

MONTHLY FINANCIAL REPORT

February 2008

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

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CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY

For the two-month period ended February 29, 2008

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

- ◆ Operating Revenues for February were \$14.6M, which approximates the budget.
- ◆ Operating Revenues for the year to date were \$30.4M, which also approximates the budget.
 - Although the variance was negligible, accrued GMC for the period was higher by \$0.13M, which was offset by lower other revenues of \$0.12M.
- ◆ O&M expenses for February were \$11.9M, \$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 \$23.7M, \$0.4M lower than budget.
 - The variance was primarily due to timing of payments during the period, partially offset by an annual insurance premium payment in February. The budget for the insurance was spread over twelve months.
- ◆ At year end, there were 538 full-time employees compared to the 545 full-time employees budgeted.

BALANCE SHEET: (page 2)

- ◆ The changes in cash, long-term debt and other accounts are primarily due to scheduled bond principal payments in February and to normal business activities.

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 \$2.6M. Expenditures for 2007 approved capital projects totaled \$0.5M.
- ◆ 2008 capital projects approved through February totaled \$18.1M and include \$13.0M for MRTU projects.

INTEREST COSTS and INTERST INCOME: (page 8)

- ◆ During February, the ISO average bond interest rates jumped to 4.58%, 0.83% higher than the budgeted rate of 3.75%. 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 is closely monitoring this situation and has prepared an action plan that be presented to the Board on 3/26/2008.
- ◆ Interest income for the year to date is \$1.7M, \$0.4M higher than budget. The variance is primary attributable to interest earnings on the generator fines account, which are excluded in the budget.

The ISO Markets

ISO MARKET COSTS: (page 9 and 10)

- ◆ 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)

- ◆ PG&E, SCE and SDG&E have unsecured credit limits. Proportion of obligations backed by UCL and obligations backed by posted security have remained steady.

CALIFORNIA ISO

Statement of Operations

For the two-month period ended February 29, 2008
(dollars in thousands)

	Month				Year to Date				2008
	Actual	Budget	Variance	Var (%)	Actual	Budget	Variance	Var (%)	Budget
Revenues:									
Grid Management Charge	\$ 14,101	\$ 14,055	\$ 46	0%	\$ 29,601	\$ 29,472	\$ 129	0%	\$ 191,635
Fines, WSCC & Other Fees	482	468	14	3%	816	935	(119)	-13%	5,609
Total revenues	<u>14,583</u>	<u>14,523</u>	<u>60</u>	<u>0%</u>	<u>30,417</u>	<u>30,407</u>	<u>10</u>	<u>0%</u>	<u>197,244</u>
Operating Expenses:									
Salaries and Benefits	7,236	7,113	123	2%	14,475	14,227	248	2%	92,182
Building, Leases and Facility	704	808	(104)	-13%	1,501	1,616	(115)	-7%	9,704
Insurance	953	1	952	0%	953	1	952	*	2,012
Third Party Vendor Contracts	1,696	1,673	23	1%	3,044	3,531	(487)	-14%	20,858
Consulting and Contracting Services	1,125	1,105	20	2%	2,150	2,162	(12)	-1%	13,294
Legal and Audit	116	469	(353)	-75%	817	1,169	(352)	-30%	7,031
Training, Travel and Professional Dues	70	390	(320)	-82%	460	784	(324)	-41%	4,680
Other	(35)	258	(293)	-114%	285	574	(289)	-50%	2,893
Total operating expenses	<u>11,865</u>	<u>11,817</u>	<u>48</u>	<u>0%</u>	<u>23,685</u>	<u>24,064</u>	<u>(379)</u>	<u>-2%</u>	<u>152,654</u>
Net operating income (loss)	<u>2,718</u>	<u>2,706</u>	<u>12</u>	<u>0%</u>	<u>6,732</u>	<u>6,343</u>	<u>389</u>	<u>6%</u>	<u>44,590</u>
Interest and Other Expenses									
Interest income & other	687	184	503	273%	1,747	368	1,379	375%	2,205
Interest expense	400	567	(167)	-29%	843	1,161	(318)	-27%	5,441
Depreciation and amortization	1,040	1,040	-	0%	2,085	2,085	-	0%	13,800
Total interest and other expenses	<u>753</u>	<u>1,423</u>	<u>(670)</u>	<u>-47%</u>	<u>1,181</u>	<u>2,878</u>	<u>(1,697)</u>	<u>-59%</u>	<u>17,036</u>
Excess (Deficiency) of Revenues Over Expenses	<u>\$ 1,965</u>	<u>\$ 1,283</u>	<u>\$ 682</u>	<u>53%</u>	<u>\$ 5,551</u>	<u>\$ 3,465</u>	<u>\$ 2,086</u>	<u>60%</u>	<u>\$ 27,554</u>
Number of Full-time Employees	<u>538</u>	<u>545</u>	<u>(7)</u>	<u>-1%</u>					<u>545</u>

CALIFORNIA ISO**Balance Sheet**

As of February 29, 2008

(dollars in thousands)

