

# MONTHLY FINANCIAL REPORT

## May 2008

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**  
**MONTHLY FINANCIAL REPORT - May 2008**

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## **CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY**

For the five-month period ended May 31, 2008

### **OPERATIONS: (pages 1, 5, 6, and 7)**

- ♦ Operating Revenues for May were \$16.4M, \$1.3M higher than budget.
  - The variance was primarily due to a higher estimated GMC for the month.
- ♦ Operating Revenues for the year to date were \$76.7M, \$0.7M lower than budget.
  - The variance was primarily due to lower GMC revenues. Our preliminary analysis indicates that this is a result of the mild weather through the late winter and spring, continued poor hydrological conditions and the reduction of economic growth in California.
- ♦ O&M expenses for May were \$12.2M, \$0.1M higher than budget.
  - The variance was primarily due to timing of payments during the month.
- ♦ O&M expenses for the year to date were \$65.2M, \$0.4M lower than budget. Outlook for the year: O&M at budget.
  - The variance was primarily due to timing of payments during the period offset by higher salaries and benefits expenses. The increased labor expenses were primarily due to higher than anticipated overtime costs.
- ♦ There were 540 full-time employees compared to the 545 full-time employees budgeted.

### **BALANCE SHEET: (page 2)**

- ♦ The changes in receivables and investments are primarily due to normal business activities during the month.

### **CAPITAL PROJECTS: (pages 3 and 7)**

- ♦ 2008 approved capital expenditures were budgeted for the year at \$43.0M. Actual expenditures for 2008 capital projects totaled \$15.6M. Expenditures for 2007 approved capital projects totaled \$1.9M.
- ♦ 2008 capital projects approved through May totaled \$34.1M and include \$13.0M for MRTU projects.

### **INTEREST COSTS and INTEREST INCOME: (page 8)**

- ♦ During May, the average interest rate on ISO bonds is 5.24%, 1.67% higher than the budgeted rate of 3.57%. The increase is attributable to investor concerns about the financial health of the bond insurers that support CAISOs outstanding bonds. Interest rates on CAISO's variable rate demand bonds are set on a weekly basis, and increased substantially on January 24, 2008. CAISO's interest rate swaps have not been effective in this environment. CAISO has completed the plan approved by the Board on March 26, 2008 to refinance existing debt in June, 2008.
- ♦ Interest income for the year to date is \$5.2M, \$3.1M higher than budget. The variance is primary attributable to interest earnings on the generator fines account, which are excluded in the budget. Interest expense will also be higher for as long as CAISO retains these fines.

### ***The ISO Markets***

#### **MARKET CHARGES: (page 4 )**

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

#### **OBLIGATIONS OF MARKET PARTICIPANTS: (pages 11 and 12 )**

- ♦ No notable events

# CALIFORNIA ISO

## Statement of Operations

For the five-month period ended May 31, 2008  
(dollars in thousands)

	Month				Year to Date				2008
	Actual	Budget	Variance	Var (%)	Actual	Budget	Variance	Var (%)	Budget
<b>Revenues:</b>									
Grid Management Charge	\$ 15,800	\$ 15,951	\$ (151)	-1%	\$ 74,228	\$ 75,005	\$ (777)	-1%	\$ 191,635
Fines, WSCC & Other Fees	624	467	157	34%	2,455	2,337	118	5%	5,609
Total revenues	<u>16,424</u>	<u>16,418</u>	<u>6</u>	<u>0%</u>	<u>76,683</u>	<u>77,342</u>	<u>(659)</u>	<u>-1%</u>	<u>197,244</u>
<b>Operating Expenses:</b>									
Salaries and Benefits	6,636	7,113	(477)	-7%	39,736	38,977	759	2%	92,182
Building, Leases and Facility	1,040	808	232	29%	4,310	4,040	270	7%	9,704
Insurance	302	331	(29)	0%	1,896	2,009	(113)	*	2,012
Third Party Vendor Contracts	2,027	1,673	354	21%	7,968	8,550	(582)	-7%	20,858
Consulting and Contracting Services	901	1,122	(221)	-20%	5,800	5,693	107	2%	13,294
Legal and Audit	749	459	290	63%	3,029	3,055	(26)	-1%	7,031
Training, Travel and Professional Dues	295	376	(81)	-22%	1,507	1,986	(479)	-24%	4,680
Other	246	238	8	3%	969	1,284	(315)	-25%	2,893
Total operating expenses	<u>12,196</u>	<u>12,120</u>	<u>76</u>	<u>1%</u>	<u>65,215</u>	<u>65,594</u>	<u>(379)</u>	<u>-1%</u>	<u>152,654</u>
Net operating income (loss)	<u>4,228</u>	<u>4,298</u>	<u>(70)</u>	<u>-2%</u>	<u>11,468</u>	<u>11,748</u>	<u>(280)</u>	<u>-2%</u>	<u>44,590</u>
<b>Interest and Other Expenses</b>									
Interest income & other	442	184	258	140%	2,976	735	2,241	305%	2,205
Interest expense	675	413	262	63%	5,224	2,140	3,084	144%	5,441
Depreciation and amortization	1,050	1,050	-	0%	5,150	5,150	-	0%	13,800
Total interest and other expenses	<u>1,283</u>	<u>1,279</u>	<u>4</u>	<u>0%</u>	<u>7,398</u>	<u>6,555</u>	<u>843</u>	<u>13%</u>	<u>17,036</u>
Excess (Deficiency) of Revenues Over Expenses	<u>\$ 2,945</u>	<u>\$ 3,019</u>	<u>\$ (74)</u>	<u>-2%</u>	<u>\$ 4,070</u>	<u>\$ 5,193</u>	<u>\$ (1,123)</u>	<u>-22%</u>	<u>\$ 27,554</u>
<b>Number of Full-time Employees</b>	<u>540</u>	<u>545</u>	<u>(5)</u>	<u>-1%</u>					<u>545</u>

