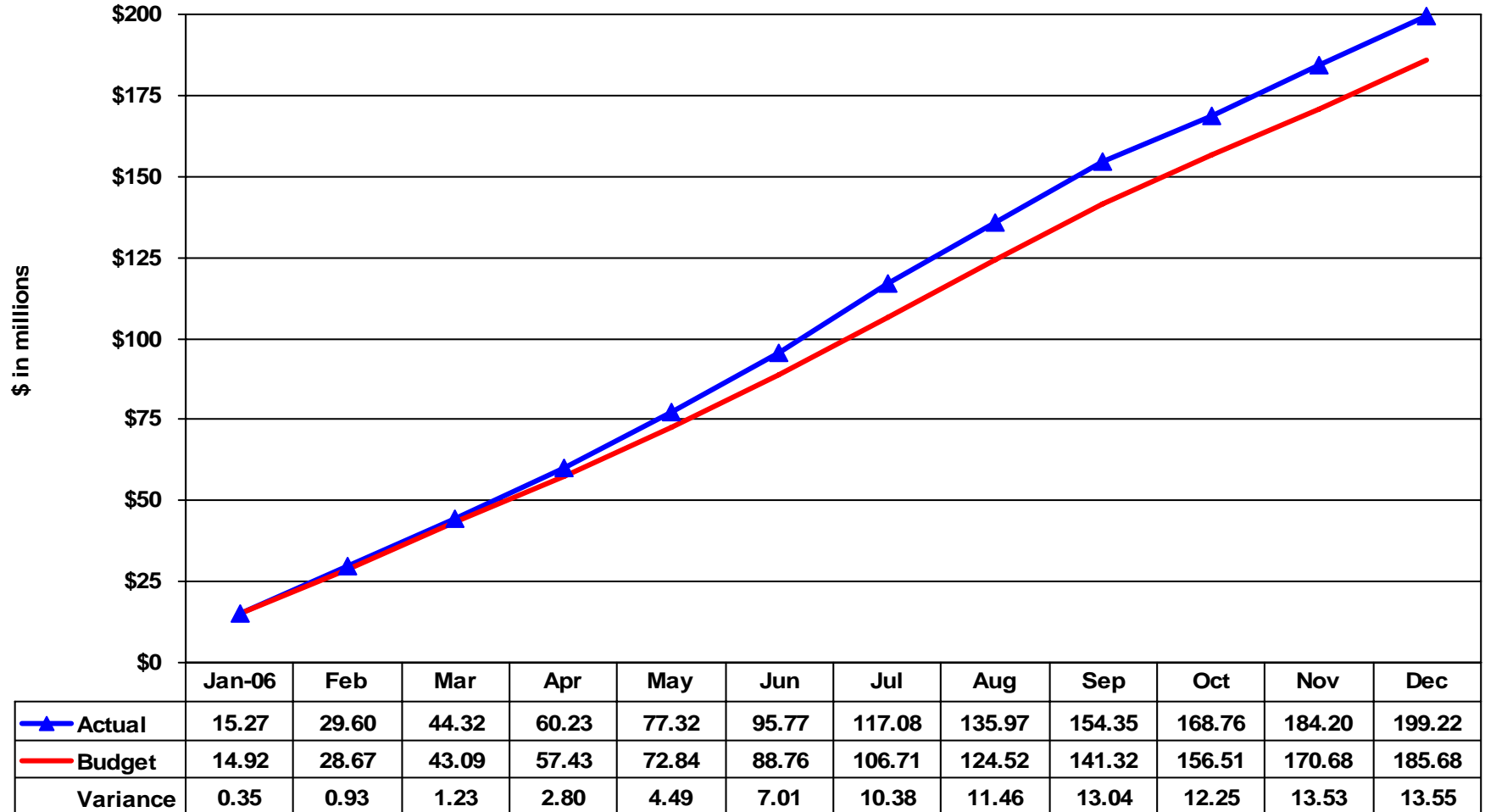
For the trade month September 2006 settled in December 2006.

Charge Type	Type	Unit		Settlements Amount	
		Due SC	Due ISO	Due SC	Due ISO
Spin Reserve	MW	974,938	293,141	\$ 1,777,157	\$ 1,719,359
Non-Spin Reserve	MW	4,659,694	216,363	838,834	963,773
AGC/Regulation	MW	857,649	167,218	2,351,091	2,188,926
Replacement Reserve	MW	-	-	-	-
No-Pay Provision		21,545,851	82,117	276,691	276,726
Rational Buyer Adjustment		-	4,883,818	-	95,026
Total Ancillary Services		28,038,132	5,642,657	\$ 5,243,772	\$ 5,243,810
Energy (Note1)	MWh	873,418	16,103,289	\$ 28,209,062	\$ 30,338,300
Neutrality		21,507,869	-	2,186,695	184,738
Minimum Load Cost Compensation		57,958	24,558,996	3,189,289	3,152,629
Start-Up Cost Compensation		21,324,151	21,324,151	733,358	733,358
Emissions Cost Compensation		-	-	-	-
Voltage Support		-	8,025,049	134,875	134,875
Intermittent Resource Deviation		310,445	213,278	394,579	394,579
Total Energy		44,073,841	70,224,762	\$ 34,847,857	\$ 34,938,479
Inter-Zonal Congestion	MWh	868,770	2,578,978	\$ 8,100,432	\$ 8,009,949
Wheeling & High Voltage Access Charge	MWh	20,434,939	19,458,471	61,885,336	61,885,336
Others		16,900	168,986	17,104	17,099
FERC Fee		-	21,284,408	1,062	1,085,534
Penalty and Interest Charge					
Total Transmission and Other		21,320,609	43,490,844	\$ 70,003,933	\$ 70,997,918
Total Market Billed by Charge Type		93,432,582	119,358,263	\$ 110,095,562	\$ 111,180,207
Other Billings					
Grid Management Charge				\$ 6,513	\$ 16,152,397

Note 1 - Energy includes Supplemental Energy, Imbalance Energy and Unaccounted-For-Energy

