

MONTHLY FINANCIAL REPORT

October 2008

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

Table of Contents

	<i>Page Number</i>
Summary, Discussion and Commentary	<i>i, ii</i>
<i>THE ISO</i>	
Statement of Operations	1
Balance Sheet	2
Capital Projects Report	3
<i>Summary Financial Data</i>	
Cumulative Operating Revenues	4
Monthly GMC Revenues	5
Operating and Maintenance Expenses	6
Cumulative Capital Expenditures	7
CAISO Market Costs by Quarter - 3rd Quarter 2002 through 2nd Quarter 2008	8
CAISO Market Costs by Month - July 2006 through June 2008	9
Outstanding Obligations of Market Participants	10
Backing for Estimated Aggregate Liability (EAL) by Credit Quality	11

CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY

For the ten-month period ended October 31, 2008

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

- ◆ Operating Revenues for October were \$15.2M, \$0.7M 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 brought about by the relatively mild weather, partially offset by higher than forecasted congestion management and market usage volumes.
- ◆ Operating Revenues for the year to date were \$167.1M, \$0.9M higher than budget.
 - The variance is primarily due to higher GMC revenues, due to increased Instructed Energy and Uninstructed Imbalance Energy, the likely result of the disruptions caused by wildfires in May-July.
 - Forecast for the year reflects revenues at about the budget level. Certain GMC rates were adjusted effective October 1 due to volume forecast variances.
- ◆ Operation and maintenance (O&M) expenses for October were \$11.9M, \$0.2M higher than budget.
 - The variance was primarily due to timing of payments during the month.
- ◆ O&M expenses for the year to date were \$128.8M, \$0.1M 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 and staffing above the level assumed in the 2008 budget (which included a 2.5% vacancy factor).
 - Outlook for the year: O&M will be \$0.5M over budget.
- ◆ There were 556 full-time employees compared to the 545 full-time employees budgeted (excluding the vacancy factor of 2.5%). The overage is primarily related to the in-sourcing of services previously performed by an outside vendor.

INTEREST COSTS and INTEREST INCOME: (page 1)

- ◆ 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%. Interest cost for the for the year will exceed budget by \$1.0 million.
- ◆ Interest income for the year to date is \$1.8M, which approximates the budget. The interest income is lower due to unrealized losses on its investments and declining interest rates. In past years, interest earnings have been higher than budget due to the earnings of the generator fines accounts, which are excluded from the budget.

UNREALIZED LOSS ON INVESTMENTS: (page 1)

- ◆ Due to the recent turbulent events in the financial markets, the ISO has unrealized losses on its investment portfolio of approximately \$6.4M in a total portfolio of \$240M. The ISO is actively monitoring its portfolio and is carefully assessing its options. However, the ISO expects that losses will be reflected in the Statement of Operations in the financial statements prepared using Government Accounting Standards Board (GASB) requirements, but will be excluded from FERC reports (including rates) prepared under Financial Accounting Standards Board (FASB) rules.

CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY

For the ten-month period ended October 31, 2008

BALANCE SHEET: (page 2)

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

CAPITAL PROJECTS: (pages 3 and 7)

- ♦ 2008 capital projects were budgeted for the year at \$43.0M and include \$13.0M for Market Redesign and Technology Upgrade (MRTU) projects. 2008 capital projects approved through October totaled \$43.8M.
- ♦ Actual expenditures to date for 2008 approved capital projects totaled \$33.0M. Expenditures for 2007 approved capital projects totaled \$2.7M.

The ISO Markets

MARKET CHARGES: (page 8 and 9)

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

OBLIGATIONS OF MARKET PARTICIPANTS: (pages 10 and 11)

- ♦ Outstanding obligations of market participants increased during the summer months, reflecting the seasonal high energy usage during the period. While credit monitoring required increased vigilance for the 3rd quarter as a consequence of the financial crisis, no market losses are anticipated.

CALIFORNIA ISO

Statement of Operations

For the ten-month period ended October 31, 2008

(dollars in thousands)

