

MONTHLY FINANCIAL REPORT

August 2009

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
MONTHLY FINANCIAL REPORT - July 2009

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CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY

For the eight-months ended August 31, 2009

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

- ♦ Operating Revenues for August were \$19.8M, \$1.1M higher than budget.
 - The variance was primarily due to a higher estimated Grid Management Charge (GMC) for the month.
- ♦ Operating Revenues for the year to date were \$138.5M, \$5.9M higher than budget.
 - The variance is primarily due to higher GMC revenues during the second quarter of the year as a result of higher volumes in the new day ahead market.
- ♦ Operation and maintenance (O&M) expenses for August were \$16.2M, slightly higher than budget.
 - The variance was primarily due to timing of payments during the month.
- ♦ O&M expenses for the year to date were \$106.6M, \$0.4M higher than budget.
 - The variance was primarily due to higher expenses as a result of higher overtime and contractor costs associated with the new ISO Market cutover and to the severance cost of organizational realignment that occurred in June 2009. The Company is actively working to mitigate these costs over the remainder of the year.
- ♦ There were 574 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 and other interest expenses, as compared to budget, were much lower due to the recognition of interest expense on certain amounts due from market participants as a result of a Federal Energy Regulatory Commission (FERC) ruling that was issued in May 2009. The Company recognized \$12.7 million as a reduction of interest expense with a corresponding adjustment to the estimated generator noncompliance fines refund liability.
- ♦ Interest income for the year to date is \$2.6M, \$0.8M higher than budget. Interest income includes earnings on restricted funds not included in the budget. The excluded funds are capital project and debt service funds and generator fines due to be refunded for which the interest approximated \$1.0M.
- ♦ Gains on investments continue to increase during the period as a result of the recovery of bond prices in the financial sector. The Company typically holds investments to maturity and reflects realized gains and losses for GMC rate purposes.
- ♦ In March 2009, the ISO sold its investment in AIG at a loss of \$1.5M, which offset the unrealized gains on other investments.

BALANCE SHEET: (page 2)

- ♦ The changes in the accounts are mainly due to normal business activity during the month.

CAPITAL PROJECTS: (pages 3 and 7)

- ♦ 2009 capital projects were budgeted for the year at \$198.5M and include \$160M for the new headquarters building and \$9.4M for enhancements to the new ISO Market system. 2009 capital projects approved through August totaled \$181.1M, including funding for the new facility.
- ♦ Actual expenditures to date for 2009-approved capital projects and the new facility totaled \$9.2M and \$32.0M, respectively. Expenditures for 2008-approved capital projects totaled \$6.2M.

CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY

For the eight-months ended August 31, 2009

The ISO Markets

MARKET CHARGES: (page 8 and 9)

- ◆ The total costs managed by the ISO include GMC, Reliability Must Run (RMR) charges, Ancillary Services Capacity, Real Time Energy and Transmission.
- ◆ RMR charges have decreased considerably as a result of the resource adequacy program that the ISO implemented in 2007, which gave the ISO dispatch rights to certain generator units and effectively reducing this component of market cost.
- ◆ Monthly real time energy costs under the new ISO Market increased due to the creation of the forward energy markets.
- ◆ Other market costs fluctuate with the season or as a result of certain external factors (wildfires, extreme temperatures and drought conditions).

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.
- ◆ The increase in market obligations during the second quarter reflects the addition of the forward markets under the new ISO Market.

CALIFORNIA ISO

Statement of Operations

For the eight-months ended August 31, 2009
(dollars in thousands)

