

MONTHLY FINANCIAL REPORT

September 2009

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
MONTHLY FINANCIAL REPORT - September 30, 2009

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CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY

For the nine-months ended September 30, 2009

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

- ♦ Operating Revenues for September were \$20.1M, \$3.2M higher than budget.
 - The variance was primarily due to a higher estimated Grid Management Charge (GMC) resulting from the unusual number of high-temperature days during the month.
- ♦ Operating Revenues for the year to date were \$158.0M, \$8.6M higher than budget.
 - The variance is primarily due to higher GMC revenues during the second and third quarters of the year as a result of higher volumes in the new day ahead market and to the greater than expected number of high-temperature days in September.
- ♦ Operation and maintenance (O&M) expenses for September were \$13.0M, \$1.1M lower than budget.
 - The variance was primarily due to timing of payments during the month and to the impact of previously implemented cost cuts.
- ♦ O&M expenses for the year to date were \$120.2M, \$0.2M lower than budget.
 - The variance was primarily due to lower consulting and legal costs, and lower travel and training expenses, partially offset by 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 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 \$3.0M, \$1.1M 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 an AIG subsidiary 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 and also reflects the Company's effort to shift from low-yielding money market investments to higher-yielding securities.

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 September totaled \$182.3M, including funding for the new facility.
- ♦ Actual expenditures to date for 2009-approved capital projects and the new facility totaled \$9.5M and \$38.0M, respectively. Expenditures for 2008-approved capital projects totaled \$6.8M.

CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY

For the nine-months ended September 30, 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 increased during the summer months, reflecting the seasonal high energy usage during the period, especially during the month of September. 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 and third quarters reflects the addition of the forward markets under the new ISO Market.

CALIFORNIA ISO

Statement of Operations

For the nine-months ended September 30, 2009
(dollars in thousands)

	Month				Year to Date				2009
	Actual	Budget	Variance	Var (%)	Actual	Budget	Variance	Var (%)	Budget
Revenues:									
Grid Management Charge	\$ 19,842	\$ 16,595	\$ 3,247	20%	\$ 155,156	\$ 146,892	\$ 8,264	6%	\$ 192,944
Fines, WSCC & Other Fees	229	284	(55)	-19%	2,852	2,553	299	12%	3,404
Total revenues	<u>20,071</u>	<u>16,879</u>	<u>3,192</u>	<u>19%</u>	<u>158,008</u>	<u>149,445</u>	<u>8,563</u>	<u>6%</u>	<u>196,348</u>
Operating Expenses:									
Salaries and Benefits	7,729	7,748	(19)	0%	82,601	77,794	4,807	6%	101,039
Building, Leases and Facility	792	757	35	5%	6,333	7,280	(947)	-13%	9,551
Insurance	1,688	1,806	(118)	0%	1,880	1,995	(115)	-6%	2,014
Third Party Vendor Contracts	1,218	1,119	99	9%	12,053	10,070	1,983	20%	13,427
Consulting and Contracting Services	996	1,407	(411)	-29%	11,020	12,894	(1,874)	-15%	17,062
Legal and Audit	159	691	(532)	-77%	2,558	4,802	(2,244)	-47%	6,421
Training, Travel and Professional Dues	265	365	(100)	-27%	1,814	3,592	(1,778)	-49%	4,685
Other	148	200	(52)	-26%	1,916	1,935	(19)	-1%	2,546
Total operating expenses	<u>12,995</u>	<u>14,093</u>	<u>(1,098)</u>	<u>-8%</u>	<u>120,175</u>	<u>120,362</u>	<u>(187)</u>	<u>0%</u>	<u>156,745</u>
Net operating income (loss)	<u>7,076</u>	<u>2,786</u>	<u>4,290</u>	<u>154%</u>	<u>37,833</u>	<u>29,083</u>	<u>8,750</u>	<u>30%</u>	<u>39,603</u>
Interest and Other Expenses									
Interest income & other	341	228	113	50%	2,957	1,824	1,133	62%	2,736
Interest expense	668	700	(32)	-5%	(4,725)	5,599	(10,324)	-184%	8,399
Gains and losses on investments (realized and unrealized)	(199)	-	(199)	*	2,999	-	2,999	*	-
Depreciation and amortization	1,092	1,092	-	0%	20,151	20,151	-	0%	13,800
Total interest and other expenses	<u>1,220</u>	<u>1,564</u>	<u>(344)</u>	<u>-22%</u>	<u>15,468</u>	<u>23,926</u>	<u>(8,458)</u>	<u>-35%</u>	<u>19,463</u>
Excess (Deficiency) of Revenues Over Expenses	<u>\$ 5,856</u>	<u>\$ 1,222</u>	<u>\$ 4,634</u>	<u>379%</u>	<u>\$ 22,365</u>	<u>\$ 5,157</u>	<u>\$ 17,208</u>	<u>334%</u>	<u>\$ 20,140</u>
Number of Full-time Employees	<u>576</u>	<u>575</u>	<u>1</u>	<u>0%</u>					<u>575</u>