	Month				Year to Date				2008
	Actual	Budget	Variance	Var (%)	Actual	Budget	Variance	Var (%)	Budget
Revenues:									
Grid Management Charge	\$ 14,804	\$ 15,413	\$ (609)	-4%	\$ 162,428	\$ 161,549	\$ 879	1%	\$ 191,635
Fines, WSCC & Other Fees	331	468	(137)	-29%	4,655	4,674	(19)	0%	5,609
Total revenues	15,135	15,881	(746)	-5%	167,083	166,223	860	1%	197,244
Operating Expenses:									
Salaries and Benefits	7,509	7,114	395	6%	80,848	77,953	2,895	4%	92,182
Building, Leases and Facility	623	808	(185)	-23%	8,148	8,081	67	1%	9,704
Insurance	46	1	45	0%	2,517	2,011	506	*	2,012
Third Party Vendor Contracts	1,000	1,673	(673)	-40%	15,319	17,513	(2,194)	-13%	20,858
Consulting and Contracting Services	1,757	1,059	698	66%	12,647	11,230	1,417	13%	13,294
Legal and Audit	443	444	(1)	0%	4,627	5,733	(1,106)	-19%	7,031
Training, Travel and Professional Dues	354	378	(24)	-6%	2,735	3,928	(1,193)	-30%	4,680
Other	180	239	(59)	-25%	1,950	2,438	(488)	-20%	2,893
Total operating expenses	11,912	11,716	196	2%	128,791	128,887	(96)	0%	152,654
Net operating income (loss)	3,223	4,165	(942)	-23%	38,292	37,336	956	3%	44,590
Interest and Other Expenses									
Interest income & other	169	184	(15)	-8%	1,838	1,838	-	0%	2,205
Interest expense	493	413	80	19%	10,931	4,616	6,315	137%	5,441
Unrealized loss on investments (see Exec Summary)									
Depreciation and amortization	1,092	1,092	-	0%	10,491	10,491	-	0%	13,800
Total interest and other expenses	1,416	1,321	95	7%	19,584	13,269	6,315	48%	17,036
Excess (Deficiency) of Revenues Over Expenses	\$ 1,807	\$ 2,844	\$ (1,037)	-36%	\$ 18,708	\$ 24,067	\$ (5,359)	-22%	\$ 27,554
Number of Full-time Employees	556	545	11	2%					545

CALIFORNIA ISO**Balance Sheet**

As of October 31, 2008

(dollars in thousands)

	<u>Current Month</u>	<u>Prior Month</u>	<u>Change</u>
ASSETS			
NET ELECTRIC UTILITY PLANT	<u>\$ 238,134</u>	<u>\$ 236,424</u>	<u>\$ 1,710</u>
CURRENT ASSETS			
Unrestricted Cash and Cash Equivalents	60,789	41,809	18,980
Restricted Cash and Cash Equivalents	99,741	99,595	146
Other Special Deposits	21,660	21,581	79
Accounts Receivable, net	34,872	57,751	(22,879)
Investments	72,533	74,225	(1,692)
Accrued Interest	2,269	1,258	1,011
Prepayments	6,464	5,520	944
Total Current Assets	<u>298,328</u>	<u>301,739</u>	<u>(3,411)</u>
NONCURRENT ASSET AND DEFERRED CHARGES			
Unamortized debt expenses and other	3,246	3,113	133
Total Noncurrent Asset and Deferred Charges	<u>3,246</u>	<u>3,113</u>	<u>133</u>
TOTAL ASSETS	<u><u>\$ 539,708</u></u>	<u><u>\$ 541,276</u></u>	<u><u>\$ (1,568)</u></u>
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION			
Stakeholders' Surplus	\$ 225,424	\$ 223,617	\$ 1,807
Long-term Debt	173,507	173,874	(367)
TOTAL CAPITALIZATION	<u>398,931</u>	<u>397,491</u>	<u>1,440</u>
CURRENT LIABILITIES			
Long-term debt due within one year	31,000	31,000	-
Accounts Payable	24,022	26,249	(2,227)
Fines subject to refund	84,562	85,343	(781)
Total Current Liabilities	<u>139,584</u>	<u>142,592</u>	<u>(3,008)</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>140,777</u>	<u>143,785</u>	<u>(3,008)</u>
TOTAL CAPITALIZATION AND LIABILITIES	<u><u>\$ 539,708</u></u>	<u><u>\$ 541,276</u></u>	<u><u>\$ (1,568)</u></u>

CALIFORNIA ISO
Capital Projects Report

For the ten-month period ended October 31, 2008
(dollars in thousands)

	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	\$ 281	\$ 3,156	\$ 7,186	\$ 7,190	\$ 10,500
Essential / Corporate Infrastructure	281	5,606	6,854	6,892	7,900
Strategic Initiatives	227	1,089	5,130	5,130	10,100
Future Market Enhancements	47	641	1,682	1,682	1,500
Market Redesign	880	11,510	7,518	16,716	7,518
Technology Upgrade	342	7,817	5,459	9,142	5,459
Iron Point Project Phase 2	623	3,134	10,000	10,000	-
Total 2008 Capital Spending	<u>2,682</u>	<u>32,953</u>	<u>43,829</u>	<u>56,752</u>	<u>42,977</u>
2007 Capital Projects	<u>113</u>	<u>2,729</u>	<u>3,417</u>	<u>3,417</u>	<u>-</u>
Total Capital	<u>\$ 2,795</u>	<u>\$ 35,682</u>	<u>\$ 47,246</u>	<u>\$ 60,169</u>	<u>\$ 42,977</u>