	<u>Current Month</u>	<u>Prior Month</u>	<u>Change</u>
ASSETS			
NET ELECTRIC UTILITY PLANT	<u>\$ 212,331</u>	<u>\$ 210,458</u>	<u>\$ 1,873</u>
CURRENT ASSETS			
Unrestricted Cash and Cash Equivalents	34,470	50,300	(15,830)
Restricted Cash and Cash Equivalents	38,654	38,238	416
Other Special Deposits	64,567	67,766	(3,199)
Accounts Receivable, net	47,633	48,843	(1,210)
Investments	80,728	80,371	357
Accrued Interest	1,220	1,684	(464)
Prepayments	4,075	4,075	-
Total Current Assets	<u>271,347</u>	<u>291,277</u>	<u>(19,930)</u>
NONCURRENT ASSET AND DEFERRED CHARGES			
Unamortized debt expenses and other	3,425	3,278	147
Total Noncurrent Asset and Deferred Charges	<u>3,425</u>	<u>3,278</u>	<u>147</u>
TOTAL ASSETS	<u><u>\$ 487,103</u></u>	<u><u>\$ 505,013</u></u>	<u><u>\$ (17,910)</u></u>
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION			
Stakeholders' Surplus	\$ 211,318	\$ 209,353	\$ 1,965
Long-term Debt	111,478	140,378	(28,900)
TOTAL CAPITALIZATION	<u>322,796</u>	<u>349,731</u>	<u>(26,935)</u>
CURRENT LIABILITIES			
Long-term debt due within one year	70,300	50,700	19,600
Accounts Payable	17,396	28,410	(11,014)
Fines subject to refund	75,468	75,029	439
Total Current Liabilities	<u>163,164</u>	<u>154,139</u>	<u>9,025</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>164,307</u>	<u>155,282</u>	<u>9,025</u>
TOTAL CAPITALIZATION AND LIABILITIES	<u><u>\$ 487,103</u></u>	<u><u>\$ 505,013</u></u>	<u><u>\$ (17,910)</u></u>

CALIFORNIA ISO
Capital Projects Report

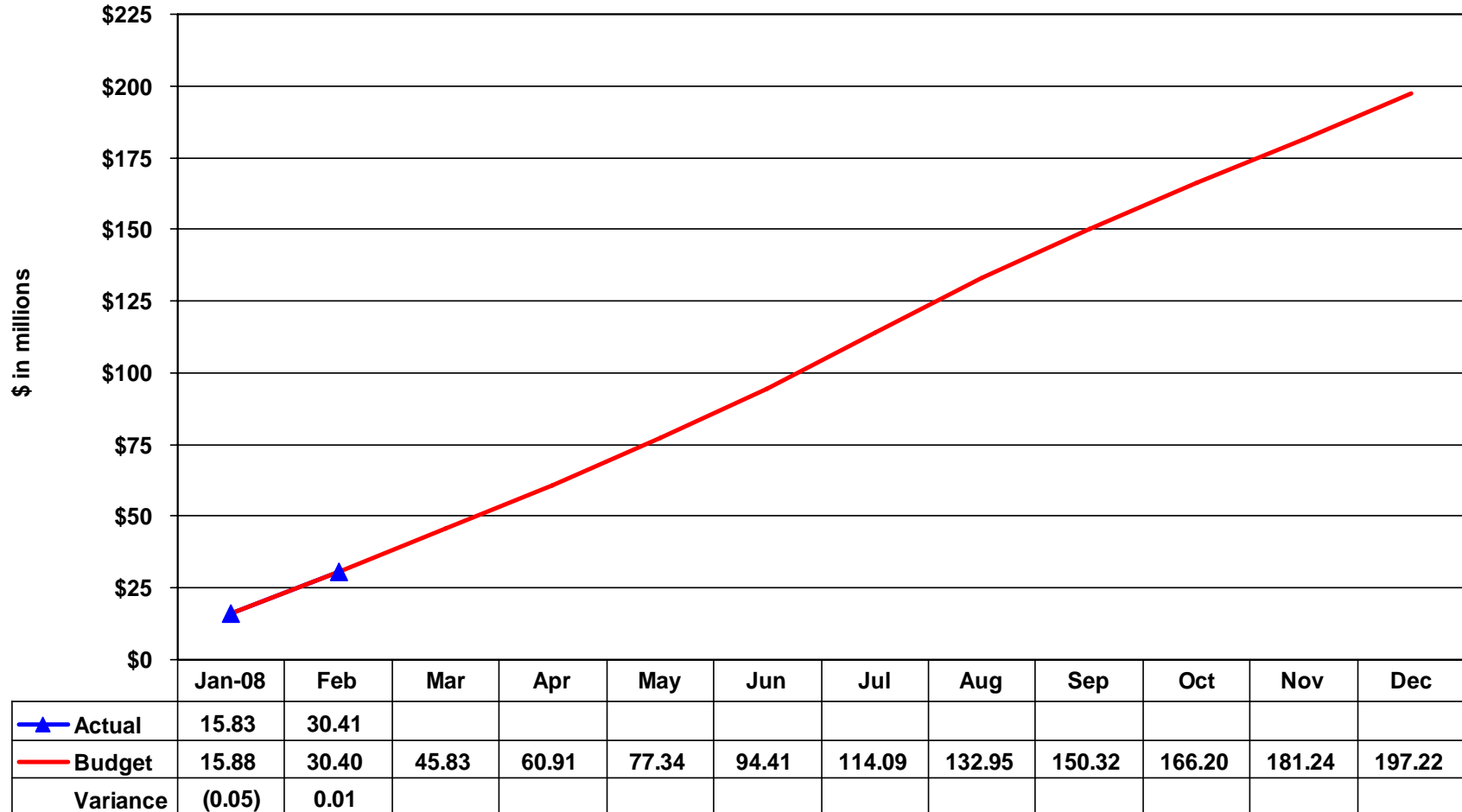
For the two-month period ended February 29, 2008
(dollars in thousands)