	Month				Year to Date				2009
	Actual	Budget	Variance	Var (%)	Actual	Budget	Variance	Var (%)	Budget
Revenues:									
Grid Management Charge	\$ 19,663	\$ 18,439	\$ 1,224	7%	\$ 135,975	\$ 130,296	\$ 5,679	4%	\$ 192,944
Fines, WSCC & Other Fees	124	284	(160)	-56%	2,501	2,270	231	10%	3,404
Total revenues	<u>19,787</u>	<u>18,723</u>	<u>1,064</u>	6%	<u>138,476</u>	<u>132,566</u>	<u>5,910</u>	4%	<u>196,348</u>
Operating Expenses:									
Salaries and Benefits	12,266	11,768	498	4%	74,356	70,046	4,310	6%	101,039
Building, Leases and Facility	484	757	(273)	-36%	5,506	6,523	(1,017)	-16%	9,551
Insurance	(170)	1	(171)	0%	192	189	3	*	2,014
Third Party Vendor Contracts	900	1,119	(219)	-20%	10,836	8,951	1,885	21%	13,427
Consulting and Contracting Services	1,754	1,399	355	25%	10,024	11,487	(1,463)	-13%	17,062
Legal and Audit	311	601	(290)	-48%	2,398	4,111	(1,713)	-42%	6,421
Training, Travel and Professional Dues	301	363	(62)	-17%	1,548	3,227	(1,679)	-52%	4,685
Other	326	197	129	65%	1,768	1,735	33	2%	2,546
Total operating expenses	<u>16,172</u>	<u>16,205</u>	<u>(33)</u>	0%	<u>106,628</u>	<u>106,269</u>	<u>359</u>	0%	<u>156,745</u>
Net operating income (loss)	<u>3,615</u>	<u>2,518</u>	<u>1,097</u>	44%	<u>31,848</u>	<u>26,297</u>	<u>5,551</u>	21%	<u>39,603</u>
Interest and Other Expenses									
Interest income & other	268	228	40	18%	2,615	1,824	791	43%	2,736
Interest expense	1,914	700	1,214	173%	(5,392)	5,599	(10,991)	-196%	8,399
Gains and losses on investments (realized and unrealized)	843	-	843	*	3,198	-	3,198	*	-
Depreciation and amortization	1,092	1,092	-	0%	6,765	6,765	-	0%	13,800
Total interest and other expenses	<u>3,581</u>	<u>1,564</u>	<u>2,017</u>	129%	<u>1,956</u>	<u>10,540</u>	<u>(8,584)</u>	-81%	<u>19,463</u>
Excess (Deficiency) of Revenues Over Expenses	<u>\$ 34</u>	<u>\$ 954</u>	<u>\$ (920)</u>	-96%	<u>\$ 29,892</u>	<u>\$ 15,757</u>	<u>\$ 14,135</u>	90%	<u>\$ 20,140</u>
Number of Full-time Employees	<u>574</u>	<u>575</u>	<u>(1)</u>	0%					<u>575</u>

CALIFORNIA ISO**Balance Sheet**

As of August 31, 2009

(dollars in thousands)

	<u>Current Month</u>	<u>Prior Month</u>	<u>Change</u>
ASSETS			
NET ELECTRIC UTILITY PLANT	<u>\$ 283,057</u>	<u>\$ 280,151</u>	<u>\$ 2,906</u>
CURRENT ASSETS			
Unrestricted Cash and Cash Equivalents	19,247	25,157	(5,910)
Restricted Cash and Cash Equivalents	377,075	391,618	(14,543)
Other Special Deposits	43,118	35,247	7,871
Accounts Receivable, net	64,101	57,856	6,245
Investments	161,429	156,123	5,306
Accrued Interest	604	814	(210)
Prepayments	7,536	8,663	(1,127)
Total Current Assets	<u>673,110</u>	<u>675,478</u>	<u>(2,368)</u>
NONCURRENT ASSET AND DEFERRED CHARGES			
Unamortized Debt Expenses and Other	5,355	5,999	(644)
Total Noncurrent Asset and Deferred Charges	<u>5,355</u>	<u>5,999</u>	<u>(644)</u>
TOTAL ASSETS	<u><u>\$ 961,522</u></u>	<u><u>\$ 961,628</u></u>	<u><u>\$ (106)</u></u>
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION			
Stakeholders' Surplus	\$ 266,903	\$ 266,869	\$ 34
Long-term Debt	334,586	334,811	(225)
TOTAL CAPITALIZATION	<u>601,489</u>	<u>601,680</u>	<u>(191)</u>
CURRENT LIABILITIES			
Long-term Debt Due Within One Year	39,100	39,100	-
Accounts Payable	38,569	42,446	(3,877)
Customer Deposits & Other	222,380	218,741	3,639
Fines Subject to Refund	58,968	58,645	323
Total Current Liabilities	<u>359,017</u>	<u>358,932</u>	<u>85</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>360,033</u>	<u>359,948</u>	<u>85</u>
TOTAL CAPITALIZATION AND LIABILITIES	<u><u>\$ 961,522</u></u>	<u><u>\$ 961,628</u></u>	<u><u>\$ (106)</u></u>

CALIFORNIA ISO
Capital Projects Report

For the eight-months ended August 31, 2009
(dollars in thousands)

	Approved Projects				
	Month <u>Actual</u>	YTD <u>Actual</u>	2009 Approved <u>Projects</u>	Projected Costs for Approved <u>Projects</u>	Original 2009 <u>Budget</u>
Compliance/Regulatory	\$ 206	\$ 376	\$ 1,420	\$ 1,420	\$ 11,437
Essential / Corporate Infrastructure	212	4,867	9,043	9,043	10,134
Strategic Initiatives	81	206	1,091	1,091	6,846
Future Market Enhancements	103	156	6,046	6,046	6,584
Market Redesign	-	2,840	2,847	2,847	2,847
Technology Upgrade	-	731	657	657	657
Total 2009 Capital Spending	<u>602</u>	<u>9,176</u>	<u>21,104</u>	<u>21,104</u>	<u>38,504</u>
Iron Point Building	4,995	32,045		160,000	160,000
2008 Capital Projects	<u>669</u>	<u>6,212</u>		<u>11,036</u>	<u>11,036</u>
Total Capital	<u>\$ 6,267</u>	<u>\$ 47,433</u>	<u>\$ 21,104</u>	<u>\$ 192,140</u>	<u>\$ 209,540</u>

