

MONTHLY FINANCIAL REPORT

July 2008

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

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CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY

For the seven-month period ended July 31, 2008

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

- ◆ Operating Revenues for July were \$19.1M, \$0.5M lower than budget.
 - The variance was primarily due to a lower estimated Grid Management Charge (GMC) for the month as a result of lower than forecasted load and exports.
- ◆ Operating Revenues for the year to date were \$113.1M, \$1.0M lower than budget.
 - The variance was primarily due to lower GMC revenues, a likely result of the mild weather through the late winter and spring, continued poor hydrological conditions and the reduction of economic growth in California.
- ◆ Operation and maintenance (O&M) expenses for July were \$13.5M, \$1.6M higher than budget.
 - The variance was primarily due to timing of payments during the month.
- ◆ O&M expenses for the year to date were \$88.9M, \$0.4M lower than budget.
 - The variance was primarily due to timing of payments during the period offset by higher salaries and benefits expenses. The increased labor expenses were primarily due to higher than anticipated overtime costs.
 - Outlook for the year: O&M at budget.
- ◆ There were 538 full-time employees compared to the 545 full-time employees budgeted.

BALANCE SHEET: (page 2)

- ◆ The changes in receivables and investments are primarily due to normal business activities during the month. The changes in the restricted funds and long-term debt are due to the refunding of previously issued debt and to the issuance of new debt.

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 \$22.6M. Expenditures for 2007 approved capital projects totaled \$2.4M.
- ◆ 2008 capital projects approved through July totaled \$37.9M and include \$13.0M for Market Redesign and Technology Upgrade (MRTU) projects.

INTEREST COSTS and INTEREST INCOME: (page 8)

- ◆ Through June, the average interest rate on ISO bonds was 5.17%, 1.51% higher than the budgeted rate of 3.57%. The higher rates were attributable to investor concerns about the financial health of the bond insurers that support CAISOs variable rate demand bonds. In June 2008, the ISO issued new debt and refinanced existing debt by issuing fixed rate bonds with an effective interest rate of 3.56%. Because the ISO no longer has variable rate debt outstanding, the Monthly Debt Rate slide will not be presented in the future.
- ◆ Interest income for the year to date is \$3.2M, \$1.9M higher than budget. The variance is primary attributable to interest earnings on the generator fines account, which are excluded in the budget. Interest expense will also be higher for as long as CAISO retains these fines.

The ISO Markets

MARKET CHARGES: (page 4)

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

OBLIGATIONS OF MARKET PARTICIPANTS: (pages 11 and 12)

- ◆ Outstanding obligations of market participants increased in July as the billing of the summer months are starting.

CALIFORNIA ISO

Statement of Operations

For the seven-month period ended July 31, 2008
(dollars in thousands)

	Month				Year to Date				2008
	Actual	Budget	Variance	Var (%)	Actual	Budget	Variance	Var (%)	Budget
Revenues:									
Grid Management Charge	\$ 18,700	\$ 19,212	\$ (512)	-3%	\$ 109,743	\$ 110,839	\$ (1,096)	-1%	\$ 191,635
Fines, WSCC & Other Fees	433	467	(34)	-7%	3,382	3,271	111	3%	5,609
Total revenues	19,133	19,679	(546)	-3%	113,125	114,110	(985)	-1%	197,244
Operating Expenses:									
Salaries and Benefits	9,187	7,113	2,074	29%	54,762	53,204	1,558	3%	92,182
Building, Leases and Facility	595	808	(213)	-26%	5,558	5,657	(99)	-2%	9,704
Insurance	(21)	1	(22)	0%	1,925	2,010	(85)	*	2,012
Third Party Vendor Contracts	1,401	1,673	(272)	-16%	10,758	11,895	(1,137)	-10%	20,858
Consulting and Contracting Services	1,586	1,123	463	41%	8,696	7,957	739	9%	13,294
Legal and Audit	315	449	(134)	-30%	3,747	3,992	(245)	-6%	7,031
Training, Travel and Professional Dues	155	406	(251)	-62%	2,029	2,780	(751)	-27%	4,680
Other	232	228	4	2%	1,412	1,744	(332)	-19%	2,893
Total operating expenses	13,450	11,801	1,649	14%	88,887	89,239	(352)	0%	152,654
Net operating income (loss)	5,683	7,878	(2,195)	-28%	24,238	24,871	(633)	-3%	44,590
Interest and Other Expenses									
Interest income & other	725	184	541	294%	3,219	1,286	1,933	150%	2,205
Interest expense	2,948	413	2,535	614%	9,431	3,378	6,053	179%	5,441
Depreciation and amortization	1,050	1,050	-	0%	7,203	7,203	-	0%	13,800
Total interest and other expenses	3,273	1,279	1,994	156%	13,415	9,295	4,120	44%	17,036
Excess (Deficiency) of Revenues Over Expenses	\$ 2,410	\$ 6,599	\$ (4,189)	-63%	\$ 10,823	\$ 15,576	\$ (4,753)	-31%	\$ 27,554
Number of Full-time Employees	538	545	(7)	-1%					545

CALIFORNIA ISO**Balance Sheet**

As of July 31, 2008

(dollars in thousands)

