California Independent System Operator Corporation

Financial Statements

December 31, 2010 and 2009

California Independent System Operator Corporation
Table of Contents
December 31, 2010 and 2009

pwc

Report of Independent Auditors

To the Members of the Board of Governors
California Independent System Operator Corporation

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses and changes in net assets and of cash flows present fairly, in all material respects, the financial position of the California Independent System Operator Corporation (the "Company") at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis on pages 2 through 10 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

Sacramento, California
April 6, 2011

PricewaterhouseCoopers LLP, 400 Capitol Mall, Suite 600, Sacramento, CA 95814
T: (916) 930 8100, F: (916) 930 8450, www.pwc.com/us

The following discussion and analysis of the California Independent System Operator Corporation (the Company) provides an overview of the Company's financial activities for the years ended December 31, 2010 and 2009. This discussion and analysis should be read in conjunction with the Company's financial statements and accompanying notes, which follow this section.

BACKGROUND

The Company is a nonprofit public benefit corporation incorporated in May 1997, and is responsible for the operation of the long-distance, high-voltage power lines that deliver electricity throughout most of California (the California grid) and to neighboring control areas and states, along with Canada and Mexico.

The Company's principal objective is to ensure the reliability of the California Grid, while fostering a competitive wholesale marketplace for electrical generation and related services in California. The Company operates pursuant to tariffs filed with the Federal Energy Regulatory Commission.

The Company operates a day-ahead market for all 24 hours of the next operating day, and a real-time market for each operating hour. This market structure is the vehicle for providing open-access transmission service to users of the transmission grid, clearing energy bids and offers for short-term energy purchases and sales, performing economic dispatch to maintain continuous supply-demand balance and manage grid congestion, and procuring reserve capacity or ancillary services to maintain reliable operation under unexpected changes in grid conditions. The Company also performs a settlement and clearing function by collecting payments from users of these services and making pass-through payments to providers of such services.

The Board of Governors (the Board) of the Company is appointed by the California Governor and subject to confirmation by the California State Senate. A full Board is comprised of five members.

Financial Reporting

The Company's accounting records are maintained in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB) and, where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board (FASB).

Cash held by the Company on behalf of market participants is recorded in a restricted asset account with a corresponding liability due to market participants on the balance sheet. Except as noted above, market transactions are maintained in financial records separate from the Company and accordingly the financial results of these market transactions are not included in the financial statements of the Company.

Revenue and Rates

The Company charges a Grid Management Charge (GMC) to market participants to recover the Company's operating costs, capital expenditures and debt service costs, and to provide for an operating reserve.

The 2010 and 2009 unbundled GMC rates were comprised of the following six service categories: core reliability services; energy transmission services; forward scheduling; congestion management; market usage; and settlements, metering and client relations.

The following table summarizes the pro forma bundled GMC rate based on the budgeted revenue requirement divided by the estimated control area transmission volume. As reflected in the table, the pro forma GMC rate has remained under $0.80 per MWh despite declining transmission volume during the past three years.

	2010	2009	2008
Revenue requirement in millions	$ 195.1	$ 193.0	$ 191.6
Estimated volume in millions of MWh	246.0	248.6	253.7
Pro forma GMC rate per MWh	0.793	0.776	0.755

Liquidity

The Company sets its annual revenue requirement at a level to cover three major expense groups: operations and maintenance budget, debt service, and capital projects budget. Those expenses are offset by the miscellaneous revenue budget, which is primarily interest income and fees collected outside of the GMC.

Per the tariff, the operations and maintenance budget contains a 15% operating reserve, which is based on the budgeted annual operating costs allocated to its major service categories. Furthermore, the tariff requires the collection of a 25% debt service reserve based on the debt service to be paid during the year. The Company's operating and debt service reserves were fully funded in 2010 and 2009.

In July 2008, the Company issued $197.0 million of fixed rate bonds primarily for the refunding of several variable rate bonds and to fund capital expenditures. As of December 31, 2010, $6.9 million of these proceeds remain unspent for capital projects.

In July 2009, the Company issued $200.0 million of fixed rate bonds primarily for the construction of the Company's new facility in Folsom, California. The remaining proceeds of the 2009 bonds are being used to fund computer hardware and software systems, equipment, and other planned capital projects. As of December 31, 2010, $48.3 million of these proceeds remain unspent for capital projects.

The Market

The implementation of the new market design in 2009 provided the foundation for the Company to continue to develop market enhancements to increase reliability, efficiency and provide accuracy of market results in the future. In 2010, the Company implemented enhancements to three of its six major system components including the real-time and day-ahead markets and the full network model software. These enhancements increased the functionality and flexibility of the market system to meet the needs of the market participants.

New Headquarters Facility

In 2009, the Company began construction of its new headquarters facility on land the Company owns in Folsom, California. The facility is comprised of three interconnected buildings, namely the mission critical, office and public wings. In October 2010, the mission critical wing was completed and subsequently occupied. The remaining wings were completed near the end of 2010 and occupied in January 2011. The new facility was completed three months earlier than originally scheduled at a cost of $130.4 million and was approximately $10.5 million under budget.

The company has achieved sufficient points for a Leadership in Environmental Energy Design (LEED) rating of at least gold as a result of the "green" features of the new facility, but has yet to be certified. This LEED standard requires excellent water conservation, significantly reduced energy usage, use of locally produced materials and indoor environmental quality.

FINANCIAL HIGHLIGHTS

Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets

The financial statements provide both short-term and long-term information about the Company's financial status. The balance sheets include all of the Company's assets and liabilities, using the accrual method of accounting, and identify any assets which are restricted as a result of bond covenants or external commitments. The balance sheets provide information about the nature and amount of resources and obligations at specific points in time.

The statements of revenues, expenses and changes in net assets report all of the Company's revenues and expenses during the year. The statements of cash flows report the cash provided and used during the year by operating activities, as well as other cash sources such as investment income and debt financing, and other cash uses such as payments for bond principal and capital additions.

Condensed Balance Sheets (in millions):

	2010	2009	2008
Assets			
Current assets	$ 479.0	$ 553.7	$ 378.5
Fixed assets, net	351.3	289.8	257.3
Other noncurrent assets	101.4	152.5	70.7
Total	$ 931.7	$ 996.0	$ 706.5
Liabilities and Net Assets			
Current liabilities	$ 385.9	$ 401.6	$ 279.8
Long-term debt	289.3	333.6	173.4
Other noncurrent liabilities	17.5	14.2	12.5
Net assets	239.0	246.6	240.8
Total	$ 931.7	$ 996.0	$ 706.5

Assets

Current Assets (in millions):

	2010	2009	2008
Cash and cash equivalents	$ 382.5	$ 443.0	$ 298.3
Investments	61.8	62.4	21.5
Accounts receivable and other assets	34.7	48.3	58.7
Total	$ 479.0	$ 553.7	$ 378.5

2010 Compared to 2009 - As of December 31, 2010, current assets amounted to $479.0 million reflecting a decrease of $74.7 million during the year. This decrease is largely due to reduced cash and cash equivalents caused by payment of a significant portion of the Company's refund liability for generator noncompliance fines, a year of scheduled debt payments, and disbursements for capital expenditures related to the new building. These decreases in cash balances were partially offset by increased cash balances from sales and maturities of investments and an increase in funds restricted for market participants. Accounts receivable and other assets decreased by $13.6 million due to a continued shorter GMC collection period resulting from the implementation of payment acceleration.

2009 Compared to 2008 - Current assets amounted to $553.7 million at December 31, 2009, an increase of $175.2 million during the year. The increase in cash, cash equivalents, and investments of $144.7 million is primarily related to an increase of $106.3 million in amounts restricted for market participants, an increase of $8.1 million in bond proceeds restricted for debt service, and other cash provided by operating revenues. The increases were partially offset by decreases in cash, cash equivalents and investments primarily related to a decrease in capital service funds of $5.5 million due to movement of funds to longer term investments. Accounts receivable and other assets decreased by $10.4 million due primarily to lower GMC receivables at the end of 2009 as compared to 2008 because of shorter GMC collection periods resulting from payment acceleration.