**CALIFORNIA ISO**  
**Balance Sheet**  
As of May 31, 2008  
*(dollars in thousands)*

	<u>Current Month</u>	<u>Prior Month</u>	<u>Change</u>
<b>ASSETS</b>			
NET ELECTRIC UTILITY PLANT	<u>\$ 226,429</u>	<u>\$ 220,580</u>	<u>\$ 5,849</u>
CURRENT ASSETS			
Unrestricted Cash and Cash Equivalents	71,730	89,823	(18,093)
Restricted Cash and Cash Equivalents	21,221	21,221	-
Other Special Deposits	32,624	29,891	2,733
Accounts Receivable, net	34,134	32,382	1,752
Investments	57,348	46,800	10,548
Accrued Interest	1,326	821	505
Prepayments	3,386	3,632	(246)
Total Current Assets	<u>221,769</u>	<u>224,570</u>	<u>(2,801)</u>
NONCURRENT ASSET AND DEFERRED CHARGES			
Unamortized debt expenses and other	2,788	2,493	295
Total Noncurrent Asset and Deferred Charges	<u>2,788</u>	<u>2,493</u>	<u>295</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 450,986</u></u>	<u><u>\$ 447,643</u></u>	<u><u>\$ 3,343</u></u>
<b>CAPITALIZATION AND LIABILITIES</b>			
CAPITALIZATION			
Stakeholders' Surplus	\$ 212,311	\$ 208,431	\$ 3,880
Long-term Debt	70,078	70,078	-
TOTAL CAPITALIZATION	<u>282,389</u>	<u>278,509</u>	<u>3,880</u>
CURRENT LIABILITIES			
Long-term debt due within one year	70,300	70,300	-
Accounts Payable	16,323	18,060	(1,737)
Fines subject to refund	80,831	79,630	1,201
Total Current Liabilities	<u>167,454</u>	<u>167,990</u>	<u>(536)</u>
NONCURRENT LIABILITY AND DEFERRED CREDITS			
Other	1,143	1,143	-
Total Noncurrent Liability and Deferred Credits	<u>1,143</u>	<u>1,143</u>	<u>-</u>
TOTAL LIABILITIES	<u>168,597</u>	<u>169,133</u>	<u>(536)</u>
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<u><u>\$ 450,986</u></u>	<u><u>\$ 447,642</u></u>	<u><u>\$ 3,344</u></u>

**CALIFORNIA ISO**  
**Capital Projects Report**

For the five-month period ended May 31, 2008  
*(dollars in thousands)*

**Capital Spending**

	<b>Approved Projects</b>				
	Month <u>Actual</u>	YTD <u>Actual</u>	2008 Approved <u>Projects</u>	Projected Costs for Approved <u>Projects</u>	Original 2008 <u>Budget</u>
Compliance/Regulatory	\$ 4	\$ 104	\$ 1,598	\$ 1,598	\$ 10,500
Essential / Corporate Infrastructure	3,074	3,987	4,943	4,948	7,900
Strategic Initiatives	129	236	2,861	2,861	10,100
Future Market Enhancements	206	353	1,682	1,682	1,500
Market Redesign	1,213	6,116	7,518	7,518	7,518
Technology Upgrade	863	4,606	5,459	5,459	5,459
Iron Point Project Phase 2	65	212	10,000	10,000	-
<b>Total 2008 Capital Spending</b>	<u>5,554</u>	<u>15,614</u>	<u>34,060</u>	<u>34,065</u>	<u>42,977</u>
2007 Capital Projects	<u>271</u>	<u>1,908</u>	<u>3,417</u>	<u>3,417</u>	
<b>Total Capital</b>	<u>\$ 5,825</u>	<u>\$ 17,522</u>	<u>\$ 37,478</u>	<u>\$ 37,483</u>	<u>\$ 42,977</u>