Capital Spending

	Approved Projects				
	<u>Month</u> <u>Actual</u>	<u>YTD</u> <u>Actual</u>	<u>2008</u> <u>Approved</u> <u>Projects</u>	<u>Projected</u> <u>Costs for</u> <u>Approved</u> <u>Projects</u>	<u>Original</u> <u>2008</u> <u>Budget</u>
Compliance/Regulatory	\$ -	\$ -	\$ 148	\$ 148	\$ 10,500
Essential / Corporate Infrastructure	156	156	2,141	2,141	7,900
Strategic Initiatives	-	-	1,350	1,350	10,100
Future Market Enhancements	56	56	1,512	1,512	1,500
Market Redesign	886	972	7,518	7,518	7,518
Technology Upgrade	1,286	1,433	5,459	5,459	5,459
Total 2008 Capital Spending	<u>2,383</u>	<u>2,617</u>	<u>18,128</u>	<u>18,128</u>	<u>42,977</u>
2007 Capital Projects	<u>433</u>	<u>491</u>	<u>3,417</u>	<u>3,417</u>	
Total Capital	<u>\$ 2,816</u>	<u>\$ 3,108</u>	<u>\$ 21,545</u>	<u>\$ 21,545</u>	<u>\$ 42,977</u>

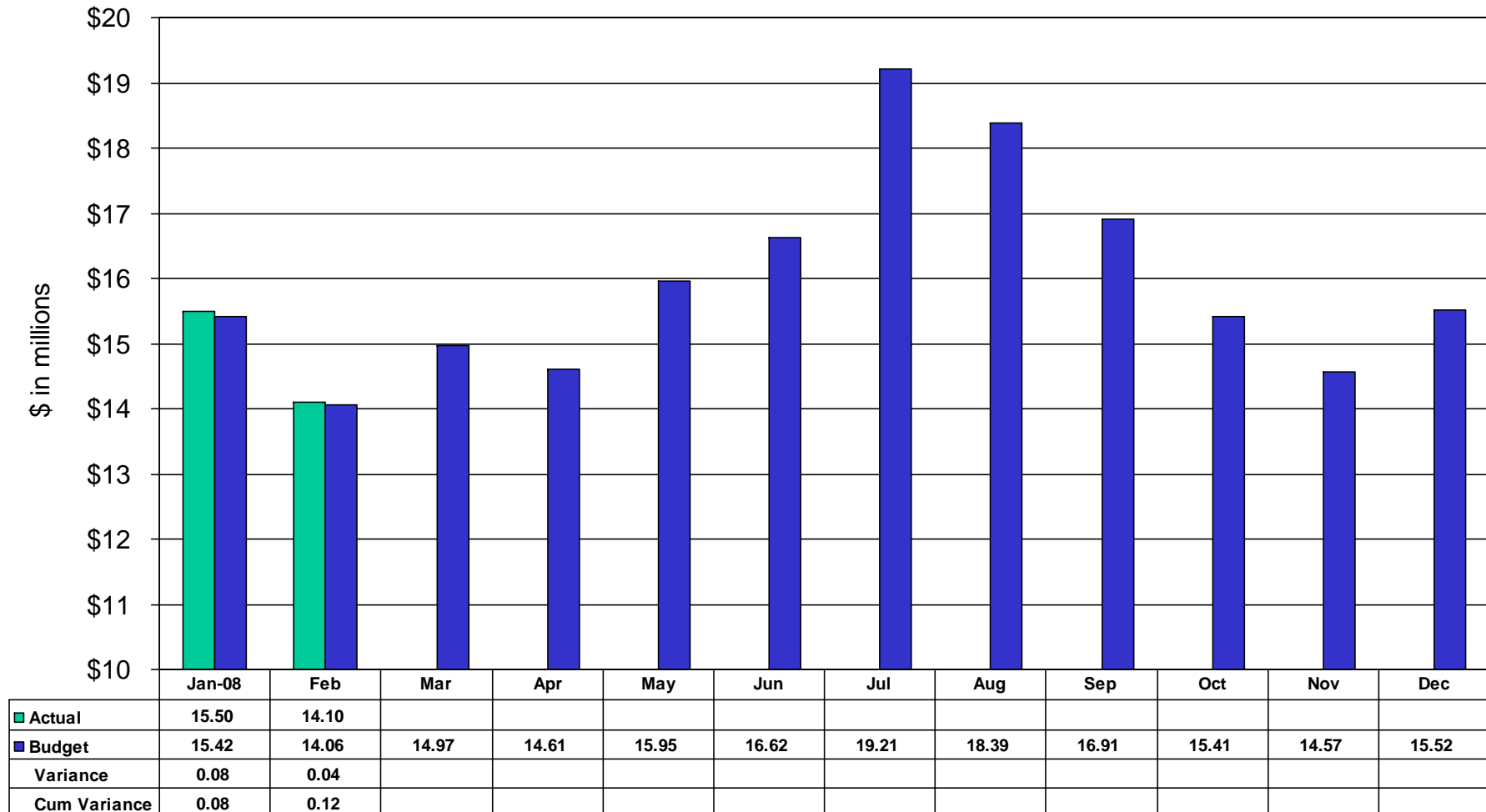
Cumulative Operating Revenues

Revenues = GMC, LGIP, WSCC Security & Other Fees



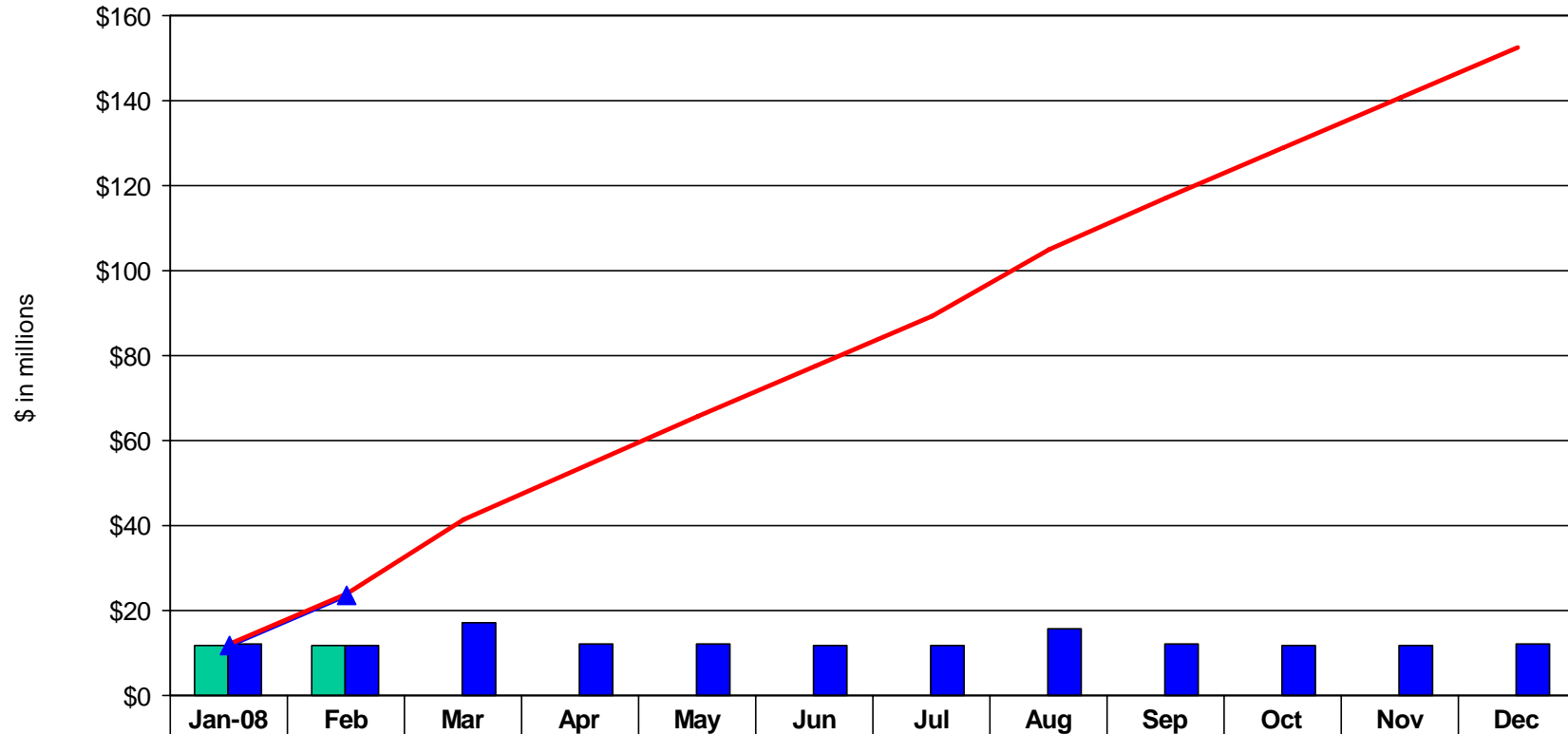
January and February revenues are estimates.