	<u>Current Month</u>	<u>Prior Month</u>	<u>Change</u>
ASSETS			
NET ELECTRIC UTILITY PLANT	<u>\$ 230,870</u>	<u>\$ 229,006</u>	<u>\$ 1,864</u>
CURRENT ASSETS			
Unrestricted Cash and Cash Equivalents	65,219	54,971	10,248
Restricted Cash and Cash Equivalents	63,879	21,435	42,444
Other Special Deposits	54,614	34,917	19,697
Accounts Receivable, net	39,715	51,217	(11,502)
Investments	67,211	62,443	4,768
Accrued Interest	1,970	999	971
Prepayments	4,502	4,382	120
Total Current Assets	<u>297,110</u>	<u>230,364</u>	<u>66,746</u>
NONCURRENT ASSET AND DEFERRED CHARGES			
Unamortized debt expenses and other	5,042	2,714	2,328
Total Noncurrent Asset and Deferred Charges	<u>5,042</u>	<u>2,714</u>	<u>2,328</u>
TOTAL ASSETS	<u><u>\$ 533,022</u></u>	<u><u>\$ 462,084</u></u>	<u><u>\$ 70,938</u></u>
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION			
Stakeholders' Surplus	\$ 217,967	\$ 215,557	\$ 2,410
Long-term Debt	175,158	109,378	65,780
TOTAL CAPITALIZATION	<u>393,125</u>	<u>324,935</u>	<u>68,190</u>
CURRENT LIABILITIES			
Long-term debt due within one year	31,000	31,000	-
Accounts Payable	22,872	20,946	1,926
Fines subject to refund	84,832	84,010	822
Total Current Liabilities	<u>138,704</u>	<u>135,956</u>	<u>2,748</u>
NONCURRENT LIABILITY AND DEFERRED CREDITS			
Other	1,193	1,193	-
Total Noncurrent Liability and Deferred Credits	<u>1,193</u>	<u>1,193</u>	<u>-</u>
TOTAL LIABILITIES	<u>139,897</u>	<u>137,149</u>	<u>2,748</u>
TOTAL CAPITALIZATION AND LIABILITIES	<u><u>\$ 533,022</u></u>	<u><u>\$ 462,084</u></u>	<u><u>\$ 70,938</u></u>

CALIFORNIA ISO
Capital Projects Report

For the seven-month period ended July 31, 2008
(dollars in thousands)

Capital Spending

	Approved Projects				
	Month <u>Actual</u>	YTD <u>Actual</u>	2008 Approved <u>Projects</u>	Projected Costs for Approved <u>Projects</u>	Original 2008 <u>Budget</u>
Compliance/Regulatory	\$ 1,283	\$ 1,858	\$ 3,949	\$ 3,953	\$ 10,500
Essential / Corporate Infrastructure	543	4,739	6,401	6,439	7,900
Strategic Initiatives	213	557	2,941	2,941	10,100
Future Market Enhancements	78	492	1,682	1,682	1,500
Market Redesign	787	7,700	7,518	7,518	7,518
Technology Upgrade	711	6,014	5,459	5,459	5,459
Iron Point Project Phase 2	964	1,239	10,000	10,000	-
Total 2008 Capital Spending	<u>4,579</u>	<u>22,599</u>	<u>37,949</u>	<u>37,991</u>	<u>42,977</u>
2007 Capital Projects	<u>341</u>	<u>2,390</u>	<u>3,417</u>	<u>3,417</u>	
Total Capital	<u>\$ 4,919</u>	<u>\$ 24,989</u>	<u>\$ 41,366</u>	<u>\$ 41,408</u>	<u>\$ 42,977</u>