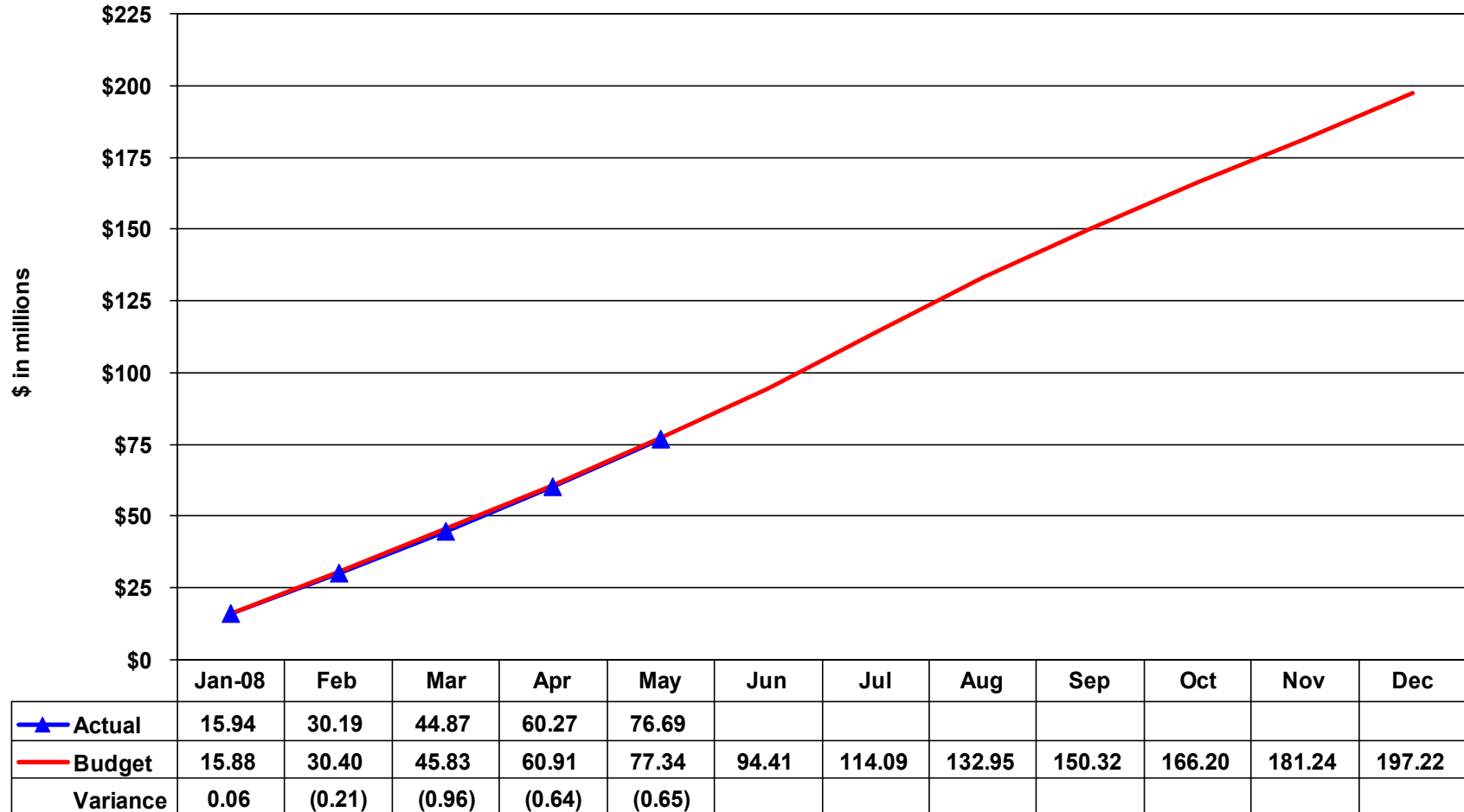
Notes:

Prior year capital projects funded by prior year rate collections.

Iron Point Project Phase 2 to be funded from 2008 bond proceeds until permanent facility financing is obtained (planned for 2009).

