

MONTHLY FINANCIAL REPORT

September 2008

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
MONTHLY FINANCIAL REPORT - September 2008

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CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY

For the nine-month period ended September 30, 2008

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

- ♦ Operating Revenues for September were \$17.2M, \$0.2M 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 volumes.
- ♦ Operating Revenues for the year to date were \$152.0M, \$1.7M higher than budget.
 - The variance is primarily due to higher GMC revenues, due to increased Instructed Energy and Uninstructed Imbalance Energy, which probably was the likely result of the disruptions caused by wildfires in May-July.
 - Forecast for the year reflects revenues at about the budget level.
- ♦ Operation and maintenance (O&M) expenses for September were \$12.0M, \$0.1M lower than budget.
 - The variance was primarily due to timing of payments during the month.
- ♦ O&M expenses for the year to date were \$116.7M, \$0.5M 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 at budget.
- ♦ There were 544 full-time employees compared to the 545 full-time employees budgeted (excluding the vacancy factor of 2.5%).

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 income for the year to date is \$3.8M, \$2.1M higher than budget. The variance is primary attributable to interest earnings on the generator fines account, which are excluded from the budget. Interest expense will also be higher for as long as CAISO retains these fines.

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 \$4.3M 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. The ISO is finalizing the accounting treatment of this issue.

BALANCE SHEET: (page 2)

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

CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY

For the nine-month period ended September 30, 2008

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 September totaled \$43.7M.
- ♦ Actual expenditures to date for 2008 approved capital projects totaled \$30.3M. Expenditures for 2007 approved capital projects totaled \$2.6M.

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.

CALIFORNIA ISO

Statement of Operations

For the nine-month period ended September 30, 2008

(dollars in thousands)

	Month				Year to Date				2008 Budget
	Actual	Budget	Variance	Var (%)	Actual	Budget	Variance	Var (%)	
Revenues:									
Grid Management Charge	\$ 16,700	\$ 16,905	\$ (205)	-1%	\$ 147,458	\$ 146,136	\$ 1,322	1%	\$ 191,635
Fines, WSCC & Other Fees	462	468	(6)	-1%	4,510	4,092	418	10%	5,609
Total revenues	17,162	17,373	(211)	-1%	151,968	150,228	1,740	1%	197,244
Operating Expenses:									
Salaries and Benefits	7,611	7,113	498	7%	73,332	70,840	2,492	4%	92,182
Building, Leases and Facility	912	808	104	13%	7,524	7,273	251	3%	9,704
Insurance	546	1	545	0%	2,471	2,011	460	*	2,012
Third Party Vendor Contracts	1,500	1,673	(173)	-10%	14,116	15,840	(1,724)	-11%	20,858
Consulting and Contracting Services	803	1,099	(296)	-27%	10,890	10,171	719	7%	13,294
Legal and Audit	211	773	(562)	-73%	4,184	5,289	(1,105)	-21%	7,031
Training, Travel and Professional Dues	230	385	(155)	-40%	2,382	3,550	(1,168)	-33%	4,680
Other	140	226	(86)	-38%	1,770	2,198	(428)	-19%	2,893
Total operating expenses	11,953	12,078	(125)	-1%	116,669	117,172	(503)	0%	152,654
Net operating income (loss)	5,209	5,295	(86)	-2%	35,299	33,056	2,243	7%	44,590
Interest and Other Expenses									
Interest income & other	1,224	184	1,040	565%	3,776	1,654	2,122	128%	2,205
Interest expense	1,813	413	1,400	339%	11,169	4,203	6,966	166%	5,441
Unrealized loss on investments (see Exec Summary)									
Depreciation and amortization	1,050	1,050	-	0%	9,309	9,309	-	0%	13,800
Total interest and other expenses	1,639	1,279	360	28%	16,702	11,858	4,844	41%	17,036
Excess (Deficiency) of Revenues Over Expenses	\$ 3,570	\$ 4,016	\$ (446)	-11%	\$ 18,597	\$ 21,198	\$ (2,601)	-12%	\$ 27,554
Number of Full-time Employees	544	545	(1)	0%					545

CALIFORNIA ISO**Balance Sheet**

As of September 30, 2008

(dollars in thousands)