CALIFORNIA ISO**Balance Sheet**

As of September 30, 2009

(dollars in thousands)

	<u>Current Month</u>	<u>Prior Month</u>	<u>Change</u>
ASSETS			
NET ELECTRIC UTILITY PLANT	<u>\$ 276,629</u>	<u>\$ 276,074</u>	<u>\$ 555</u>
CURRENT ASSETS			
Unrestricted Cash and Cash Equivalents	1,203	6,548	(5,345)
Restricted Cash and Cash Equivalents	375,102	382,833	(7,731)
Other Special Deposits	34,824	34,820	4
Accounts Receivable, net	65,622	63,543	2,079
Investments	186,714	174,429	12,285
Accrued Interest	1,228	604	624
Prepayments	7,079	7,501	(422)
Total Current Assets	<u>671,772</u>	<u>670,278</u>	<u>1,494</u>
NONCURRENT ASSET AND DEFERRED CHARGES			
Unamortized Debt Expenses and Other	4,835	5,229	(394)
Total Noncurrent Asset and Deferred Charges	<u>4,835</u>	<u>5,229</u>	<u>(394)</u>
TOTAL ASSETS	<u><u>\$ 953,236</u></u>	<u><u>\$ 951,581</u></u>	<u><u>\$ 1,655</u></u>
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION			
Stakeholders' Surplus	\$ 264,986	\$ 259,130	\$ 5,856
Long-term Debt	334,360	334,586	(226)
TOTAL CAPITALIZATION	<u>599,346</u>	<u>593,716</u>	<u>5,630</u>
CURRENT LIABILITIES			
Long-term Debt Due Within One Year	39,100	39,100	-
Accounts Payable	28,171	30,662	(2,491)
Customer Deposits & Other	240,090	241,573	(1,483)
Fines Subject to Refund	45,513	45,514	(1)
Total Current Liabilities	<u>352,874</u>	<u>356,849</u>	<u>(3,975)</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>353,890</u>	<u>357,865</u>	<u>(3,975)</u>
TOTAL CAPITALIZATION AND LIABILITIES	<u><u>\$ 953,236</u></u>	<u><u>\$ 951,581</u></u>	<u><u>\$ 1,655</u></u>

CALIFORNIA ISO
Capital Projects Report

For the nine-months ended September 30, 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	\$ 66	\$ 442	\$ 1,686	\$ 1,693	\$ 11,437
Essential / Corporate Infrastructure	59	4,925	9,073	9,073	10,134
Strategic Initiatives	82	289	1,090	1,090	6,846
Future Market Enhancements	113	269	6,951	6,936	6,584
Market Redesign	-	2,840	2,847	2,847	2,847
Technology Upgrade	-	731	657	657	657
Total 2009 Capital Spending	<u>320</u>	<u>9,496</u>	<u>22,304</u>	<u>22,295</u>	<u>38,504</u>
Iron Point Building	6,002	38,047	160,000	160,000	160,000
2008 Capital Projects	<u>612</u>	<u>6,824</u>	<u>-</u>	<u>11,036</u>	<u>11,036</u>
Total Capital	<u>\$ 6,935</u>	<u>\$ 54,367</u>	<u>\$ 182,304</u>	<u>\$ 193,331</u>	<u>\$ 209,540</u>