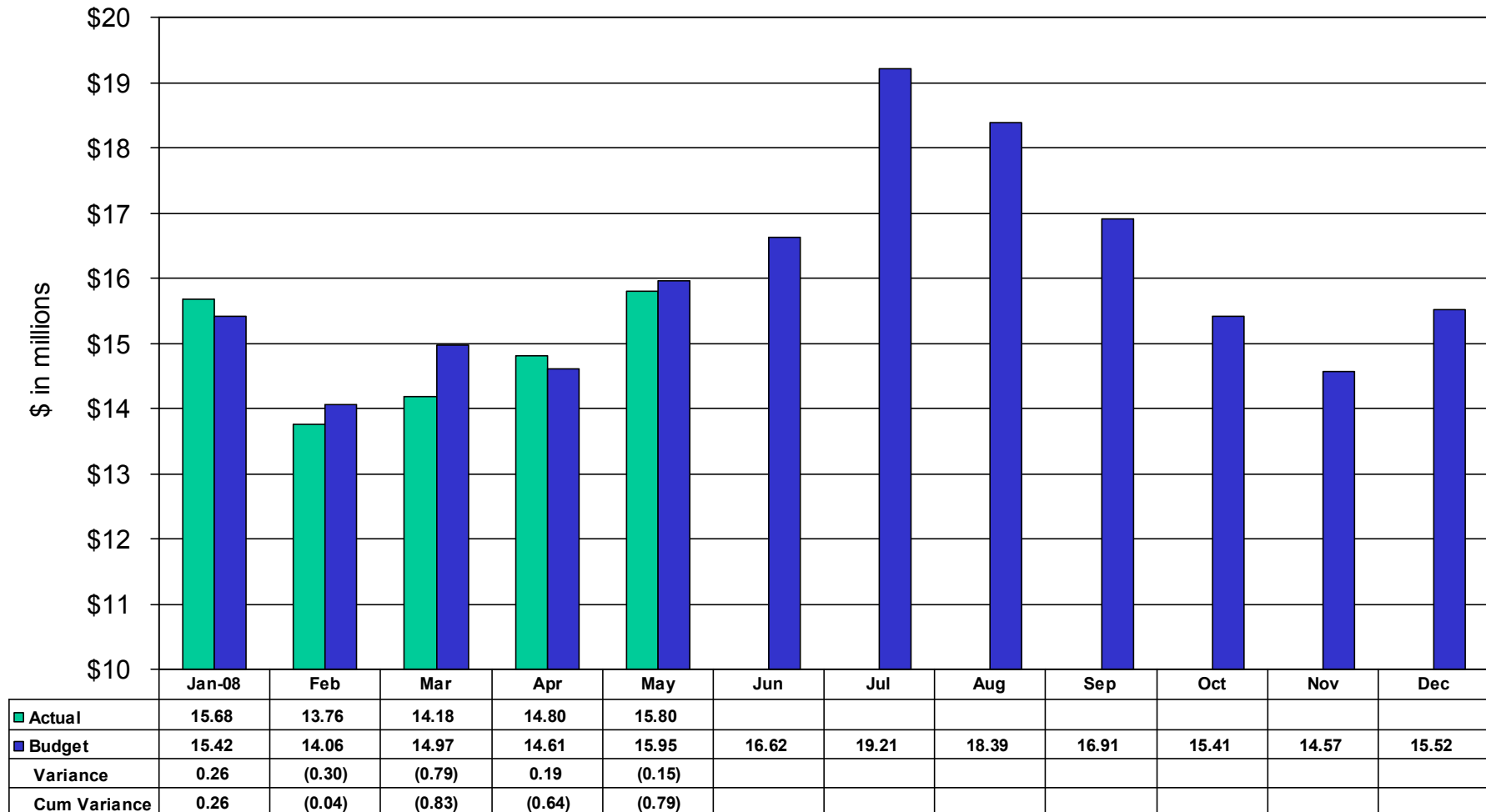
# Cumulative Operating Revenues

Revenues = GMC, LGIP, WSCC Security & Other Fees



**March, April and May revenues are estimates.**

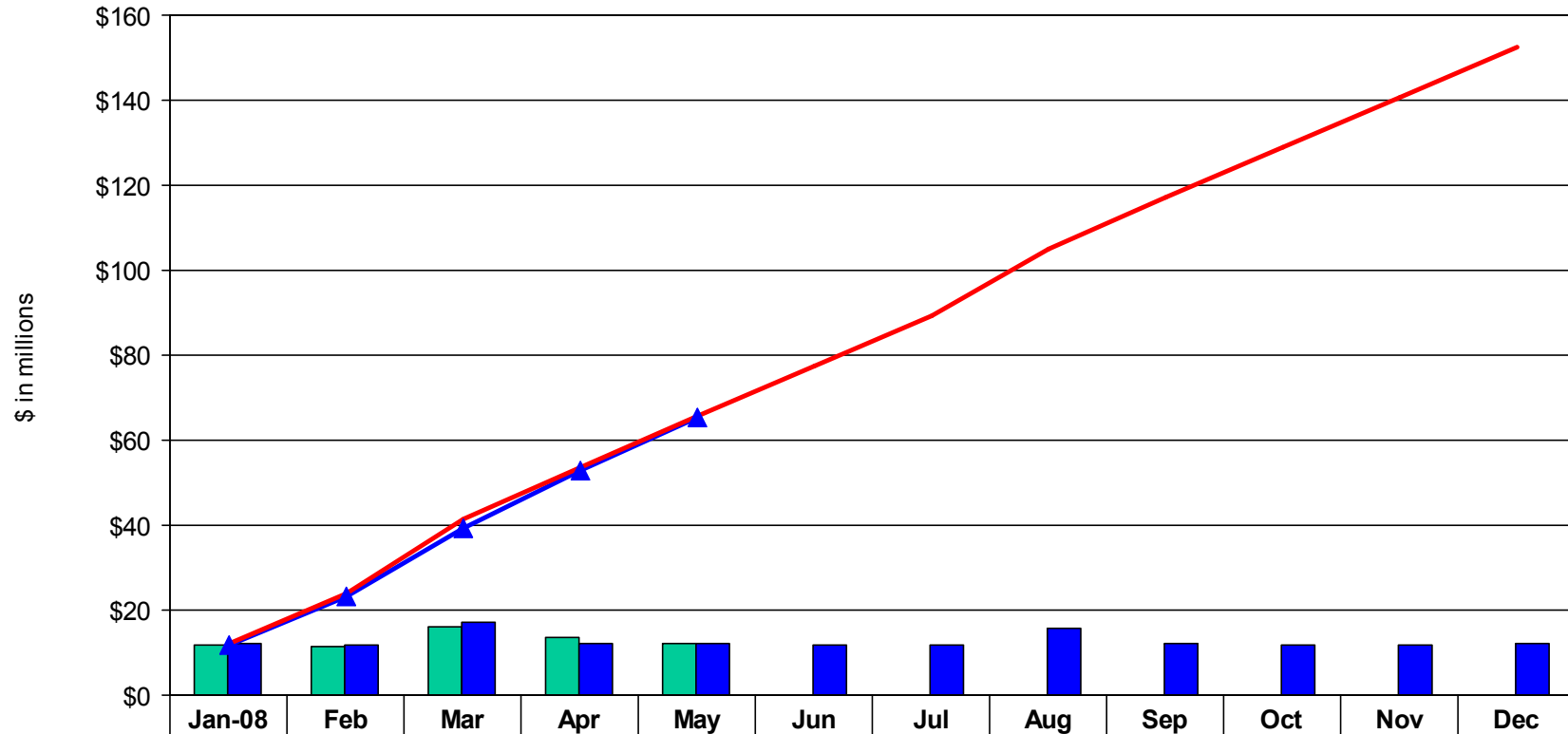