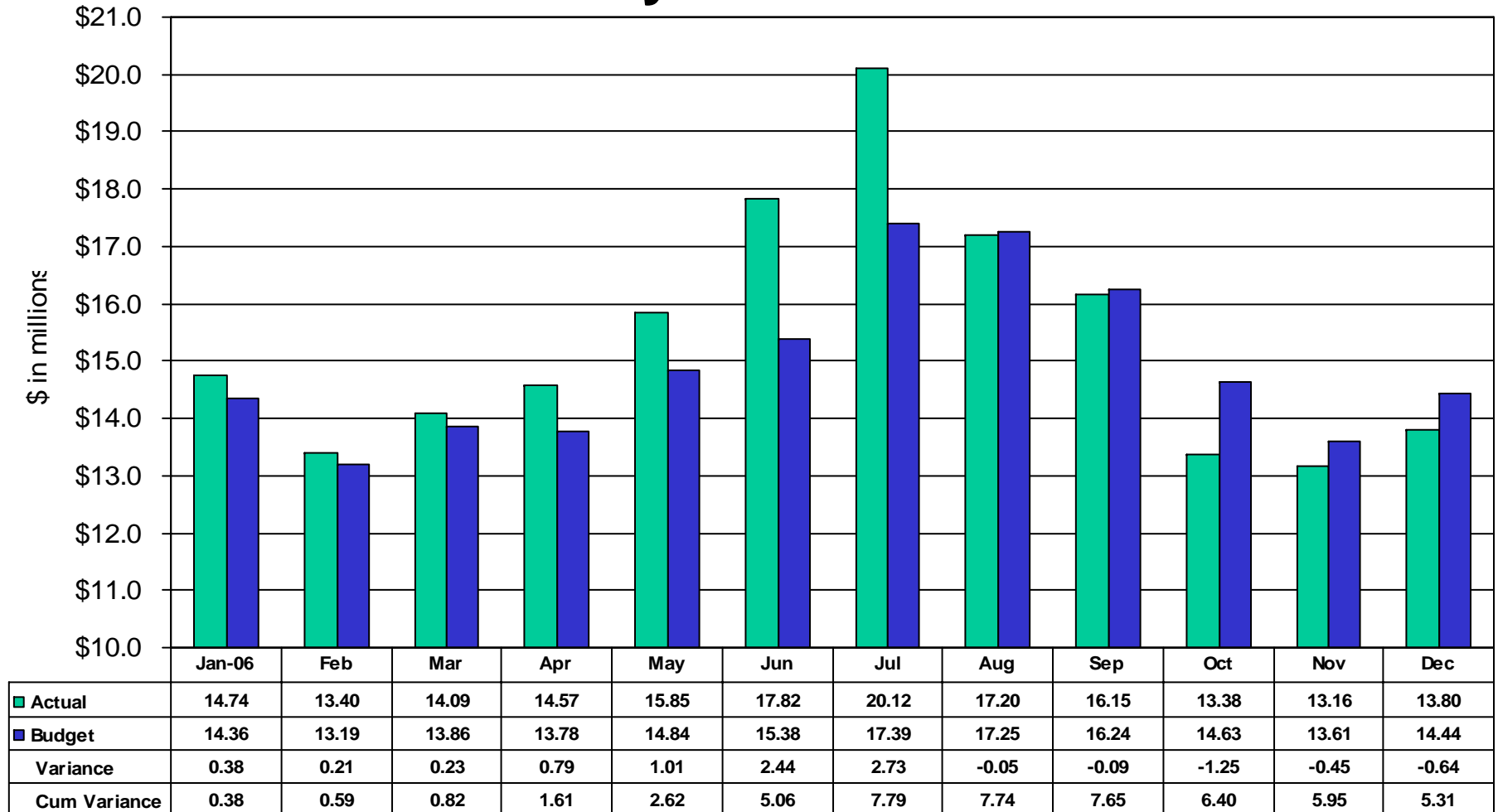
Cumulative Operating Revenues

Revenues = GMC, Interest, WSCC Security & Other Fees



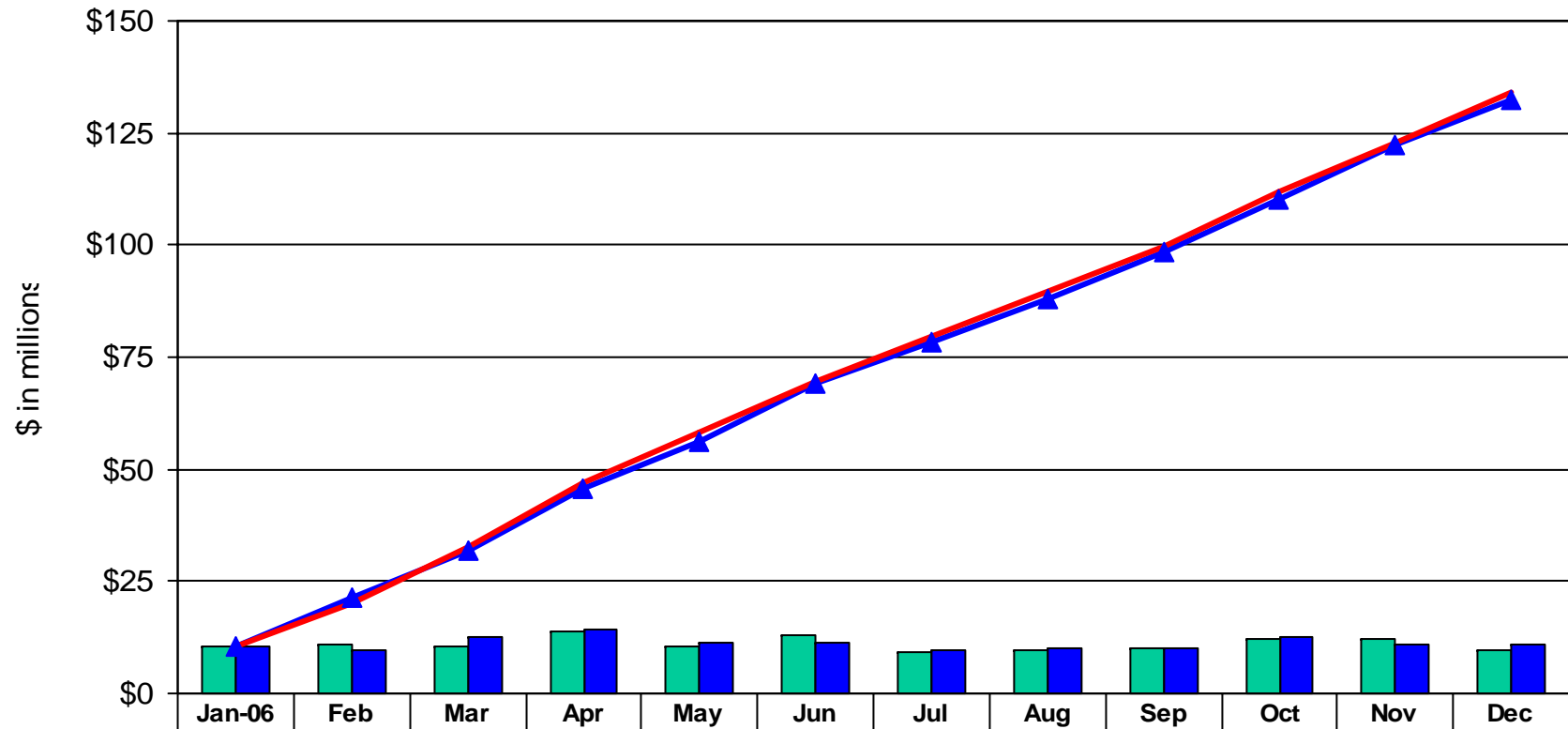
November and December revenues are estimates.

