

MONTHLY FINANCIAL REPORT

December 2009

Preliminary and Unaudited

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
MONTHLY FINANCIAL REPORT - December 31, 2009 (Preliminary and Unaudited)**

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CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY (Based on Preliminary and Unaudited Statements)

For the year ended December 31, 2009

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

- ◆ Operating Revenues for December were \$15.2M, \$0.6M higher than budget.
 - The variance was primarily due to higher Grid Management Charge (GMC) revenue a result of higher volumes in the market, partially offset by year-end adjustments to Large Generator Interconnection Project revenues.
- ◆ Operating Revenues for the year to date were \$206.2M, \$9.9M higher than budget.
 - The variance is primarily due to higher GMC revenues during the last three quarters of the year as a result of higher volumes in the new day ahead market and to greater than expected number of high-temperature days in September. Effective October 1, 2009, the rates of several Grid Management Charge components were adjusted to better align the collection of revenues with the associated costs.
- ◆ Operation and maintenance (O&M) expenses for December were \$12.5M, \$0.3M lower than budget.
 - The variance was primarily due to the impact of previously implemented cost cuts and timing of payments during the month.
- ◆ O&M expenses for the year to date were \$156.5M, \$0.3M 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 resulting from the organizational realignment that occurred in June 2009.
- ◆ There were 581 full-time employees compared to the 575 full-time employees budgeted (excluding the vacancy factor of 4%). The increase is due to contractor conversions to full-time employees.

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 \$5.0M, \$2.2M 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 \$2.2M.
- ◆ 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 bond investment in an AIG subsidiary at a loss of \$1.5M, which was largely offset by gains on other investments.

BALANCE SHEET: (page 2)

- ◆ The change in the restricted cash accounts was due to the return of collateral funds that were required to participate in the annual congestion revenue rights auction. Changes to the rest of the accounts were mainly due to normal business activity during the month.

CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY (Based on Preliminary and Unaudited Statements)

For the year ended December 31, 2009

CAPITAL PROJECTS: (pages 3 and 7)

- ♦ 2009 capital projects were budgeted for the year at \$198.5M and include \$160.0M for the new headquarters building and \$9.4M for enhancements to the new ISO Market system. 2009 capital projects approved through December totaled \$194.0M, including funding for the new facility.
- ♦ Actual expenditures to date for 2009-approved capital projects and the new facility totaled \$14.7M and \$62.0M, respectively. Expenditures for 2008-approved capital projects totaled \$7.8M.
- ♦ The 2009 Series A bonds in the principal amount of \$200M were issued in July, 2009 to fund the construction of the new headquarters building, the acquisition or development of computer hardware and software systems and the acquisition of office equipment.

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.
- ♦ Transmission charges in December 2009 increased considerably due to the billing of annual auction revenues.
- ♦ 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 decrease in market obligations in December reflects the lower collateral required for participants under payment acceleration and to the conclusion of the annual congestion revenue rights auction.
- ♦ The increase in market obligations during the three quarters of the year reflects the addition of the forward markets under the new ISO Market.

CALIFORNIA ISO

Statement of Operations (Preliminary and Unaudited)

For the year ended December 31, 2009

(dollars in thousands)