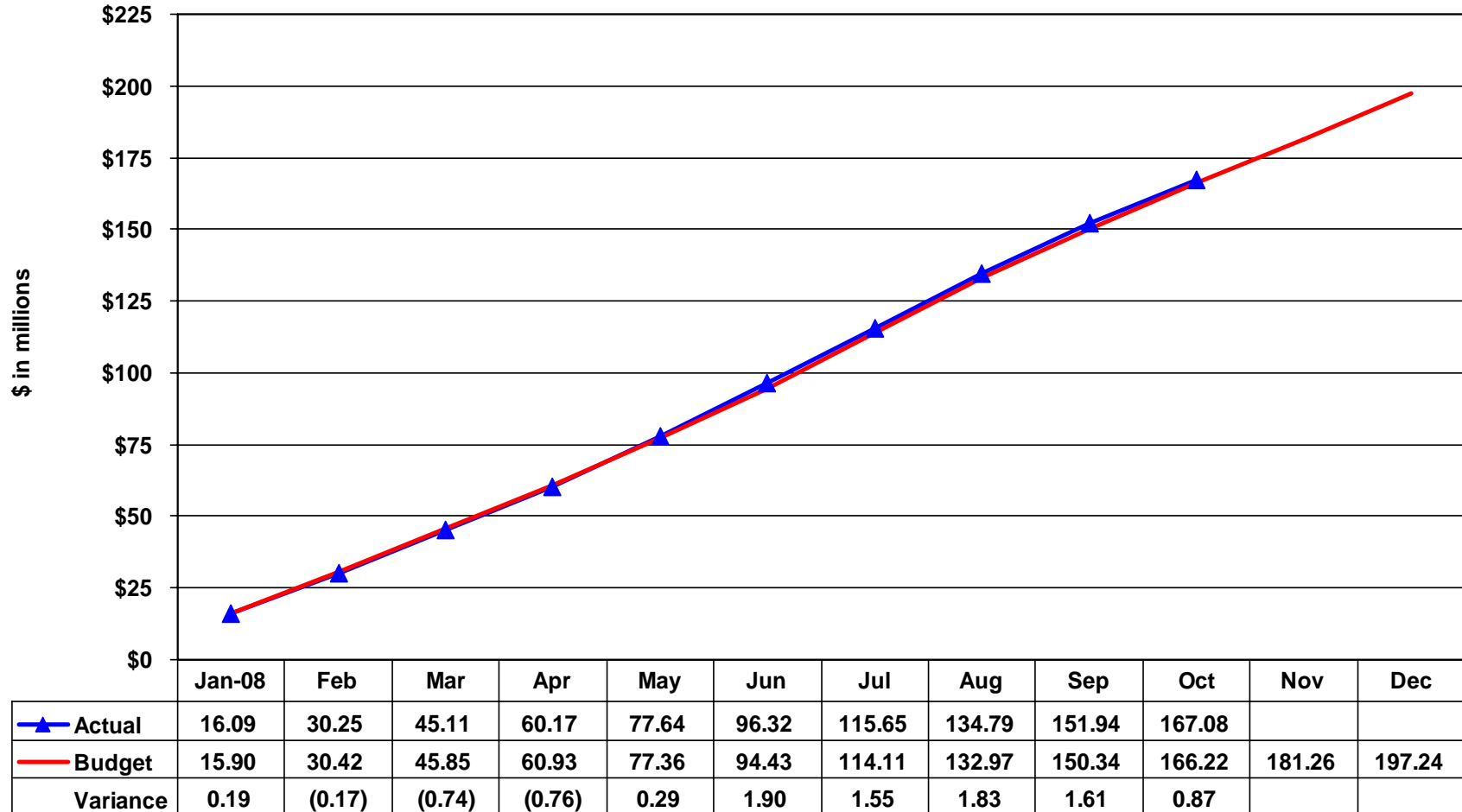
Notes:

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.