	<u>Current Month</u>	<u>Prior Month</u>	<u>Change</u>
ASSETS			
NET ELECTRIC UTILITY PLANT	<u>\$ 236,726</u>	<u>\$ 234,665</u>	<u>\$ 2,061</u>
CURRENT ASSETS			
Unrestricted Cash and Cash Equivalents	41,822	60,142	(18,320)
Restricted Cash and Cash Equivalents	99,446	99,446	-
Other Special Deposits	21,422	21,422	-
Accounts Receivable, net	58,052	41,805	16,247
Investments	76,694	72,124	4,570
Accrued Interest	1,258	28	1,230
Prepayments	5,520	4,374	1,146
Total Current Assets	<u>304,214</u>	<u>299,341</u>	<u>4,873</u>
NONCURRENT ASSET AND DEFERRED CHARGES			
Unamortized debt expenses and other	3,717	3,832	(115)
Total Noncurrent Asset and Deferred Charges	<u>3,717</u>	<u>3,832</u>	<u>(115)</u>
TOTAL ASSETS	<u><u>\$ 544,657</u></u>	<u><u>\$ 537,838</u></u>	<u><u>\$ 6,819</u></u>
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION			
Stakeholders' Surplus	\$ 225,558	\$ 221,988	\$ 3,570
Long-term Debt	175,158	175,158	-
TOTAL CAPITALIZATION	<u>400,716</u>	<u>397,146</u>	<u>3,570</u>
CURRENT LIABILITIES			
Long-term debt due within one year	31,000	31,000	-
Accounts Payable	26,422	23,990	2,432
Fines subject to refund	85,326	84,509	817
Total Current Liabilities	<u>142,748</u>	<u>139,499</u>	<u>3,249</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>143,941</u>	<u>140,692</u>	<u>3,249</u>
TOTAL CAPITALIZATION AND LIABILITIES	<u><u>\$ 544,657</u></u>	<u><u>\$ 537,838</u></u>	<u><u>\$ 6,819</u></u>

CALIFORNIA ISO

Capital Projects Report

For the nine-month period ended September 30, 2008
(dollars in thousands)

	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	\$ 656	\$ 2,875	\$ 7,186	\$ 7,190	\$ 10,500
Essential / Corporate Infrastructure	332	5,325	6,754	6,792	7,900
Strategic Initiatives	188	862	5,130	5,130	10,100
Future Market Enhancements	53	594	1,682	1,682	1,500
Market Redesign	552	10,630	7,518	7,518	7,518
Technology Upgrade	766	7,475	5,459	5,459	5,459
Iron Point Project Phase 2	356	2,511	10,000	10,000	-
Total 2008 Capital Spending	<u>2,904</u>	<u>30,272</u>	<u>43,729</u>	<u>43,771</u>	<u>42,977</u>
2007 Capital Projects	<u>197</u>	<u>2,616</u>	<u>3,417</u>	<u>3,417</u>	<u>-</u>
Total Capital	<u>\$ 3,101</u>	<u>\$ 32,888</u>	<u>\$ 47,146</u>	<u>\$ 47,188</u>	<u>\$ 42,977</u>