Fixed Assets, net (in millions):

	2010	2009	2008
Net assets in service	$ 232.7	$ 205.7	$ 34.1
Work-in-progress	118.6	84.1	223.2
Total	$ 351.3	$ 289.8	$ 257.3

2010 Compared to 2009 – Total fixed assets net of accumulated depreciation increased in 2010 by $61.5 million compared to 2009. Net assets in service increased in 2010 compared to 2009 by $27.0 million due to the placement in service of the mission critical wing of the new headquarters facility of $45.6 million and other completed assets. This was partially offset by depreciation expense. Work in-progress increased by $34.5 million compared to 2009 due to the costs of the new facility and other projects of $122.4 million, partially offset by $87.9 million in completed project assets, including the occupied wing of the new facility, that were transferred from work-in-progress to net assets in service during the year.

2009 Compared to 2008 - The Company has invested $289.8 million in fixed assets, net of accumulated depreciation, at December 31, 2009. During 2009, the assets comprising the Company's new market systems were placed in service and moved from work-in-progress. The Company also capitalized $79.6 million of additions to work-in–progress in 2009, primarily for the costs associated with the new headquarters facility and other projects.

In 2009, the Company also wrote off assets with a net book value of $6.4 million. The assets were related to software and hardware that were used to run the markets, along with assets related to the new headquarters building. As the new market was being implemented in 2009, the Company determined that certain software and hardware components were not performing as expected and made the decision to abandon the assets and replace them. Additionally, design studies done in 2000 related to the new headquarters building were abandoned as these were not consistent with the Company's security and space needs and current environmental strategy.

Other Noncurrent Assets (in millions):

	2010	2009	2008
Investments	$ 94.6	$ 145.2	$ 65.7
Other assets	6.9	7.3	5.0
Total	$ 101.5	$ 152.5	$ 70.7

2010 Compared to 2009 **–** Other noncurrent assets decreased by $51.0 million in 2010. This change is largely attributable to decreased investments amounting to $50.6 million during the year due to the use of bond funds used for construction of the new building and an $11.6 million payment for bond interest from the capitalized interest account.

2009 Compared to 2008 -Other noncurrent assets amounted to $152.5 million at December 31, 2009, an increase of $81.8 million during the year, principally related to funds from the 2009 bond offering that were invested long-term.

Liabilities

Current Liabilities (in millions):

	2010	2009	2008
Accounts payable and accrued expenses	$ 24.5	$ 28.8	$ 14.0
Accrued salaries and compensated absences	26.2	25.7	22.3
Current portion of long-term debt	42.2	39.1	31.0
Due to market participants	292.2	262.1	155.8
Generator non-compliance fines refund obligation	.8	45.9	56.7
Total	$ 385.9	$ 401.6	$ 279.8

2010 Compared to 2009 – Current liabilities at December 31, 2010 amounted to $385.9 million, a decrease of $15.7 million during the year. This decrease is primarily due to $43.8 million of the generator noncompliance fines refund obligation being paid in 2010, and accounts payable and accrued expenses decreasing by $4.2 million because of reduced expenditures. The decreases were partially offset by increased amounts held as collateral for market participants, as a result of increased market activity, and forfeited study deposits held pending Federal Energy Regulatory Commission approval.

2009 Compared to 2008 -Current liabilities amounted to $401.6 million at December 31, 2009, an increase of $121.8 million during the year. Accounts payable and accrued expenses increased by $14.8 million primarily due to accrued costs for the headquarters facility project. Amounts due to market participants increased by $106.3 million primarily due to an increase in collateral deposits of $103.8 million, as a result of the collateral requirements for participants of the 2010 annual congestion revenue rights auction. In addition, generator interconnection study deposits increased by $2.7 million. Generator noncompliance fines refund obligation decreased $10.8 million due to the Federal Energy Regulatory Commission ruling that reduced the estimated liability (recorded as an interest expense recovery) and additional interest expense related to the 2009 year of $2.0 million on the remaining refund amounts.

Long-Term Debt (in millions):

Summarized activity of long-term debt for the year ended December 31, 2010, is as follows:

	Beginning of Year	Issuance/ (Payments)	End of Year
CIEDB Revenue Bonds, Series 2008	$ 166.0	$ (39.1)	$ 126.9
CIEDB Revenue Bonds, Series 2009	200.0	-	200.0
Total long-term debt	$ 366.0	$ (39.1)	$ 326.9

Summarized activity of long-term debt for the year ended December 31, 2009, is as follows:

	Beginning of Year	Issuance/ (Payments)	End of Year
CIEDB Revenue Bonds, Series 2008	$ 197.0	$ (31.0)	$ 166.0
CIEDB Revenue Bonds, Series 2009	-	200.0	200.0
Total long-term debt	$ 197.0	$ 169.0	$ 366.0

Debt service requirements below reflect scheduled maturities of long-term debt at December 31, 2010. Interest is calculated using the stated fixed rate of the bonds. As of December 31, 2010, the Company had an underlying rating of A from S&P, A1 by Moody's and A+ by Fitch. Fitch rates the Company's outstanding 2009 Series A bonds at AA-.

	Principal	Interest	Total
Debt Service Requirements			
2011	$ 42.3	$ 16.6	$ 58.9
2012	28.6	14.9	43.5
2013	39.6	13.2	52.8
2014	27.1	11.6	38.7
2015	3.8	10.9	14.7
2016-2039	185.5	163.6	349.1
Total	$ 326.9	$ 230.8	$ 557.7

2010 Compared to 2009 – At December 31, 2010 the Company had $326.9 million of outstanding bonds issued through the California Infrastructure and Economic Development Bank (CIEDB). The decrease in long-term debt is attributable to scheduled debt payments on the 2008 series bonds in the amount of $39.1 million in 2010.

2009 Compared to 2008 - At December 31, 2009, the Company had $366.0 million of outstanding bonds issued through the CIEDB. The increase in long-term debt was primarily attributable to the issuance of new bonds which included additional debt to finance the construction of a new headquarters facility, and which was partially offset by the scheduled payments on the 2008 bonds.

Other Noncurrent Liabilities (in millions):

	2010	2009	2008
Employee retirement plan obligations	$ 17.5	$ 14.2	$ 12.5
Total	$ 17.5	$ 14.2	$ 12.5

2010 Compared to 2009 – Other non-current liabilities amounted to $17.5 million at December 31, 2010, an increase of $3.3 million during the year mostly as a result of increases in employee retirement plan obligations attributable to the excess of plan costs over current year funding.

2009 Compared to 2008 - Other noncurrent liabilities amounted to $14.2 million at December 31, 2009, an increase of $1.7 million during the year as a result of increases in employee retirement plan obligations, which was attributable to the excess of plan costs over current year funding.

Net Assets (in millions):

	2010	2009	2008
Invested in capital assets, net of related debt	$ 95.9	$ 115.5	$ 136.2
Restricted	-	-	1.6
Unrestricted	143.1	131.1	103.0
Total	$ 239.0	$ 246.6	$ 240.8

2010 Compared to 2009 – Net assets invested in capital assets net of related debt at December 31, 2010, totaled $95.9 million, a decrease of $19.6 million during the year. This change is attributable to the decrease in the capitalized interest fund as a result of debt service on the 2009 Bonds. Unrestricted net assets amounted to $143.1 million at December 31, 2010, an increase of $12.0 million during the year. The increase is primarily due to the payment of interest related to the 2009 bonds of $11.6 million from a restricted capitalized interest fund.

2009 Compared to 2008 - Net assets invested in capital assets, net of related debt, amounted to $115.5 million at December 31, 2009, a decrease of $20.7 million during the year. The decrease was attributable primarily to the increase in accounts payable and accrued expenses for capitalized costs. Unrestricted net assets amounted to $131.1 million at December 31, 2009, an increase of $28.1 million during the year, due primarily to the decrease in the generator fines liability of $12.8 million and net changes reflected in the other two categories.