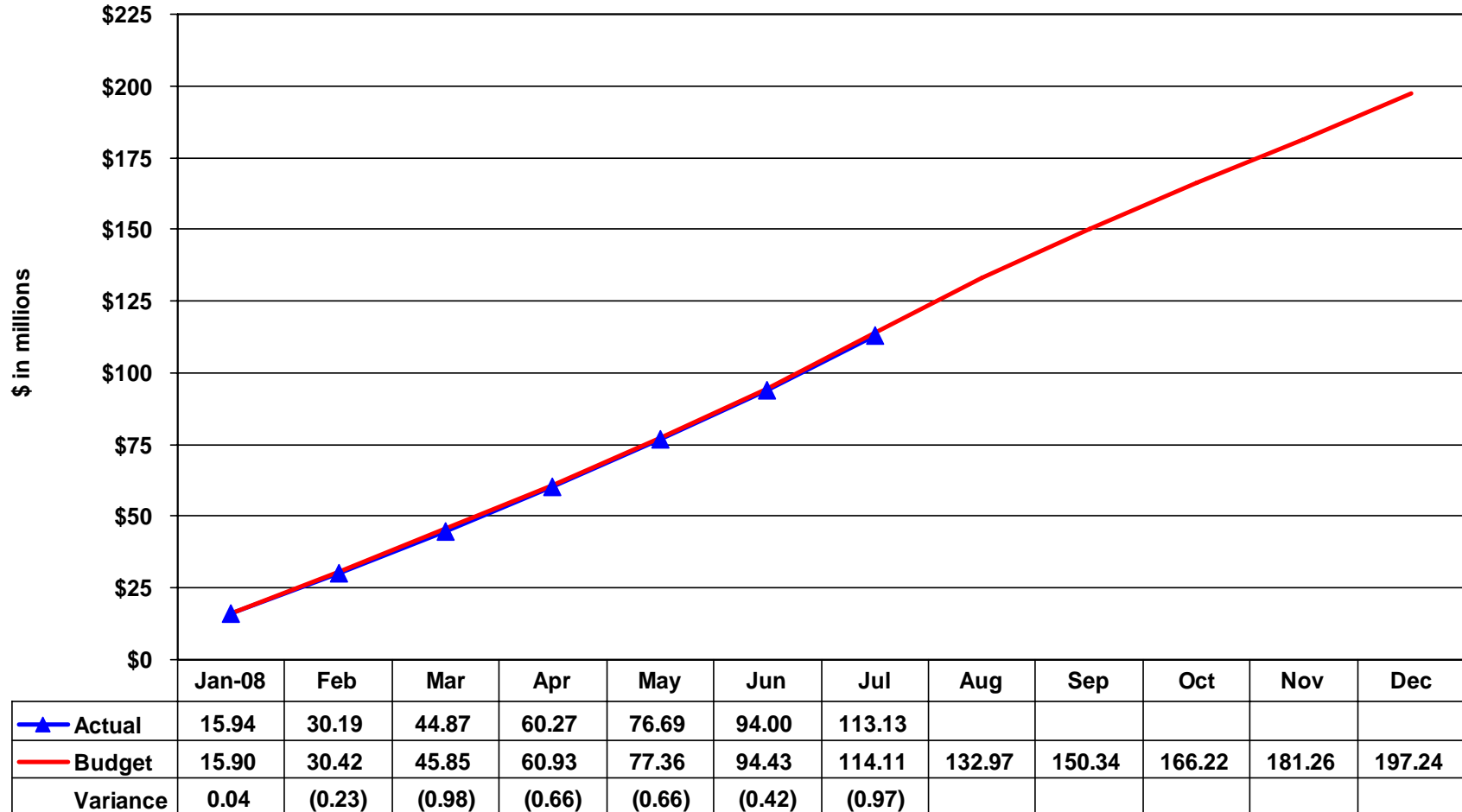
Notes:

Prior year capital projects are funded by prior year rate collections.