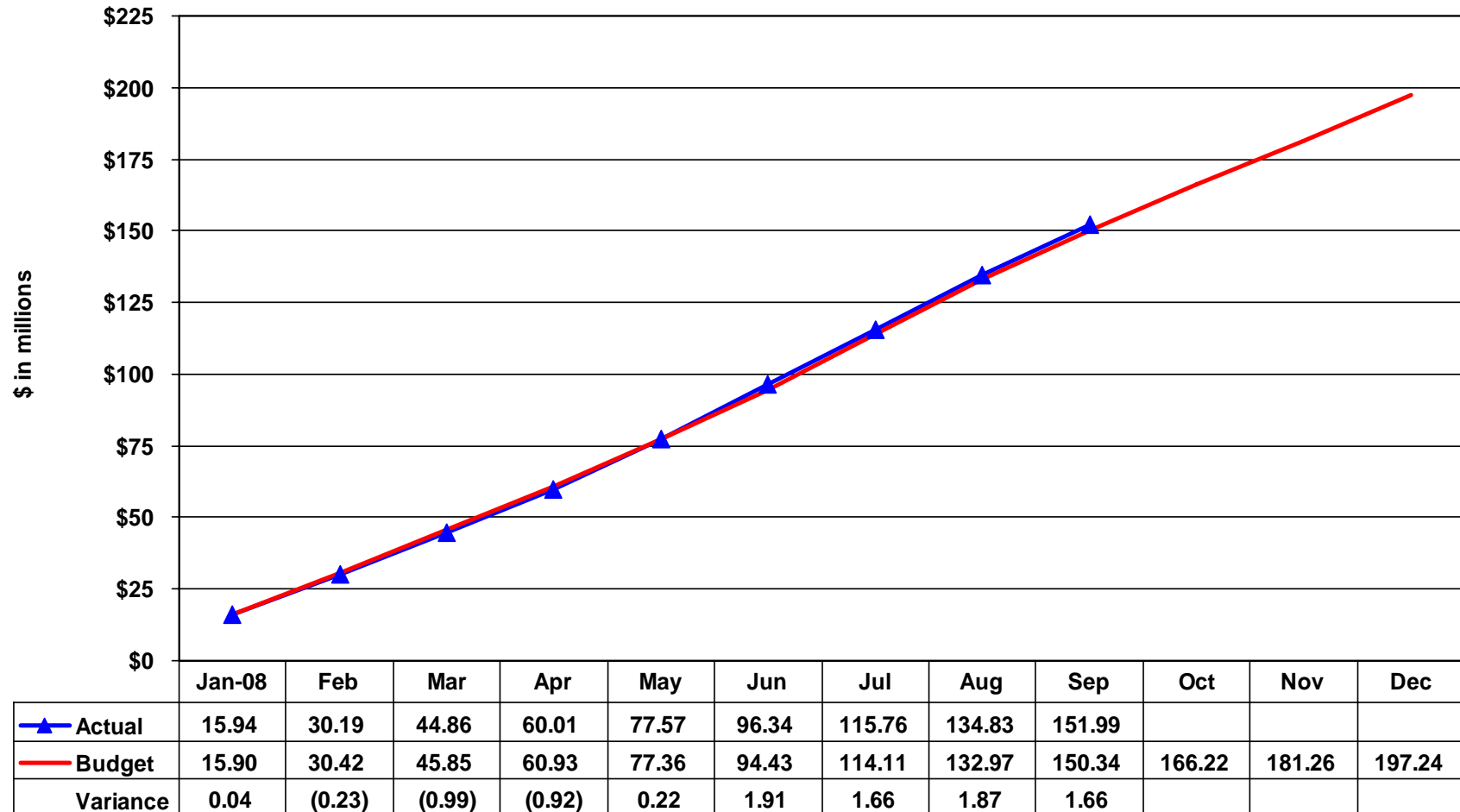
Notes:

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.