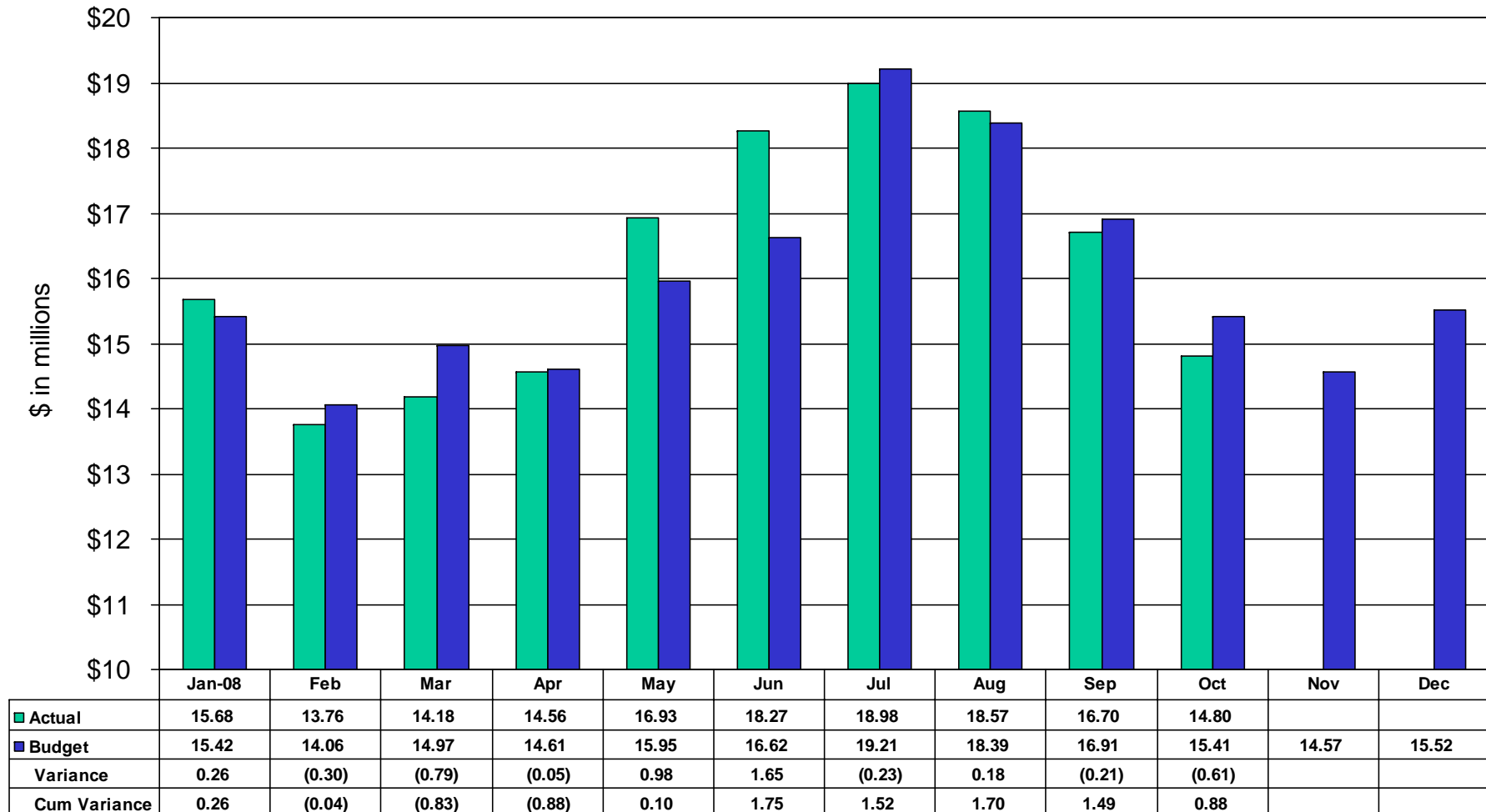
Cumulative Operating Revenues

Revenues = GMC, LGIP, WSCC Security & Other Fees



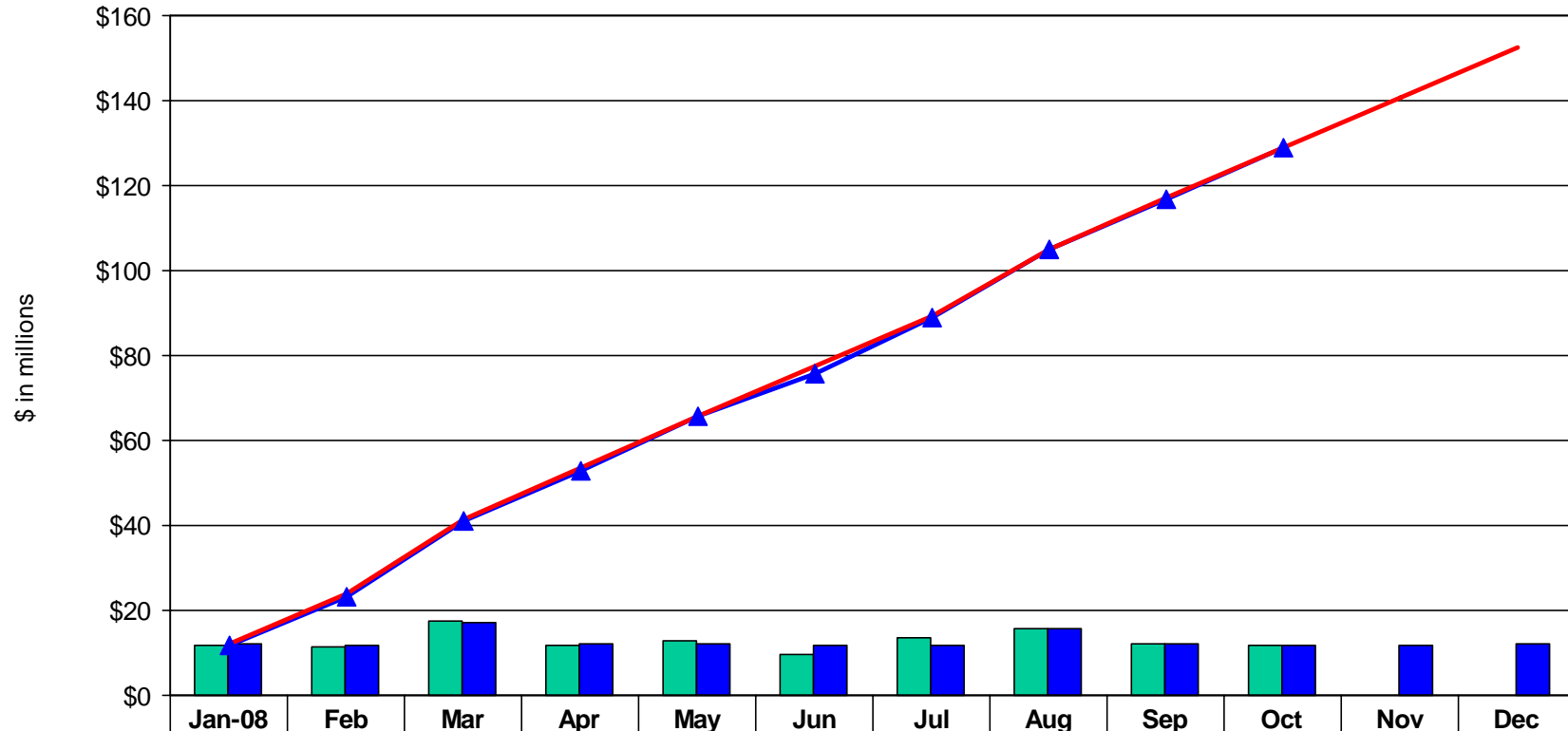
