

MONTHLY FINANCIAL REPORT

February 2009

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
MONTHLY FINANCIAL REPORT - February 2009

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CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY

For the two months ended February 28, 2009

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

- ♦ Operating Revenues for February were \$14.0M, \$0.3M 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 \$29.6M, \$1.0M lower than budget.
 - The variance is primarily due to lower GMC revenues, for the same reason stated above.
- ♦ Operation and maintenance (O&M) expenses for February were \$11.5M, \$0.7M lower than budget.
 - The variance was primarily due to timing of payments during the month.
- ♦ O&M expenses for the year to date were \$24.0M, \$0.5M lower than budget.
 - The variance was primarily due to timing of payments during the period, partially offset by higher salaries and benefits expenses. The increase in salaries and benefits was primarily due to higher overtime expenses.
- ♦ There were 572 full-time employees compared to the 575 full-time employees budgeted (excluding the vacancy factor of 4%).

INTEREST COSTS and INTEREST INCOME: (page 1)

- ♦ Bond interest expenses, as compared to budget, were lower due to the amortization of bond premium.
- ♦ Interest income for the year to date is \$0.8M, \$0.2M higher than budget. The interest income is reduced due to declining interest rates. In past years, interest earnings have been much higher than budget due to higher interest rates and the earnings of the generator fines accounts, which are excluded from the budget.
- ♦ Due to the recent turbulent events in the financial markets, the ISO has recognized for the year to date, unrealized losses on its investment portfolio of approximately \$0.13M, in a total portfolio of \$250M. The ISO is actively monitoring its portfolio and is carefully assessing its options.

BALANCE SHEET: (page 2)

- ♦ The change in investments is primarily due to the semi-annual debt service payment and to unrealized losses on investments in February.

CAPITAL PROJECTS: (pages 3 and 7)

- ♦ 2009 capital projects were budgeted for the year at \$38.5M and include \$3.5M for Market Redesign and Technology Upgrade (MRTU) projects. 2009 capital projects approved through February totaled \$12.2M.
- ♦ Actual expenditures to date for 2009-approved capital projects totaled \$0.9M. Expenditures for 2008-approved capital projects totaled \$1.3M.

**CALIFORNIA ISO
SUMMARY, DISCUSSION AND COMMENTARY**

For the two months ended February 28, 2009

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 decreased during the winter months, reflecting the seasonal low energy usage during the period. While credit monitoring required increased vigilance for the past several months as a consequence of the ongoing financial crisis, no market losses are anticipated related to such periods.

CALIFORNIA ISO

Statement of Operations

For the two months ended February 28, 2009
(dollars in thousands)

| | Month | | | | Year to Date | | | | 2009 |
|---|---------------|---------------|----------------|-------------|-----------------|-----------------|--------------|-------------|------------------|
| | Actual | Budget | Variance | Var (%) | Actual | Budget | Variance | Var (%) | Budget |
| Revenues: | | | | | | | | | |
| Grid Management Charge | \$ 13,859 | \$ 14,050 | \$ (191) | -1% | \$ 29,199 | \$ 30,020 | \$ (821) | -3% | \$ 192,944 |
| Fines, WSCC & Other Fees | 176 | 283 | (107) | -38% | 435 | 567 | (132) | -23% | 3,404 |
| Total revenues | <u>14,035</u> | <u>14,333</u> | <u>(298)</u> | <u>-2%</u> | <u>29,634</u> | <u>30,587</u> | <u>(953)</u> | <u>-3%</u> | <u>196,348</u> |
| Operating Expenses: | | | | | | | | | |
| Salaries and Benefits | 7,998 | 7,748 | 250 | 3% | 16,209 | 15,497 | 712 | 5% | 101,039 |
| Building, Leases and Facility | 715 | 835 | (120) | -14% | 1,488 | 1,670 | (182) | -11% | 9,551 |
| Insurance | 1 | 1 | - | 0% | 101 | 2 | 99 | * | 2,014 |
| Third Party Vendor Contracts | 1,250 | 1,119 | 131 | 12% | 2,565 | 2,238 | 327 | 15% | 13,427 |
| Consulting and Contracting Services | 692 | 1,444 | (752) | -52% | 1,875 | 2,892 | (1,017) | -35% | 17,062 |
| Legal and Audit | 451 | 431 | 20 | 5% | 683 | 863 | (180) | -21% | 6,421 |
| Training, Travel and Professional Dues | 129 | 367 | (238) | -65% | 508 | 777 | (269) | -35% | 4,685 |
| Other | 267 | 229 | 38 | 17% | 547 | 526 | 21 | 4% | 2,546 |
| Total operating expenses | <u>11,503</u> | <u>12,174</u> | <u>(671)</u> | <u>-6%</u> | <u>23,976</u> | <u>24,465</u> | <u>(489)</u> | <u>-2%</u> | <u>156,745</u> |
| Net operating income (loss) | <u>2,532</u> | <u>2,159</u> | <u>373</u> | <u>17%</u> | <u>5,658</u> | <u>6,122</u> | <u>(464)</u> | <u>-8%</u> | <u>39,603</u> |
| Interest and Other Expenses | | | | | | | | | |
| Interest income & other | 295 | 228 | 67 | 29% | 799 | 456 | 343 | 75% | 2,736 |
| Interest expense | 574 | 670 | (96) | -14% | 1,097 | 1,400 | (303) | -22% | 8,399 |
| Unrealized loss on investments | 627 | - | 627 | * | 130 | - | 130 | * | - |
| Depreciation and amortization | 1,092 | 1,092 | - | 0% | 2,184 | 2,184 | - | 0% | 13,800 |
| Total interest and other expenses | <u>1,998</u> | <u>1,534</u> | <u>464</u> | <u>30%</u> | <u>2,612</u> | <u>3,128</u> | <u>(516)</u> | <u>-16%</u> | <u>19,463</u> |
| Excess (Deficiency) of Revenues Over Expenses | <u>\$ 534</u> | <u>\$ 625</u> | <u>\$ (91)</u> | <u>-15%</u> | <u>\$ 3,046</u> | <u>\$ 2,994</u> | <u>\$ 52</u> | <u>2%</u> | <u>\$ 20,140</u> |
| Number of Full-time Employees (Note 1) | <u>572</u> | <u>575</u> | <u>(3)</u> | <u>-1%</u> | | | | | <u>575</u> |