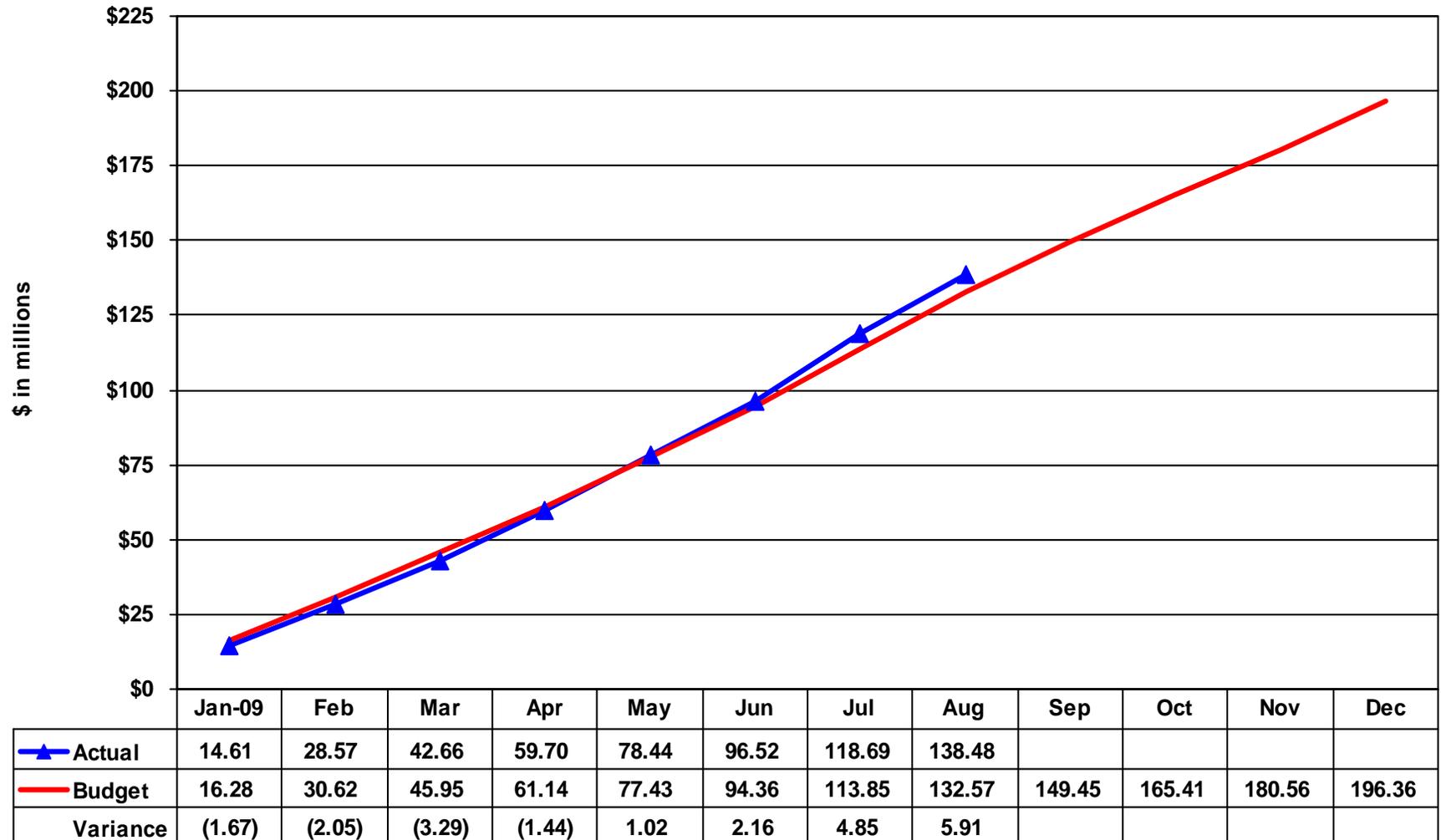
Notes:

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

The Iron Point Project Phase 2 is to be funded from 2008 and 2009 bond proceeds.