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

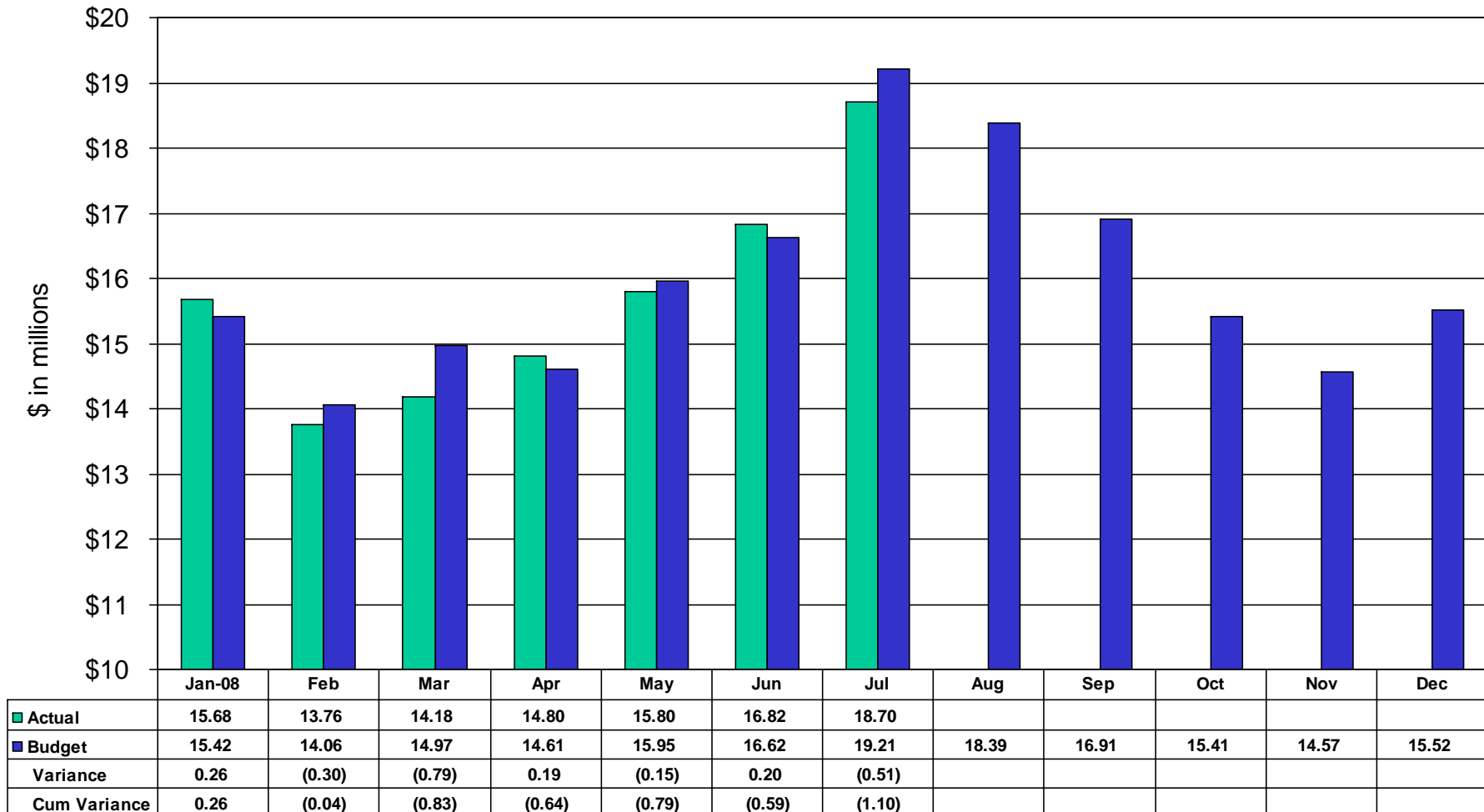
Cumulative Operating Revenues

Revenues = GMC, LGIP, WSCC Security & Other Fees



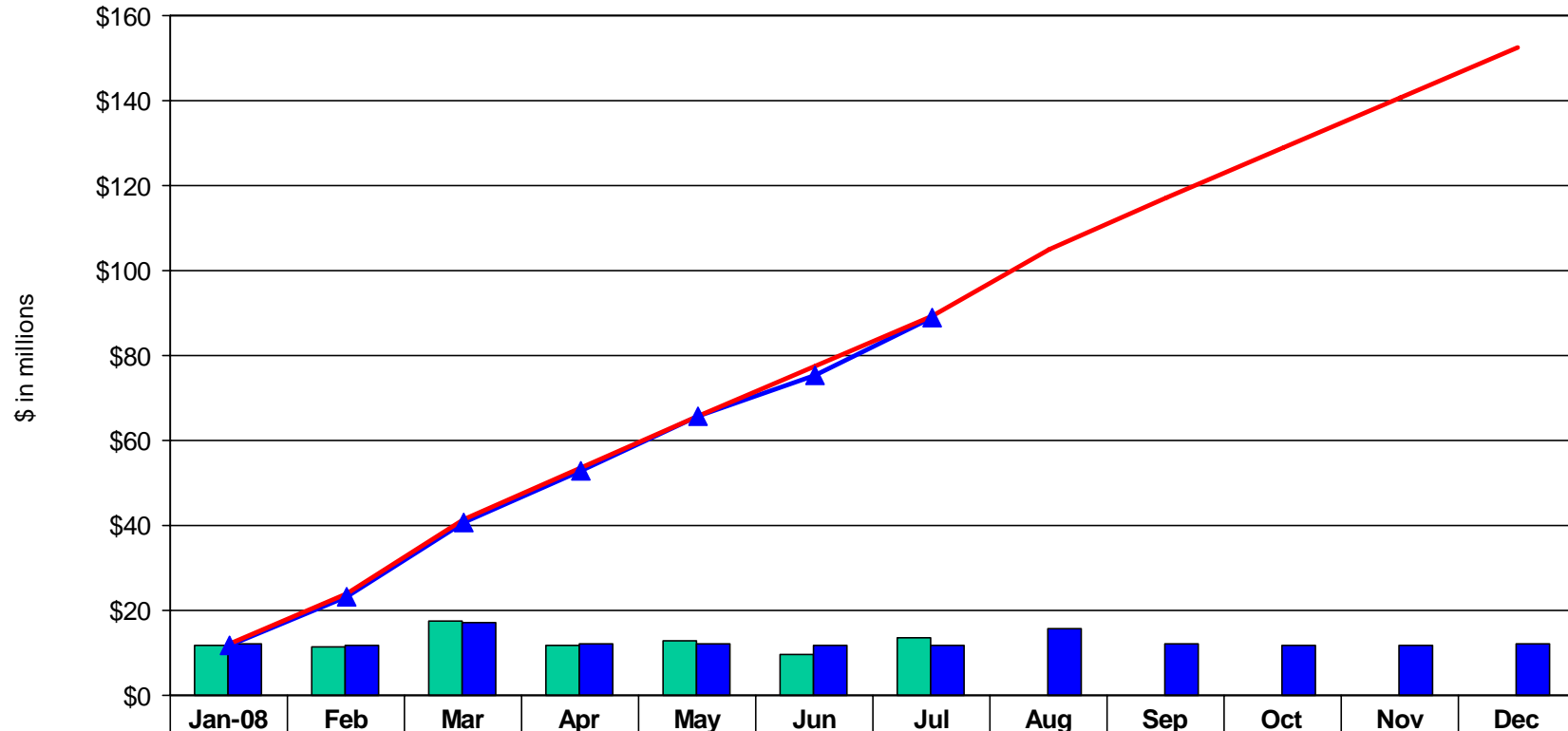
May, June and July revenues are estimates.