CALIFORNIA ISO**Balance Sheet**

As of February 28, 2009

(dollars in thousands)

| | <u>Current Month</u> | <u>Prior Month</u> | <u>Change</u> |
|---|--------------------------|--------------------------|--------------------------|
| ASSETS | | | |
| NET ELECTRIC UTILITY PLANT | <u>\$ 257,275</u> | <u>\$ 256,654</u> | <u>\$ 621</u> |
| CURRENT ASSETS | | | |
| Unrestricted Cash and Cash Equivalents | 1,583 | 4,085 | (2,502) |
| Restricted Cash and Cash Equivalents | 63,628 | 63,628 | - |
| Other Special Deposits | 20,116 | 20,116 | - |
| Accounts Receivable, net | 82,752 | 66,592 | 16,160 |
| Investments | 128,041 | 150,556 | (22,515) |
| Accrued Interest | 1,391 | 1,296 | 95 |
| Prepayments | 8,088 | 6,070 | 2,018 |
| Total Current Assets | <u>305,599</u> | <u>312,343</u> | <u>(6,744)</u> |
| NONCURRENT ASSET AND DEFERRED CHARGES | | | |
| Unamortized Debt Expenses and Other | 4,697 | 3,832 | 865 |
| Total Noncurrent Asset and Deferred Charges | <u>4,697</u> | <u>3,832</u> | <u>865</u> |
| TOTAL ASSETS | <u><u>\$ 567,571</u></u> | <u><u>\$ 572,829</u></u> | <u><u>\$ (5,258)</u></u> |
| CAPITALIZATION AND LIABILITIES | | | |
| CAPITALIZATION | | | |
| Stakeholders' Surplus | \$ 246,103 | \$ 245,569 | \$ 534 |
| Long-term Debt | 140,312 | 140,505 | (193) |
| TOTAL CAPITALIZATION | <u>386,415</u> | <u>386,074</u> | <u>341</u> |
| CURRENT LIABILITIES | | | |
| Long-term Debt Due Within One Year | 31,900 | 31,900 | - |
| Accounts Payable | 21,652 | 27,925 | (6,273) |
| Customer Deposits & Other | 69,903 | 69,229 | 674 |
| Fines Subject to Refund | 56,685 | 56,685 | - |
| Total Current Liabilities | <u>180,140</u> | <u>185,739</u> | <u>(5,599)</u> |
| NONCURRENT LIABILITY AND DEFERRED CREDITS | | | |
| Other | 1,016 | 1,016 | - |
| Total Noncurrent Liability and Deferred Credits | <u>1,016</u> | <u>1,016</u> | <u>-</u> |
| TOTAL LIABILITIES | <u>181,156</u> | <u>186,755</u> | <u>(5,599)</u> |
| TOTAL CAPITALIZATION AND LIABILITIES | <u><u>\$ 567,571</u></u> | <u><u>\$ 572,829</u></u> | <u><u>\$ (5,258)</u></u> |