	Month				Year to Date				2009
	Actual	Budget	Variance	Var (%)	Actual	Budget	Variance	Var (%)	Budget
Revenues:									
Grid Management Charge	\$ 15,937	\$ 15,511	\$ 426	3%	\$ 202,402	\$ 192,944	\$ 9,458	5%	\$ 192,944
Fines, WSCC & Other Fees	(752)	283	(1,035)	-366%	3,841	3,404	437	13%	3,404
Total revenues	<u>15,185</u>	<u>15,794</u>	<u>(609)</u>	<u>-4%</u>	<u>206,243</u>	<u>196,348</u>	<u>9,895</u>	<u>5%</u>	<u>196,348</u>
Operating Expenses:									
Salaries and Benefits	6,587	7,748	(1,161)	-15%	104,788	101,039	3,749	4%	101,039
Building, Leases and Facility	1,087	757	330	44%	8,912	9,551	(639)	-7%	9,551
Insurance	168	18	150	0%	1,920	2,014	(94)	-5%	2,014
Third Party Vendor Contracts	1,404	1,119	285	25%	15,301	13,427	1,874	14%	13,427
Consulting and Contracting Services	1,371	1,382	(11)	-1%	15,778	17,062	(1,284)	-8%	17,062
Legal and Audit	964	531	433	82%	4,186	6,421	(2,235)	-35%	6,421
Training, Travel and Professional Dues	351	365	(14)	-4%	2,705	4,685	(1,980)	-42%	4,685
Other	535	201	334	166%	2,887	2,543	344	14%	2,546
Total operating expenses	<u>12,467</u>	<u>12,121</u>	<u>346</u>	<u>3%</u>	<u>156,477</u>	<u>156,742</u>	<u>(265)</u>	<u>0%</u>	<u>156,745</u>
Net operating income (loss)	<u>2,718</u>	<u>3,673</u>	<u>(955)</u>	<u>-26%</u>	<u>49,766</u>	<u>39,606</u>	<u>10,160</u>	<u>26%</u>	<u>39,603</u>
Interest and Other Expenses									
Interest income & other	449	228	221	97%	4,955	2,736	2,219	81%	2,736
Interest expense	2,062	700	1,362	195%	1,181	8,399	(7,218)	-86%	8,399
Gains and losses on investments (realized and unrealized)	(1,304)	-	(1,304)	*	2,401	-	2,401	*	-
Depreciation and amortization	4,550	4,550	-	0%	41,889	41,889	-	0%	13,800
Total interest and other expenses	<u>7,467</u>	<u>5,022</u>	<u>(163)</u>	<u>-3%</u>	<u>35,714</u>	<u>47,552</u>	<u>(7,036)</u>	<u>-15%</u>	<u>19,463</u>
Excess (Deficiency) of Revenues Over Expenses	<u>\$ (4,749)</u>	<u>\$ (1,349)</u>	<u>\$ (792)</u>	<u>59%</u>	<u>\$ 14,052</u>	<u>\$ (7,946)</u>	<u>\$ 17,196</u>	<u>-216%</u>	<u>\$ 20,140</u>
Number of Full-time Employees	<u>581</u>	<u>575</u>	<u>6</u>	<u>1%</u>					<u>575</u>

CALIFORNIA ISO**Balance Sheet (Preliminary and Unaudited)**

As of December 31, 2009

(dollars in thousands)

	<u>Current Month</u>	<u>Prior Month</u>	<u>Change</u>
ASSETS			
NET ELECTRIC UTILITY PLANT	<u>\$ 291,905</u>	<u>\$ 282,727</u>	<u>\$ 9,178</u>
CURRENT ASSETS			
Unrestricted Cash and Cash Equivalents	(24)	(728)	704
Restricted Cash and Cash Equivalents	386,766	527,216	(140,450)
Other Special Deposits	34,995	34,913	82
Accounts Receivable, net	37,610	57,767	(20,157)
Investments	229,359	206,472	22,887
Accrued Interest	1,798	1,522	276
Prepayments	8,808	8,514	294
Total Current Assets	<u>699,312</u>	<u>835,676</u>	<u>(136,364)</u>
NONCURRENT ASSET AND DEFERRED CHARGES			
Unamortized Debt Expenses and Other	4,181	4,423	(242)
Total Noncurrent Asset and Deferred Charges	<u>4,181</u>	<u>4,423</u>	<u>(242)</u>
TOTAL ASSETS	<u><u>\$ 995,398</u></u>	<u><u>\$ 1,122,826</u></u>	<u><u>\$ (127,428)</u></u>
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION			
Stakeholders' Surplus	\$ 252,768	\$ 257,517	\$ (4,749)
Long-term Debt	333,679	333,906	(227)
TOTAL CAPITALIZATION	<u>586,447</u>	<u>591,423</u>	<u>(4,976)</u>
CURRENT LIABILITIES			
Long-term Debt Due Within One Year	39,100	39,100	-
Accounts Payable	47,393	40,180	7,213
Customer Deposits & Other	275,886	405,593	(129,707)
Fines Subject to Refund	45,556	45,514	42
Total Current Liabilities	<u>407,935</u>	<u>530,387</u>	<u>(122,452)</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>408,951</u>	<u>531,403</u>	<u>(122,452)</u>
TOTAL CAPITALIZATION AND LIABILITIES	<u><u>\$ 995,398</u></u>	<u><u>\$ 1,122,826</u></u>	<u><u>\$ (127,428)</u></u>

CALIFORNIA ISO
Capital Projects Report (Preliminary and Unaudited)