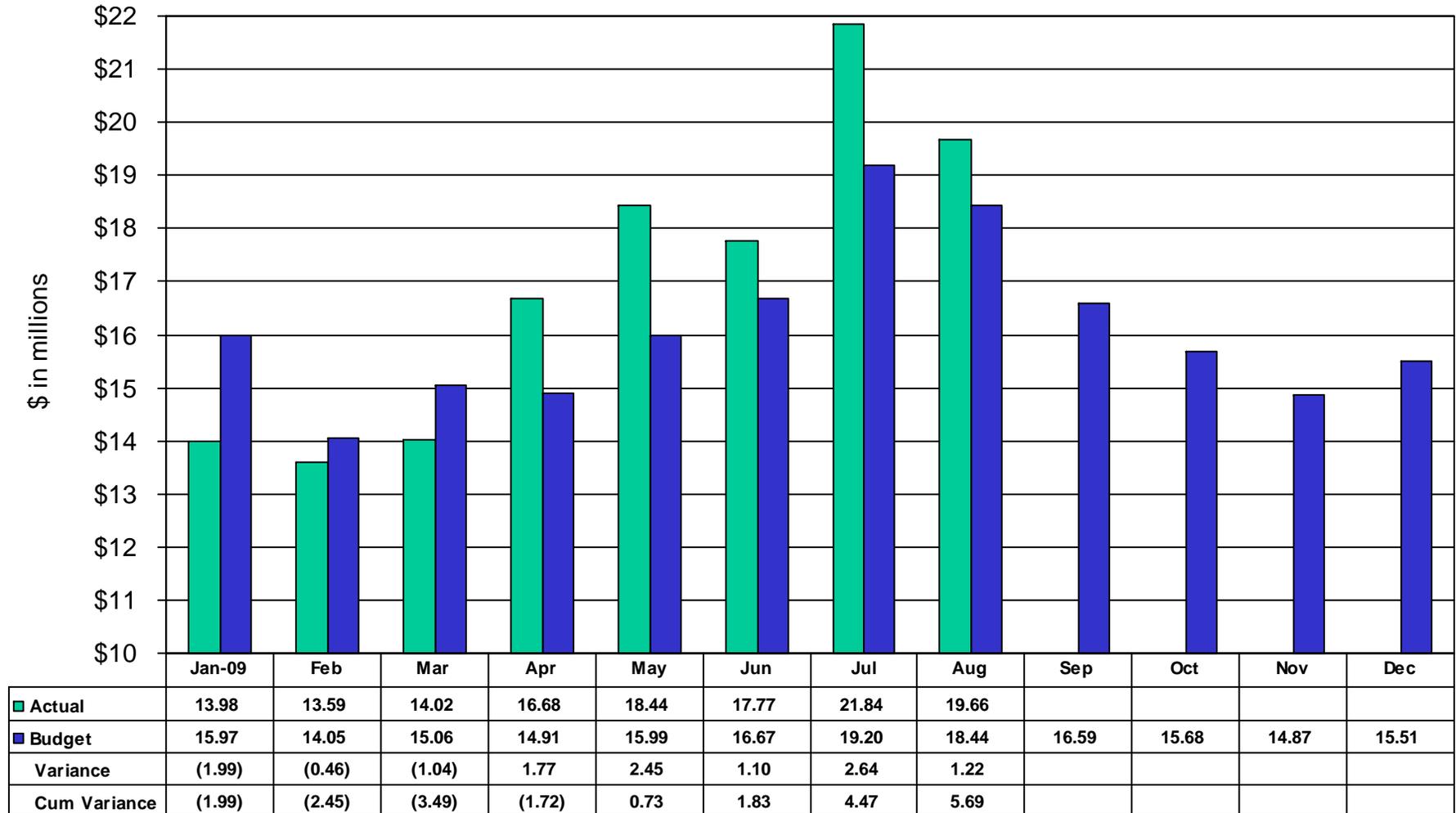
Cumulative Operating Revenues

Revenues = GMC, LGIP, WSCC Security & Other Fees



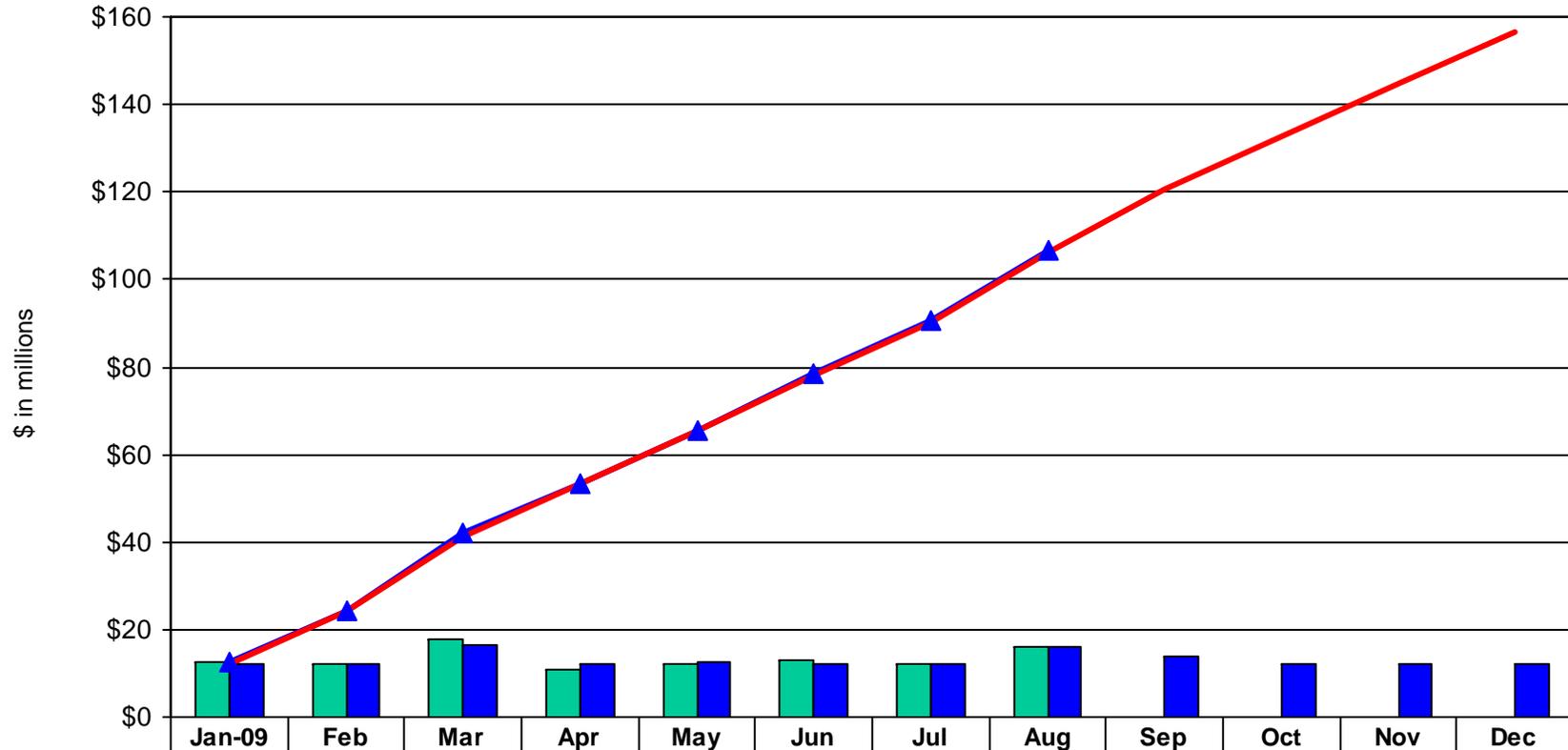