Changes in Net Assets

Condensed Statement of Revenues, Expenses and Changes in Net Assets (in millions):

	2010	2009	2008
Operating revenues	$ 211.9	$ 208.3	$ 200.7
Operating expenses	215.6	213.1	161.8
Operating (loss) income	(3.7)	(4.8)	38.9
Other income (expenses)	(3.8)	10.5	(5.6)
Total	$ (7.5)	$ 5.7	$ 33.3

Operating Revenues

2010 Compared to 2009 – Total operating revenues increased during the year by $3.6 million due to $1.4 million in revenue recognized related to generator noncompliance fines, and a $2.0 million increase in generator interconnection studies revenue resulting from increased activity of renewable energy projects. The GMC, the Company's primary operating revenue, decreased slightly by $0.3 million in 2010 compared to 2009.

2009 Compared to 2008 - Total operating revenues in 2009 increased by $7.6 million due primarily to higher than expected volumes in the new day-ahead market. This resulted in higher revenues in some GMC rate categories as compared to 2008.

Operating Expenses and Percentages (dollars in millions):

	2010	2009	2008
Salaries and related benefits	$ 102.9	$ 107.4	$ 91.6
Communication and technology costs	18.8	20.9	23.9
Legal and consulting costs	16.2	18.3	15.7
Other: leases, facilities and administrative	16.8	17.3	17.8
Abandonment and loss on retirement of assets	-	6.4	-
Depreciation and amortization	60.9	42.8	12.8
Total	$ 215.6	$ 213.1	$ 161.8
Salaries and related benefits	47.8 %	50.4 %	56.5 %
Communication and technology costs	8.7	9.8	14.8
Legal and consulting costs	7.5	8.6	9.7
Other: leases, facilities and administrative	7.8	8.1	11.0
Abandonment and loss on retirement of assets	-	3.0	-
Depreciation and amortization	28.2	20.1	8.0
Total	100.0 %	100.0 %	100.0 %

2010 Compared to 2009 –Operating expenses were $2.5 million higher for the year ended December 31, 2010, as compared to the year ended December 31, 2009. This increase is comprised of $18.1 million of increased depreciation and amortization related to hardware and software placed in service for use in the control room of the new facility and a full year of amortization of the new market software, offset by decreases in all other operating expenditures in the amount of $15.6 million in 2010.

Total labor costs decreased in 2010 by $4.5 million and there were no abandonment and retirement of asset costs in 2010, compared to $6.4 million in 2009. The decreases in labor costs are due to less overtime in 2010 than required for the implementation of the new market in 2009. Additionally, communications and technology and legal and consulting costs decreased by a total of $4.2 million also due to lower expenditure requirements since the implementation of the new market in 2009.

2009 Compared to 2008 - Operating expenses were $213.1 million in 2009, $51.3 million higher than in 2008. The increase in 2009 as compared to 2008 is primarily attributable to higher depreciation expense of the new market assets placed in service and to the depreciation expense associated with the abandonment and retirement of assets. In addition, total salaries and related benefits increased due to higher number of employees in 2009 as compared to 2008 and higher overtime in connection with the implementation of the new market.

Other Income (Expense) (in millions):

	2010	2009	2008
Interest income	$ 5.9	$ 7.3	$ 3.7
Interest expense	(10.6)	(9.6)	(8.9)
Interest expense recovery	1.0	12.8	-
Change in derivative valuation	-	-	(0.4)
Total	$ (3.7)	$ 10.5	$ (5.6)

2010 Compared to 2009 – Interest income decreased by $1.4 million at December 31, 2010, compared to December 31, 2009, due to lower fund balances available for investments and lower interest rates. Interest expense increased by $1.0 million due to the full year interest on the 2009 Bond series, partially offset by higher capitalized interest. Interest expense recovery was lower by $11.8 million in 2010 due to less interest expense recovery being recognized related to the generator noncompliance fines. The Company did not own any derivative financial instruments in 2010 or 2009.

2009 Compared to 2008 - Interest income was $3.6 million higher in 2009 compared to 2008 due primarily to the partial recovery of the financial markets which resulted in the recognition of $2.4 million of gains on investments as compared to the $4.1 million loss in 2008. This was partially offset by lower interest income on restricted funds of $1.2 million due to lower interest rates. Interest expense increased by $0.7 million, primarily due to higher outstanding debt in 2009 which increased interest expense on bonds by $3.9 million, and which was partially offset by a reduction in other interest expenses. The interest expense recovery of $12.8 million recognized in 2009 was the result of a Federal Energy Regulatory Commission ruling (as further described above under current liabilities). The Company did not own any derivative financial instruments in 2009.

California Independent System Operator Corporation
Balance Sheets
December 31, 2010 and 2009 ($ in thousands)

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents, including restricted amounts	$ 382,548	$ 442,996
Accounts receivable	25,445	39,155
Short-term investments, including restricted amounts	61,789	62,427
Other current assets	9,219	9,137
Total current assets	479,001	553,715
Noncurrent assets:		
Long-term investments, including restricted amounts	94,552	145,215
Fixed assets, net	351,273	289,772
Other assets	6,883	7,340
Total noncurrent assets	452,708	442,327
Total assets	$ 931,709	$ 996,042
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 24,568	$ 28,766
Accrued salaries and compensated absences	26,185	25,683
Current portion of long-term debt	42,250	39,100
Due to market participants	292,168	262,099
Generator noncompliance fines refund obligation	772	45,956
Total current liabilities	385,943	401,604
Noncurrent liabilities:		
Long-term debt, net of current portion	289,277	333,679
Employee retirement plan obligations	17,460	14,203
Total noncurrent liabilities	306,737	347,882
Total liabilities	692,680	749,486
Commitments and contingencies		
Net assets		
Invested in capital assets, net of related debt	95,910	115,449
Unrestricted	143,119	131,107
Total net assets	239,029	246,556
Total liabilities and net assets	$ 931,709	$ 996,042

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

California Independent System Operator Corporation
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2010 and 2009 ($ in thousands)

	2010	2009
Operating revenues:		
GMC revenue	$ 202,108	$ 202,353
Other revenues	9,742	6,001
Total operating revenues	211,850	208,354
Operating expenses:		
Salaries and related benefits	102,944	107,439
Equipment leases and facility costs	8,700	8,681
Communications, technology and temporary staffing contracts	18,787	20,942
Legal and consulting services	16,216	18,312
Training, travel and professional dues	2,860	3,670
Insurance, administrative and other expenses	5,207	4,917
Abandonment and loss on retirement of assets	-	6,362
Depreciation and amortization	60,910	42,784
Total operating expenses	215,624	213,107
Loss from operations	(3,774)	(4,753)
Other income (expense):		
Interest income	5,898	7,321
Interest expense	(10,649)	(9,699)
Interest expense recovery	998	12,843
Total other (expense) income	(3,753)	10,465
Change in net assets	(7,527)	5,712
Net assets, beginning of year	246,556	240,844
Net assets, end of year	$ 239,029	$ 246,556

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

California Independent System Operator Corporation
Statements of Cash Flows
Years Ended December 31, 2010 and 2009 ($ in thousands)

	2010	2009
Cash flows from operating activities:		
Receipts from scheduling coordinators for GMC	$ 215,818	$ 214,780
Other receipts	9,742	6,001
Payments to employees and to others for related benefits	(99,408)	(104,037)
Payment of generator noncompliance fines refund obligation	(43,859)	-
Payments to vendors/others	(55,824)	(57,635)
Receipts from market participants	409,388	505,626
Payments to market participants	(379,319)	(399,294)
Net cash provided by operating activities	56,538	165,441
Cash flows from noncapital financing activities:		
Repayment of bonds	-	(2,195)
Interest on debt	-	(16)
Net cash used in noncapital financing activities	-	(2,211)
Cash flows from capital and related financing activities:		
Purchases and development of fixed assets	(125,234)	(70,319)
Proceeds from issuance of bonds	-	199,940
Repayment of bonds	(39,100)	(28,805)
Interest on debt	(10,147)	(5,666)
Net cash (used in) provided by capital financing activities	(174,481)	95,150
Cash flows from investing activities:		
Purchases of investments	(42,807)	(160,420)
Sales and maturities of investments	94,107	39,989
Interest received	6,195	6,735
Net cash provided by (used in) investing activities	57,495	(113,696)
Net (decrease) increase in cash and cash equivalents, restricted and unrestricted	(60,448)	144,684
Cash and cash equivalents, restricted and unrestricted, beginning of year	442,996	298,312
Cash and cash equivalents, restricted and unrestricted, end of year	$ 382,548	$ 442,996