For the year ended December 31, 2009
(dollars in thousands)

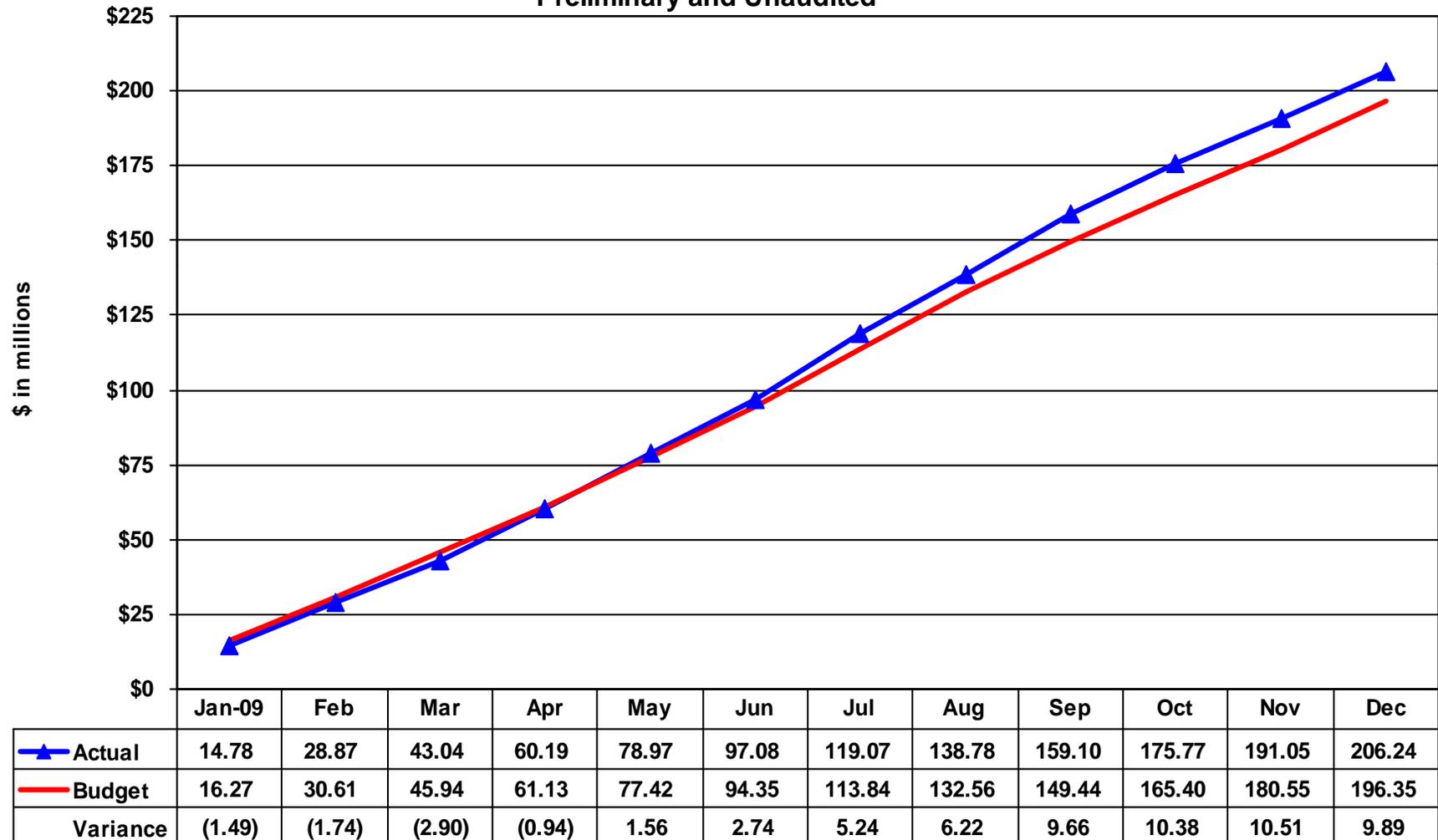
	Approved Projects				
	Month <u>Actual</u>	YTD <u>Actual</u>	2009 Approved <u>Projects</u>	Projected Costs for Approved <u>Projects</u>	Original 2009 <u>Budget</u>
Compliance/Regulatory	\$ 1,095	\$ 1,879	\$ 10,711	\$ 10,612	\$ 11,437
Essential / Corporate Infrastructure	905	6,831	9,847	9,310	10,134
Strategic Initiatives	50	352	1,090	1,069	6,846
Future Market Enhancements	595	2,064	8,849	8,834	6,584
Market Redesign	-	2,840	2,847	2,847	2,847
Technology Upgrade	-	731	657	657	657
Total 2009 Capital Spending	<u>2,645</u>	<u>14,697</u>	<u>34,001</u>	<u>33,329</u>	<u>38,504</u>
Iron Point Building	9,922	61,981	160,000	160,000	160,000
2008 Capital Projects	<u>453</u>	<u>7,834</u>	<u>160,000</u>	<u>11,036</u>	<u>11,036</u>
Total Capital	<u><u>\$ 13,021</u></u>	<u><u>\$ 84,512</u></u>	<u><u>\$ 194,001</u></u>	<u><u>\$ 204,365</u></u>	<u><u>\$ 209,540</u></u>