Monthly GMC Revenues



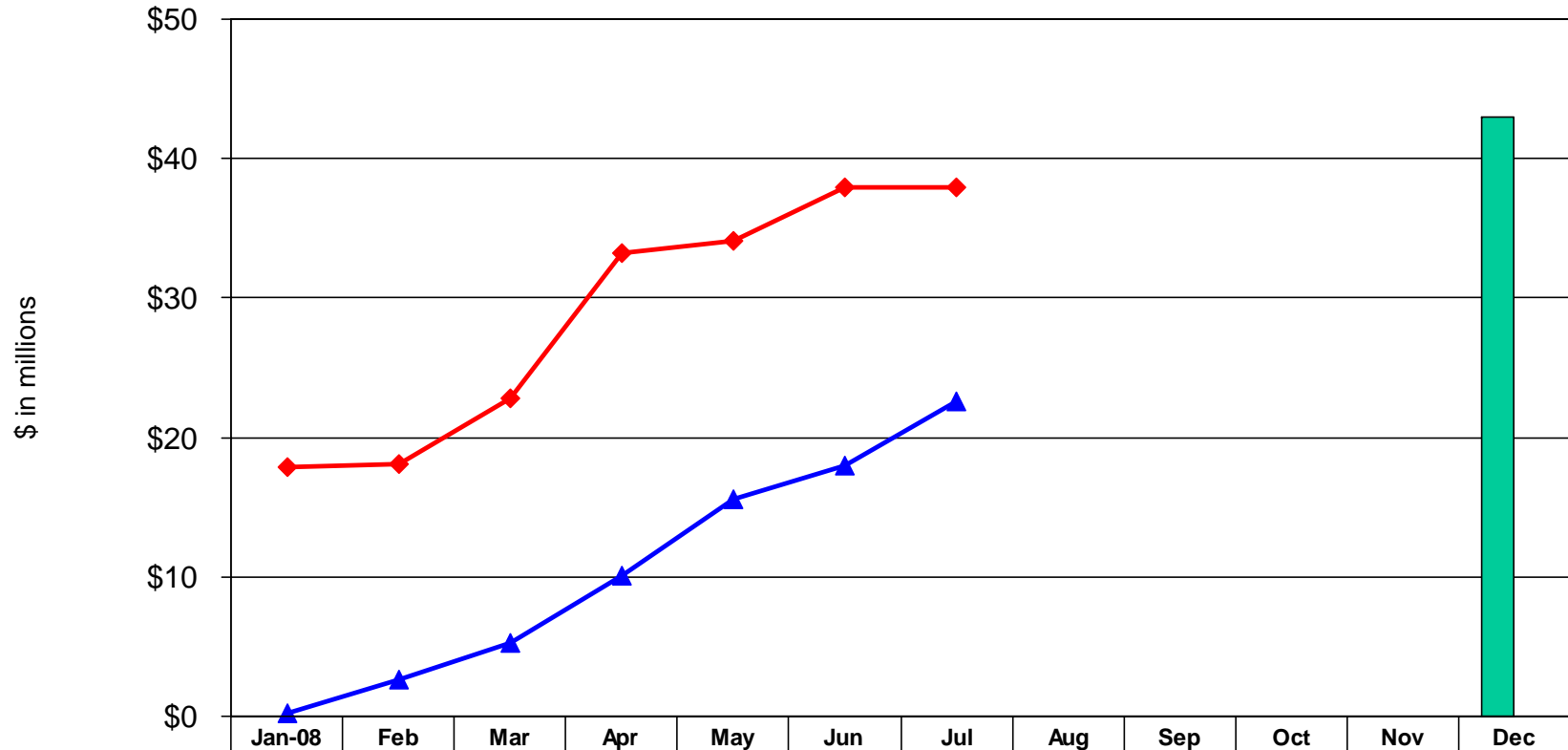
May, June and July revenues are estimates.





Operating and Maintenance Expenses (O&M)