Monthly GMC Revenues



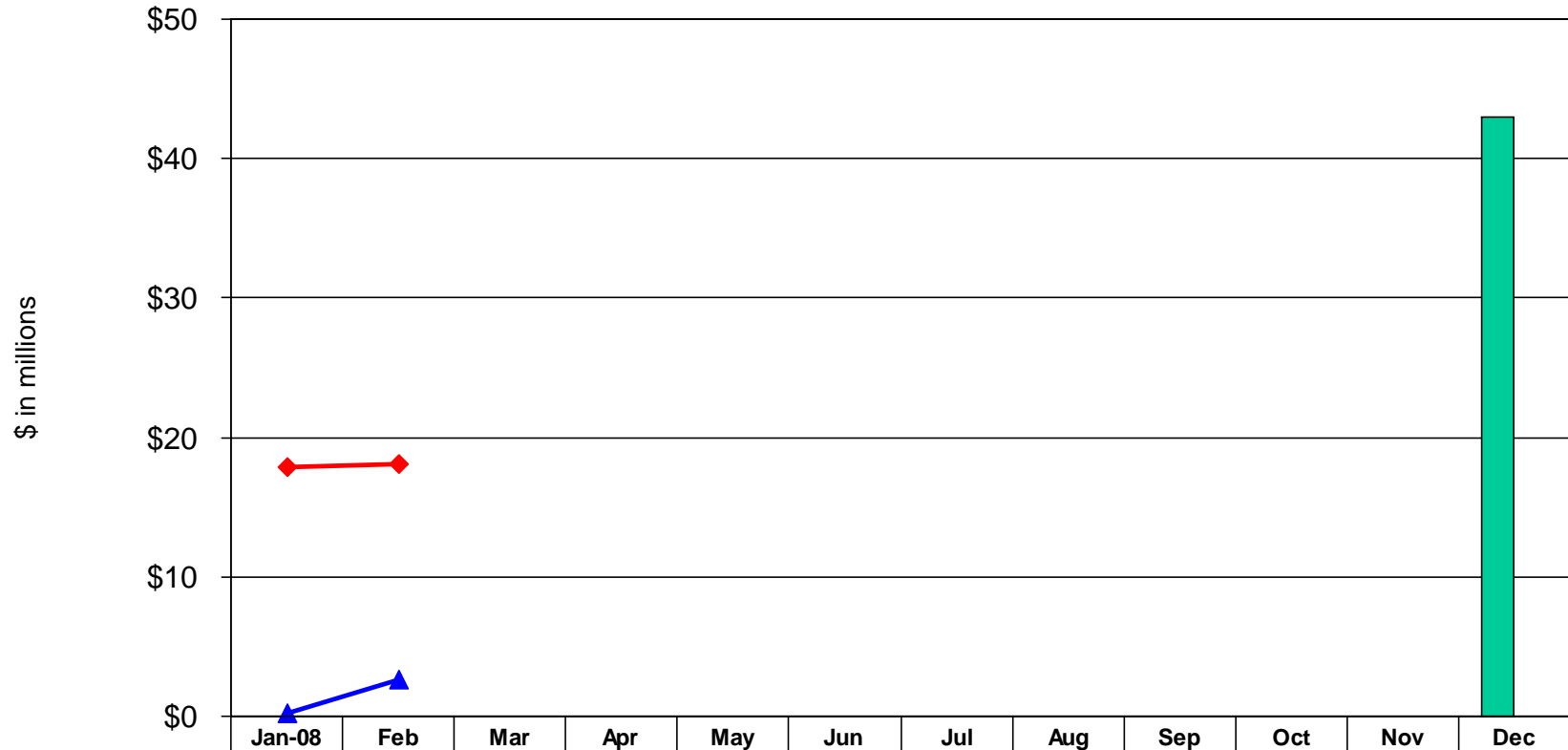
January and February revenues are estimates.





Operating and Maintenance Expenses (O&M)