Notes:

*Prior year capital projects are funded by prior year rate collections.
The Iron Point Project Phase 2 is to be funded from 2009 bond proceeds.*

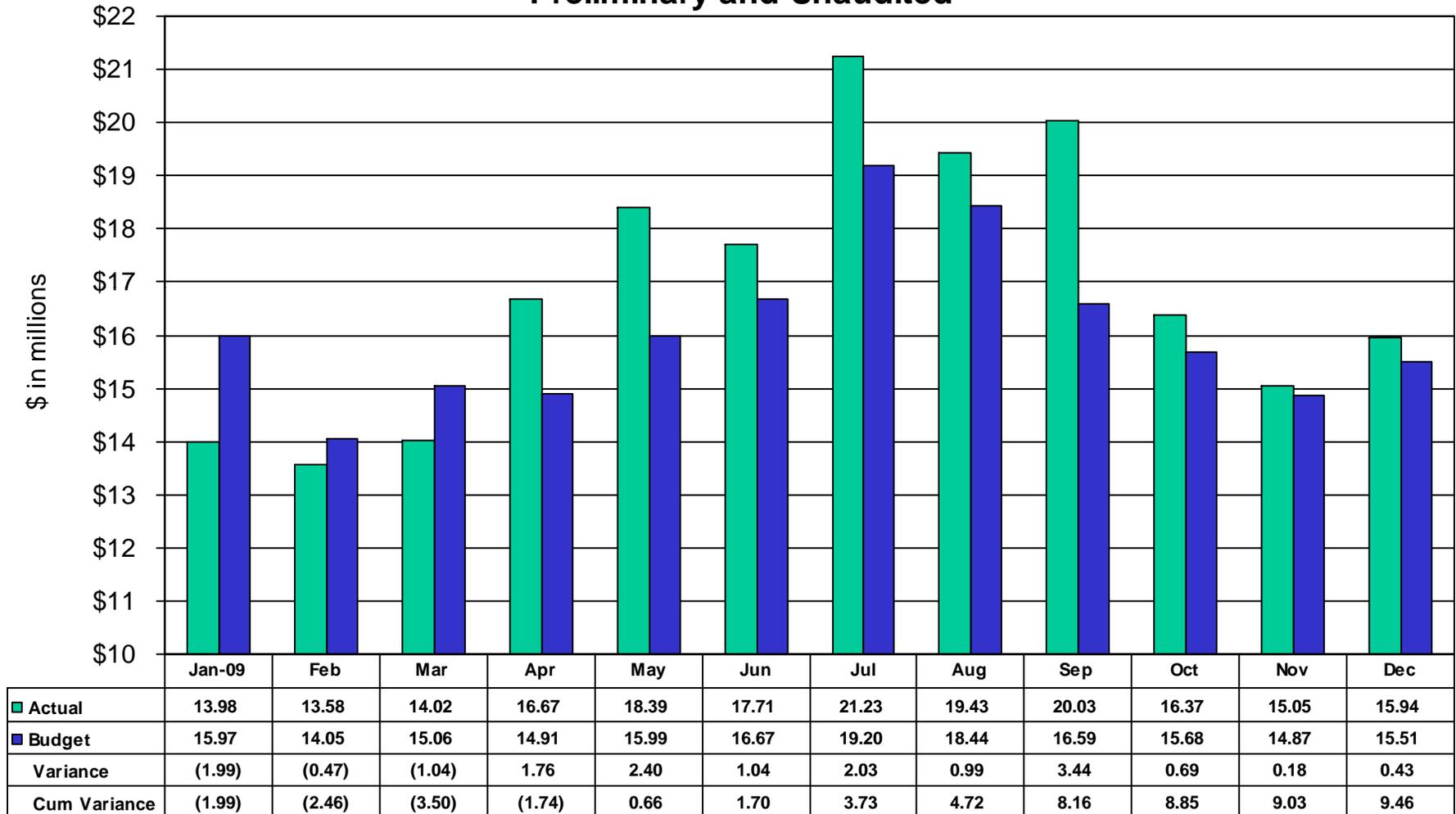
Cumulative Operating Revenues

Revenues = GMC, LGIP, WSCC Security & Other Fees
Preliminary and Unaudited