Monthly GMC Revenues



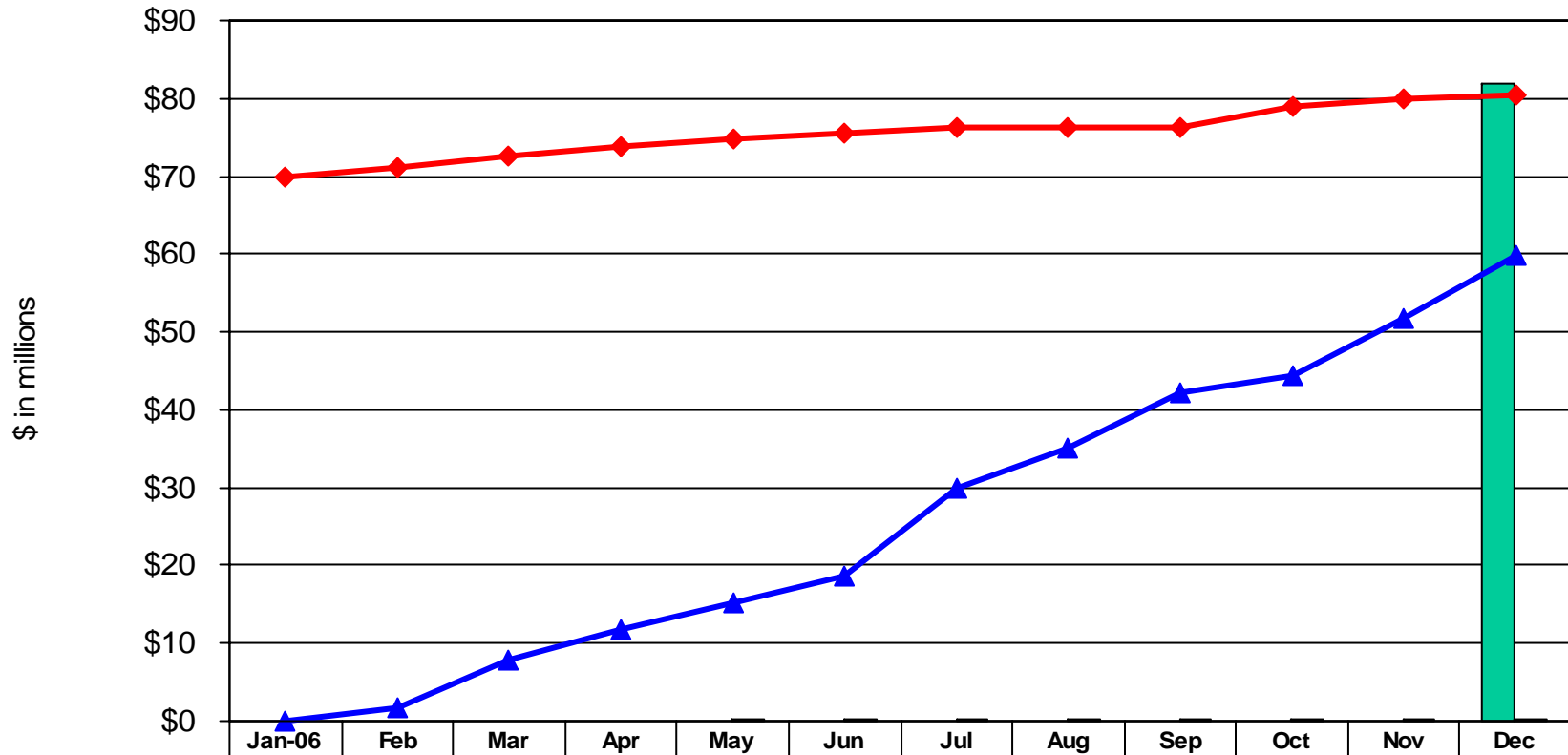
November and December revenues are estimates. Amounts do not include prior-period adjustments.





Operating and Maintenance Expenses (O&M)



	Jan-06	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	10.46	10.84	10.60	13.86	10.38	13.07	9.16	9.63	10.24	12.09	12.20	9.83
Monthly Budget	10.61	9.71	12.56	14.17	11.38	11.22	9.83	10.15	10.01	12.41	10.80	11.08
Cum Actual	10.51	21.35	31.95	45.81	56.19	69.26	78.42	88.04	98.27	110.35	122.54	132.36
Cum Budget	10.61	20.32	32.88	47.05	58.43	69.65	79.48	89.63	99.64	112.05	122.85	133.93
Cum Variance	0.10	(1.03)	0.93	1.24	2.24	0.39	1.06	1.59	1.37	1.70	0.31	1.57