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

California Independent System Operator Corporation
Statements of Cash Flows
Years Ended December 31, 2010 and 2009 ($ in thousands)

(continued)	2010	2009
Supplemental information:		
Cash paid for interest for bonds	$ 18,972	$ 8,919
Cash paid for interest for generator noncompliance fines	$ 14,112	$ -
Reconciliation of income from operations to net cash provided by operating activities		
Loss from operations	$ (3,774)	$ (4,753)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation and amortization	60,910	42,784
Abandonment and loss on retirement of assets	-	6,362
Changes in operating assets and liabilities:		
Accounts receivable and other assets	13,174	12,427
Accounts payable and other accrued expenses	18	2,289
Generator noncompliance fines refund obligation	(43,859)	-
Due from market participants	30,069	106,332
Net cash provided by operating activities	$ 56,538	$ 165,441
Supplemental disclosure of noncash financing and investing activities		
Amortization of bond premium	$ 2,152	$ 2,591
Amortization of bond issuance costs and loss of refunding	(614)	(745)
Generator fines interest included in interest expense	(1,925)	(2,114)
Generator fines interest expense recovery	998	12,843
Change in purchases and development of fixed assets included in accounts payable and accrued expenses	(1,581)	10,281

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

1. Organization and Operations

The Company, a nonprofit public benefit corporation incorporated in May 1997, is responsible for the operation of the long-distance, high-voltage power lines that deliver electricity throughout the California grid and to neighboring control areas and states, along with Canada and Mexico. The Company charges a GMC to market participants to recover the Company's costs and to provide an operating reserve. The Company's principal objective is to ensure the reliability of the California grid, while fostering a competitive wholesale marketplace for electrical generation and related services in California. The Company operates pursuant to tariffs filed with the Federal Energy Regulatory Commission.

The Company operates a day-ahead market for all 24 hours of the next operating day, and a real-time market for each operating hour. The Company also performs a settlement and clearing function by collecting payments from users of these services and making pass-through payments to providers of such services. Cash held by the Company on behalf of market participants is recorded in a restricted asset account with a corresponding liability due market participants on the balance sheet. Except as noted above, market transactions are maintained in financial records separate from the Company, and accordingly, the financial results of these market transactions are not included in the financial statements of the Company. GMC revenues have a priority claim against any market-related receipts. Any market defaults are allocated to market participants.

The Board of the Company is appointed by the California Governor and is subject to confirmation by the California State Senate. A full Board is comprised of five members.

2. Summary of Significant Accounting Policies

Method of accounting

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with accounting principles for proprietary funds as prescribed by the GASB, and where not in conflict with GASB pronouncements, accounting principles prescribed by the FASB. The Company uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. In particular, the Company's results of operations and financial position are materially affected by the management estimates associated with generator noncompliance fines, as discussed in Note 6. Actual results could materially differ from these, and other, estimates.

Cash and cash equivalents

Cash and cash equivalents, restricted and unrestricted, include cash on hand, governmental securities, commercial paper, money market investments, mutual funds and certificates of deposit and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents are unrestricted unless specifically restricted by bond indentures or the tariff.

Accounts receivable and revenue recognition

The GMC is based on rates filed with Federal Energy Regulatory Commission and is designed to recover the Company's operating costs, capital expenditures, debt service costs, and to provide for an operating reserve. The GMC and other market service billings are recognized as revenue, based on estimated meter data submitted by market participants and therefore may be subject to adjustment after final invoices have been issued.

The 2010 and 2009 GMC rates were comprised of the following service categories: core reliability services; energy transmission services; forward scheduling; congestion management; market usage; and settlements, metering and client relations.

The operating reserve is calculated separately for each GMC service category and accumulates until the reserve becomes fully funded (at 15 percent of budgeted annual operating costs for each rate service category). At December 31, 2010, the operating reserve for each service category was fully funded. In accordance with the tariff, any surplus operating reserve balance is applied as a reduction in revenue requirements in the following year. The tariff requires GMC rates to be adjusted not more than once per quarter in the event that billing determinant volumes differ by more than five percent from those projections used to set rates. During 2010 and 2009, adjustments were made to certain GMC rates pursuant to these provisions.

Generator interconnection studies

The Company is responsible for conducting generator interconnection studies. The project sponsors are the owners of generating plants planning to become connected to the California grid which is controlled by the Company. The project sponsors request that the Company conduct these studies and they are required to make a deposit before any studies are performed. At any time, the project sponsors may withdraw from the studies.

In accordance with the tariff, the Company charges the project sponsors the actual costs of the studies. Related study costs include both internal costs and external costs and are recorded, when incurred, as operating expenses. As costs are incurred, the Company recognizes revenue for the same amount, which is recorded as a component of other revenues. The Company applies the deposits against the related receivable once the studies are completed. Beginning in 2010, the tariff rules regarding deposits changed to require that certain deposits related to projects abandoned by the project sponsor be retained by the Company and distributed to market participants following Federal Energy Regulatory Commission approval.

Generator noncompliance fines

From December 8, 2000 through June 30, 2001, the Company assessed noncompliance fines on participating generators that failed to fully comply with dispatch instructions when the Company was seeking to prevent an imminent or threatened system emergency. In accordance with the tariff, these fines are retained by the Company. The Company recorded the net realizable amount of such fines as revenue when the underlying noncompliance event occurred, and adjusts such amounts in recognition of evolving factors affecting the ultimate recognition of the fines charged and to reflect payments of the liability.

Investments

Investments include government and federal agency securities, corporate bonds, a guaranteed investment contract, and a forward delivery agreement with maturities of more than three months. Investments are carried at fair value except for the guaranteed investment contract and the forward delivery agreement. The guaranteed investment contract and the forward delivery agreement are nonparticipating investment contracts that cannot be negotiated or transferred and their redemption terms do not consider market rates. As a result, these investments are carried at cost. Income on investments and the gain or loss from the mark-to-market on investments is recorded as a component of interest income.

Fixed assets
Fixed assets are recorded at cost. Depreciation is computed using the straight-line method over the assets' estimated useful lives. Most of the Company's investment in fixed assets consists of the newly-constructed building which is depreciable over a forty year life, and information systems, which are being depreciated over three to five years. The cost of improvements to or replacement of fixed assets is capitalized. Interest incurred during development is capitalized. When assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts and any resulting gain or loss is reflected in the Company's statement of changes in revenues, expenses and changes in net assets for the period. Repairs and maintenance costs are expensed when incurred. The Company capitalizes direct costs of salaries and certain indirect costs incurred to develop or obtain software for internal use. Costs incurred related to software development during the preliminary stage of a project and training and maintenance costs are expensed as incurred. Costs related to abandoned projects are expensed when the decision to abandon is made.

Other assets
Other assets consist primarily of debt issuance costs that are amortized over the life of the bonds using the bonds outstanding method (which approximates the effective interest method). Other assets also include an employee note receivable (see Note 5) and certain employee retirement plan trust accounts.

Compensated absences
The Company accrues vacation leave when the employee becomes eligible to the benefit. The Company does not record sick leave or other leave as a liability since there are no cash payments for sick leave or other leave made when employees terminate or retire. At December 31, 2010 and 2009, the total accrued liability for vacation was $6.7 million.

Income taxes
The Company is exempt from federal income tax under Section 501(c) (3) of the U.S. Internal Revenue Service (IRS) Code and is exempt from California State franchise income taxes.

Net assets
The Company classifies its net assets into three components:

- **Invested in capital assets, net of related debt** – This component of net assets consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances, net of unamortized debt expenses.
- **Restricted** – This component consists of net assets with constraints placed on their use. Constraints include those imposed by debt covenants (excluding amounts considered in net capital, above) and by the Company's tariff and agreements with external parties.
- **Unrestricted** – This component of net assets consists of net assets that do not meet the definition of "invested in capital, net of related debt" or "restricted".