CALIFORNIA ISO
Capital Projects Report

For the two months ended February 28, 2009
(dollars in thousands)

| | Approved Projects | | | | |
|--------------------------------------|-------------------------------|-----------------------------|-------------------------------------|---|-----------------------------------|
| | <u>Month</u> <u>Actual</u> | <u>YTD</u> <u>Actual</u> | 2009 Approved <u>Projects</u> | Projected Costs for Approved <u>Projects</u> | Original 2009 <u>Budget</u> |
| Compliance/Regulatory | \$ - | \$ - | \$ 261 | \$ 261 | \$ 11,437 |
| Essential / Corporate Infrastructure | - | - | 8,093 | 8,093 | 10,134 |
| Strategic Initiatives | - | - | 290 | 290 | 6,846 |
| Future Market Enhancements | - | - | 60 | 60 | 6,584 |
| Market Redesign | 778 | 778 | 2,847 | 2,847 | 2,847 |
| Technology Upgrade | 23 | 114 | 657 | 657 | 657 |
| Total 2009 Capital Spending | <u>801</u> | <u>892</u> | <u>12,208</u> | <u>12,208</u> | <u>38,504</u> |
| 2008 Capital Projects | <u>907</u> | <u>1,310</u> | <u>17,198</u> | <u>-</u> | <u>-</u> |
| Total Capital | <u>\$ 1,708</u> | <u>\$ 2,202</u> | <u>\$ 29,406</u> | <u>\$ 12,208</u> | <u>\$ 38,504</u> |

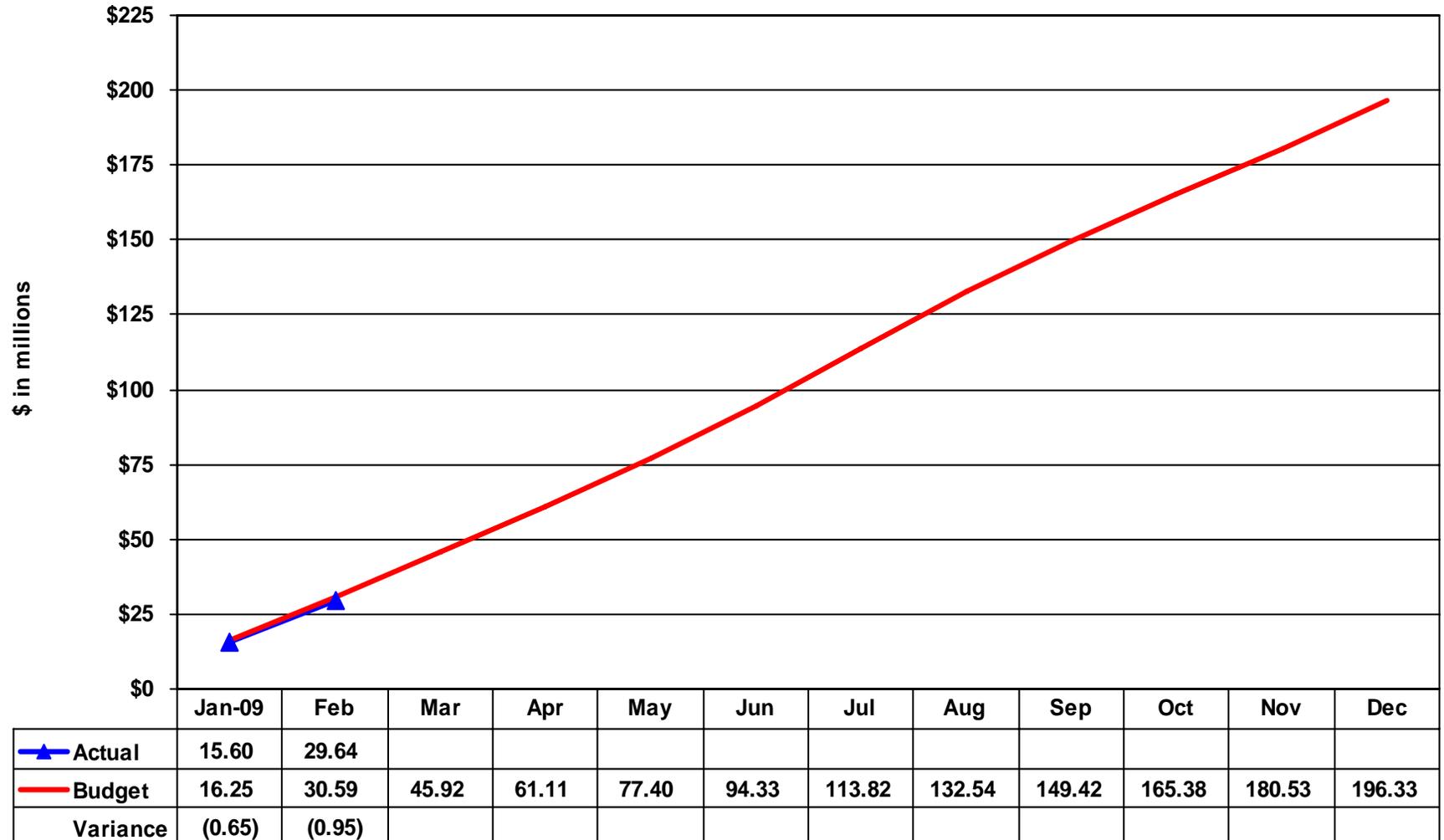
Notes:

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.