## Monthly GMC Revenues



***March, April and May revenues are estimates.***



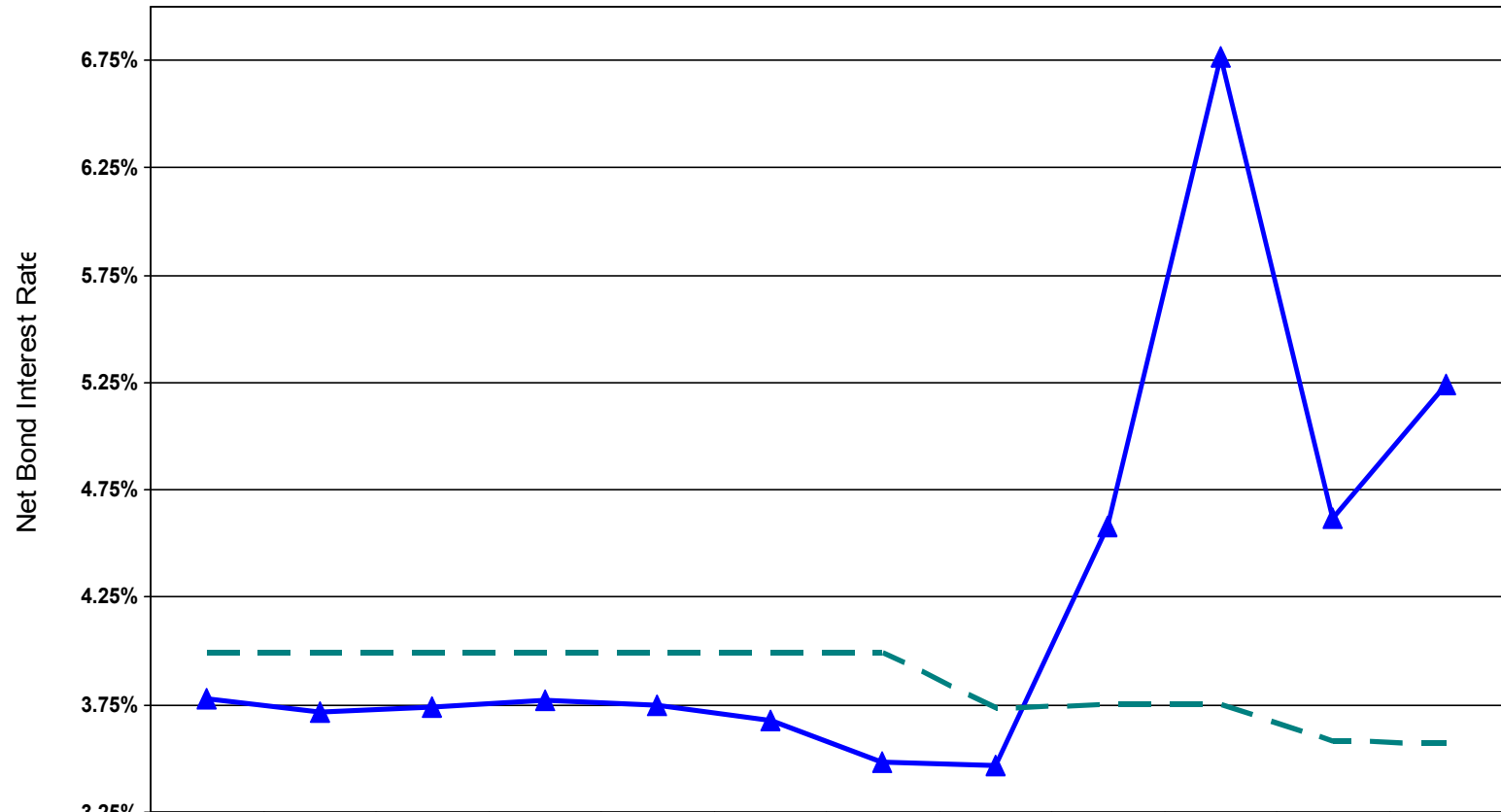
## Operating and Maintenance Expenses (O&M)