The Company had no restricted net assets at December 31, 2010 or 2009.

Concentration of credit risk
Financial instruments that subject the Company to credit risk consist primarily of accounts receivable relating to GMC billings due from market participants and cash and cash equivalents and investments.

All of the Company's receivables are due from entities in the energy industry, including utilities, generation owners and other electricity market participants. For the years ended December 31, 2010 and 2009, approximately 58 percent and 62 percent, respectively, of GMC revenues were from two market participants.

GMC revenues have a priority claim against any market-related receipts, which means that even if an entity defaults on an invoice containing a GMC charge, the Company receives the full GMC so long as sufficient funds were received on other market invoices.

The Company's concentration of credit risk related to cash and cash equivalents, and investments is described in Note 3.

Subsequent events
The Company evaluates events or transactions that occur after the balance sheet date but before financial statements are issued for potential recognition or disclosure in the financial statements. The Company has evaluated all subsequent events through April 6, 2011, the date the financial statements were issued, and no items were noted that need to be disclosed.

3. Cash and Cash Equivalents and Investments

Investment Policy and Credit Risk

The Company's investment policy restricts investments to securities issued by, or explicitly guaranteed by, the United States Government, debt obligations issued by government sponsored enterprises and supranational agencies, municipal and state obligations, corporate debt obligations, bank obligations, repurchase and other types of investment agreements, fixed income mutual funds, and money market funds. The Company's investment policy includes restrictions for investments relating to maximum amounts invested as a percentage of the total portfolio, maximum maturities, and minimum credit ratings.

To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, the Company limits purchases of investments to those rated at the time of purchase by at least two of the following nationally recognized statistical rating organizations: Standard & Poor's, Moody's, and Fitch. The investment must have a minimum rating of at least A-1 (or equivalent) for short-term obligations such as commercial paper and at least A- (or equivalent) for longer term obligations like corporate medium-term notes. In the event of split ratings, the lowest rating is considered the overall credit rating.

Concentration of credit risk

This is the risk of loss associated with the percentage of an entity's investment in a single issuer. The Company's investment policy limits investments in any single issuer to no more than 5% of the portfolio, with exceptions relating to US government obligations, pooled investments such as money market funds, and investments procured in connection with Company bond offerings. As of December 31, 2010, other than investments in US government obligations and various money market funds, the Company had no investments in any one issuer representing more than 5% of total cash and cash equivalents and investments.

Custodial credit risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Company will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party.

The Company may maintain balances in bank accounts exceeding the FDIC insured level of $250,000. In the event of a bank default, the Company's deposits may not be returned. The Company had uninsured and uncollateralized bank deposits in amounts of $10.8 million and $1.6 million at December 31, 2010 and 2009, respectively.

All other investments purchased by the Company, by policy, are held in custodial accounts by third-party custodians and are registered in the Company's name, thereby minimizing any custodial credit risk.

Interest rate risk

Changes in interest rates may adversely affect the fair value of the Company's investments and its cash flows. The nature of the Company's investment needs and cash flows requires the majority of the investments to be held with maturities of one year or less. The investment policy further limits the maximum maturity of any investment to 5 years with the exception of bond reserve funds which are invested in accordance with the terms of the related bond indenture. The fair value of the resulting short-term investment portfolio is therefore, less affected by rising interest rates. The cash flows from short-term portfolios can be more affected by declining interest rates as maturing investments are reinvested at lower interest rates.

Summary of Balances

At December 31, 2010, the Company's cash, cash equivalents and investments consist of the following (in thousands):

Description	Credit Rating*	Remaining Maturities (in Years) Less than 1	1 - 5	More than 5	Total Fair Value
Cash and cash equivalents					
Unrestricted					
Deposits		$ 9,409	$ -	$ -	$ 9,409
Money market funds	*Unrated*	55	-	-	55
Money market funds	*AAAm*	66,388	-	-	66,388
		75,852	-	-	75,852
Restricted					
Deposits		7,137	-	-	7,137
Money market funds	*AAAm*	299,559	-	-	299,559
		306,696	-	-	306,696
Total cash and cash equivalents		382,548	-	-	382,548
Investments					
Short-term investments - unrestricted					
Negotiable CD	Unrated	5,002	-	-	5,002
FHLM	*AAA*	5,001	-	-	5,001
		10,003	-	-	10,003
Short-term investments - restricted					
FHLM	*AAA*	15,430	-	-	15,430
FHLB	*AAA*	4,658	-	-	4,658
FNMA	*AAA*	4,656	-	-	4,656
US Treasury	*AAA*	27,042	-	-	27,042
Total short-term investments		51,786	-	-	51,786
Total short-term investments		61,789	-	-	61,789
Long-term investments					
Unrestricted					
Preferred and common stock	*N/A*	-	-	37	37
FNMA	*AAA*	-	5,065	-	5,065
Municipal Bonds	*AAA*	-	2,279	-	2,279
US Treasury	*AAA*	-	6,084	-	6,084
Corporate Notes	*A*	-	10,415	-	10,415
	A-	-	9,526	-	9,526
	AA-	-	7,147	-	7,147
	AA	-	5,717	-	5,717
	AAA	-	5,357	-	5,357
	A+	-	2,273	-	2,273
	AA+	-	1,028	-	1,028
	No Rating	-	2,654	-	2,654
		-	57,545	37	57,582
Restricted					
GIC	*Not Rated*	-	19,697	-	19,697
Forward delivery agreement	*Not Rated*	-		14,964	14,964
US Treasury	*AAA*	-	2,309	-	2,309
		-	22,006	14,964	36,970
Total long-term investments		-	79,551	15,001	94,552
Total investments		61,789	79,551	15,001	156,341
Total cash, cash equivalents and investments		$ 444,337	$ 79,551	$ 15,001	$ 538,889

** S&P Rating, if available, or Fitch*

At December 31, 2009, the Company's cash, cash equivalents and investments consist of the following (in thousands):

Description	Credit Rating*	Remaining Maturities (in Years) Less than 1	1 - 5	More than 5	Total Fair Value
Cash and cash equivalents					
Unrestricted					
Bank overdrafts		$ (402)	$ -	$ -	$ (402)
Money market funds	*AAAm*	115,575	-	-	115,575
		115,173	-	-	115,173
Restricted					
Deposits		267	-	-	267
Money market funds	*AAAm*	327,556	-	-	327,556
		327,823	-	-	327,823
Total cash and cash equivalents		442,996	-	-	442,996
Investments					
Short-term investments - restricted					
FNMA	*AAA*	21,916	-	-	21,916
FHLB	*AAA*	9,705	-	-	9,705
FFCB	*AAA*	8,522	-	-	8,522
US Treasury	*AAA*	22,284	-	-	22,284
Total short-term investments		62,427	-	-	62,427
Long-term investments					
Unrestricted					
Preferred and common stock	*N/A*	-	-	37	37
FNMA	*AAA*	-	4,697	-	4,697
FHLMC	*AAA*	-	15,805	-	15,805
FHLB	*AAA*	-	4,706	-	4,706
US Treasury	*AAA*	-	29,438	-	29,438
Corporate Notes					
	AA-	-	17,079	-	17,079
	A+	-	11,235	-	11,235
	A	-	9,883	-	9,883
	AA	-	5,524	-	5,524
	A-	-	5,466	-	5,466
	BBB+	-	3,053	-	3,053
	AAA	-	2,626	-	2,626
	AA+	-	1,026	-	1,026
		-	110,538	37	110,575
Restricted					
GIC	*Not Rated*	-	19,697	-	19,697
Forward delivery agreement	*Not Rated*	-	-	14,943	14,943
		-	19,697	14,943	34,640
Total long-term investments		-	130,235	14,980	145,215
Total investments		62,427	130,235	14,980	207,642
Total cash, cash equivalents and investments		$ 505,423	$ 130,235	$ 14,980	$ 650,638

** S&P Rating, if available, or Fitch*

The Company's cash, cash equivalents and investments at December 31 consist of unrestricted and restricted funds as follows (in thousands):