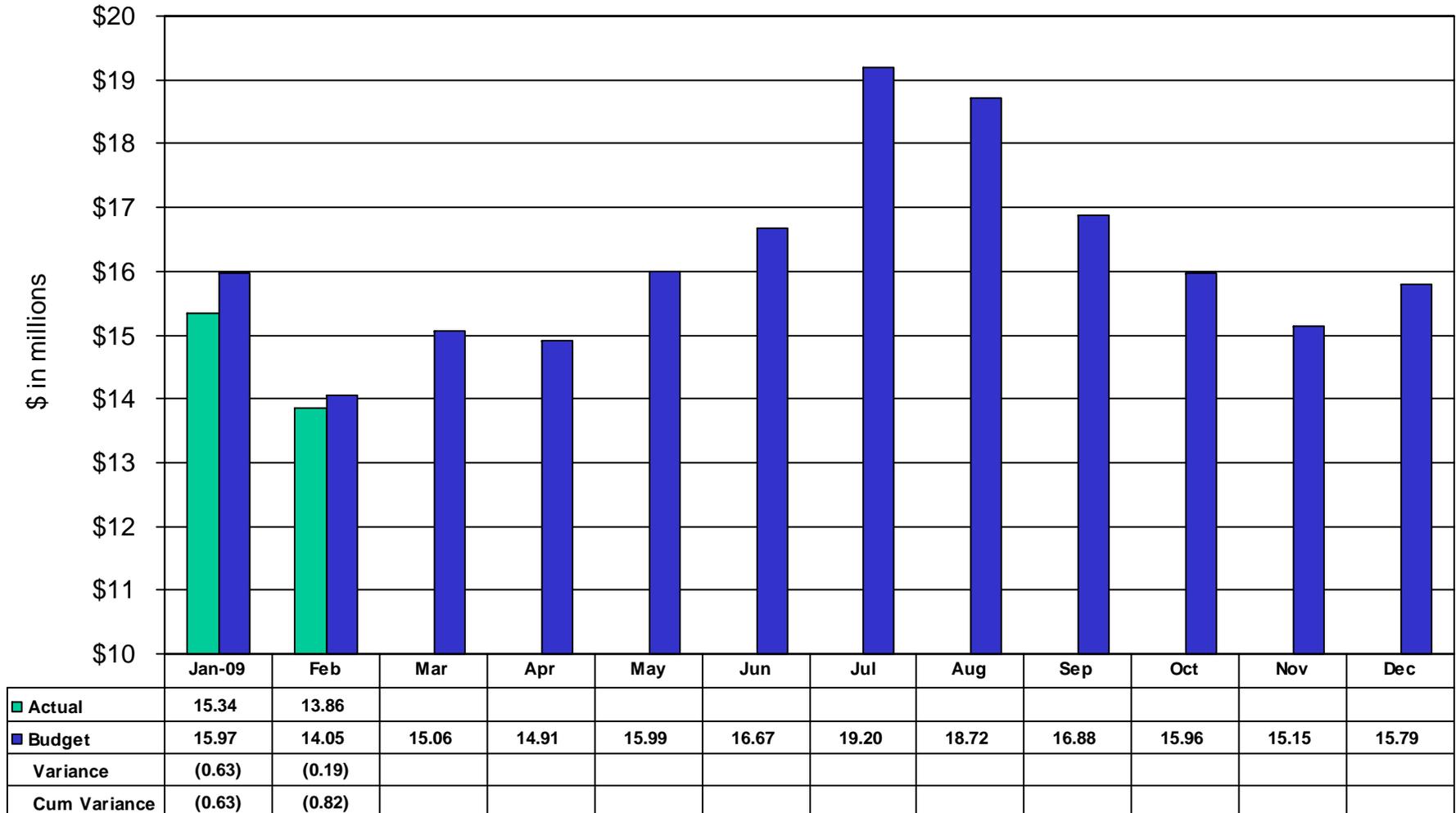
Cumulative Operating Revenues

Revenues = GMC, LGIP, WSCC Security & Other Fees



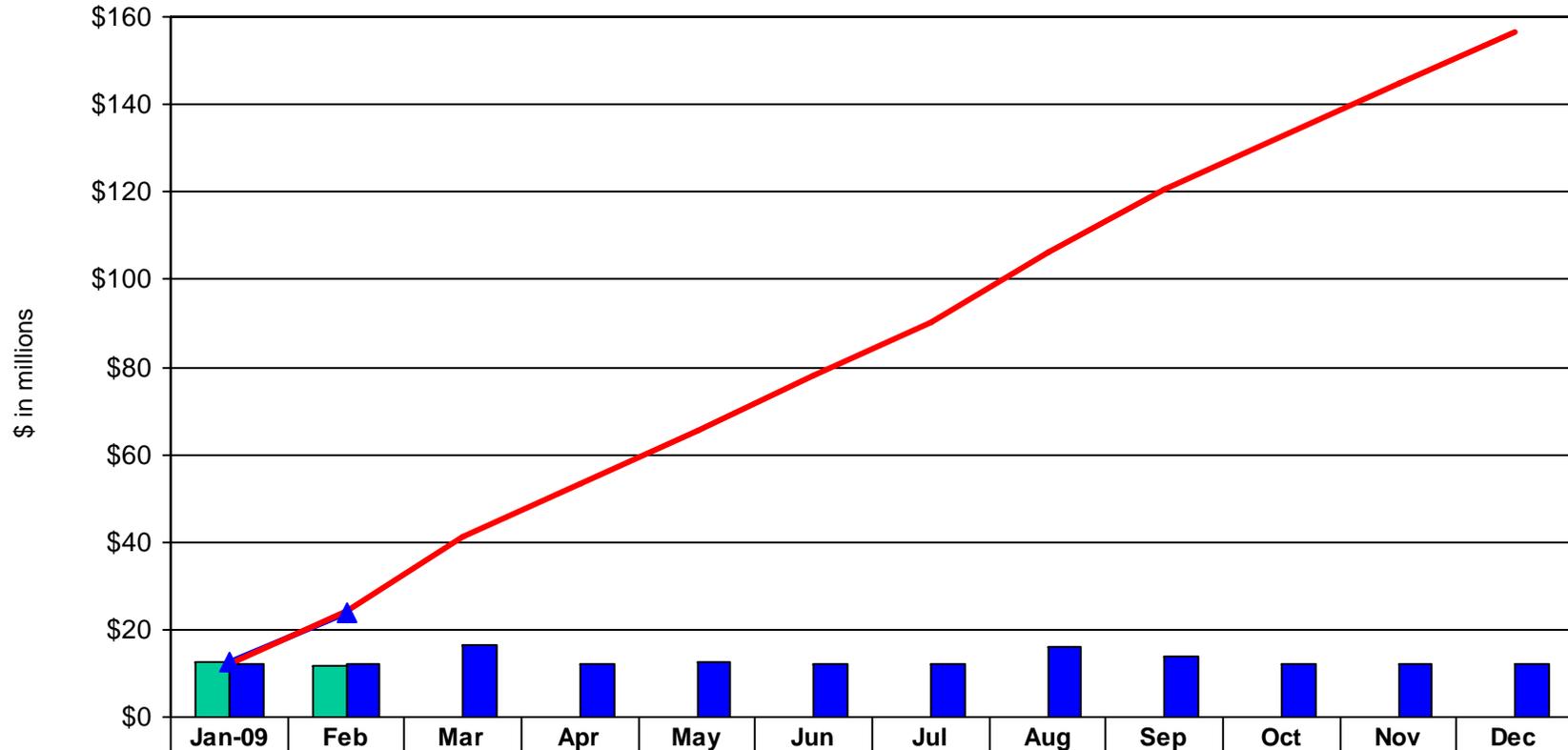