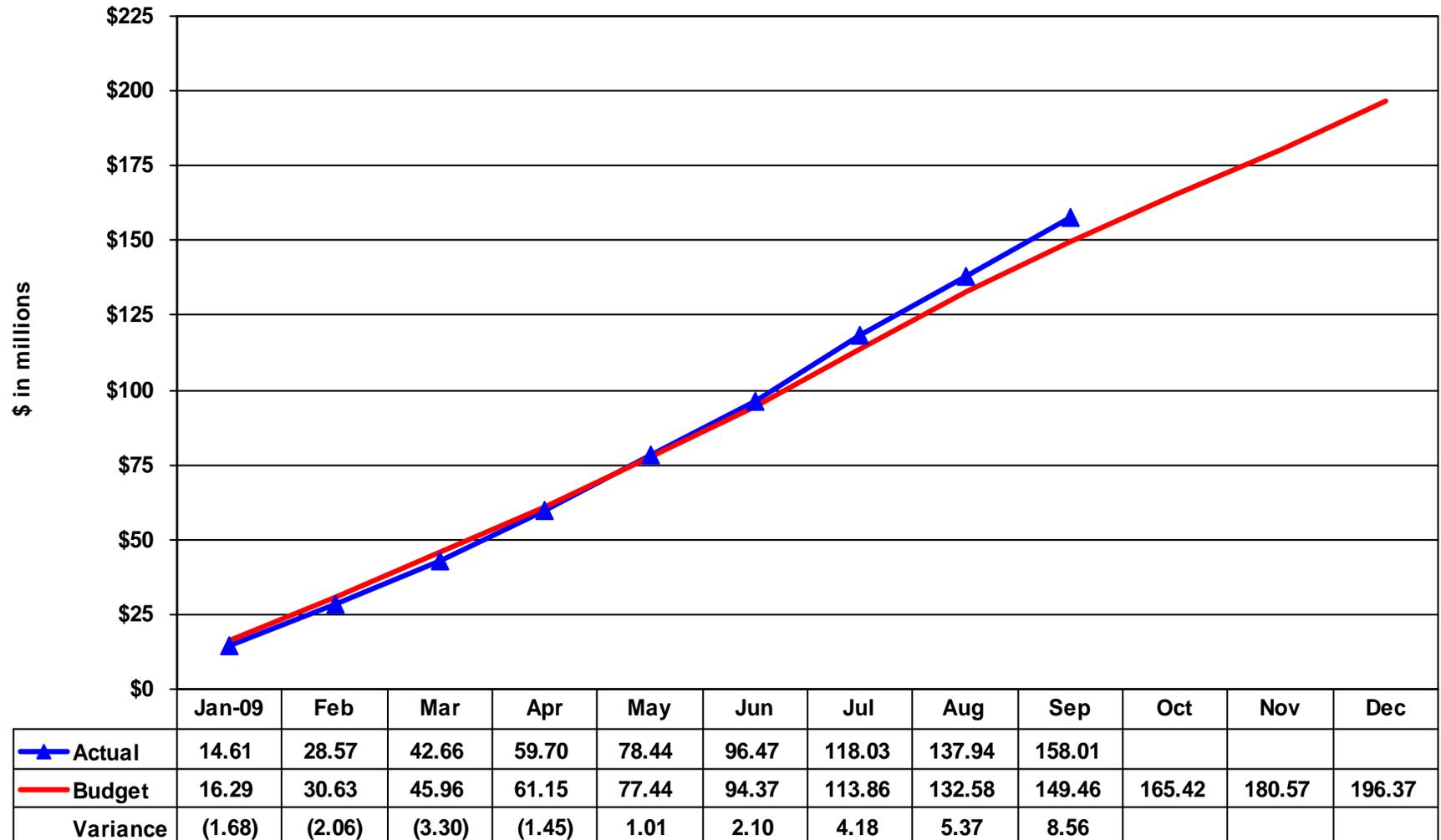
Notes:

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.