August, September and October revenues are estimates.

Monthly GMC Revenues



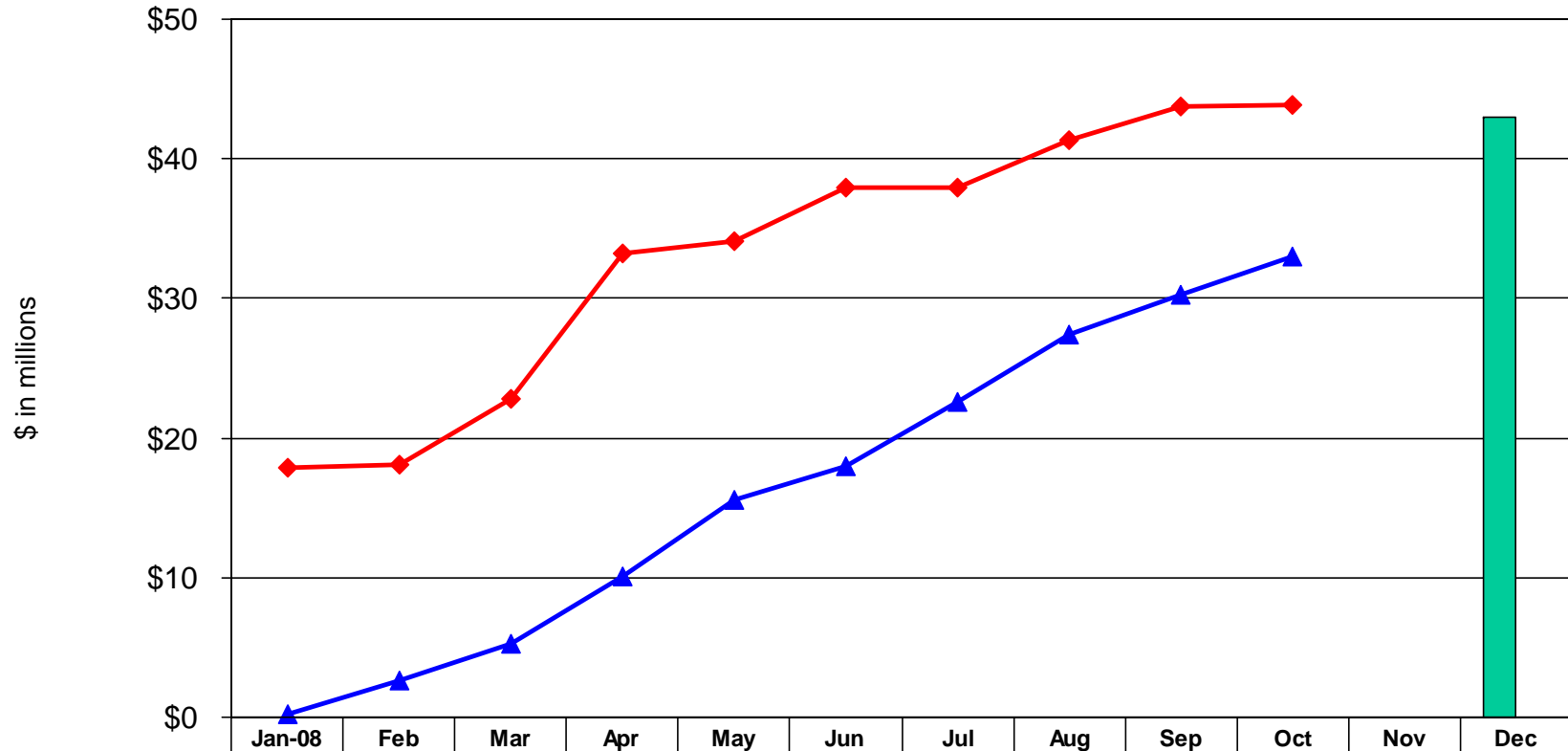
August, September and October revenues are estimates.