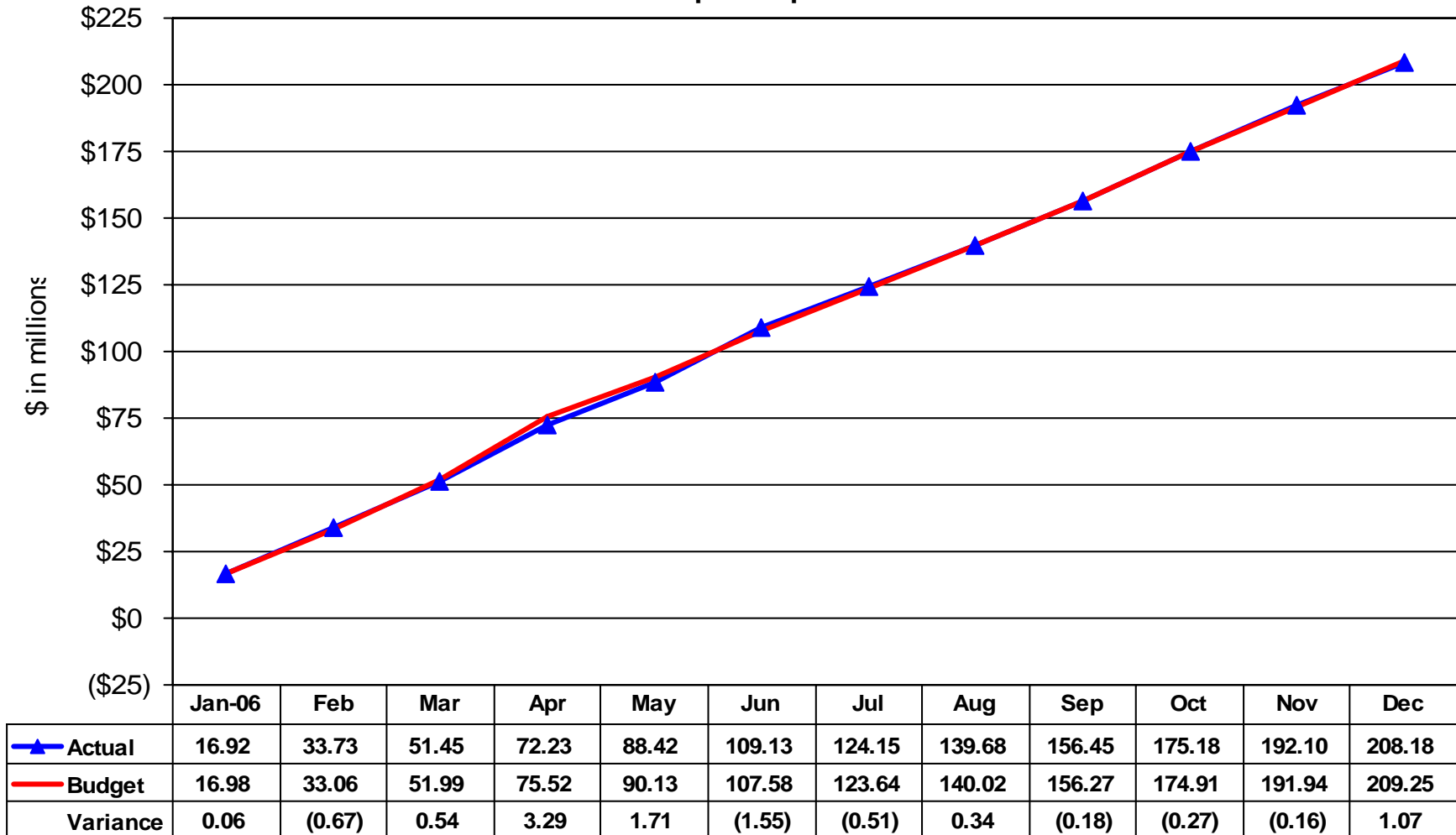
Cumulative Capital Expenditures



 Budgeted capital												82.00
 2006 O&M Impact	0.00	0.03	0.11	0.11	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30
 Cumulative Expenditures	0.00	1.77	7.79	11.83	15.11	18.58	29.84	35.14	42.15	44.41	51.82	59.74
 Approved projects	69.90	71.19	72.57	73.76	74.71	75.51	76.16	76.16	76.24	78.86	80.05	80.45

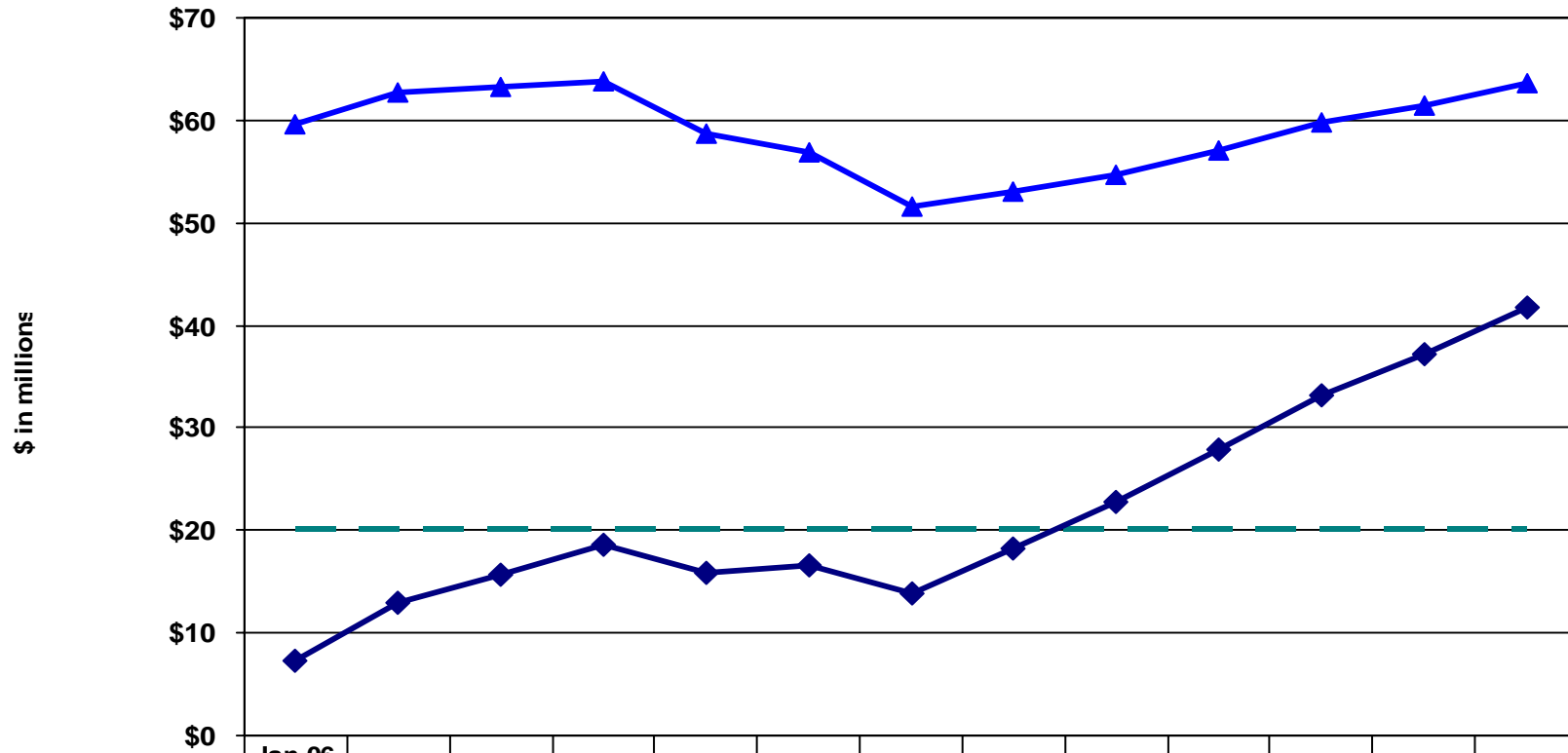
Cumulative Revenue Requirement

Rev Req = O&M costs - Misc Rev + Debt Service + 25% Debt Service Reserve+Funded
Capital Expenditures