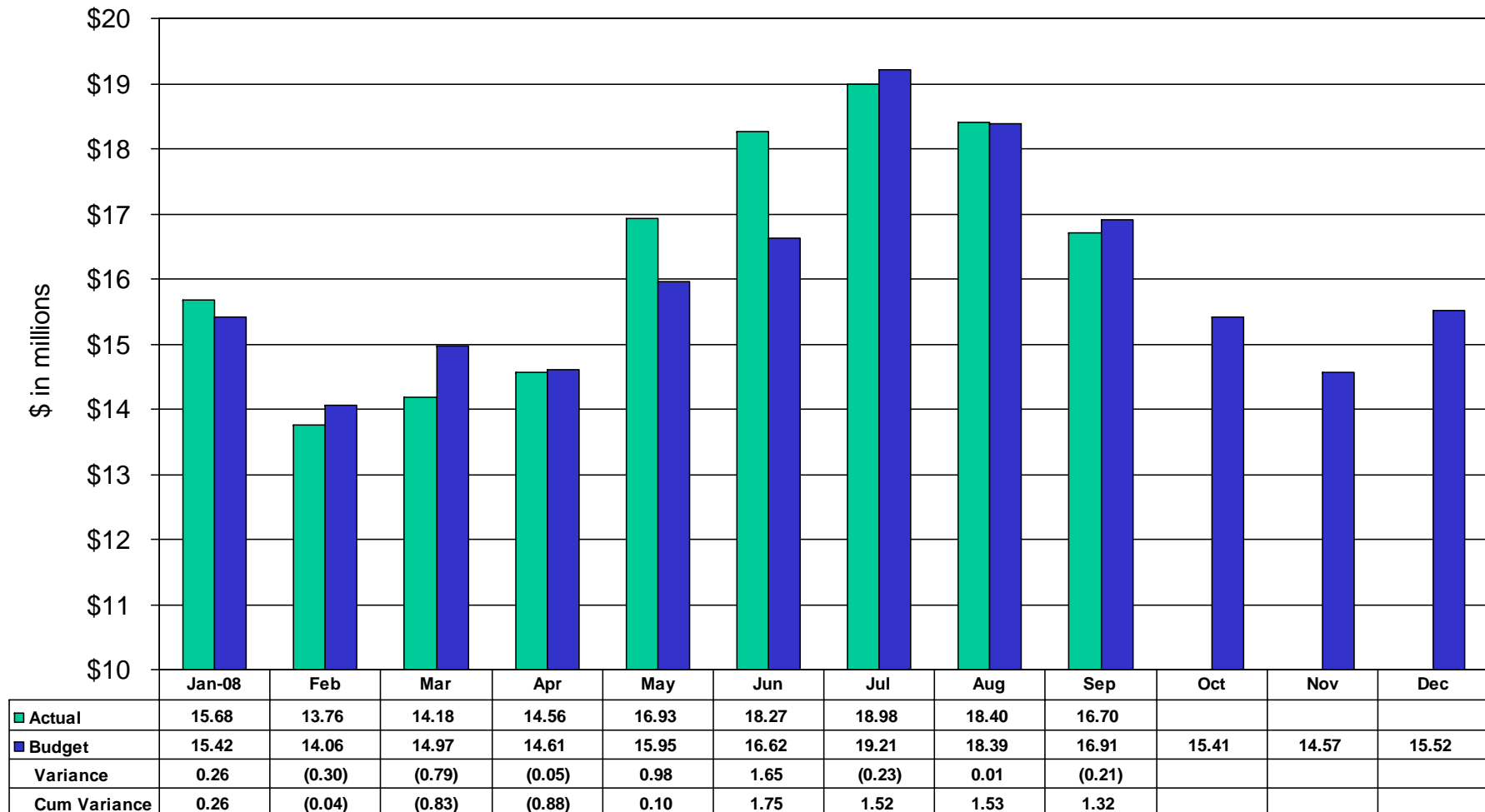
Cumulative Operating Revenues

Revenues = GMC, LGIP, WSCC Security & Other Fees



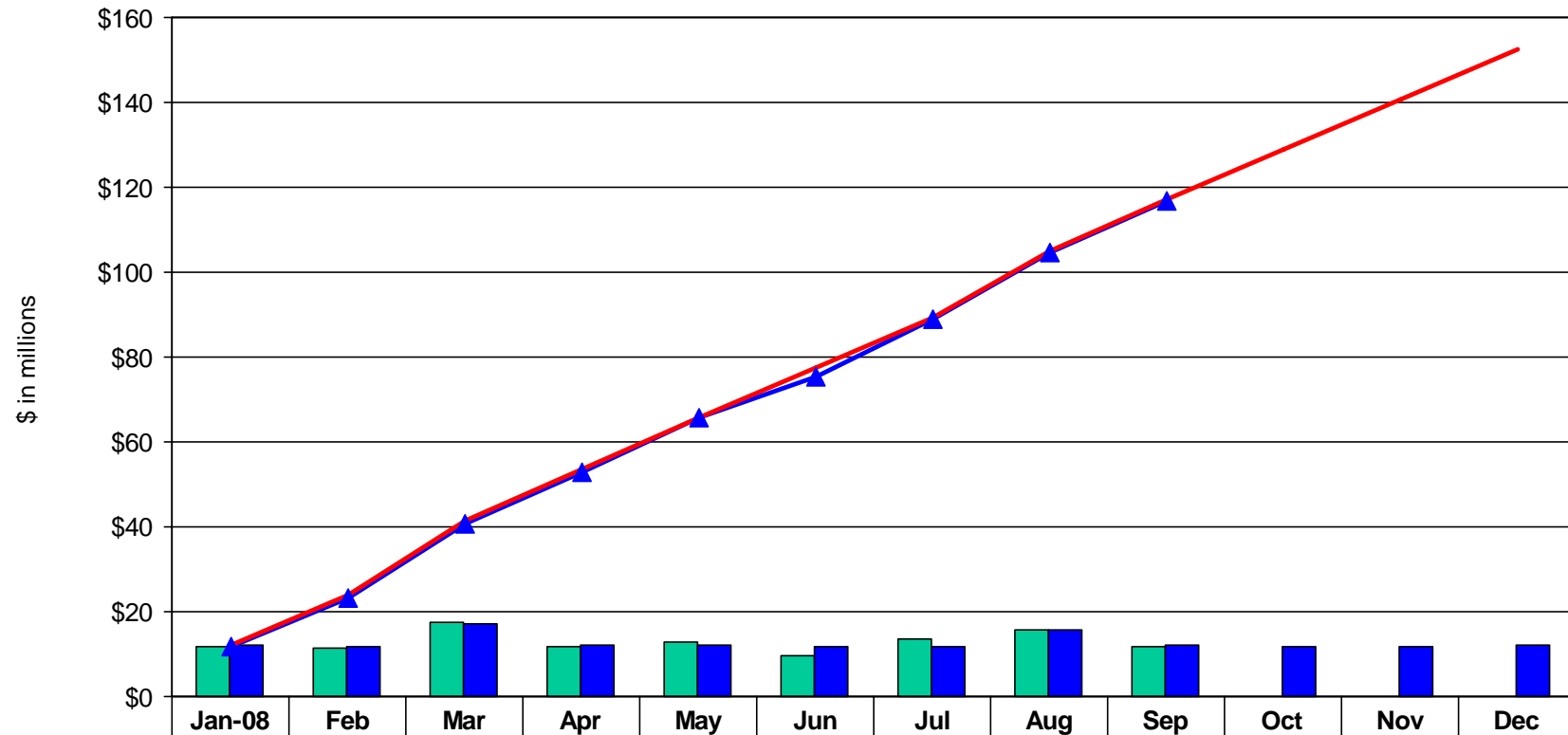
July, August and September revenues are estimates.