	2010	2009
Unrestricted funds, operating account	$ 143,752	$ 171,103
Restricted funds:		
Market participants	292,168	262,099
Capital expenditures	55,336	158,807
Debt service	47,633	58,629
Total	$ 538,889	$ 650,638

Cash and cash equivalents restricted for market participants consist of the following at December 31 (in thousands):

	2010	2009
Security deposits	$ 141,746	$ 124,743
Market funds pending settlement	67,704	69,079
Pass-through fees due to others	10,341	10,195
Generator interconnection study deposits	59,830	58,082
Forfeited deposits pending distribution	12,547	-
Total amounts restricted for market participants	$ 292,168	$ 262,099

Cash and cash equivalents restricted for market participants consist of amounts held by the Company to be remitted to market participants or others on their behalf. Security deposits are amounts received from market participants who are required to post collateral for their transactions in the Company's markets. Market funds pending settlement consist of amounts collected during the settlement and clearing function that will pass through to market participants in subsequent periods. A portion of the market funds pending settlement ($1.3 million and $18.2 million at December 31, 2010 and 2009) is being held pending resolution of the Federal Energy Regulatory Commission Refund Case (Note 12). Pass-through fees due to others consist of amounts collected from market participants that will be paid to market participants for summer reliability, startup costs and emission costs. Generator interconnection study deposits are amounts collected for future studies. Forfeited deposits consist of generator interconnection study amounts forfeited by project sponsors that are pending Federal Energy Regulatory Commission approval for distribution.

4. Fixed Assets

Changes in the Company's fixed assets for the year ended December 31, 2010, are as follows (in thousands):

	2009	Additions and Transfers In	Deletions and Transfers Out	2010
Nondepreciable fixed assets:				
Land	$ 7,617	$ -	$ -	$ 7,617
Work-in-progress	76,438	122,411	(87,903)	110,946
	84,055	122,411	(87,903)	118,563
Depreciable fixed assets:				
Grid, market and settlement software	300,412	25,219	(12,491)	313,140
Enterprise and support software	32,139	1,501	(9,947)	23,693
Computer hardware and other equipment	31,567	12,530	(5)	44,092
HQ Facility - mission critical wing	-	45,631	-	45,631
Leasehold improvements	17,488	187	-	17,675
Furniture, fixtures and other	10,657	2,835	(229)	13,263
	392,263	87,903	(22,672)	457,494
Less: accumulated depreciation	(186,546)	(60,910)	22,672	(224,784)
	205,717	26,993	-	232,710
Total fixed assets, net	$ 289,772	$ 149,404	$ (87,903)	$ 351,273

Changes in the Company's fixed assets for the year ended December 31, 2009, are as follows (in thousands):

	2008	Additions and Transfers In	Deletions and Transfers Out	2009
Nondepreciable fixed assets:				
Land	$ 7,617	$ -	$ -	$ 7,617
Work-in-progress	215,564	79,628	(218,754)	76,438
	223,181	79,628	(218,754)	84,055
Depreciable fixed assets:				
Grid, market and settlement software	175,669	204,627	(79,884)	300,412
Enterprise and support software	30,381	4,533	(2,775)	32,139
Computer hardware and other equipment	29,505	8,759	(6,697)	31,567
Leasehold improvements	16,937	551	-	17,488
Furniture, fixtures and other	10,426	284	(53)	10,657
	262,918	218,754	(89,409)	392,263
Less: accumulated depreciation	(228,846)	(42,784)	85,084	(186,546)
	34,072	175,970	(4,325)	205,717
Total fixed assets, net	$ 257,253	$ 255,598	$ (223,079)	$ 289,772

The Company capitalized interest related to the development of fixed assets of $7.6 million and $4.4 million for the years ending December 31, 2010 and 2009, respectively. The 2010 and 2009 amounts include a reduction of $ 3.9 million and $1.1 million, respectively for income earned on unspent debt proceeds.

On September 30, 2010, the mission critical wing of the new headquarters facility was completed and subsequently occupied. As a result, $45.6 million in assets were moved from work-in-progress and placed in service. Included in work-in-progress at December 31, 2010, is the cost of the remaining two wings of the new headquarters facility in the amount of $84.8 million.

On April 1, 2009, the new market system was placed into operation and as a result, $198.6 million of assets were moved from work-in-progress and placed in service.

For the year ended December 31, 2009, the Company recorded $6.4 million in abandonment and loss on retirement of assets. The assets that were abandoned in 2009 were software and hardware that were used in running the markets and certain assets related to the new headquarters building. As the new market was being implemented in 2009, the Company determined that certain software and hardware components were not performing as expected and made the decision to abandon the assets and replace them. Additionally, the costs associated with earlier design studies for the new headquarters building were abandoned as these designs were not aligned with the Company's current environmental strategy.

5. Employee Note Receivable

The Company has provided $500,000 in financing to an officer of the Company in connection with the purchase of his primary residence. The loan is collateralized by a subordinated deed of trust on the property, accrues interest at 6.5 percent per annum, compounded annually, and requires annual payments of $68,000. Portions of the note may be forgiven by the Company based on the officer's continuing employment as set forth in the employment agreement. The balance due at December 31, 2010 and 2009 of approximately $390,000 and $434,000, respectively, including accrued interest, is included in other assets in the accompanying balance sheets.

6. Generator Noncompliance Fines

In 2000 and 2001, the Company billed generator noncompliance fines to market participants totaling $122.1 million. Through December 31, 2010, collection of these fines totaled $60.7 million. Generally, these fines were assessed at twice the highest price paid in the Company's markets for energy and were applied against the amount of energy the participating generator failed to supply as directed by the Company during specific emergency conditions as defined in the tariff. These fines will be retroactively adjusted as a result of the Federal Energy Regulatory Commission Refund Case, as described in Note 12, in which the prices used to calculate the fines are subject to adjustment, with any surplus collections being refunded with interest to market participants.

Based on estimates of the mitigated energy prices in the Federal Energy Regulatory Commission Refund Case, the Company recorded fine revenues totaling $29.5 million, resulting in a refund liability of $31.2 million. The ultimate settlement of fines is expected after the conclusion of the proceedings in the Federal Energy Regulatory Commission Refund Case and the financial settlement of the California Power Exchange (Cal PX).

In accordance with Federal Energy Regulatory Commission rulings, the Company accrues interest on the portion of fines collected in excess of the estimated realizable amount, which is to be refunded to market participants when the amounts are settled. Such interest expense amounted to $1.9 million and $2.1 million in 2010 and 2009, respectively.

Through December 31, 2008, the Company excluded the calculation of interest on the preparatory rerun corrections, based on the position that interest would only accrue upon the preparatory rerun being invoiced. The Company, however, believed that preparatory rerun corrections should be eligible for interest from the due date of the original trade month being corrected in the same manner as interest on corrections for mitigated market-clearing prices in the refund rerun and requested a Federal Energy Regulatory Commission ruling on this issue. On May 27, 2009, Federal Energy Regulatory Commission ruled that preparatory rerun corrections in the Federal Energy Regulatory Commission Refund Case are eligible for interest in the same manner as interest on corrections for mitigated market-clearing prices in the refund rerun. Such interest amounted to $12.8 million at the date of Federal Energy Regulatory Commission's ruling, of which $12.2 million relates to amounts that accumulated through December 31, 2008. Accordingly, in May 2009, the Company recognized $12.8 million as a reduction of interest expense with a corresponding adjustment to the estimated generator noncompliance fines refund liability.

In 2010, the Company determined an additional adjustment was necessary to comply with the Federal Energy Regulatory Commission refund order and to reverse the mitigation of certain energy sales. The effect of this adjustment was an increase in generator non-compliance fine revenue of $1.4 million, which is recorded as a component of other income, and a reduction in interest previously accrued of $0.9 million, which is recorded as interest expense recovery.

Also in 2010, in connection with a settlement at Federal Energy Regulatory Commission, the Company made arrangements to distribute the generator noncompliance fines to be refunded to the market in conjunction with the Sempra Energy Trading global settlement. The Settlement was approved by Federal Energy Regulatory Commission on December 22, 2010, and on December 30, 2010, the Company distributed $43.9 million to the settling parties.