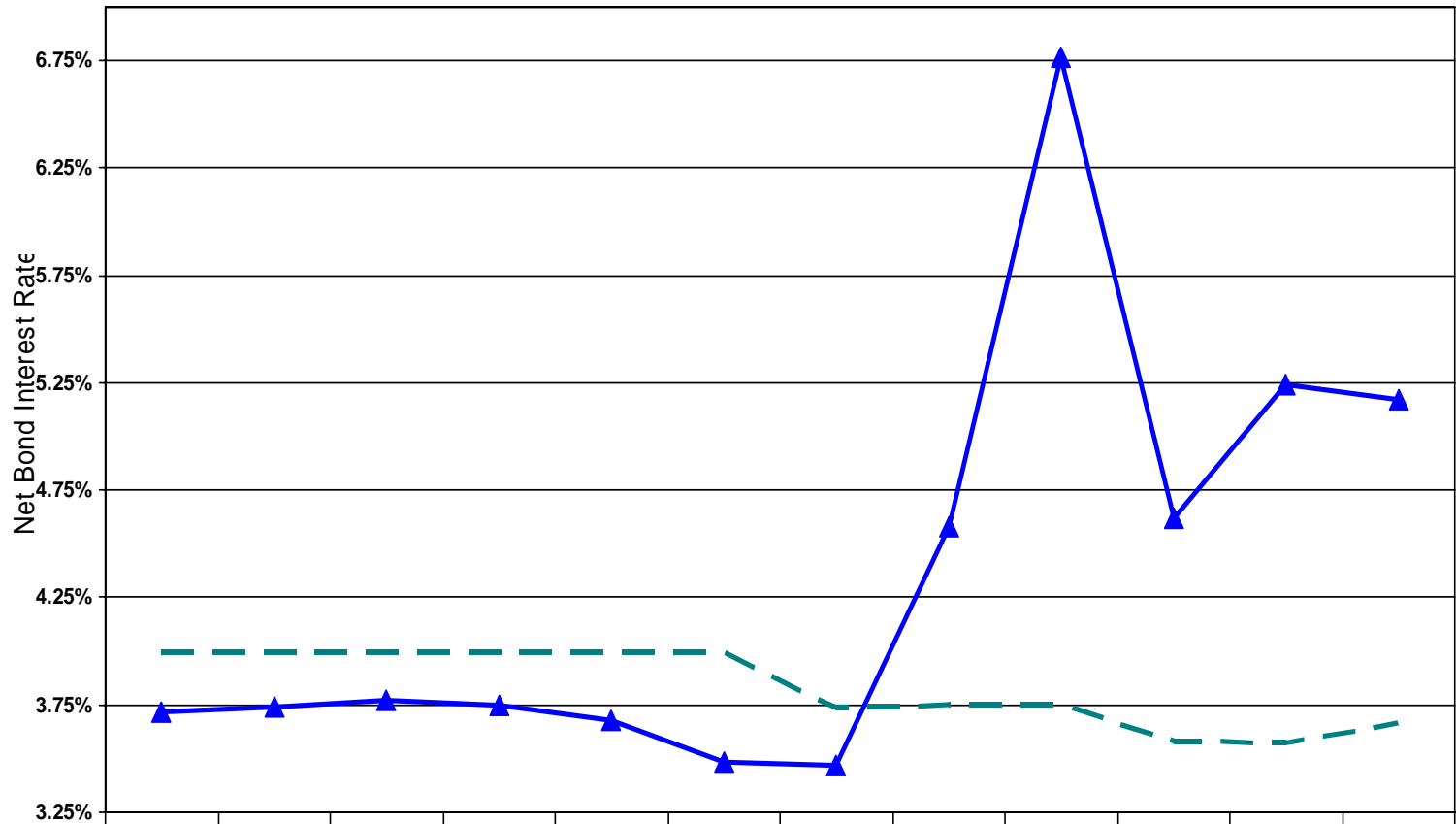
	Jan-08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	11.84	11.48	17.55	11.81	12.95	9.80	13.45					
Monthly Budget	12.25	11.82	17.20	12.21	12.12	11.84	11.80	15.86	12.08	11.72	11.72	12.05
Cum Actual	11.84	23.32	40.87	52.68	65.63	75.43	88.88					
Cum Budget	12.25	24.07	41.27	53.48	65.60	77.44	89.23	105.09	117.17	128.89	140.61	152.66
Cum Variance	0.41	0.75	0.40	0.80	(0.03)	2.01	0.35					

Cumulative Capital Expenditures



 Budgeted capital												42.98
 2008 O&M Impact	0.00	0.00	0.00	0.00	0.00	0.00	0.00					
 Cumulative Expenditures	0.23	2.62	5.22	10.06	15.61	18.02	22.60					
 Approved projects	17.89	18.13	22.77	33.17	34.06	37.95	37.95					