July and August revenues are estimates.

Monthly GMC Revenues



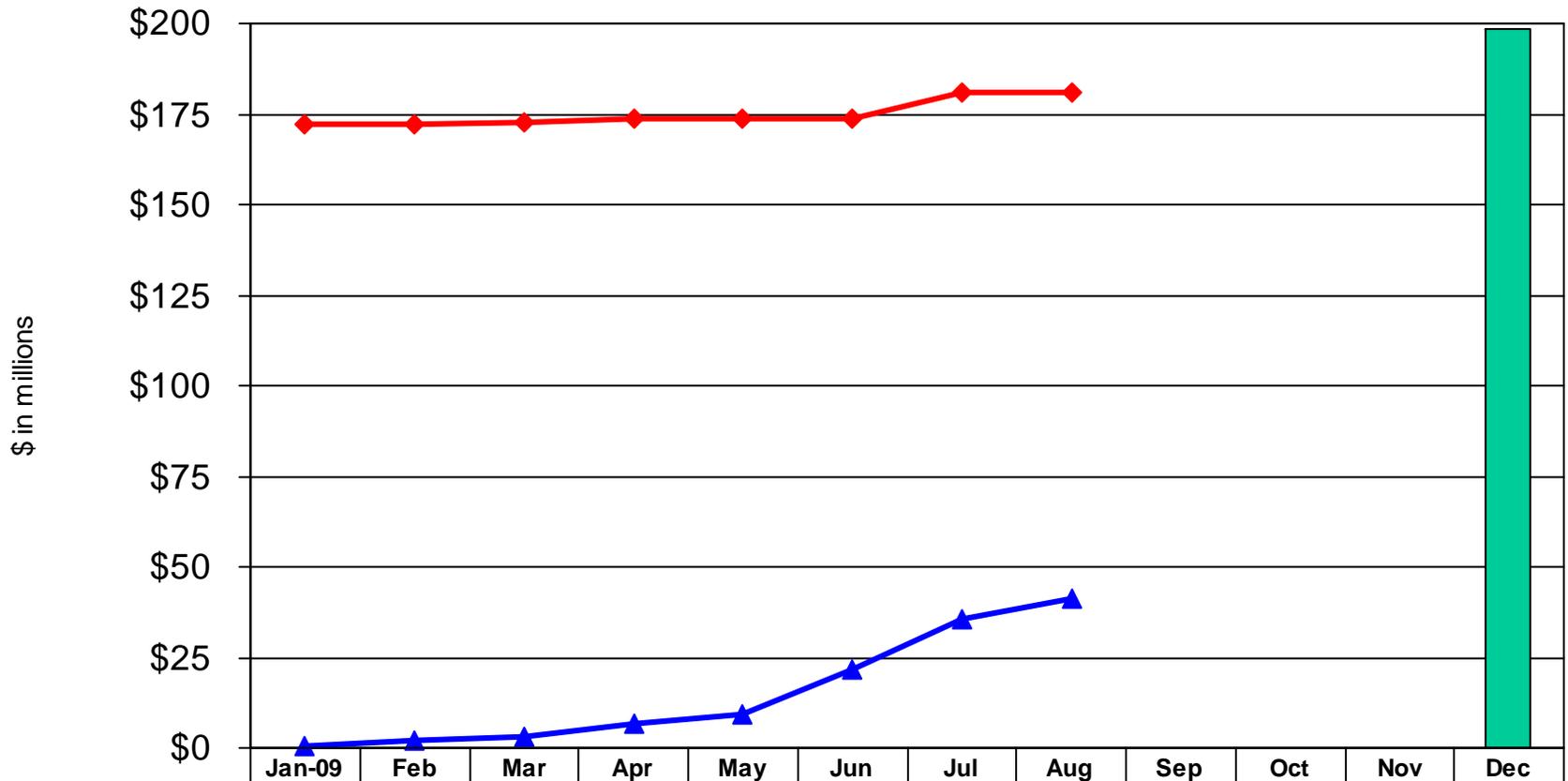
July and August revenues are estimates.