The Company estimates the remaining liability (including interest) related to generator noncompliance fines, after the payment described above and after other adjustments to be $0.8 million as of December 31, 2010. The final settlement of fines is expected after the conclusion of the proceedings in the Federal Energy Regulatory Commission Refund Case and the related financial settlement of the Cal PX bankruptcy.

While there are significant uncertainties associated with this process, management believes it is unlikely that there will be any material future adjustment in generator fines to be recognized by the Company.

7. Long-term Debt and Related Agreements

Long-term debt consists of the following at December 31 (in thousands):

	2010	2009
CIEDB Revenue Bonds, Series 2009		
Fixed interest rates of 3.00% - 6.25% with maturities from 2012 through 2039	$ 200,000	$ 200,000
CIEDB Revenue Bonds, Series 2008		
Fixed interest rates of 4.00% - 5.00% with maturities through 2014	126,870	165,970
Unamortized net premium:		
Series 2009 bonds	1,852	1,955
Series 2008 bonds	2,805	4,854
Total long-term debt	331,527	372,779
Less: current portion	(42,250)	(39,100)
Total long-term debt, less current portion	$ 289,277	$ 333,679

Summarized activity of long-term debt for the year ended December 31, 2010, is as follows (in thousands):

	Beginning of Year	Issuance/ (Payments)	End of Year
CIEDB Revenue Bonds, Series 2008	$ 165,970	$ (39,100)	$ 126,870
CIEDB Revenue Bonds, Series 2009	200,000	-	200,000
Total long-term debt	$ 365,970	$ (39,100)	$ 326,870

Summarized activity of long-term debt for the year ended December 31, 2009, is as follows (in thousands):

	Beginning of Year	Issuance/ (Payments)	End of Year
CIEDB Revenue Bonds, Series 2008	$ 196,970	$ (31,000)	$ 165,970
CIEDB Revenue Bonds, Series 2009	-	200,000	200,000
Total long-term debt	$ 196,970	$ 169,000	$ 365,970

Scheduled future debt service payments for the 2008 and 2009 Series A Bonds as of December 31, 2010, are as follows (in thousands):

	Principal	Interest	Total
2011	$ 42,250	$ 16,607	$ 58,857
2012	28,585	14,870	43,455
2013	39,580	13,228	52,808
2014	27,145	11,605	38,750
2015	3,830	10,868	14,698
2016 - 2039	185,480	163,664	349,144
	$ 326,870	$ 230,842	$ 557,712

Long-term debt and related agreements
In July 2009, the Company issued $200.0 million of fixed rate revenue bonds (the 2009 Bonds) through the CIEDB, at a premium of $2.0 million. The proceeds of the issuance were used to provide funds for the design and construction of a new headquarters building, the acquisition or development of computer hardware and software systems, and the acquisition of office equipment.

The 2009 Bonds are supported by a pledge of the Company's revenues and operating reserves. In addition, the 2009 Bonds are supported by a deed of trust on the new headquarters building and land. The premiums on the bonds are being amortized over the life of the bonds.

Interest expense
Interest expense recorded by the Company related to long-term debt includes interest paid on the bonds, and amortization of the bond issuance costs and the bond premiums.

8. Fair Value of Financial Instruments

The following valuation methods and assumptions were used as a basis for the fair value of each class of financial instrument:

Investments
The fair values of investments, including cash equivalents, except as noted below, are based upon quoted market prices. Fair values for the GIC and forward delivery agreement are based on counterparty quotes and discounted cash flows.

Long-term debt
The fair value of fixed rate long-term debt, which includes the short-term portion, is based on current market rates.

The fair values of the Company's financial instruments as of December 31, 2010, are presented below (in thousands):

	Recorded Value	Fair Value
Investments, including cash and cash equivalents	$ 538,889	$ 540,437
Long-term debt	(326,870)	(340,125)

The fair values of the Company's financial instruments as of December 31, 2009, are presented below (in thousands):

	Recorded Value	Fair Value
Investments, including cash and cash equivalents	$ 650,638	$ 650,856
Long-term debt	(372,779)	(382,356)

The carrying values reported on the balance sheet for current assets and liabilities, excluding the short term portion of long-term debt, approximate fair value.

9. Employee Benefit Plans

The Company maintains a number of employee benefit plans. The description of the plans and their key provisions is included below. Obligations included in the Company's balance sheets related to these plans consist of the following at December 31 (in thousands):

	2010	2009
Executive pension restoration plan	$ 1,069	$ 866
Post-employment medical benefit plan	15,635	12,650
Supplemental executive retirement plan	369	320
Executive savings plan	387	367
Total employee retirement plan obligations	$ 17,460	$ 14,203

Retirement savings benefits plan
The Company sponsors a defined contribution retirement plan, the California ISO Retirement Savings Benefits Plan (the Retirement Plan) that is subject to the provisions of the Employee Retirement Income Security Act of 1974 and substantially covers all employees. The Retirement Plan is administered by the Company with the assistance of a third party. The assets of the plan are held separately from Company assets and are not combined with the assets on the balance sheet.

Employees may elect to contribute up to fifty percent of their eligible compensation to the Retirement Plan, subject to statutory limitations. The Company matches contributions up to six percent of an employees' eligible compensation and an additional contribution equal to five percent of eligible compensation for employees with less than five years of service, or seven percent for employees who have at least five years but not more than ten years of service. An additional contribution of one percent of eligible compensation is also made by the Company for each five year increment of service after an employees' ten year anniversary.

Employees' contributions to the Retirement Plan for 2010 and 2009 were $6.9 million and $6.7 million, respectively. The Company's contributions to the Retirement Plan for 2010 and 2009 were $7.7 million and $7.8 million, respectively.

Executive pension restoration plan

The Company sponsors the Executive Pension Restoration Plan, a non-qualified defined contribution plan, which allows certain officers of the Company to make contributions and receive Company contributions in excess of the 401(k) contribution limits set forth by IRS regulations as described in the retirement savings benefits plan above.

The contributions and earnings thereon are held in a trust and the balances as of December 31, 2010 and 2009, were $1,069,000 and $866,000, respectively and are included in Other Assets with a corresponding liability in Employee Retirement Plan Obligations. The Company recognized expenses for contributions of $135,000 and $229,000 in 2010 and 2009, respectively.

Post-employment medical benefit plan

Plan description
The Company sponsors the California ISO Retiree Medical Plan, a defined benefit plan, to provide post-employment health care benefits to all employees who retire from the Company on or after attaining age 60 with at least five years of service and to their spouses, domestic partners and eligible dependents, as provided for under the terms of the plan. Depending on the retirement age and coverage elections made by the beneficiaries, the Company pays a portion (ranging from 60 to 100 percent) of the premiums. There are 31 employees and 18 retirees eligible to receive benefits pursuant to the plan as of December 31, 2010.

Funding and investment policy
The Company has established a trust for the purposes of funding the plan. The trust was established as a tax-exempt voluntary employees' beneficiary association. All assets of the trust are to be used for the exclusive benefit of the participants and beneficiaries of the plan. Although the Company has fiscal accountability for these assets and holds them in a fiduciary capacity, the assets are not considered assets of the Company and are therefore not included on the balance sheets of the Company. As of December 31, 2010 and 2009, the trust assets were $4.6 million and $4.2 million, respectively. Trust assets were primarily invested in corporate bonds. The investment of the trust assets generally follows the Company's investment policy.

The Company's current funding policy is to annually contribute an amount such that the total amount in the trust approximates the actuarially determined liability attributable to retirees and their spouses and to active participants who are fully eligible to retire.

Annual Other Post-employment Benefits (OPEB) Cost and Net OPEB Obligation
The Company's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45 "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions".* The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or

funding excess) over a period not to exceed 15 years (using the level dollar open method). The ARC is adjusted for the amortized amount of the discounted present value (ordinary annuity) of the balance of the net OPEB at the beginning of the year.