Monthly GMC Revenues



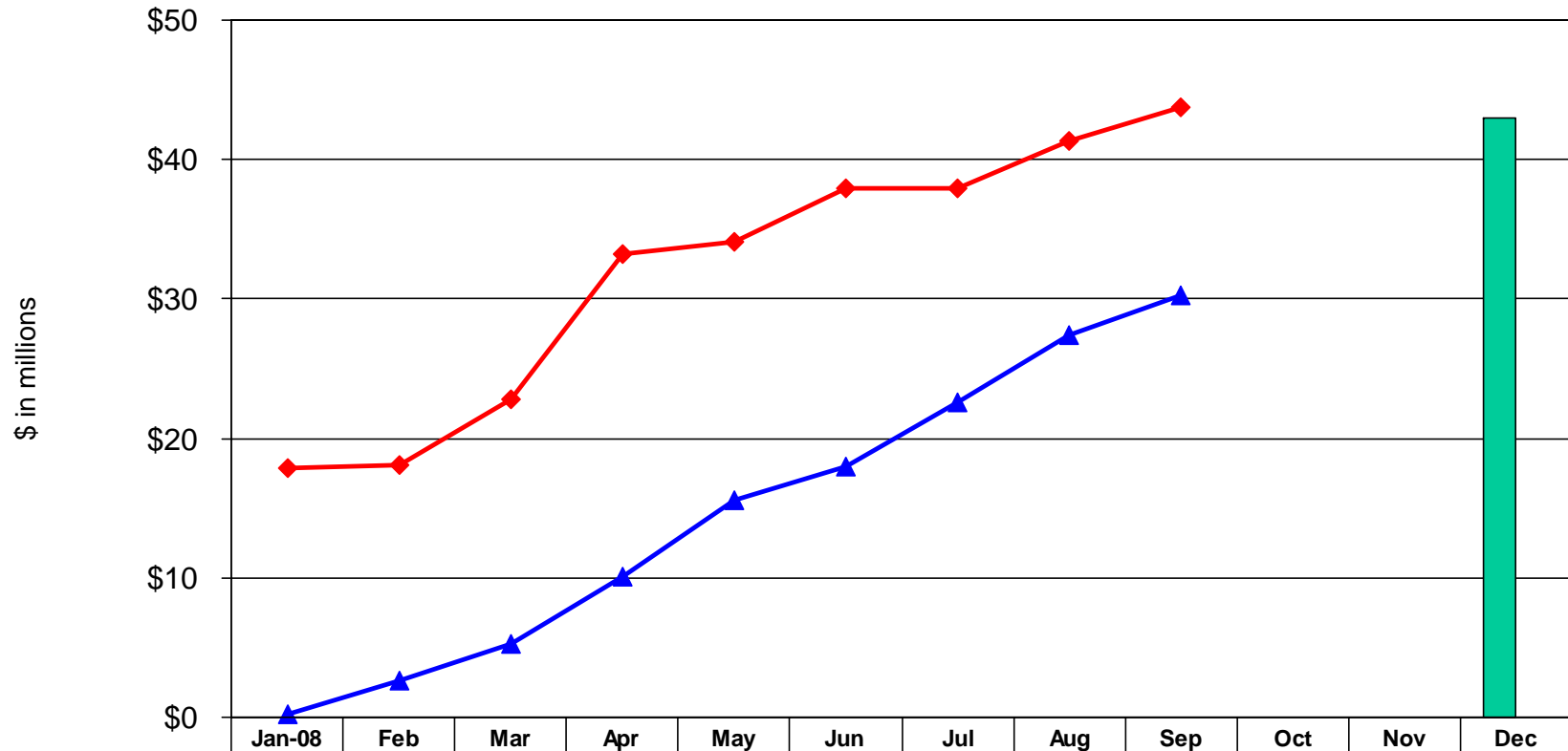
July, August and September revenues are estimates.