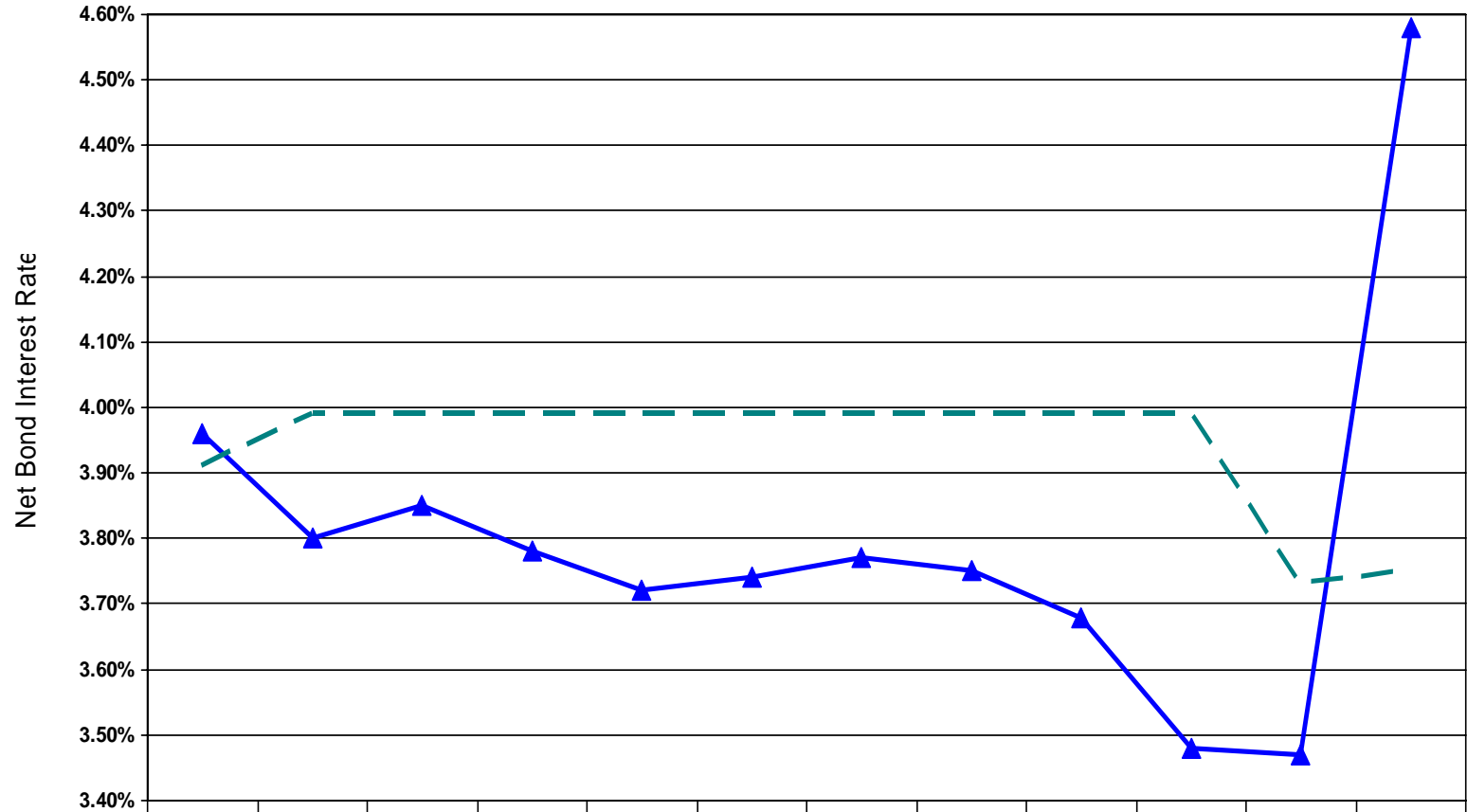
	Jan-08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	11.82	11.87										
Monthly Budget	12.25	11.81	17.20	12.21	12.12	11.84	11.80	15.86	12.08	11.72	11.72	12.05
Cum Actual	11.82	23.69										
Cum Budget	12.25	24.06	41.26	53.47	65.59	77.43	89.22	105.08	117.16	128.88	140.60	152.65
Cum Variance	0.43	0.37										

Cumulative Capital Expenditures



	Jan-08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
 Budgeted capital												42.98
 2007 O&M Impact	0.00	0.00										
 Cumulative Expenditures	0.23	2.62										
 Approved projects	17.89	18.13										