ISO Monthly Debt Rates

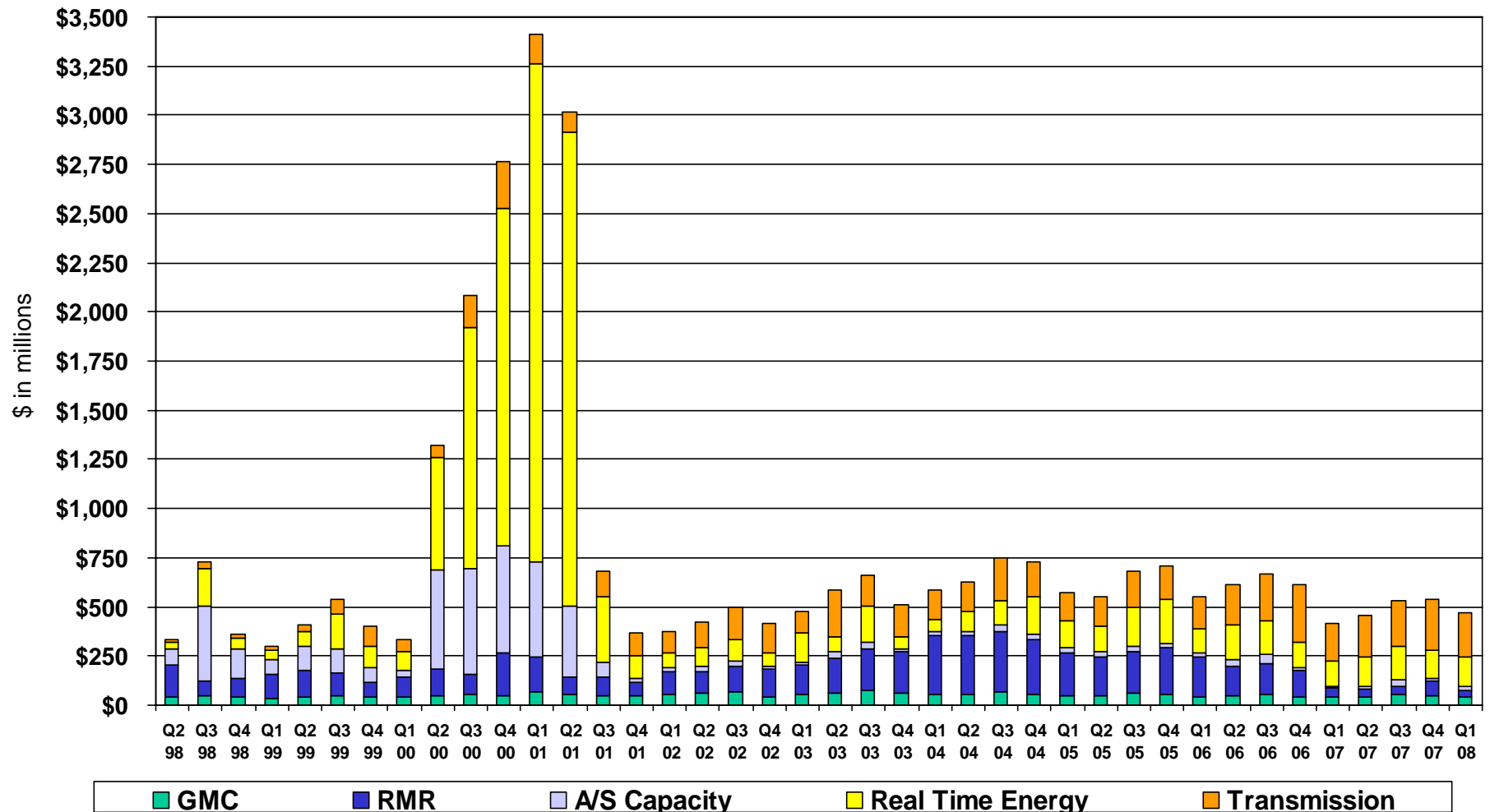


▲ Net Int. Rate (All Bonds)	3.72%	3.74%	3.77%	3.75%	3.68%	3.48%	3.47%	4.58%	6.77%	4.62%	5.24%	5.17%
— Budgeted Net Int. Rate	3.99%	3.99%	3.99%	3.99%	3.99%	3.99%	3.73%	3.75%	3.75%	3.58%	3.57%	3.66%