Operating and Maintenance Expenses (O&M)



	Jan-09	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
 Monthly Actual	12.49	11.94	17.80	10.89	12.27	13.07	12.00	16.17				
 Monthly Budget	12.30	12.17	16.53	12.25	12.39	12.34	12.09	16.21	14.09	12.16	12.10	12.12
 Cum Actual	12.49	24.43	42.23	53.12	65.39	78.46	90.46	106.63				
 Cum Budget	12.30	24.47	41.00	53.25	65.64	77.98	90.06	106.27	120.36	132.52	144.62	156.74
Cum Variance	(0.19)	0.04	(1.23)	0.13	0.25	(0.48)	(0.40)	(0.36)				

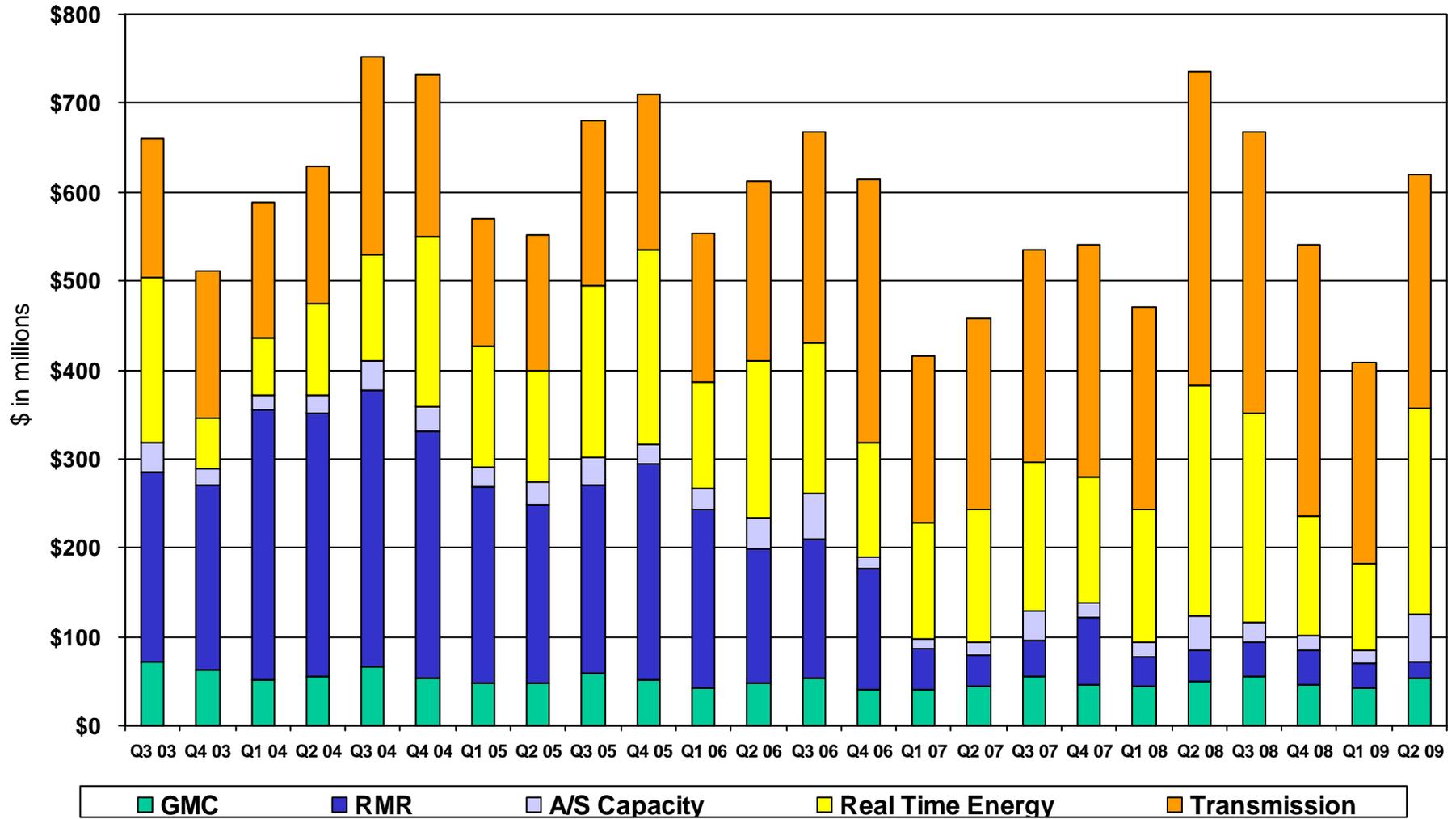
Cumulative Capital Expenditures



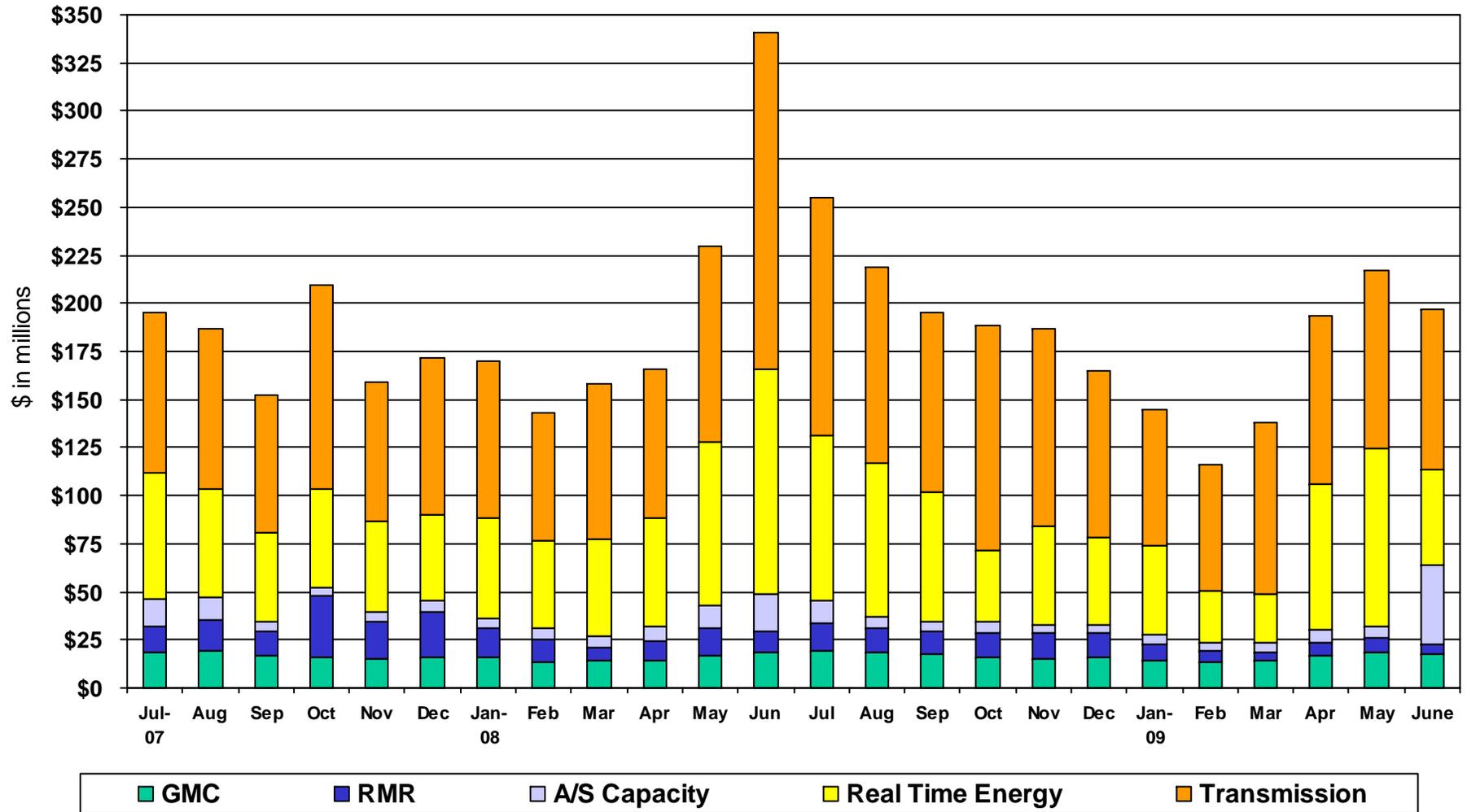
 Budgeted capital												198.50
 Cumulative Expenditures	0.50	2.20	3.26	6.55	9.38	21.55	35.62	41.22				
 Approved projects	172.21	172.21	172.85	173.55	173.55	173.55	181.10	181.10				