January and February revenues are estimates.

Monthly GMC Revenues



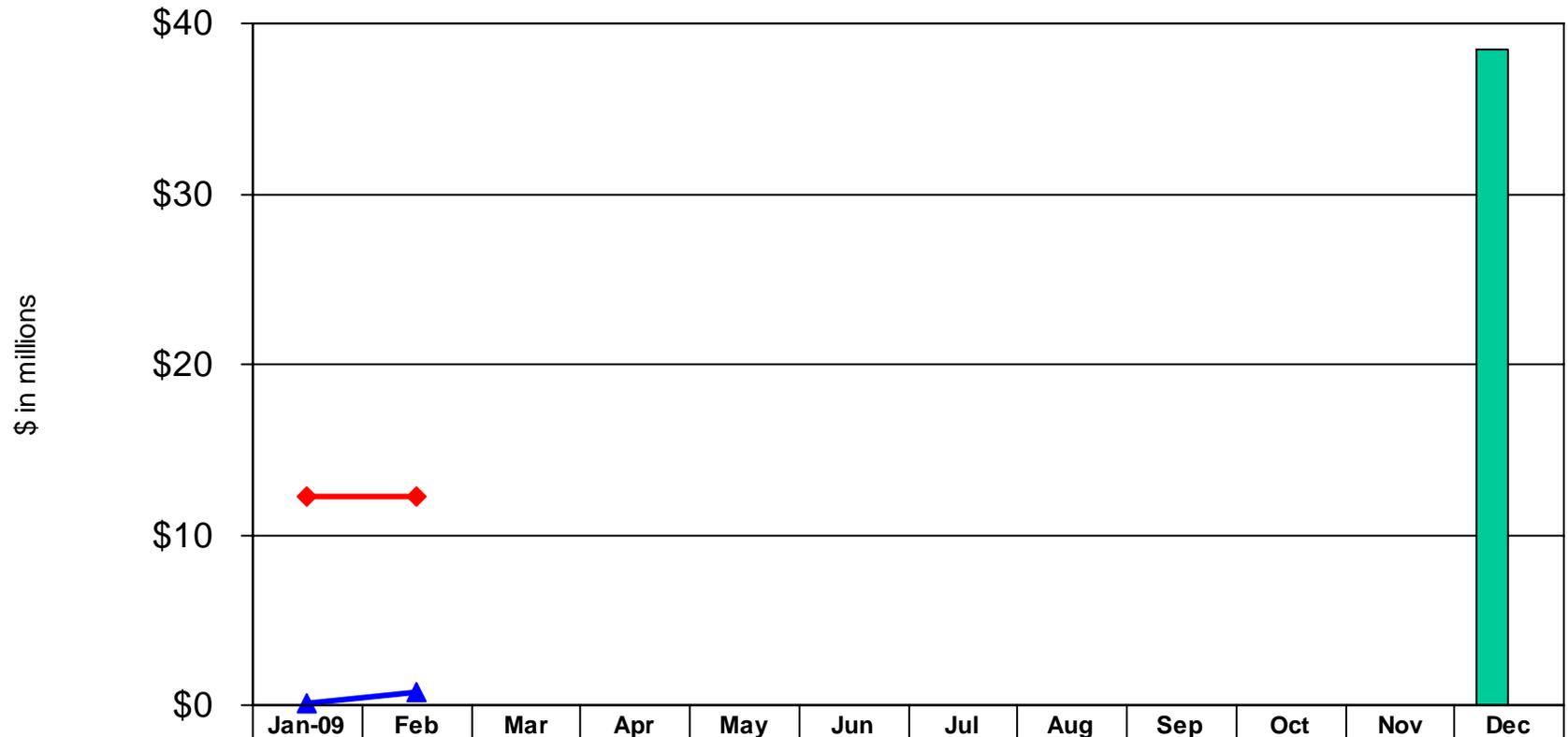
January and February revenues are estimates.