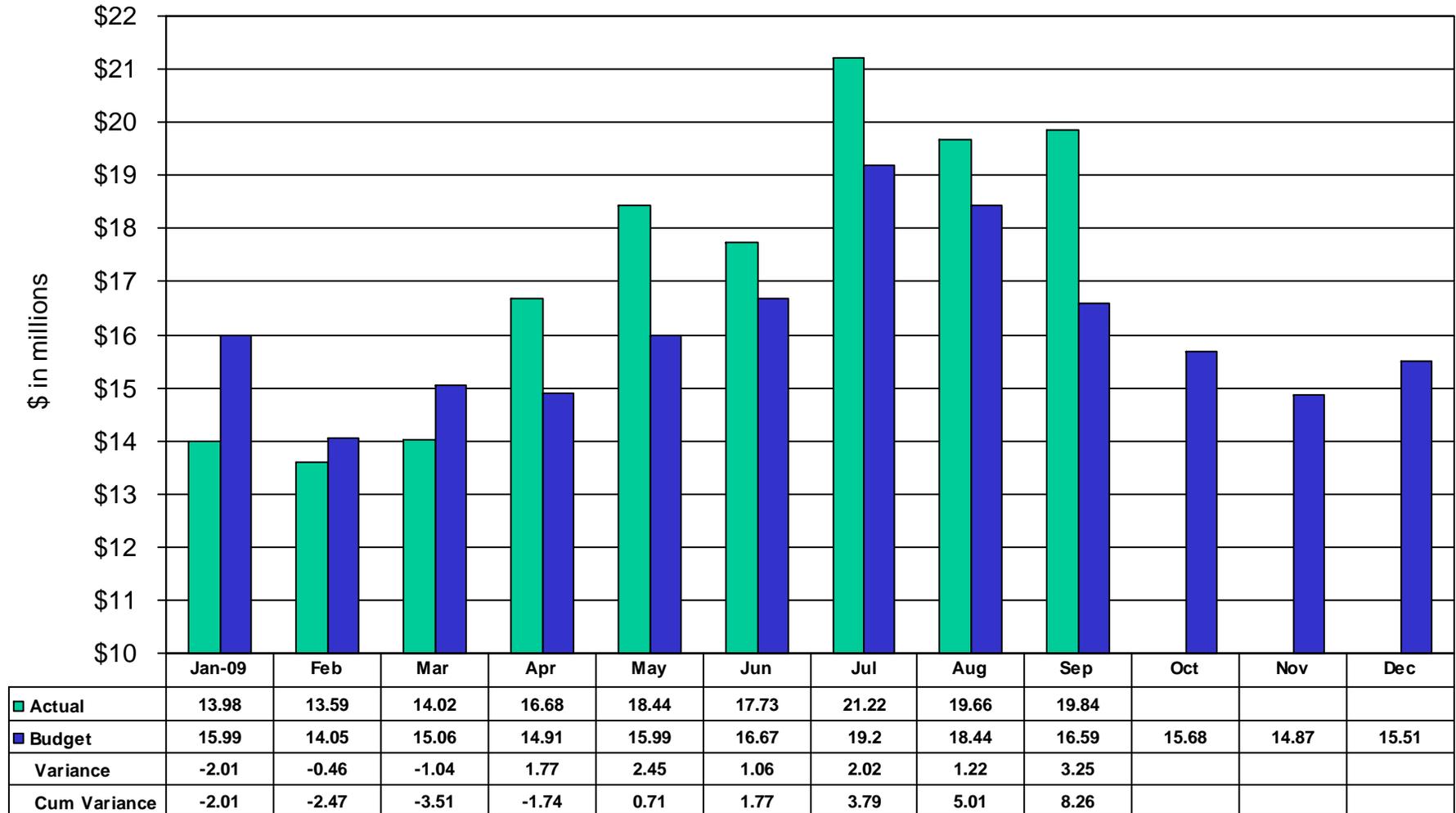
Cumulative Operating Revenues

Revenues = GMC, LGIP, WSCC Security & Other Fees



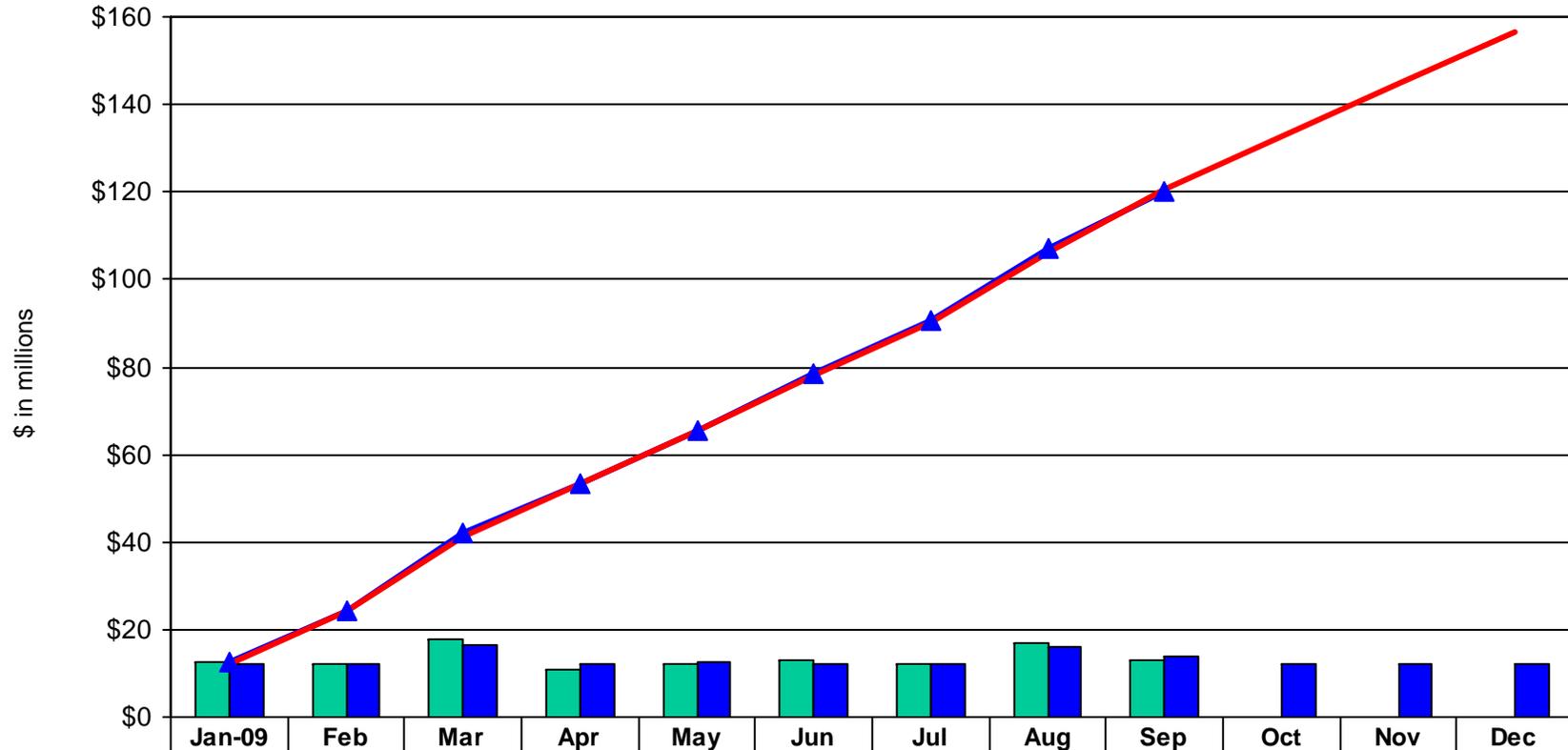
August and September revenues are estimates.