Monthly Operating Reserve

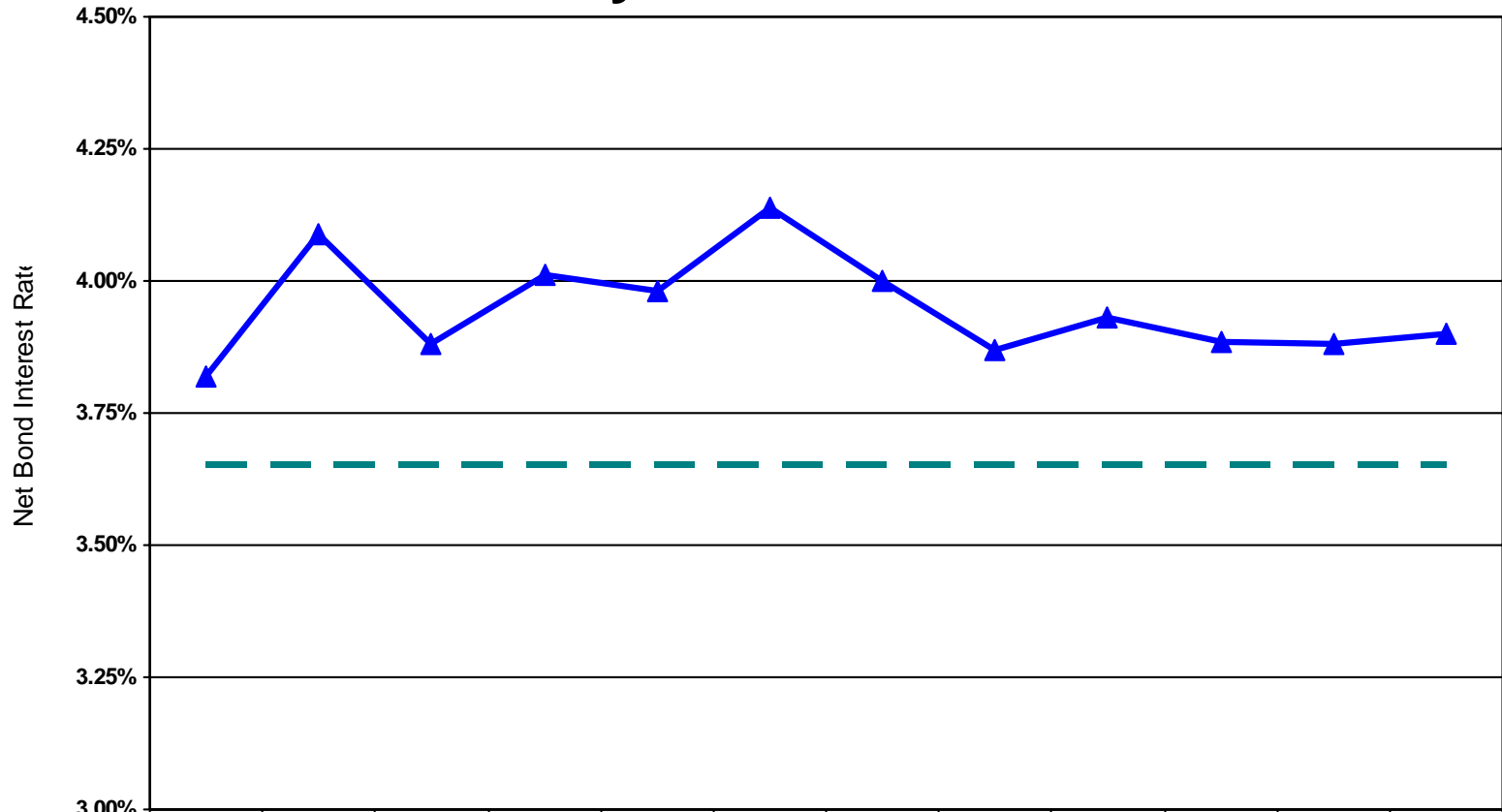
Op Res = Unrestricted Cash - Accrued Expenses & Payables



	Jan-06 (Beg)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Actual - Gross	59.53	62.65	63.20	63.84	58.69	56.90	51.65	52.98	54.66	57.09	59.84	61.49	63.61
Res Requirement	20.09	20.09	20.09	20.09	20.09	20.09	20.09	20.09	20.09	20.09	20.09	20.09	20.09
Actual - Uncommitted	7.34	12.89	15.67	18.66	15.84	16.56	13.92	18.19	22.79	27.97	33.20	37.15	41.72

Reserve requirement set at 15% of 2006 budgeted O&M expenses, which is excluded in the actual-uncommitted balance. The operating reserve balance is a current estimate for the period and does not include any reserves that may be accrued at year end or in the annual rate calculations.

ISO Monthly Debt Rates

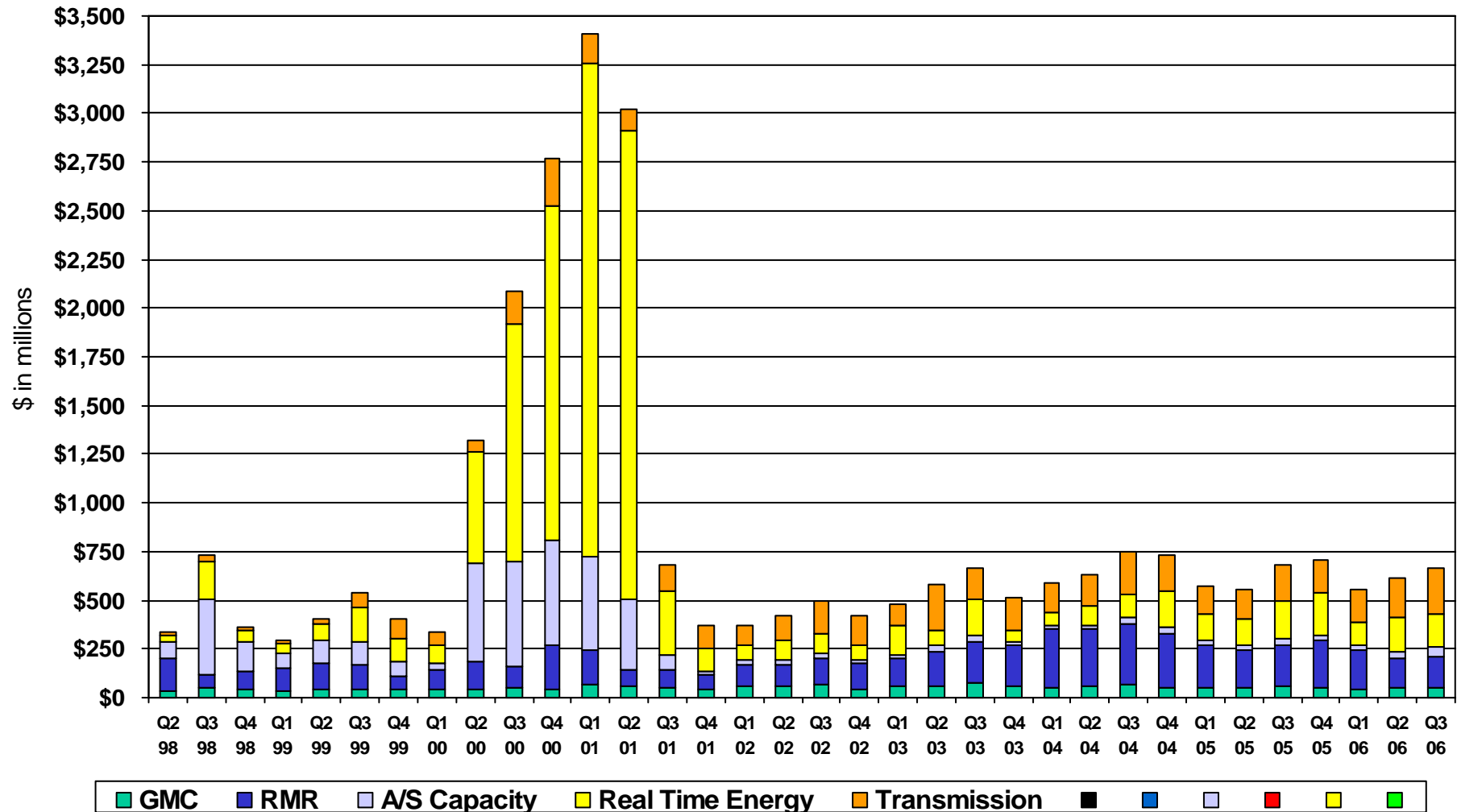


	Jan-06	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
▲ Net Int. Rate (All Bonds)	3.82%	4.09%	3.88%	4.01%	3.98%	4.14%	4.00%	3.87%	3.93%	3.89%	3.88%	3.90%
— Budgeted Net Int. Rate	3.65%	3.65%	3.65%	3.65%	3.65%	3.65%	3.65%	3.65%	3.65%	3.65%	3.65%	3.65%

These rates do not include adjustments for amortization of bond issuance costs and remarketing fees.