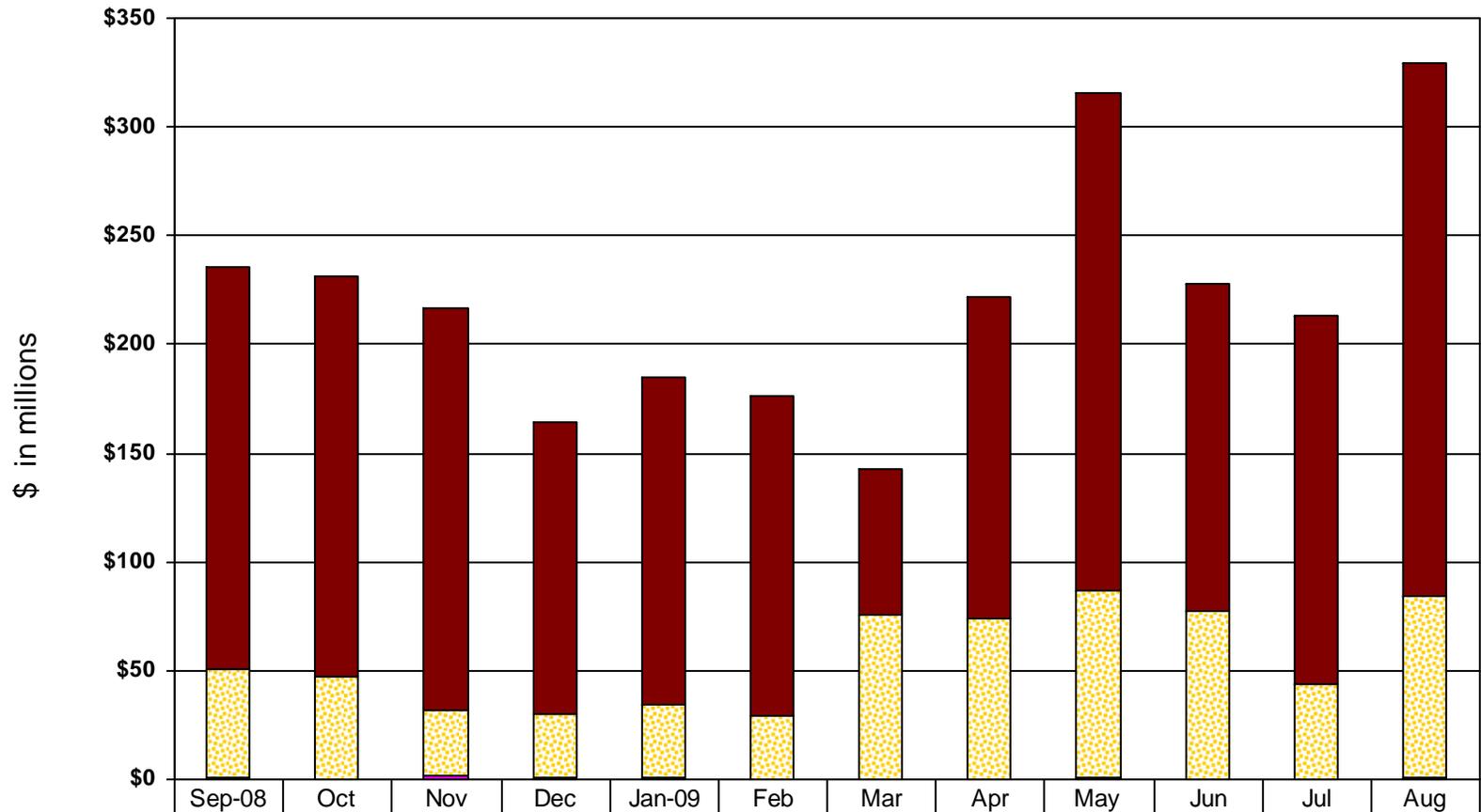
CAISO Market Costs By Quarter 2nd Quarter 2003 through 2nd Quarter 2009



CAISO Market Costs By Month July 2007 through June 2009



Outstanding Obligations of Market Participants



■ Backed by UCL or GRN	185	184	185	134	151	147	67	148	229	151	169	245
■ Backed by posted security	50	47	30	29	33	29	76	74	86	77	44	83
■ Outstanding security requests	1	0	2	1	1	0	0	0	1	0	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