Monthly GMC Revenues



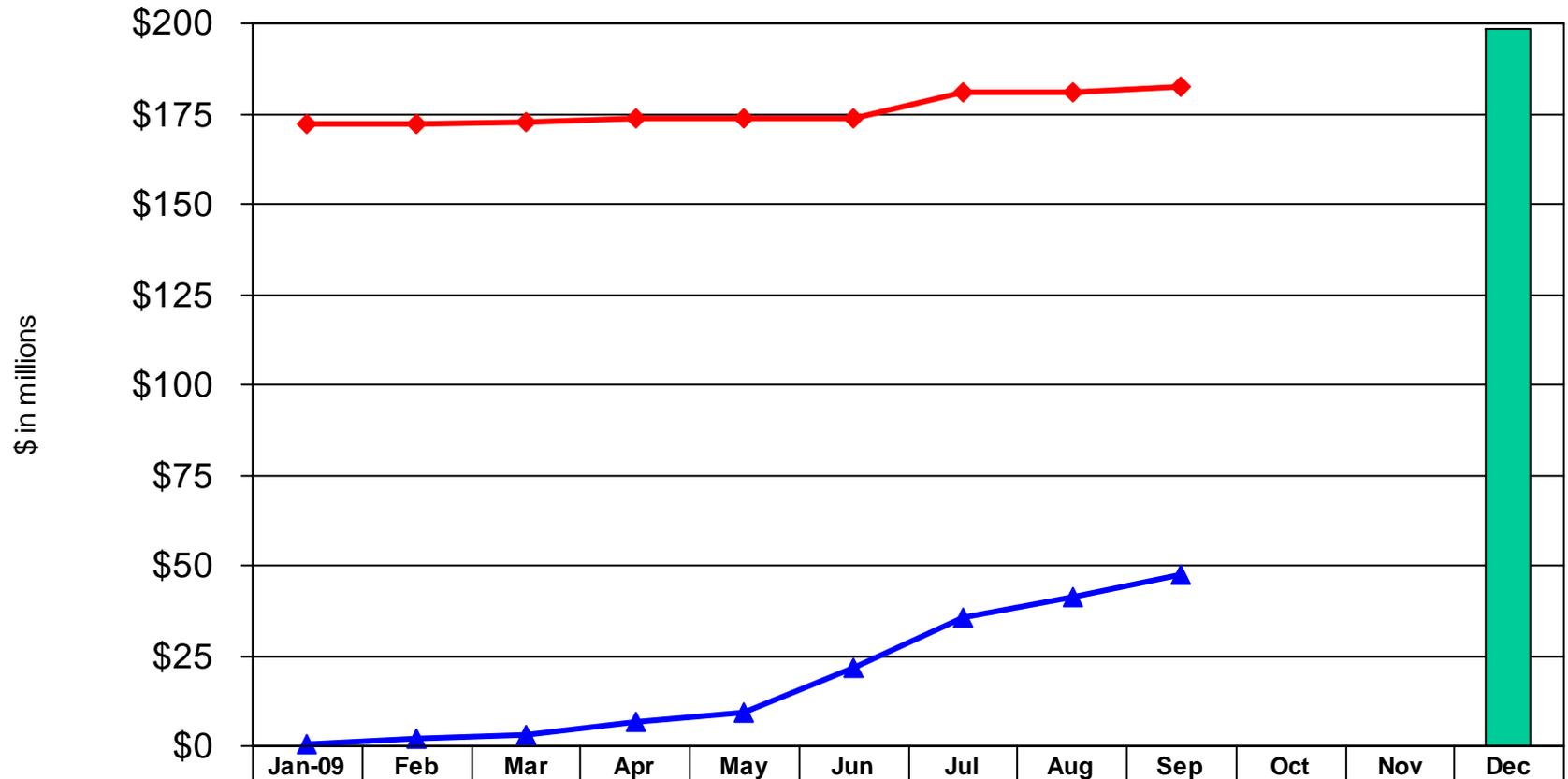
August and September revenues are estimates.