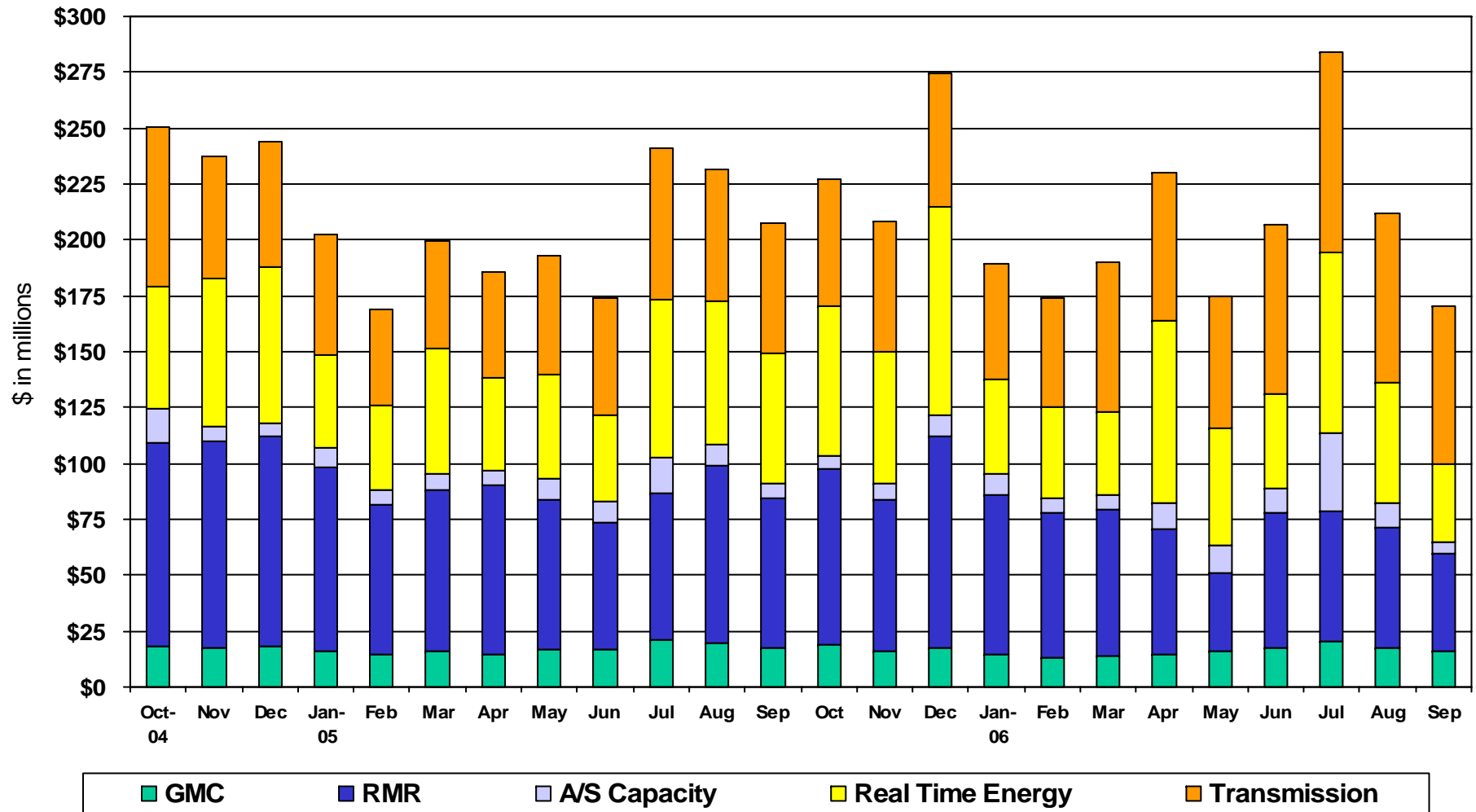
CAISO Market Costs By Quarter

2nd Quarter 1998 (Inception) through 3rd Quarter 2006

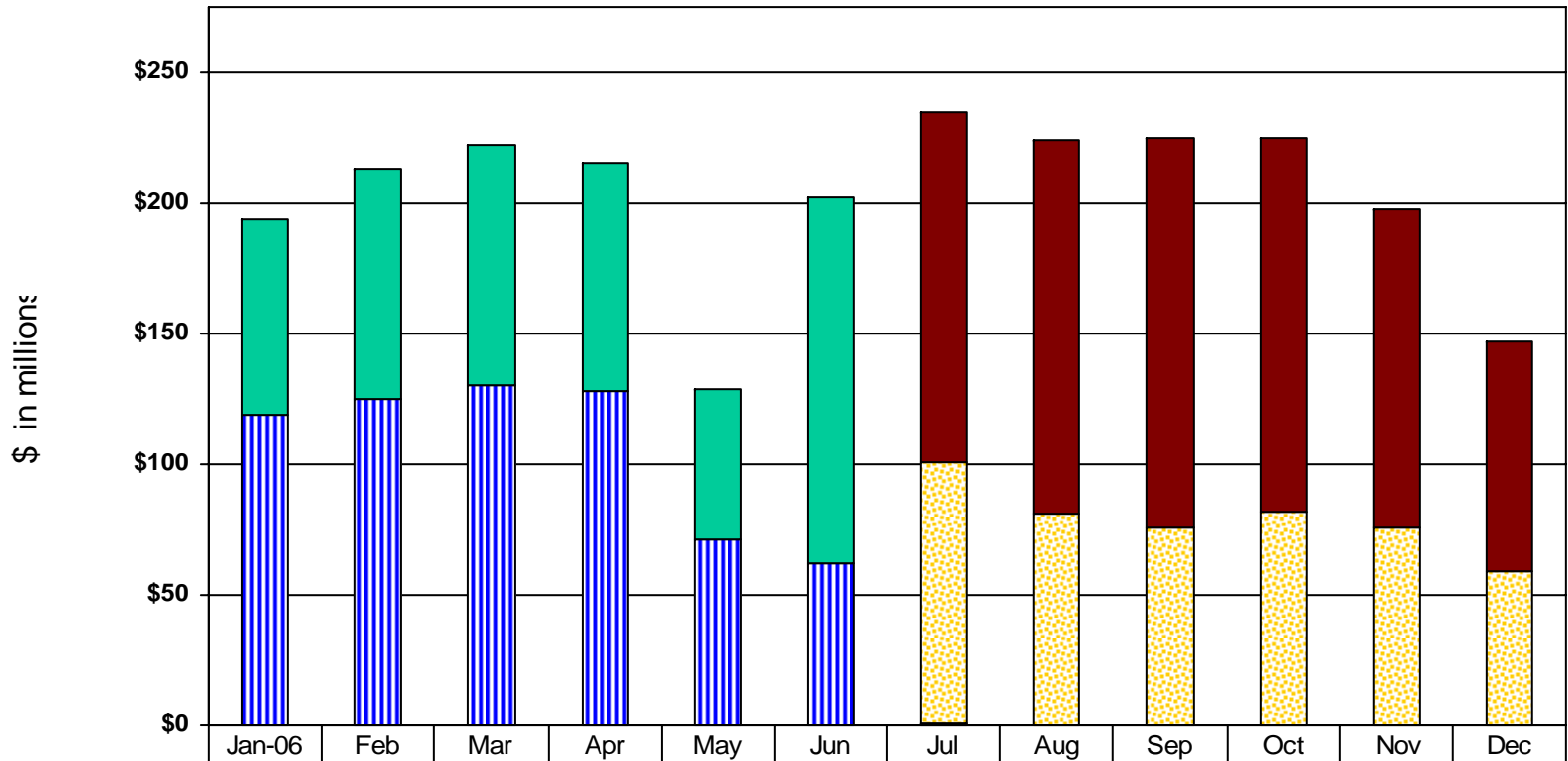




CAISO Market Costs By Month October 2004 through September 2006



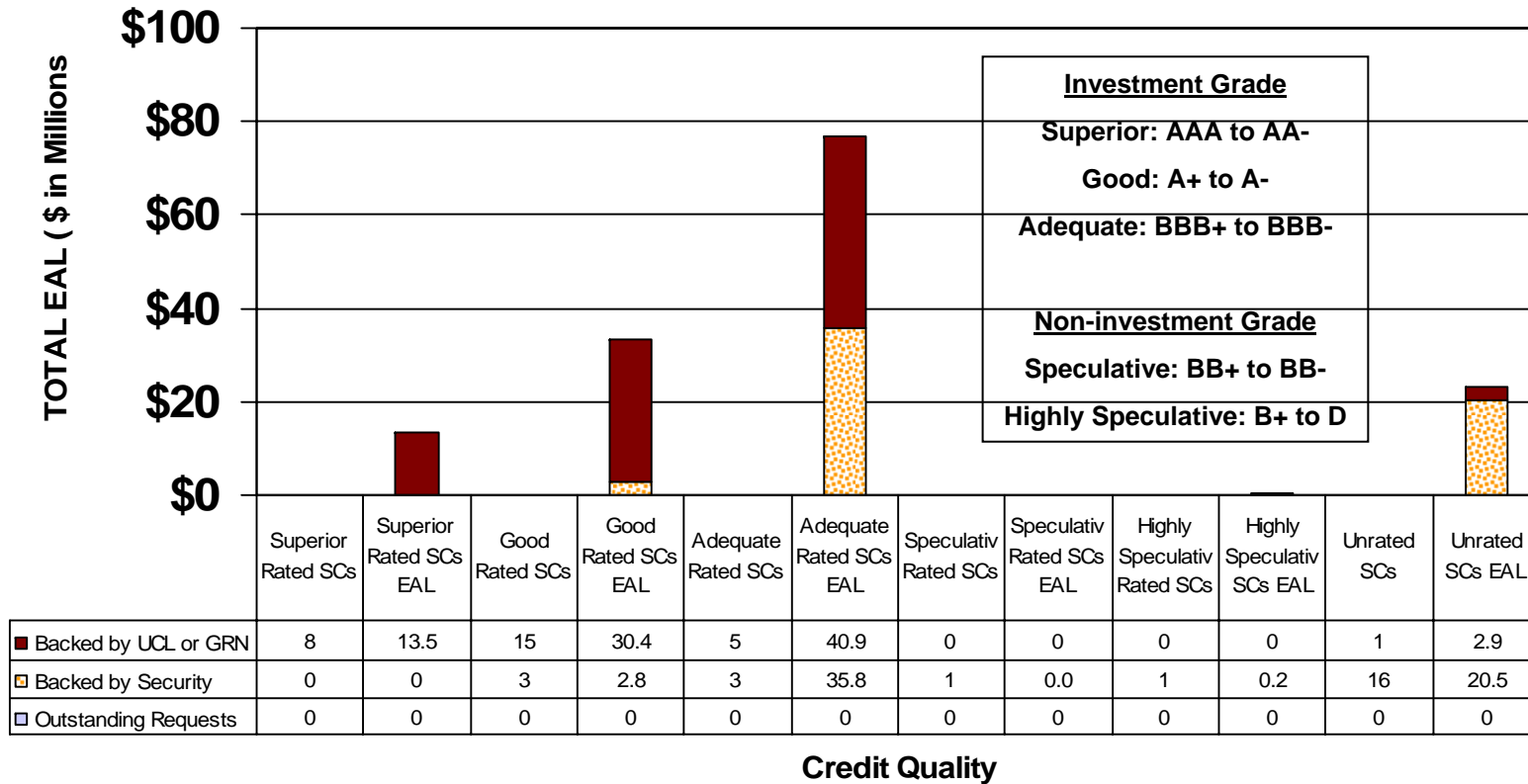
Outstanding Obligations of Market Participants



■ Backed by UCL or GRN							134	143	149	143	122	88
■ Backed by posted security							100	81	76	82	76	59
■ Outstanding security requests							1	0	0	0	0	0
■ SCs with approved credit ratings	75	88	92	87	58	140						
■ SCs with posted security	119	125	130	128	71	62						