	Jan-08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	11.84	11.48	15.95	13.75	12.20							
Monthly Budget	12.25	11.82	17.20	12.21	12.12	11.84	11.80	15.86	12.08	11.72	11.72	12.05
Cum Actual	11.84	23.32	39.27	53.02	65.22							
Cum Budget	12.25	24.07	41.27	53.48	65.60	77.44	89.23	105.09	117.17	128.89	140.61	152.66
Cum Variance	0.41	0.75	2.00	0.46	0.38							



## ISO Monthly Debt Rates

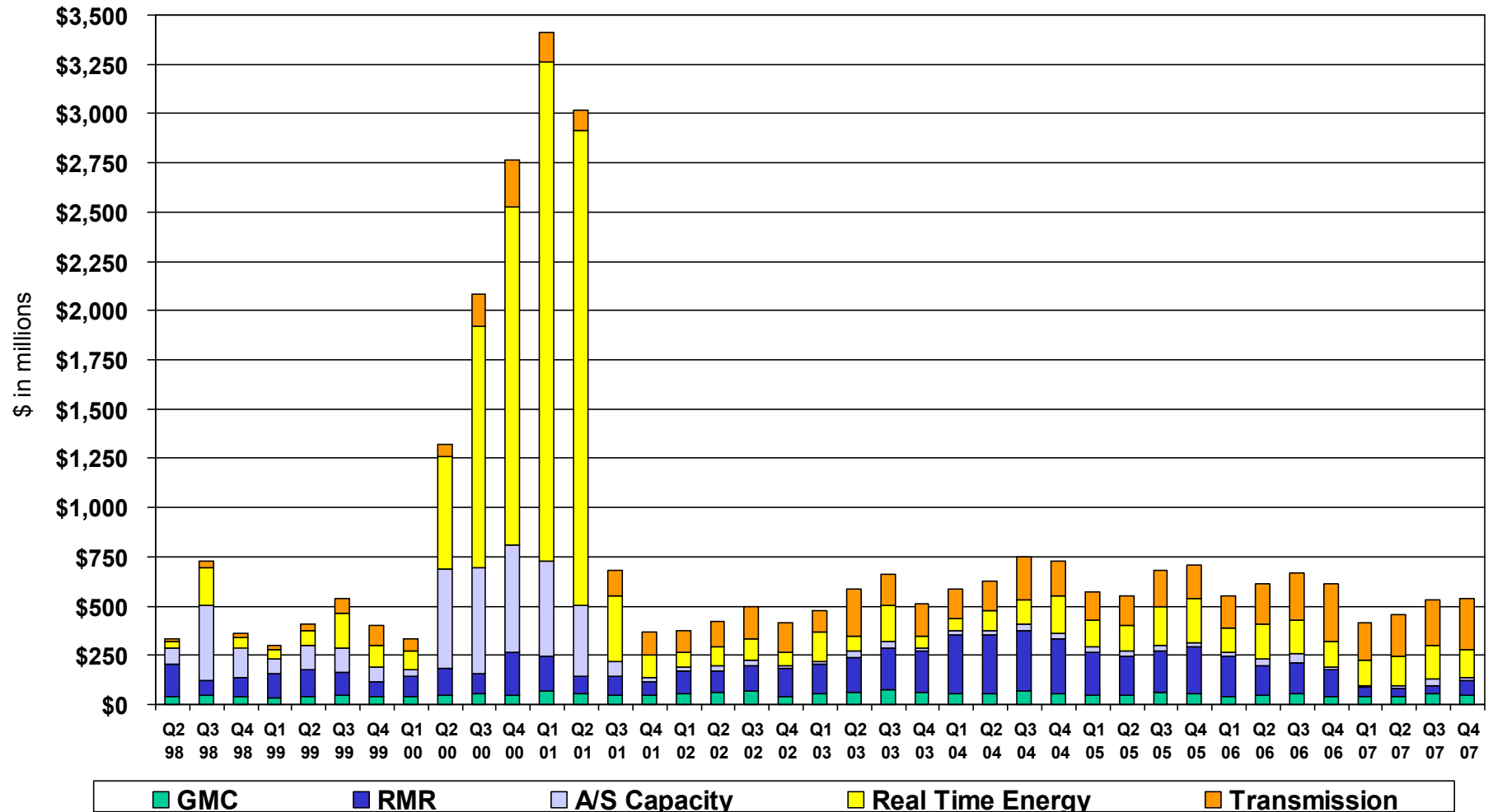


	Jun-07	Jul	Aug	Sep	Oct	Nov	Dec	Jan-08	Feb	Mar	Apr	May
Net Int. Rate (All Bonds)	3.78%	3.72%	3.74%	3.77%	3.75%	3.68%	3.48%	3.47%	4.58%	6.77%	4.62%	5.24%
Budgeted Net Int. Rate	3.99%	3.99%	3.99%	3.99%	3.99%	3.99%	3.99%	3.73%	3.75%	3.75%	3.58%	3.57%