Operating and Maintenance Expenses (O&M)



| | Jan-09 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|----------------|--------|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|--------|
| Monthly Actual | 12.47 | 11.50 | | | | | | | | | | |
| Monthly Budget | 12.29 | 12.17 | 16.53 | 12.25 | 12.39 | 12.34 | 12.09 | 16.21 | 14.09 | 12.16 | 12.10 | 12.12 |
| Cum Actual | 12.47 | 23.97 | | | | | | | | | | |
| Cum Budget | 12.29 | 24.46 | 40.99 | 53.24 | 65.63 | 77.97 | 90.05 | 106.26 | 120.35 | 132.51 | 144.61 | 156.73 |
| Cum Variance | (0.18) | 0.49 | | | | | | | | | | |

Cumulative Capital Expenditures

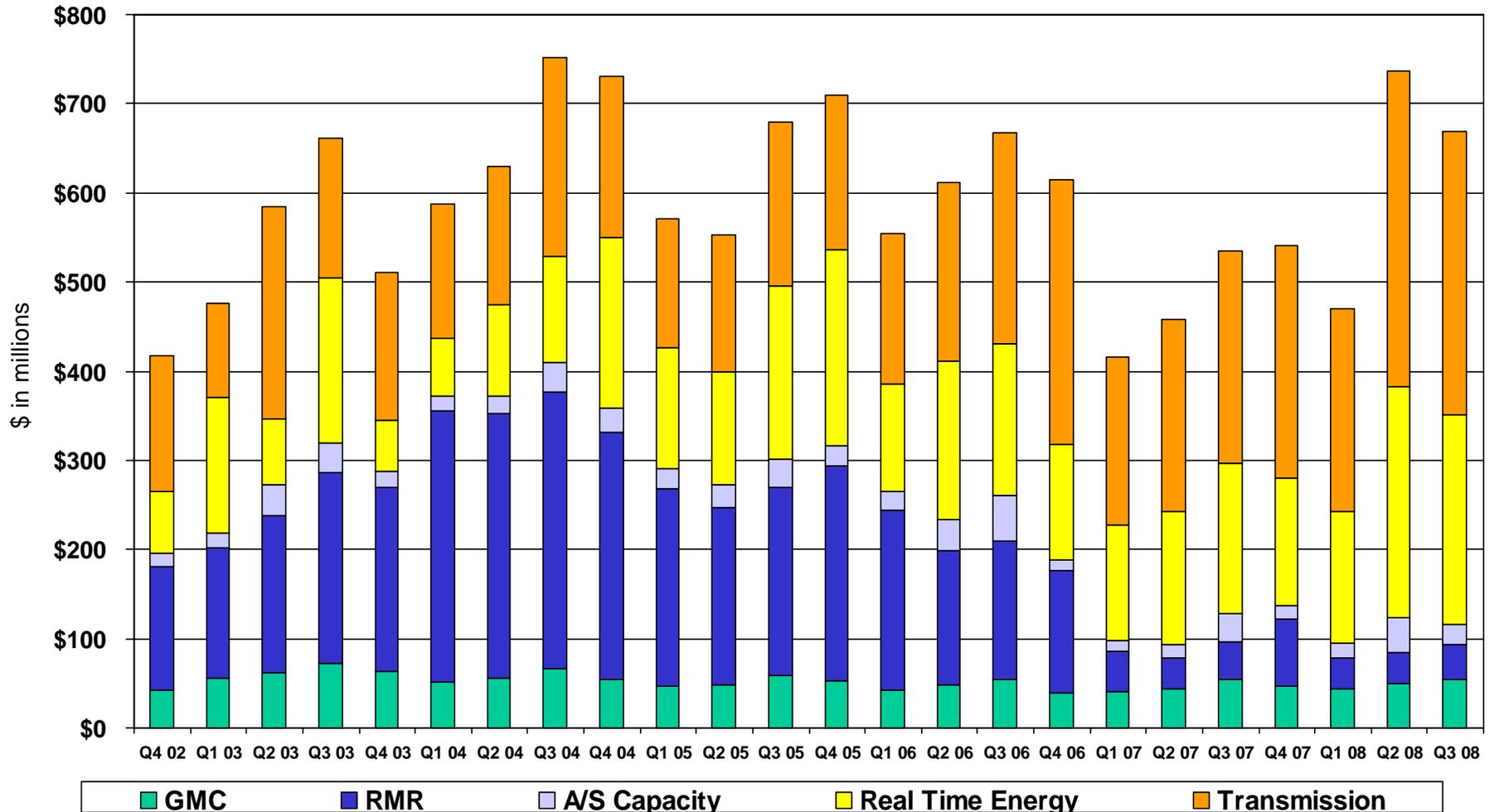


| | Jan-09 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|--------|-------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-------|
|  Budgeted capital | | | | | | | | | | | | 38.50 |
|  2009 O&M Impact | 0.00 | 0.00 | | | | | | | | | | |
|  Cumulative Expenditures | 0.09 | 0.80 | | | | | | | | | | |
|  Approved projects | 12.21 | 12.21 | | | | | | | | | | |