ISO Monthly Debt Rates

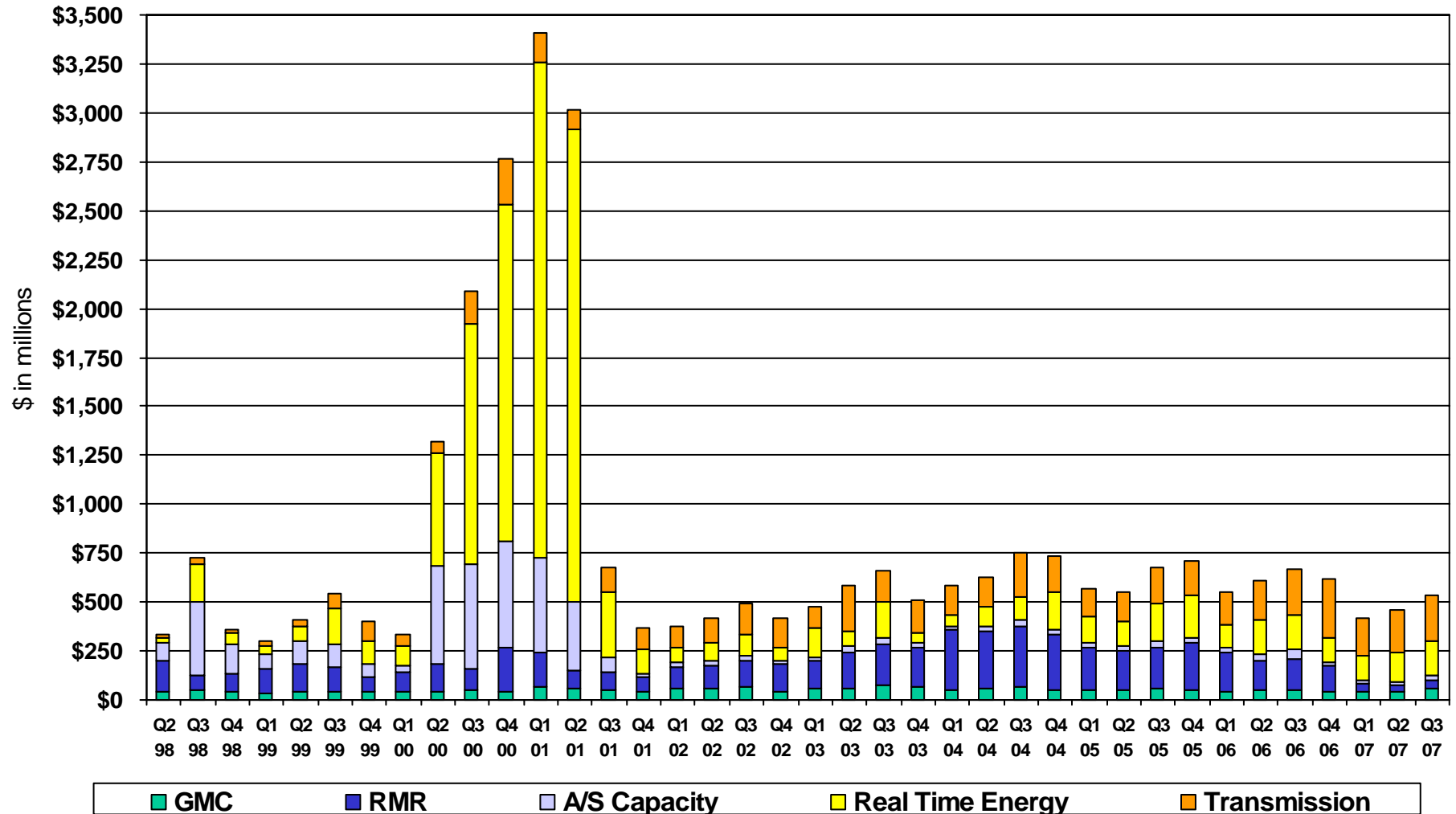


	Mar-07	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-08	Feb
Net Int. Rate (All Bonds)	3.96%	3.80%	3.85%	3.78%	3.72%	3.74%	3.77%	3.75%	3.68%	3.48%	3.47%	4.58%
Budgeted Net Int. Rate	3.91%	3.99%	3.99%	3.99%	3.99%	3.99%	3.99%	3.99%	3.99%	3.99%	3.73%	3.75%