Operating and Maintenance Expenses (O&M)



	Jan-08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	11.87	11.49	17.55	11.93	12.95	9.80	13.44	15.80	12.05	11.91		
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	11.87	23.36	40.91	52.84	65.79	75.59	89.03	104.83	116.88	128.79		
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	0.38	0.71	0.36	0.64	(0.19)	1.85	0.20	0.26	0.29	0.10		

Cumulative Capital Expenditures

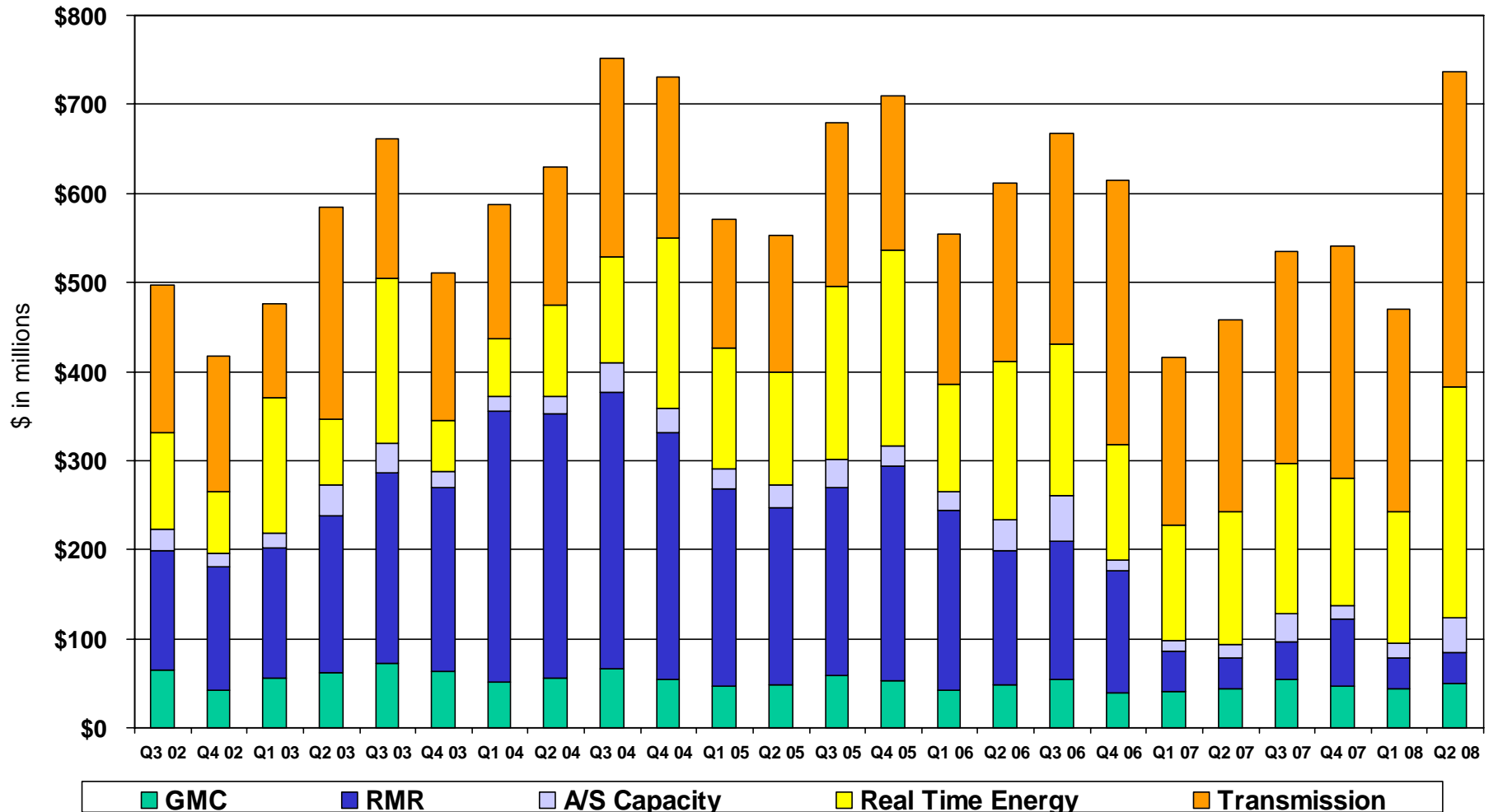


 Budgeted capital												42.98
 2008 O&M Impact	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
 Cumulative Expenditures	0.23	2.62	5.22	10.06	15.61	18.02	22.60	27.37	30.27	32.95		
 Approved projects	17.89	18.13	22.77	33.17	34.06	37.95	37.95	41.37	43.73	43.83		