Operating and Maintenance Expenses (O&M)



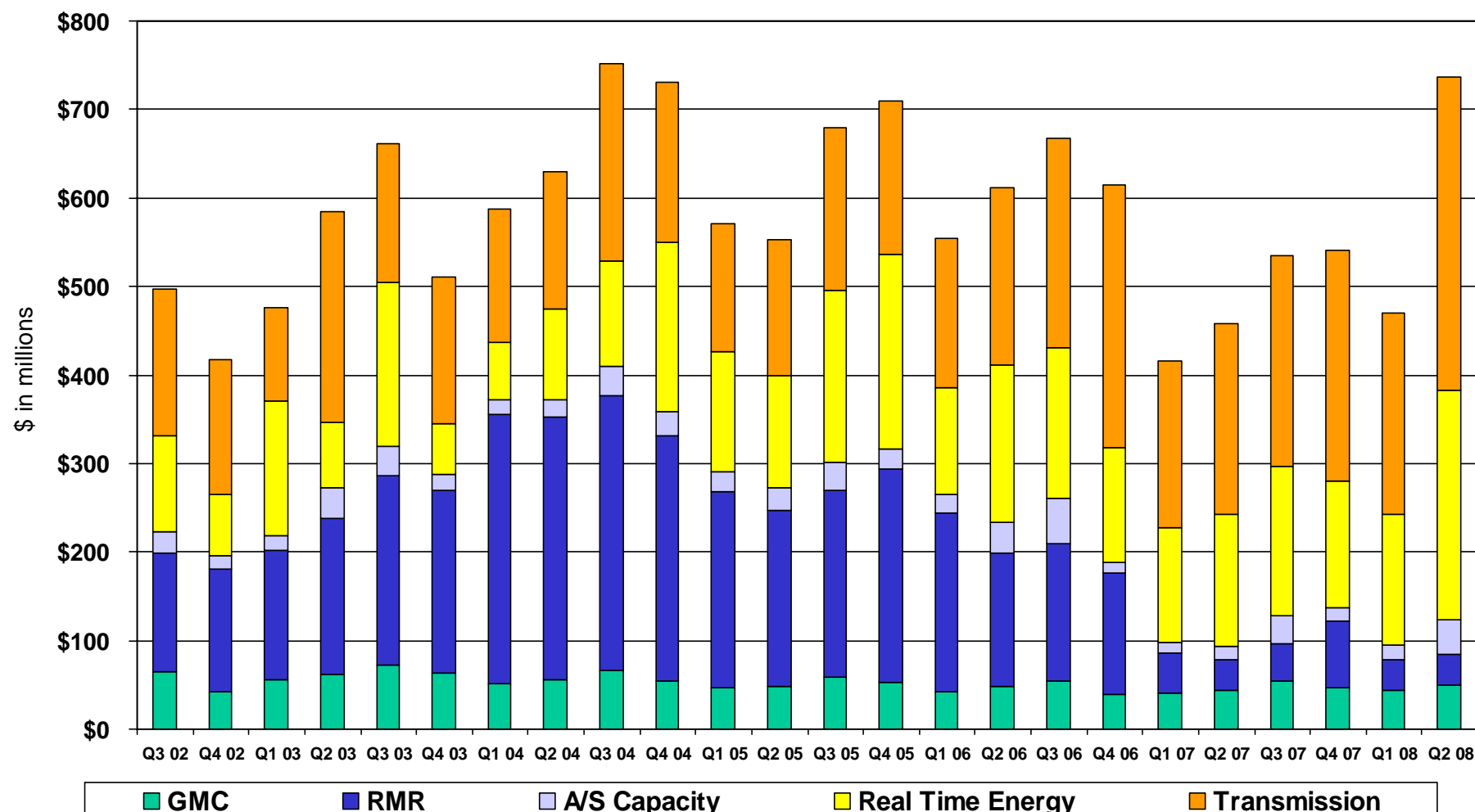
Monthly Actual	11.84	11.48	17.55	11.81	12.95	9.80	13.45	15.80	11.95			
Monthly Budget	12.25	11.82	17.20	12.21	12.12	11.84	11.80	15.86	12.08	11.72	11.72	12.05
Cum Actual	11.84	23.32	40.87	52.68	65.63	75.43	88.88	104.68	116.63			
Cum Budget	12.25	24.07	41.27	53.48	65.60	77.44	89.23	105.09	117.17	128.89	140.61	152.66
Cum Variance	0.41	0.75	0.40	0.80	(0.03)	2.01	0.35	0.41	0.54			