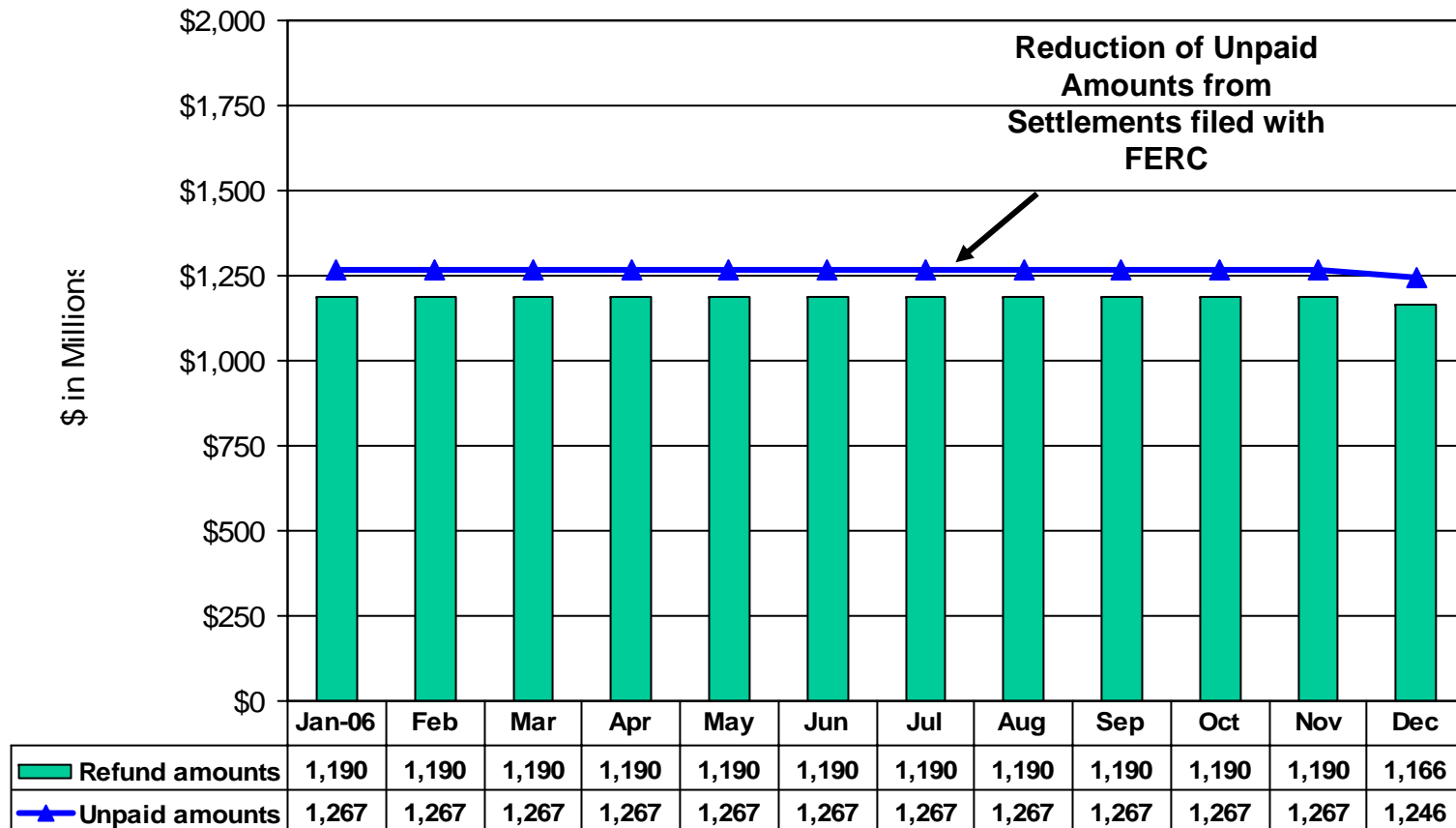
As of June 19, the CAISO completed its transition to a new approach for assigning unsecured credit limits (UCL). Effective May 2006, outstanding obligations are estimated using available historical settlements data in contrast with the use of SCALE application data (SCALE is currently inoperative) in previous months. Posted security includes letters of credit, surety bonds, cash deposits held in escrow, certificates of deposit, payment bonds, and prepayments to the CAISO. The "Backed by UCL or GRN" category includes Unsecured Credit Limits (UCL) and Guarantees (GRN).

Backing for Estimated Aggregate Liability (EAL) by Credit Quality



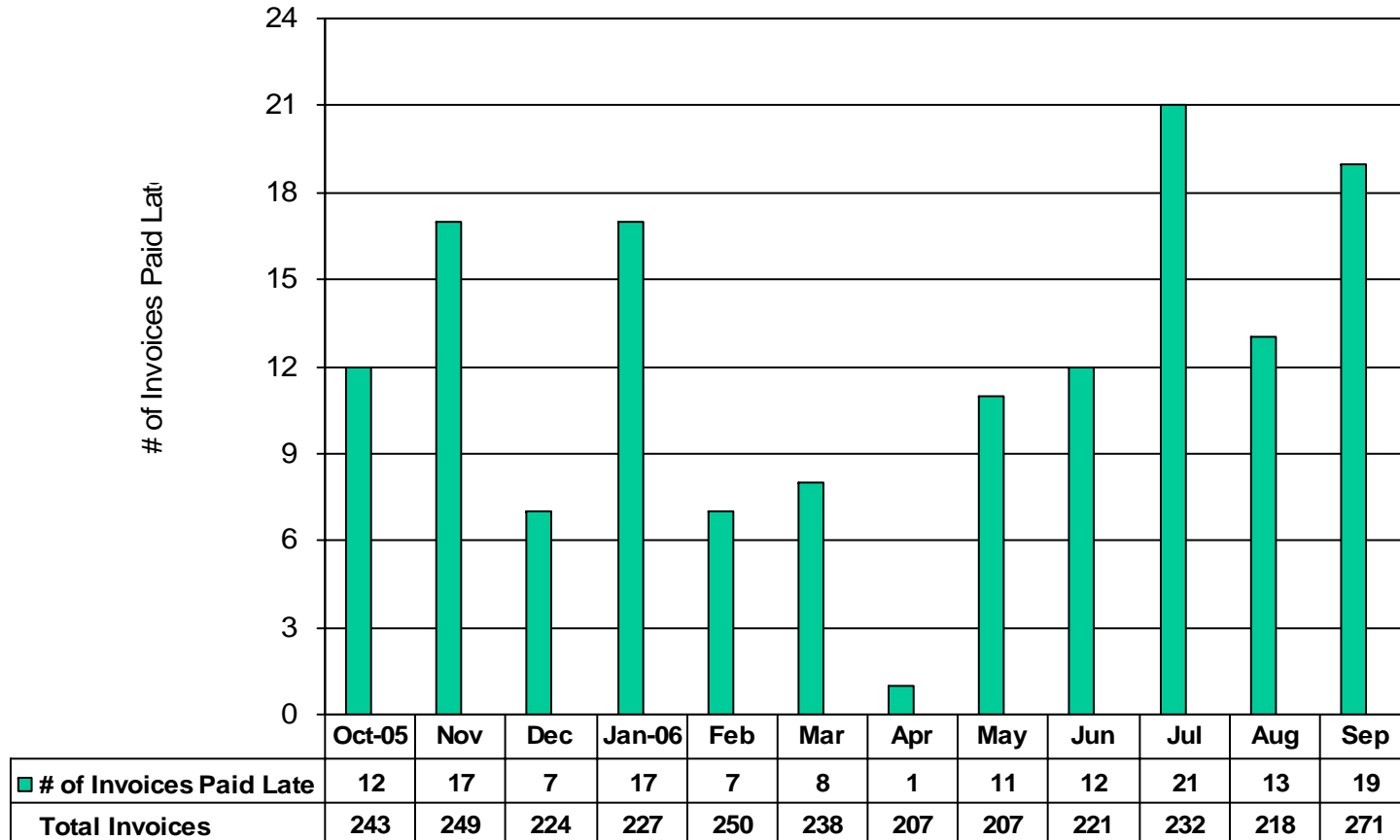
Credit Quality is based on S&P or equivalent ratings. SCs without a credit rating are displayed as Unrated. EAL are estimates based on the best available information calculated according to the procedure described in Part C of the Credit Policy and Procedures Guide. Acceptable forms of Financial Security included in the "Backed by Security" category are: letters of credit, surety bonds, cash deposits held in escrow, certificates of deposits, payment bonds and prepayments. The "Backed by UCL or GRN" category includes Unsecured Credit Limits (UCL) and Guarantees (GRN).

Impact of Bilateral Settlements on ISO Market



Unpaid amounts represent receivable from Cal PX and amounts due creditors. Refund amounts represents settlements with generators that have been filed with FERC and funded by Cal PX.

Timeliness of Market Collections



Payment shown late if not paid by close of business on payment due date (Apr 05 - May 05) and by late if not paid by 10AM for Jun 05 forward.