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

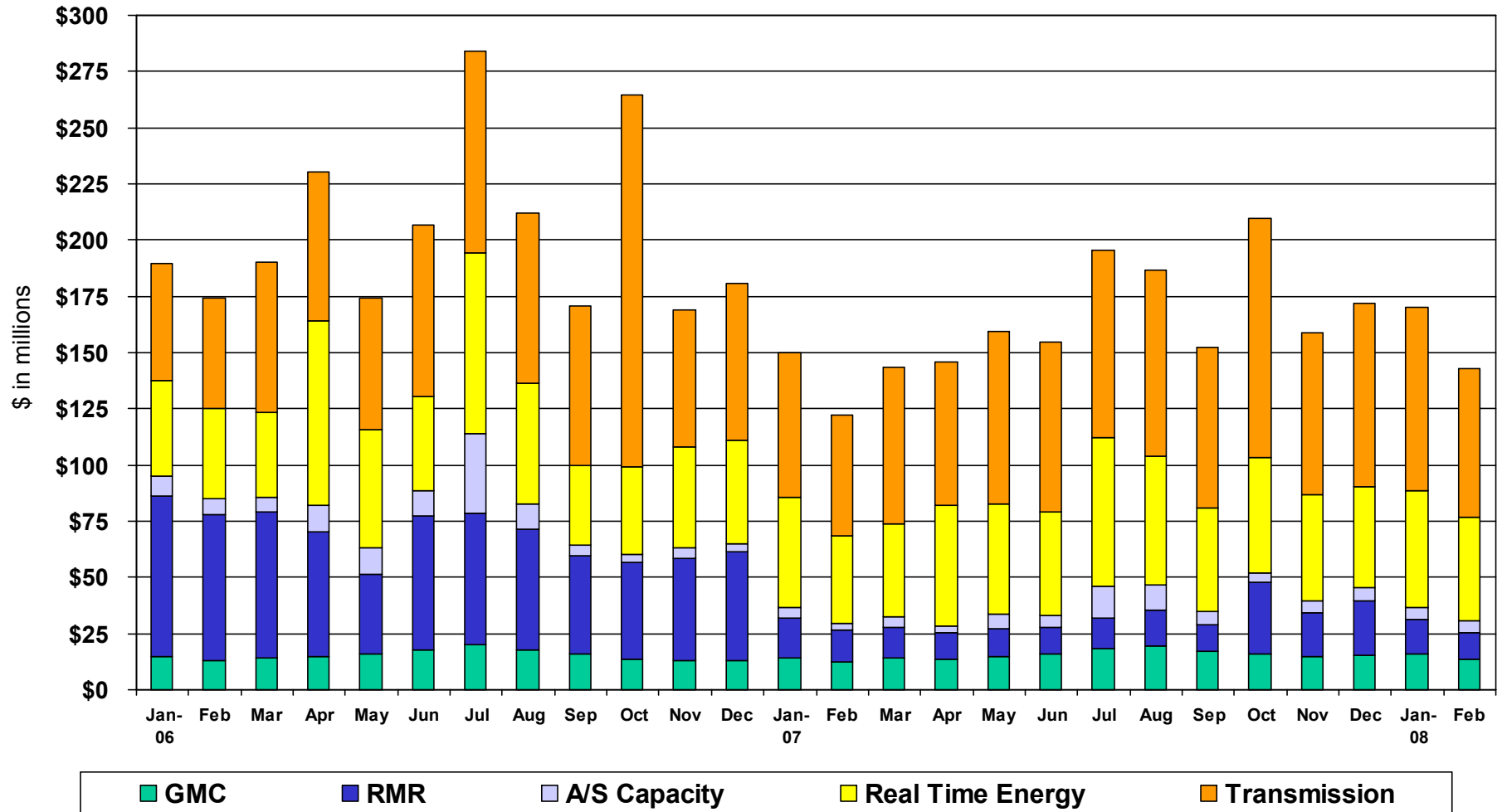
## CAISO Market Costs By Quarter

### 2nd Quarter 1998 (Inception) through 4th Quarter 2007

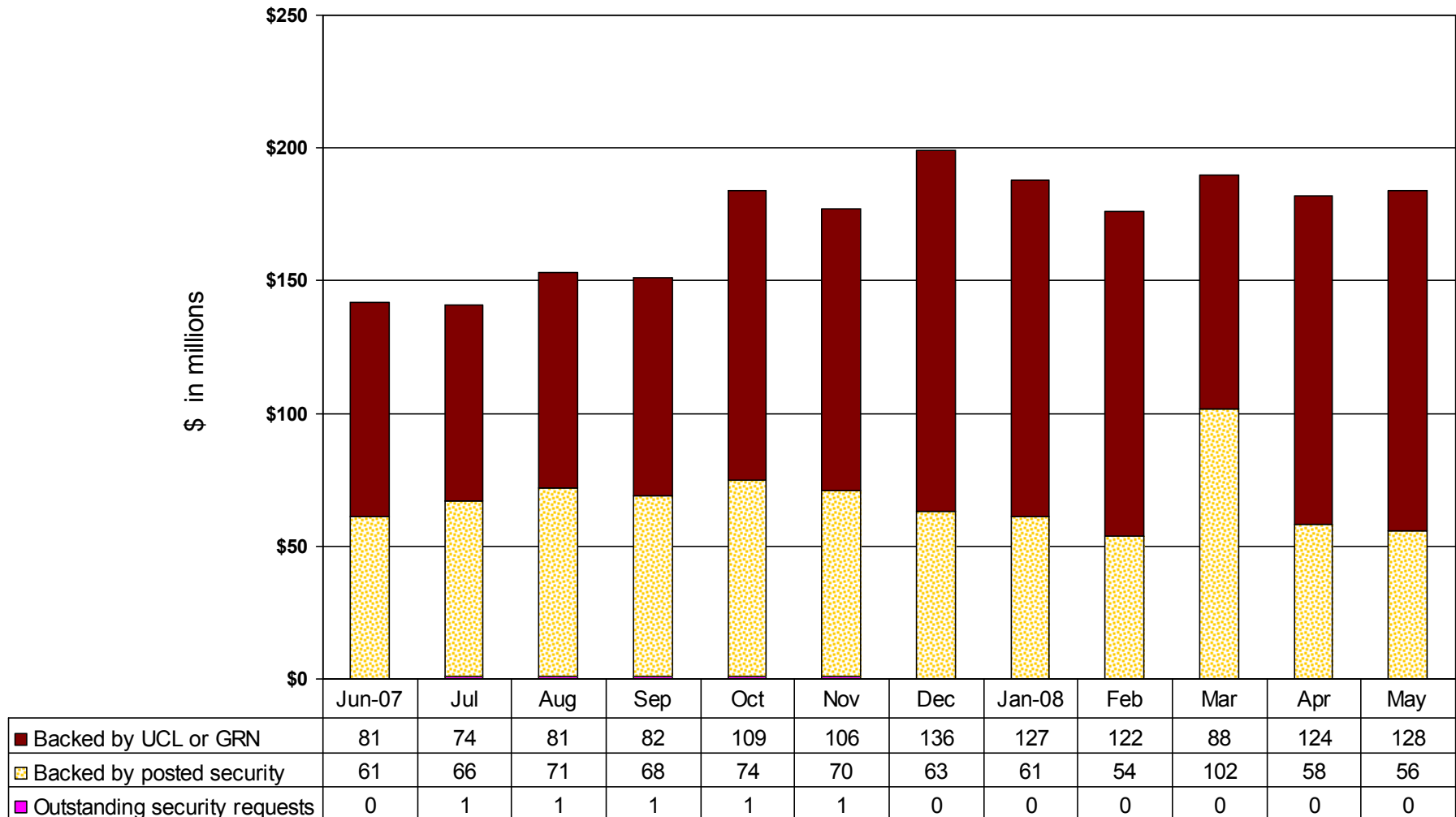




## CAISO Market Costs By Month December 2005 through February 2008



## Outstanding Obligations of Market Participants



*In June 2006, the CAISO completed its transition to a new approach for assigning unsecured credit limits (UCL). Outstanding obligations are estimated using available historical settlements data. 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