Operating and Maintenance Expenses (O&M)



	Jan-09	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
 Monthly Actual	12.47	11.94	17.82	10.89	12.27	13.08	12.00	16.71	13.00			
 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	12.47	24.41	42.23	53.12	65.39	78.47	90.47	107.18	120.18			
 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	(0.17)	0.06	(1.23)	0.13	0.25	(0.49)	(0.41)	(0.91)	0.18			

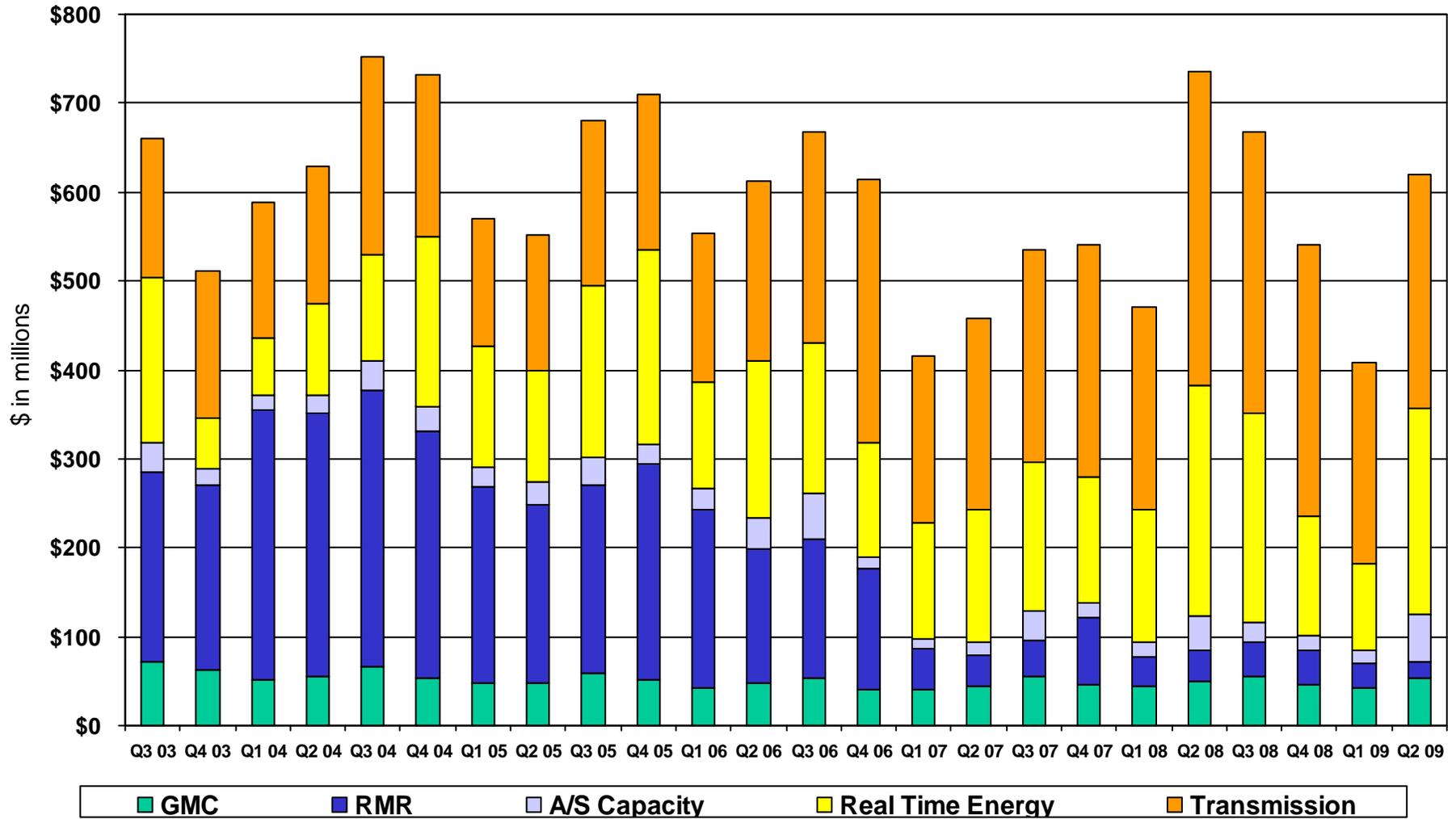
Cumulative Capital Expenditures



	Jan-09	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
 Budgeted capital												198.50
 Cumulative Expenditures	0.50	2.20	3.26	6.55	9.38	21.55	35.62	41.22	47.54			
 Approved projects	172.21	172.21	172.85	173.55	173.55	173.55	181.10	181.10	182.30			

