

Update on Financial Market Issues



William J. Regan, Jr., Chief Financial Officer



California ISO
Your Link to Power

Board of Governors
December 12-13, 2007

Background

- As one article puts it:
 - "If a bunch of dumb lenders wanted to lend money to some people who would have trouble paying it back, what does that have to do with me?"*
- Sub-prime problems came to light this past spring
- Problems continued to spread throughout the summer and fall
 - Problems have affected the entire economy
 - But are more concentrated in certain areas

How has it affected us?

Concerns about bond insurers

- Purchasers of CAISO bonds rely on the AAA rating provided by CAISO's bond insurers MBIA and AMBAC
- Effect of sub-prime crisis on bond insurers

- Impacts on CAISO
 - Potential effect on existing bonds
 - Structure of proposed 2008 bonds

How has it affected us?

Concerns about direct investments

- CAISO's conservative investment policy
- Concerns about AAA and AA investments!

Indirect exposure through pooled investments

- Concern about holdings of “high-quality” money market funds we owned
- Action: moved to Treasury money funds
- No significant concerns-monitoring closely

Investments will be a subject of increased attention at year-end audit

- Auditors ensure all investments are fairly valued on the balance sheet.
- No significant concerns for CAISO.