The Company's annual OPEB cost at December 31 is as follows (in thousands):

	2010	2009
Annual required contribution	$ 3,987	$ 4,274
Interest on net OPEB obligation	633	521
Adjustment to annual required contribution	(1,219)	(1,039)
Annual OPEB cost	3,401	3,756
Contributions made	(416)	(2,076)
Increase in net OPEB obligation	2,985	1,680
Net OPEB obligation, beginning of year	12,650	10,970
Net OPEB obligation, end of year	$ 15,635	$ 12,650

The Company's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and net OPEB obligation for the year ended December 31 (in thousands):

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	$ 2,635	71%	$ 10,970
2009	3,756	55%	12,650
2010	3,401	12%	15,635

Actuarial methods and assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following significant actuarial methods and assumptions were used in the calculation of annual OPEB cost for the year ending December 31, 2010.

Valuation date	January 1, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, open
Remaining amortization period	15 years
Asset valuation method	Market
Investment rate of return	5.00%
Healthcare cost trend rate	8.43% initial, 5% ultimate

Funding status and funding progress

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule below reflects multiyear trend information to show the status of funding based on the actuarial value of plan assets relative to the actuarial accrued liabilities. This information is required supplemental information.

(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	APBO (b)	Unfunded APBO (b - a)	Funded Ratio (a/b)
January 1, 2009	$ 1,813	$ 17,171	$ 15,358	11%
January 1, 2010	4,137	18,009	13,872	23%
January 1, 2011	4,608	18,022	13,414	26%

The actuarial valuation as of January 1, 2011, was based on actuarial methods and assumptions that were generally consistent with those used in the calculation of the annual pension cost for the year ending December 31, 2010, except for the rate of return (which changed from 5.00 percent to 5.1 percent), health care cost trend rate (which changed from 8.43% to 8.5%) and HMO pre-65 morbidity adjustment (which changed from 52% to 45%, as a result of lower than expected number of retirees). Additionally, the valuation included the estimated impact of the provisions of the Patient Protection and Affordable Care Act (PPACA), which was enacted in March 2010. The net effect of the all changes in these assumptions maintained the APBO on approximately the same level as the previous year.

The actuarial valuation as of January 1, 2010, was based on actuarial methods and assumptions that were generally consistent with those used in the calculation of the annual pension cost for the year ending December 31, 2009, except for the discount rate (which changed from 4.75 percent to 5.00 percent), health care cost trend rate (which changed from 9% to 8.43%) and HMO pre-65 morbidity adjustment (which changed from 60% to 52%, as a result of lower than expected number of retirees). The changes in these assumptions resulted in a lower than expected increase in the APBO of $1.1 million.

Supplemental executive retirement plan
The Company sponsors the California ISO Supplemental Executive Retirement Plan (SERP Plan), a non-qualified defined benefit plan intended to provide selected executives of the Company with target retirement benefits based upon an executive's average earnings and total number of years of service with the Company, as defined in the plan. The target benefit is to be offset by other retirement benefits, including those provided by the Company, and by any distributions from this plan made to pay the beneficiary's share of federal, state and local taxes. The plan is unfunded.

The activity and related obligations associated with the plan during 2010 and 2009 is as follows (in thousands):

	2010	2009
Obligation, beginning of year	$ 320	$ 509
Current period actuarially determined cost	130	205
Benefits distributed during the year	(81)	(394)
Obligation, end of year	$ 369	$ 320

The Company recognized expenses of $130,000 and $205,000 in 2010 and 2009, respectively, in connection with this plan.

Executive savings plan
The Company sponsors the Executive Savings Plan, a non-qualified defined contribution plan under section 457(b) of the IRS Code. The Company contributes a percentage of each officer's annual base compensation to the plan. Officers may elect to make voluntary contributions, subject to statutory limitations. The contributions and earnings thereon are held in a trust and the balance as of December 31, 2010 and 2009 was $387,000 and $367,000, respectively and is included in Other Assets, with a corresponding liability in Employee Retirement Plan Obligations. The Company recognized expenses of $89,000 and $92,000 in 2010 and 2009, respectively, in connection with this plan.

10. Insurance Programs and Claims

The Company is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Company maintains various commercial and mutual insurance plans that provide coverage for most claims in excess of specific dollar thresholds, which range from $500 to $1.0 million per claim. Primary insurance policies have coverage limits set based on the Company's assessment of reasonable exposure within that risk category, with consideration of insurance types and coverage limits for comparable entities. Additionally, the Company maintains excess liability coverage that provides umbrella coverage for certain exposures to a limit of $135.0 million. Miscellaneous losses below insurance deductibles are expensed as incurred. In 2010 and 2009, the Company did not incur any claims in excess of the coverage described above.

The Company is a participant in a group captive insurance company for workers compensation insurance coverage. The Company's annual net insurance costs for such coverage vary based on claims incurred at the Company, and to a lesser extent, claims activity of other members of the captive insurance company. The Company's annual insurance expense is limited through reinsurance and risk sharing arrangements of the captive to an additional percentage of the initial base premium paid.

11. Lease and Contract Commitments

The Company has long-term operating leases and service contracts that expire at various times through 2030 including telecommunication equipment and services, information system equipment and services and systems infrastructure.

The following are the future minimum payments under these agreements as of December 31, 2010 (in thousands):

2011	$ 12,487
2012	12,506
2013	3,318
2014	793
2015	809
2016 - 2030	4,183
	$ 34,096

Lease and service contract costs of approximately $12.6 million and $12.2 million were charged to operating expense in 2010 and 2009, respectively.

The Company has leased office space under three separate leases, which served as the location of the headquarters prior to the move, in January 2011, to the newly constructed headquarters. One lease expires in November 2012, and the other 2 leases expire in December 2016, with an early termination option available beginning November 2012. Although the Company is no longer using the leased space, the Company is required to pay monthly rent through November 2012, early termination fees to terminate the leases early, and other on-going costs associated with each of the leases.

The Company will record an expense for their net unrecoverable lease and termination costs in 2011, the period in which the properties were vacated and were no longer being used in operations. The Company currently estimates its total future costs associated with the abandoned facilities to be $5.9 million.

12. Contingencies and Settlements

The Federal Energy Regulatory Commission Refund Case

In 2000 and 2001, the California energy markets, including those managed by the Company, experienced high prices, shortages of energy and reserves, rolling blackouts and liquidity problems for many market participants. Several of them, including the California Power Exchange (Cal PX), filed for bankruptcy.

Purchasers of energy during this period sought refunds at Federal Energy Regulatory Commission. Federal Energy Regulatory Commission has issued a series of orders related to mitigating the market clearing prices in markets administered by the Company and Cal PX for the period from October 2, 2000 through June 20, 2001 (the Federal Energy Regulatory Commission Refund Case). Several of the Company's market participants have settled their liability arising from the Federal Energy Regulatory Commission Refund Case and related proceedings. Management believes the ultimate outcome of the Federal Energy Regulatory Commission Refund Case will have no material financial impact on the Company as these refund amounts are funded and will ultimately be resettled among market participants.

Market billing disputes in good faith negotiations

As part of the tariff and applicable contracts, the Company has dispute resolution processes for market participants, transmission owners and RMR owners to register disagreements regarding information reflected in the settlement statements or billing amounts for market and RMR activity. After good faith efforts, known as good faith negotiations (GFN), have been made to negotiate and resolve disputes, written claims may be submitted either to mediation or arbitration.

Two material unresolved market related disputes, totaling $46.4 million (excluding interest), remain outstanding in GFN at December 31, 2010. These disputes are related to disagreements with the Company's financial settlement of market transactions and related tariff interpretations. Management believes that any settlements or market adjustments relating to these disputes would be resettled against the market with no liability to the Company.

Indemnifications

The Company's bylaws require its annual financial statements to include disclosures about certain payments made by the Company related to indemnifications to or on behalf of officers and Board members. There were no such payments in 2010 or 2009.

Other matters

The Company, during the ordinary course of its operations, has been involved in various lawsuits and claims, some of which are still pending. In addition, the Company must comply with Federal Energy Regulatory Commission-approved mandatory reliability standards, which if violated could result in penalties assessed to the Company. There are several matters currently pending related to alleged violations of these standards. Management and legal counsel are of the opinion that the outcome of these matters will not have a material adverse impact on the financial position or results of operations of the Company.