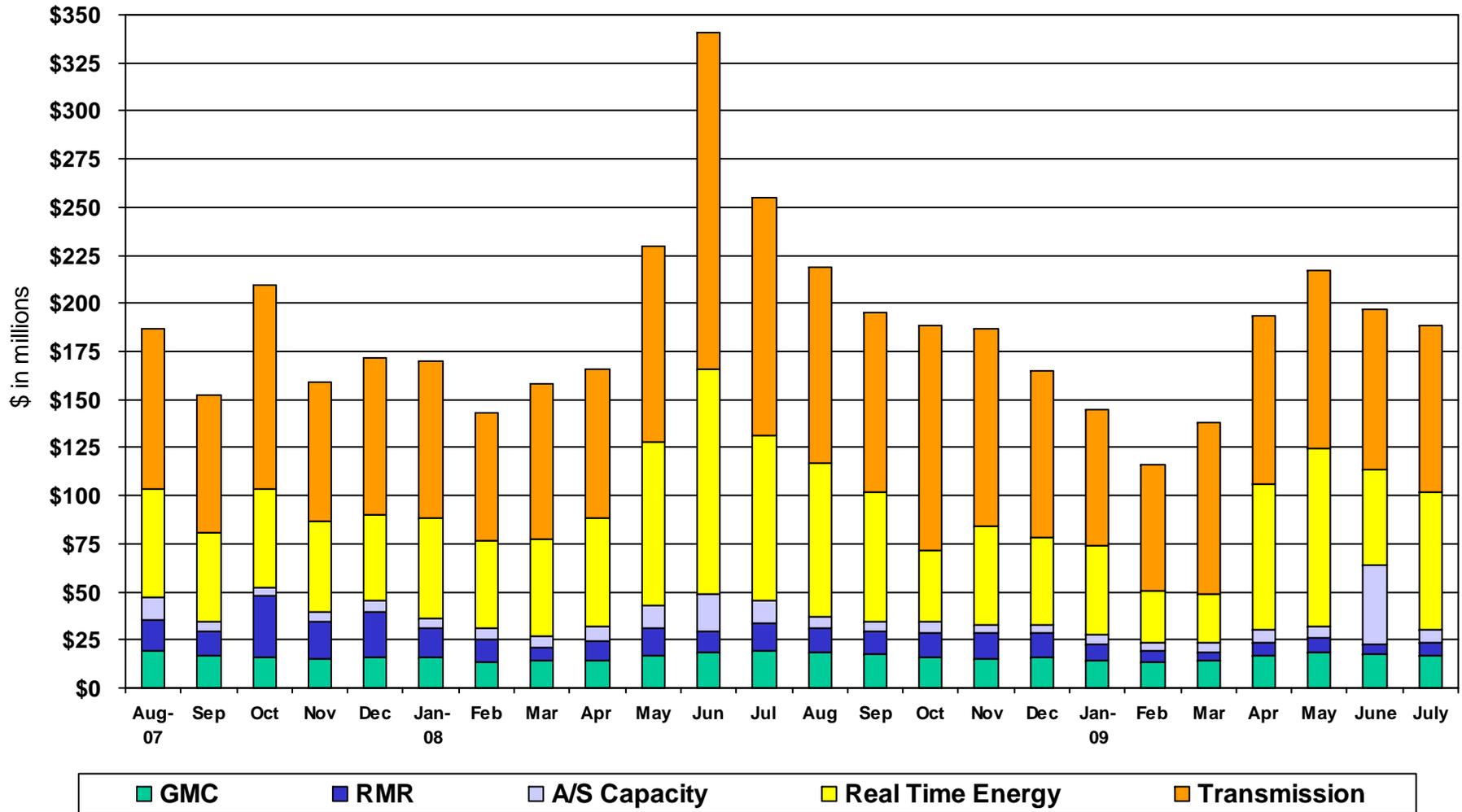


CAISO Market Costs By Quarter 2nd Quarter 2003 through 2nd Quarter 2009

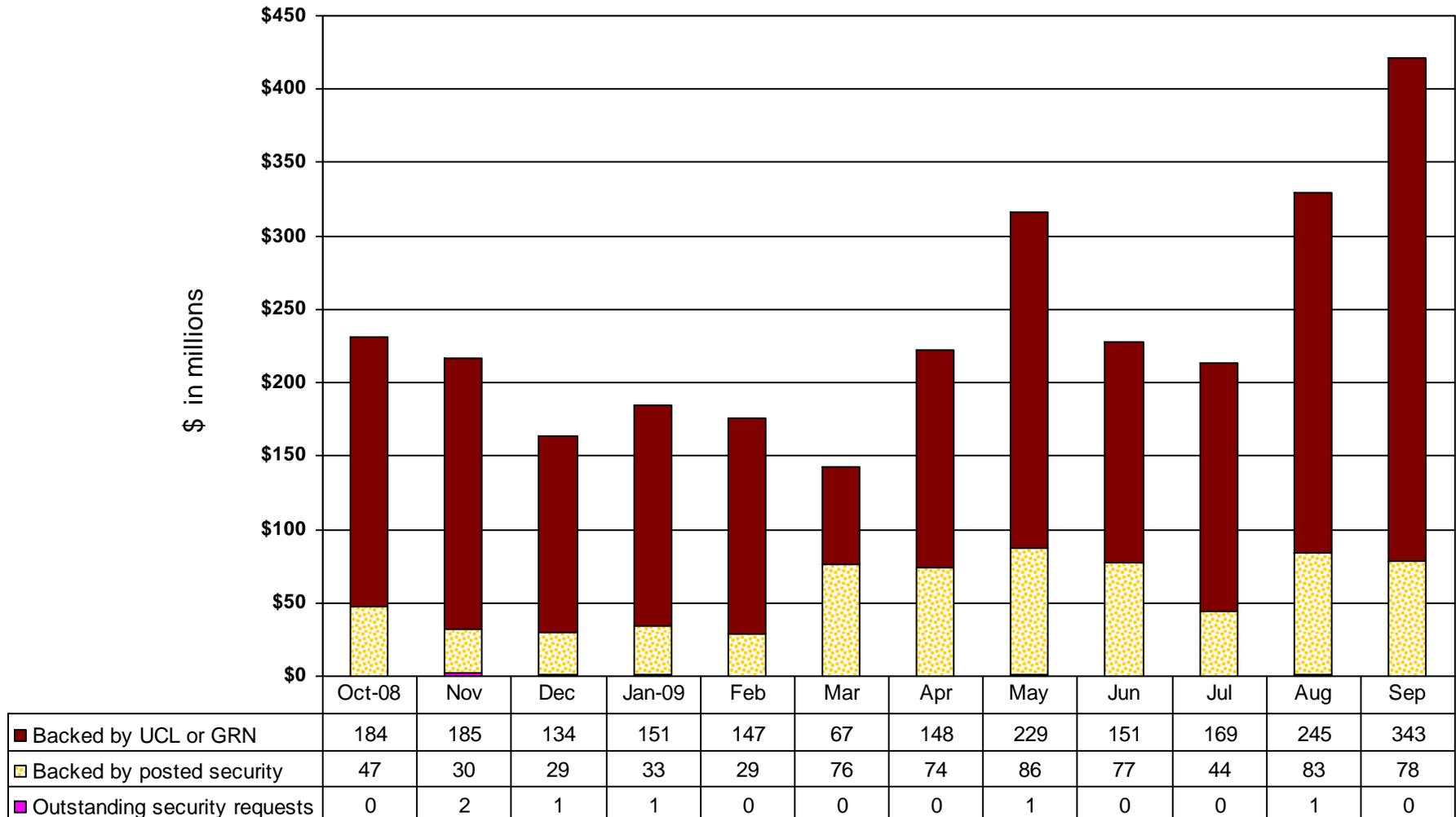




CAISO Market Costs By Month August 2007 through July 2009



Outstanding Obligations of Market Participants



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