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

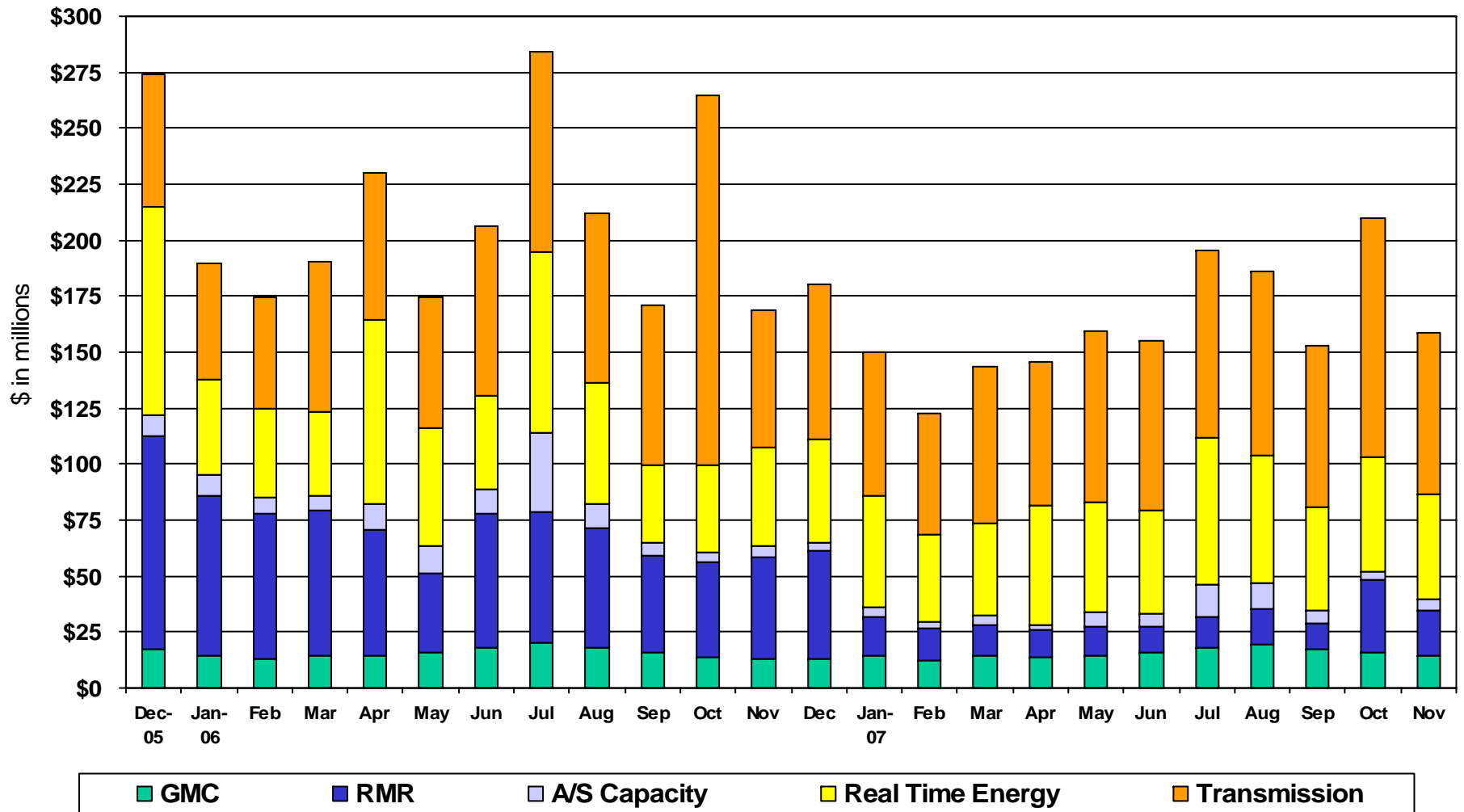
CAISO Market Costs By Quarter

2nd Quarter 1998 (Inception) through 3rd Quarter 2007

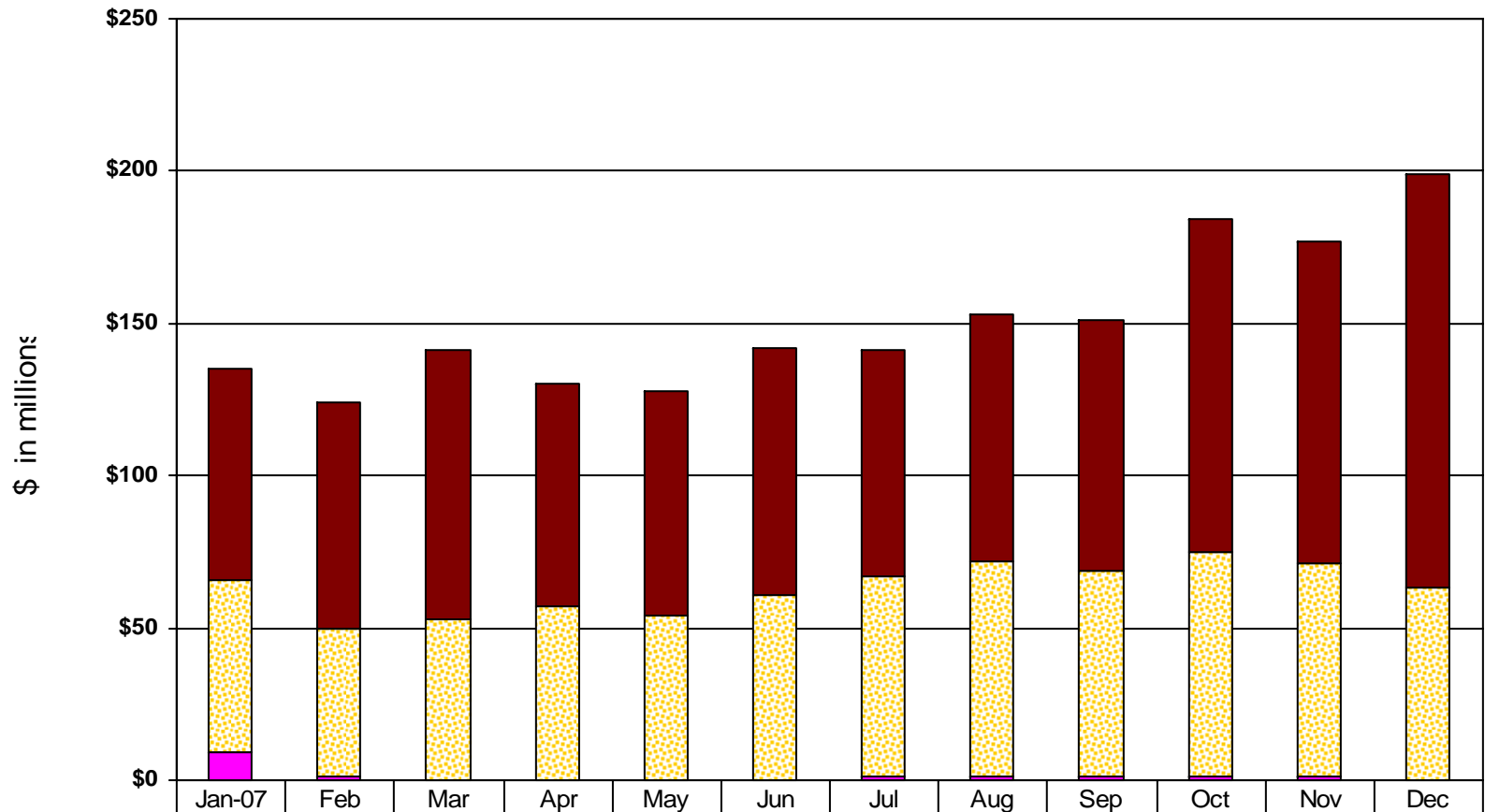




CAISO Market Costs By Month December 2005 through November 2007



Outstanding Obligations of Market Participants



■ Backed by UCL or GRN	69	74	88	73	74	81	74	81	82	109	106	136
■ Backed by posted security	57	49	53	57	54	61	66	71	68	74	70	63
■ Outstanding security requests	9	1	0	0	0	0	1	1	1	1	1	0

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

Backing for Estimated Aggregate Liability (EAL) by Credit Quality