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

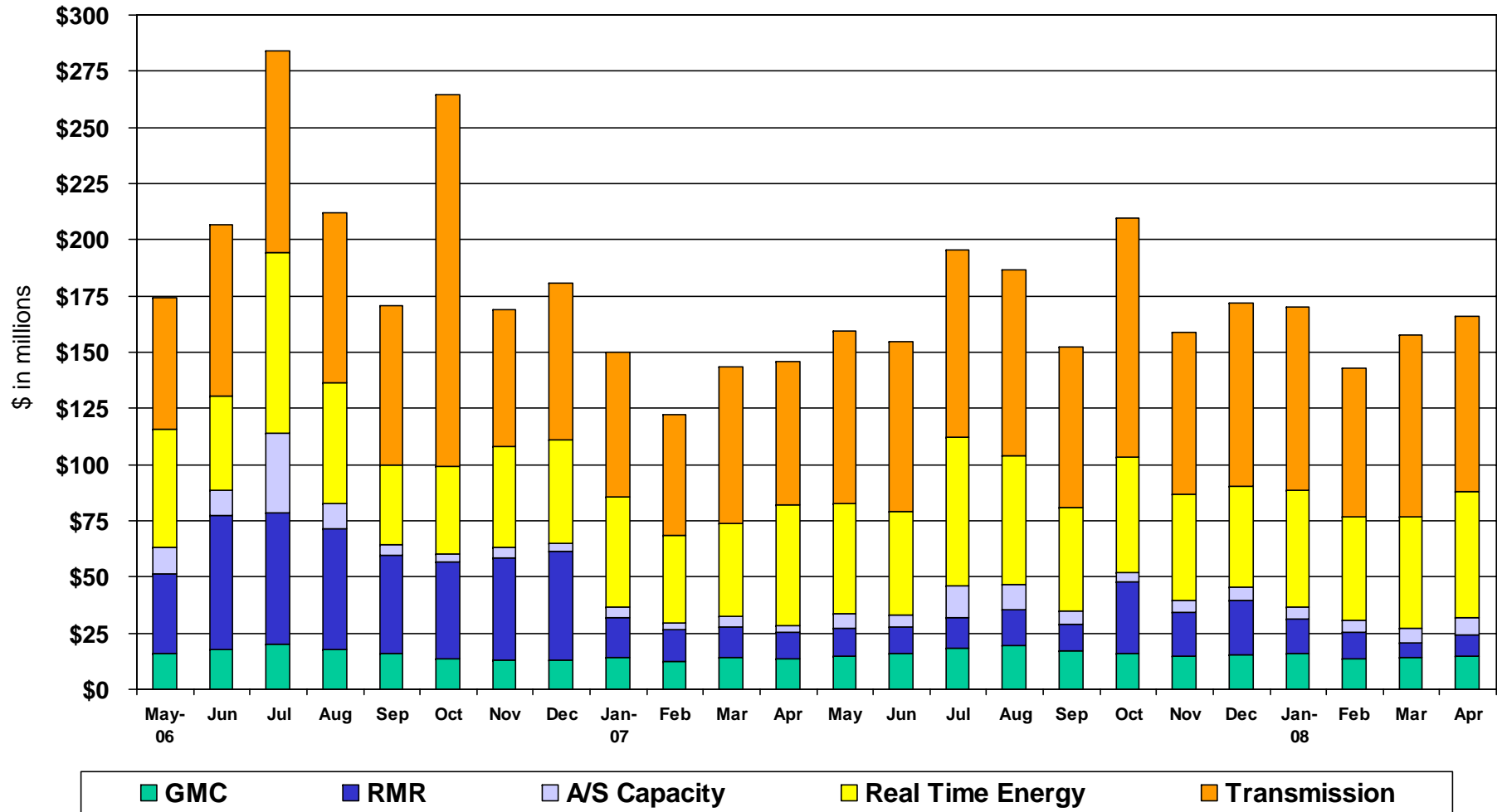
CAISO Market Costs By Quarter

2nd Quarter 1998 (Inception) through 1st Quarter 2008

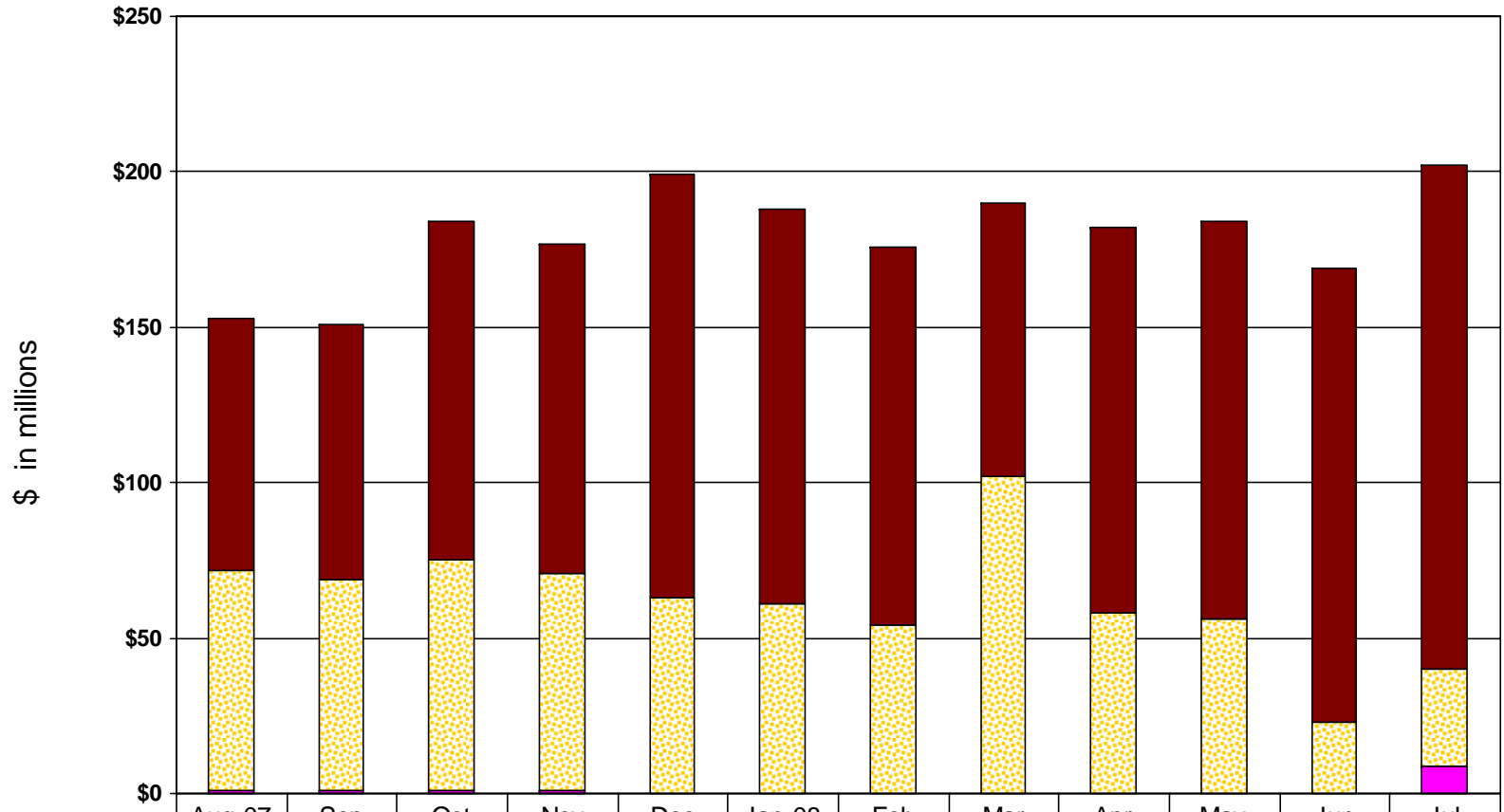




CAISO Market Costs By Month May 2006 through April 2008



Outstanding Obligations of Market Participants



	Aug-07	Sep	Oct	Nov	Dec	Jan-08	Feb	Mar	Apr	May	Jun	Jul
■ Backed by UCL or GRN	81	82	109	106	136	127	122	88	124	128	146	162
■ Backed by posted security	71	68	74	70	63	61	54	102	58	56	23	31
■ Outstanding security requests	1	1	1	1	0	0	0	0	0	0	0	9

In June 2006, the CAISO completed its transition to a new approach for assigning unsecured credit limits (UCL). Outstanding obligations are estimated using available historical settlements data. Posted security includes letters of credit, surety bonds, cash deposits held in escrow, certificates of deposit, payment bonds, and prepayments to the CAISO. The "Backed by UCL or GRN" category includes Unsecured Credit Limits (UCL) and Guarantees (GRN).

Backing for Estimated Aggregate Liability (EAL) by Credit Quality