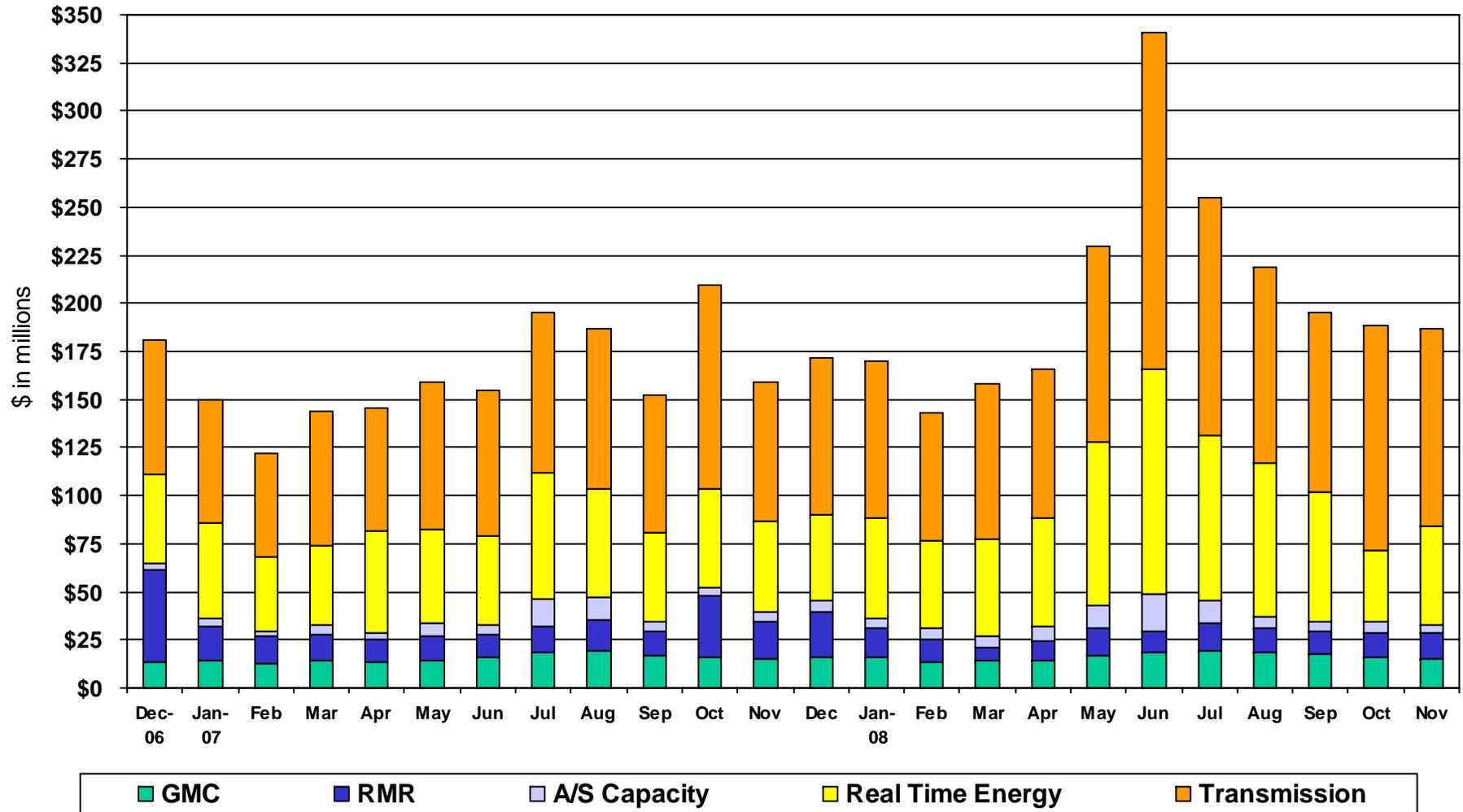
CAISO Market Costs By Quarter

4th Quarter 2002 through 3rd Quarter 2008

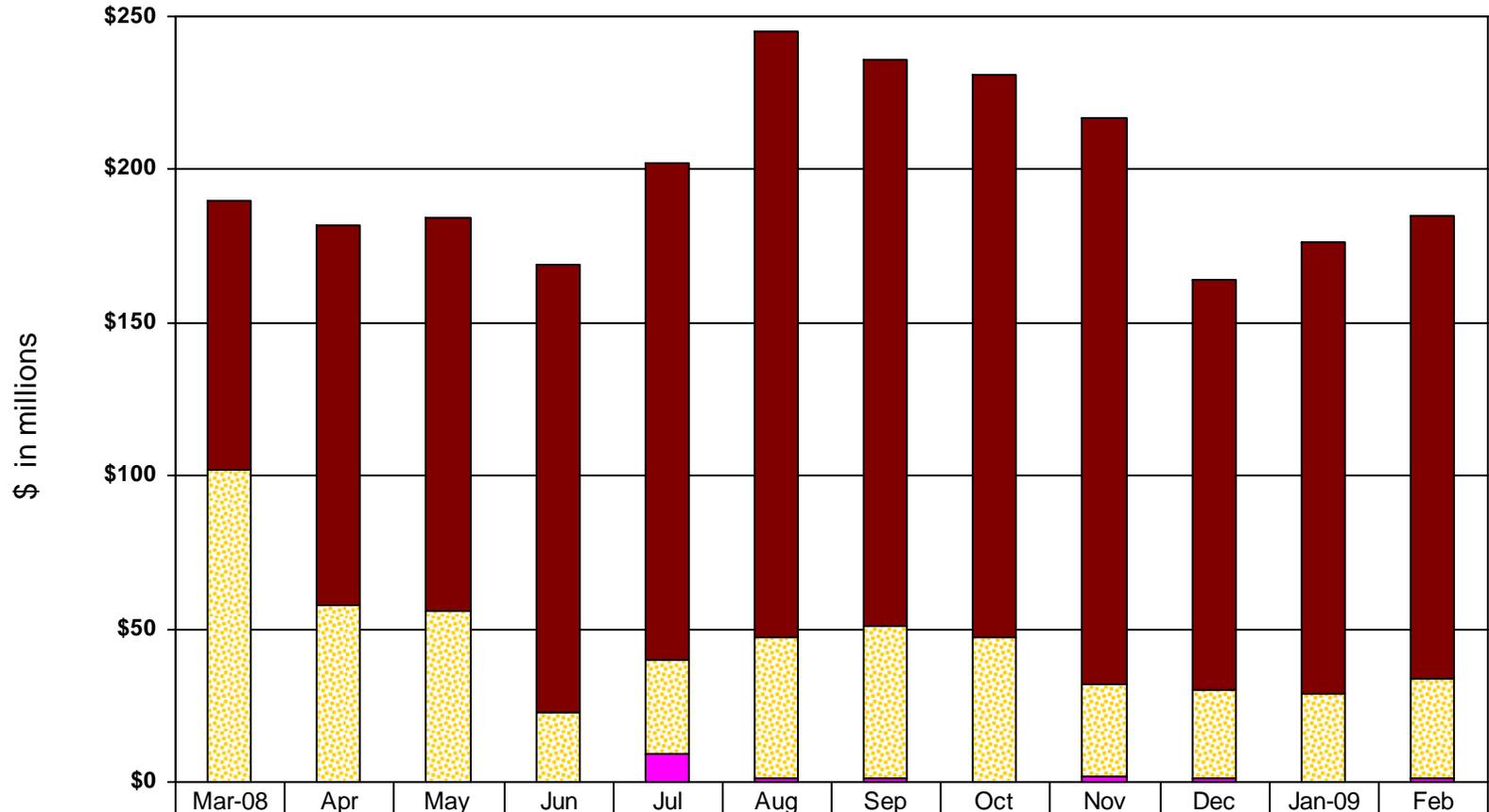




CAISO Market Costs By Month December 2006 through November 2008



Outstanding Obligations of Market Participants



| | | | | | | | | | | | | |
|---------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| ■ Backed by UCL or GRN | 88 | 124 | 128 | 146 | 162 | 198 | 185 | 184 | 185 | 134 | 147 | 151 |
| ■ Backed by posted security | 102 | 58 | 56 | 23 | 31 | 46 | 50 | 47 | 30 | 29 | 29 | 33 |
| ■ Outstanding security requests | 0 | 0 | 0 | 0 | 9 | 1 | 1 | 0 | 2 | 1 | 0 | 1 |

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