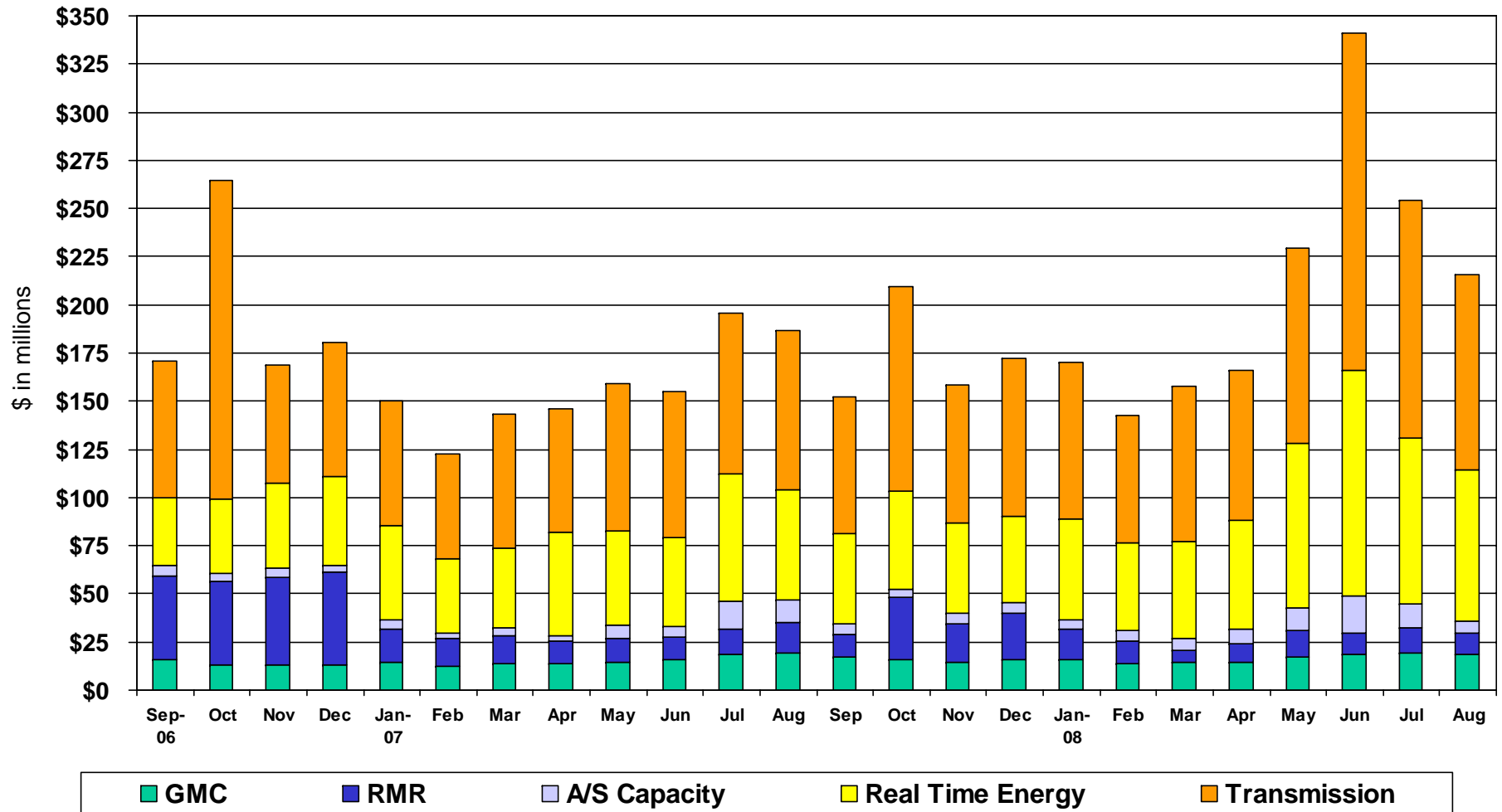
CAISO Market Costs By Quarter

3rd Quarter 2002 through 2nd Quarter 2008

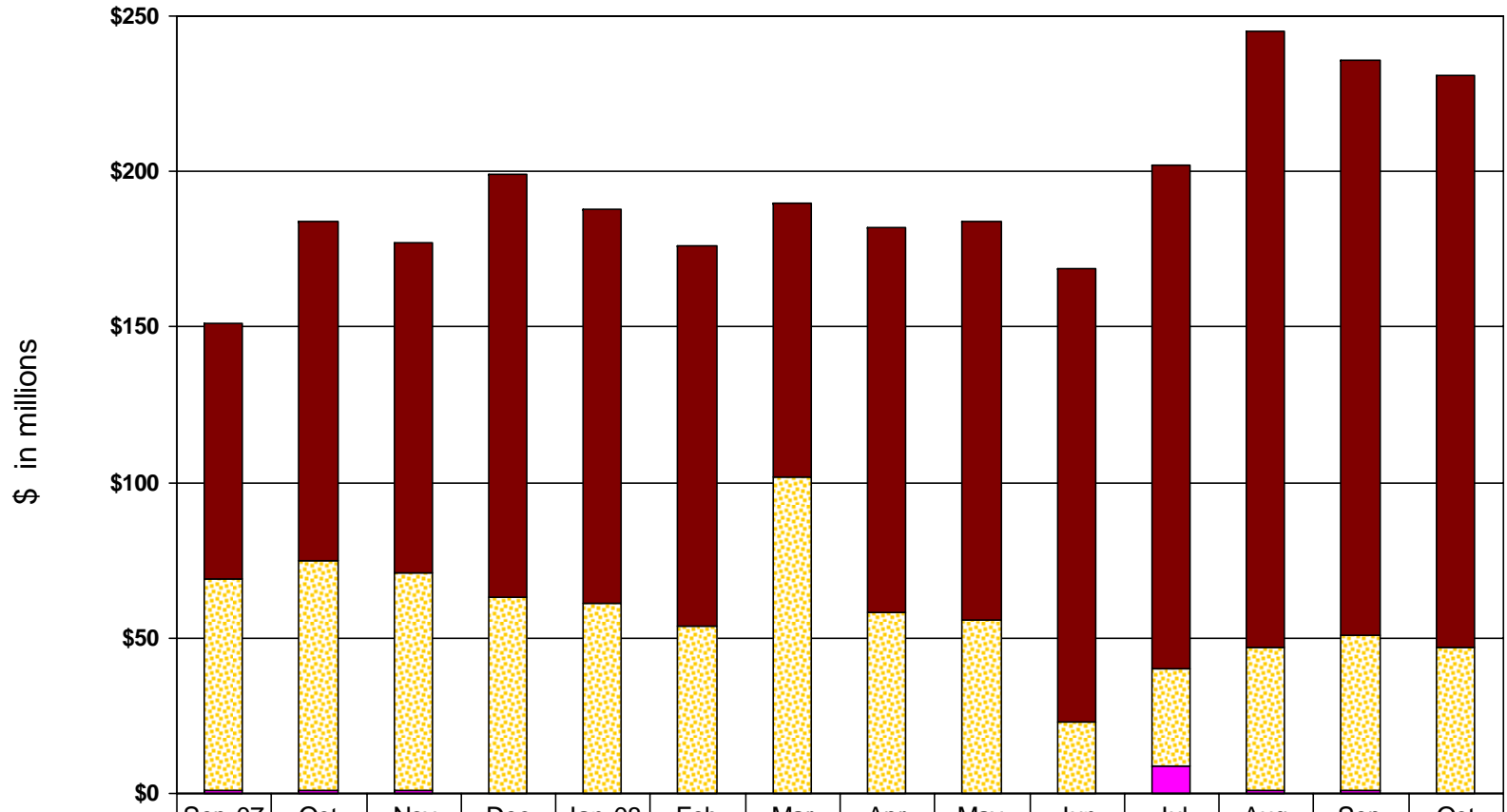




CAISO Market Costs By Month September 2006 through August 2008



Outstanding Obligations of Market Participants



	Sep-07	Oct	Nov	Dec	Jan-08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
■ Backed by UCL or GRN	82	109	106	136	127	122	88	124	128	146	162	198	185	184
■ Backed by posted security	68	74	70	63	61	54	102	58	56	23	31	46	50	47
■ Outstanding security requests	1	1	1	0	0	0	0	0	0	0	9	1	1	0

Outstanding obligations are estimated using available historical settlements data. The "Backed by UCL or GRN" category includes Unsecured Credit Limits (UCL) and Guarantees (GRN). Posted security includes letters of credit, surety bonds, cash deposits held in escrow, certificates of deposit, payment bonds, and prepayments to the CAISO.

Backing for Estimated Aggregate Liability (EAL) by Credit Quality