Cumulative Capital Expenditures

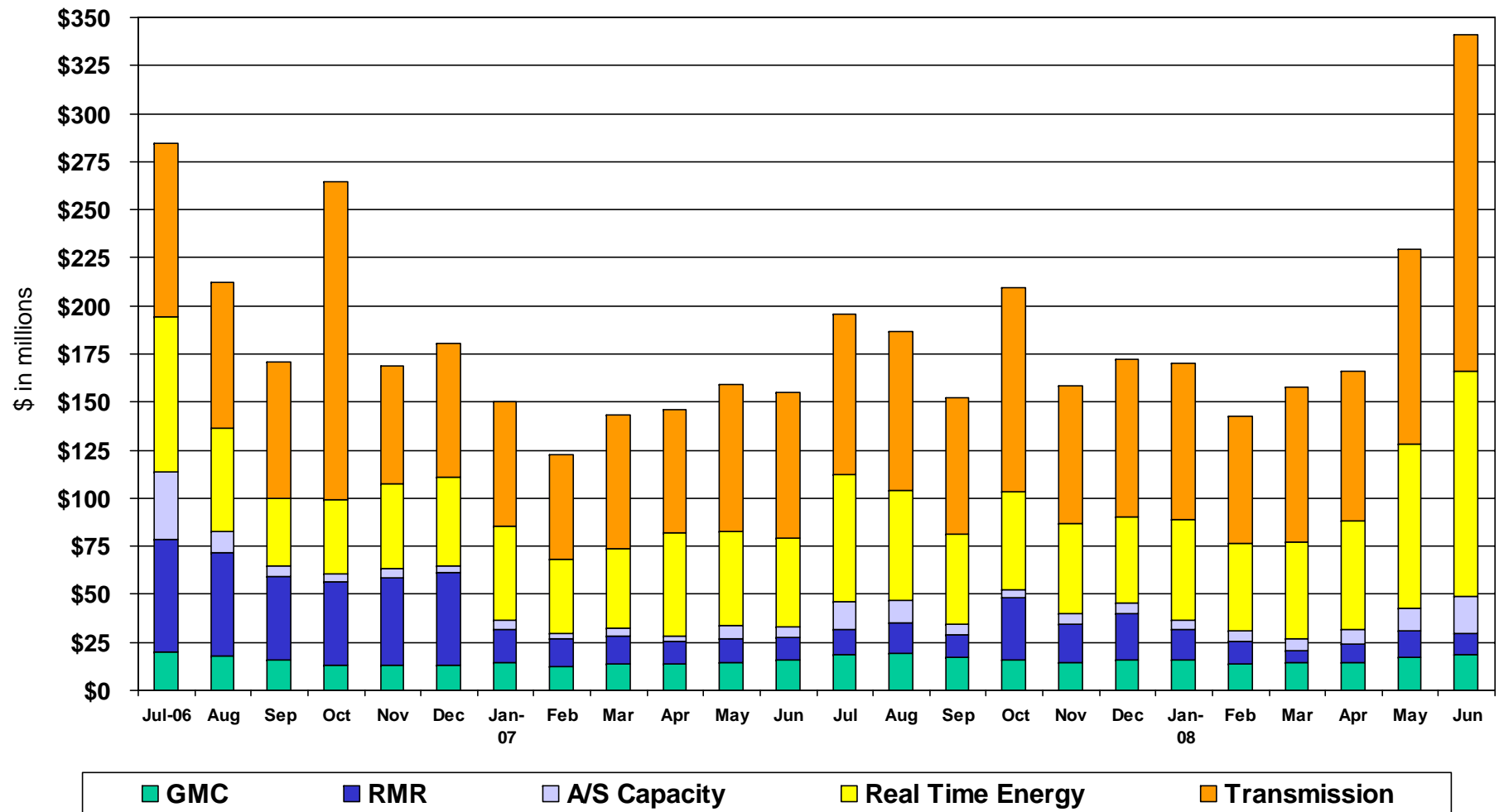


CAISO Market Costs By Quarter

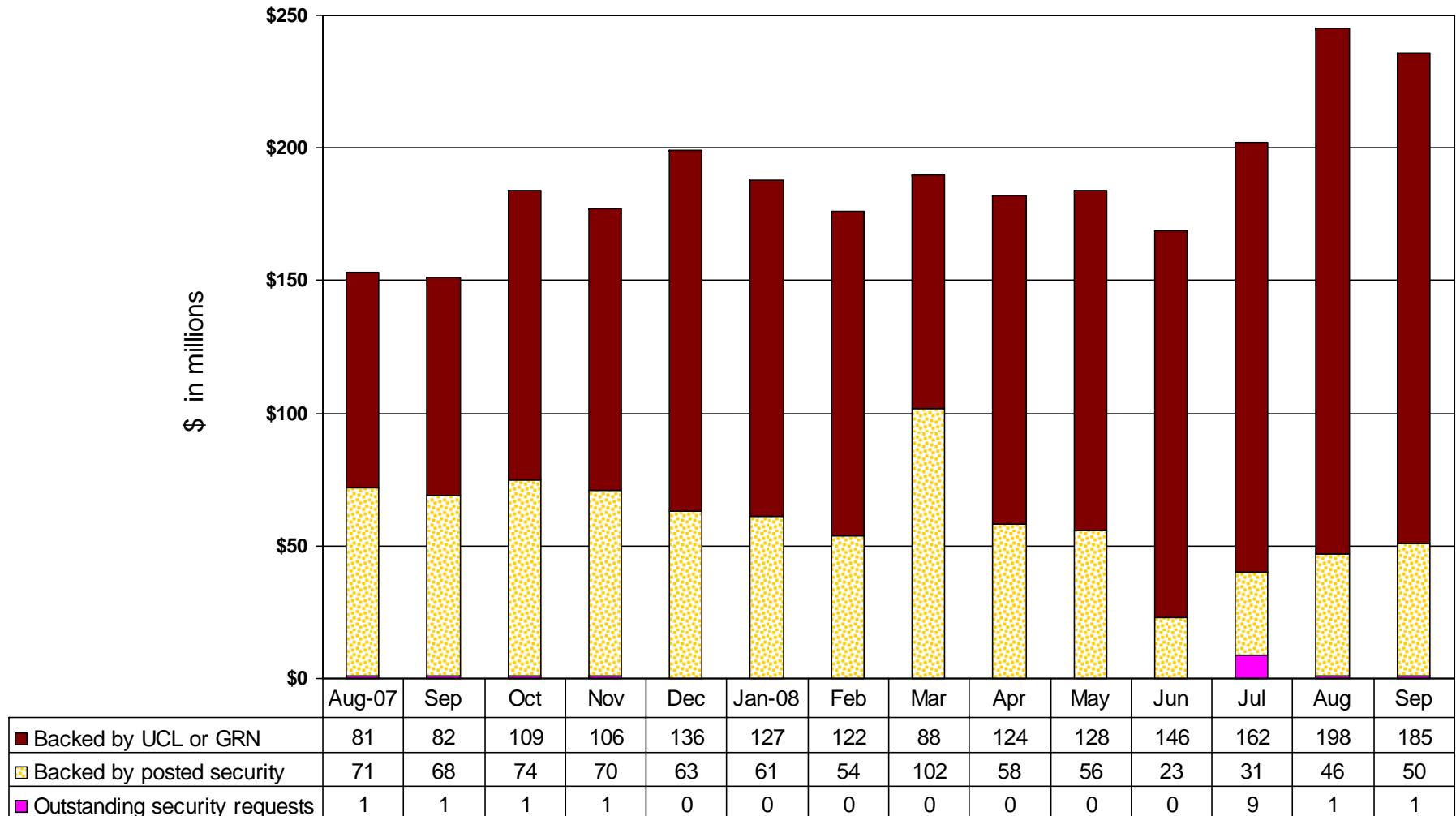
3rd Quarter 2002 through 2nd Quarter 2008



CAISO Market Costs By Month July 2006 through June 2008



Outstanding Obligations of Market Participants



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