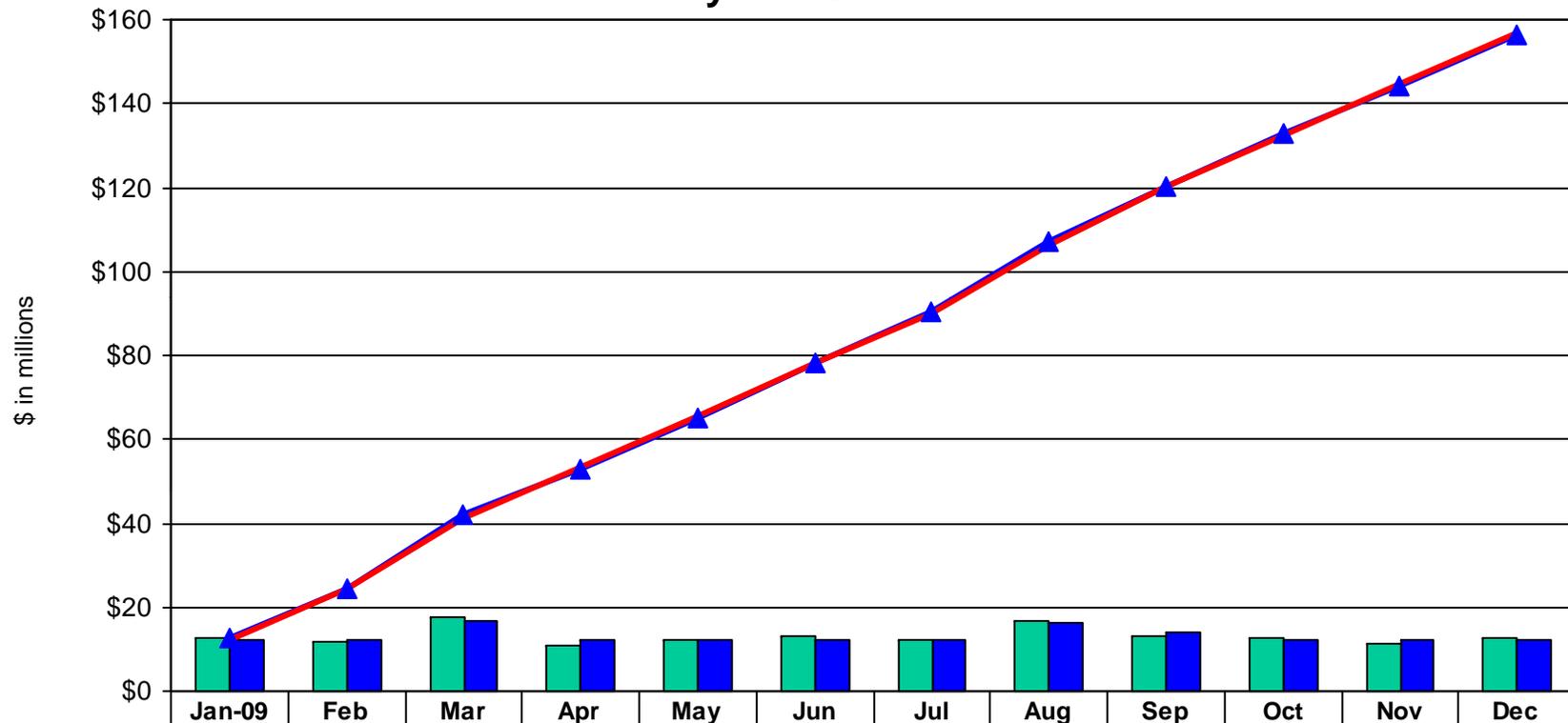


Monthly GMC Revenues

Preliminary and Unaudited



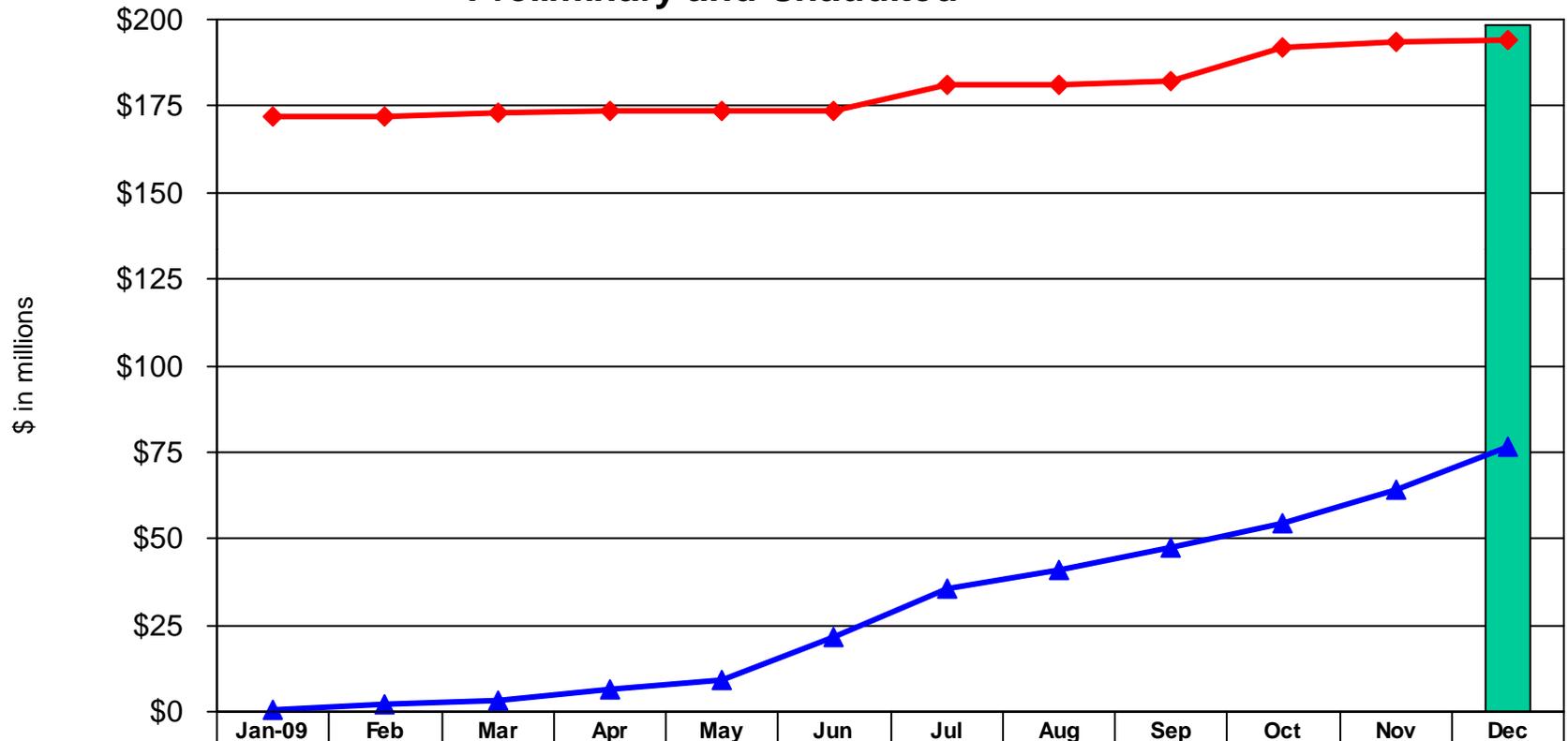
Operating and Maintenance Expenses (O&M) Preliminary and Unaudited



	Jan-09	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
 Monthly Actual	12.47	11.84	17.83	10.89	12.27	13.08	12.00	16.76	13.01	12.64	11.22	12.47
 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	24.31	42.14	53.03	65.30	78.38	90.38	107.14	120.15	132.79	144.01	156.48
 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)	0.16	(1.14)	0.22	0.34	(0.40)	(0.32)	(0.87)	0.21	(0.27)	0.61	0.26

Cumulative Capital Expenditures

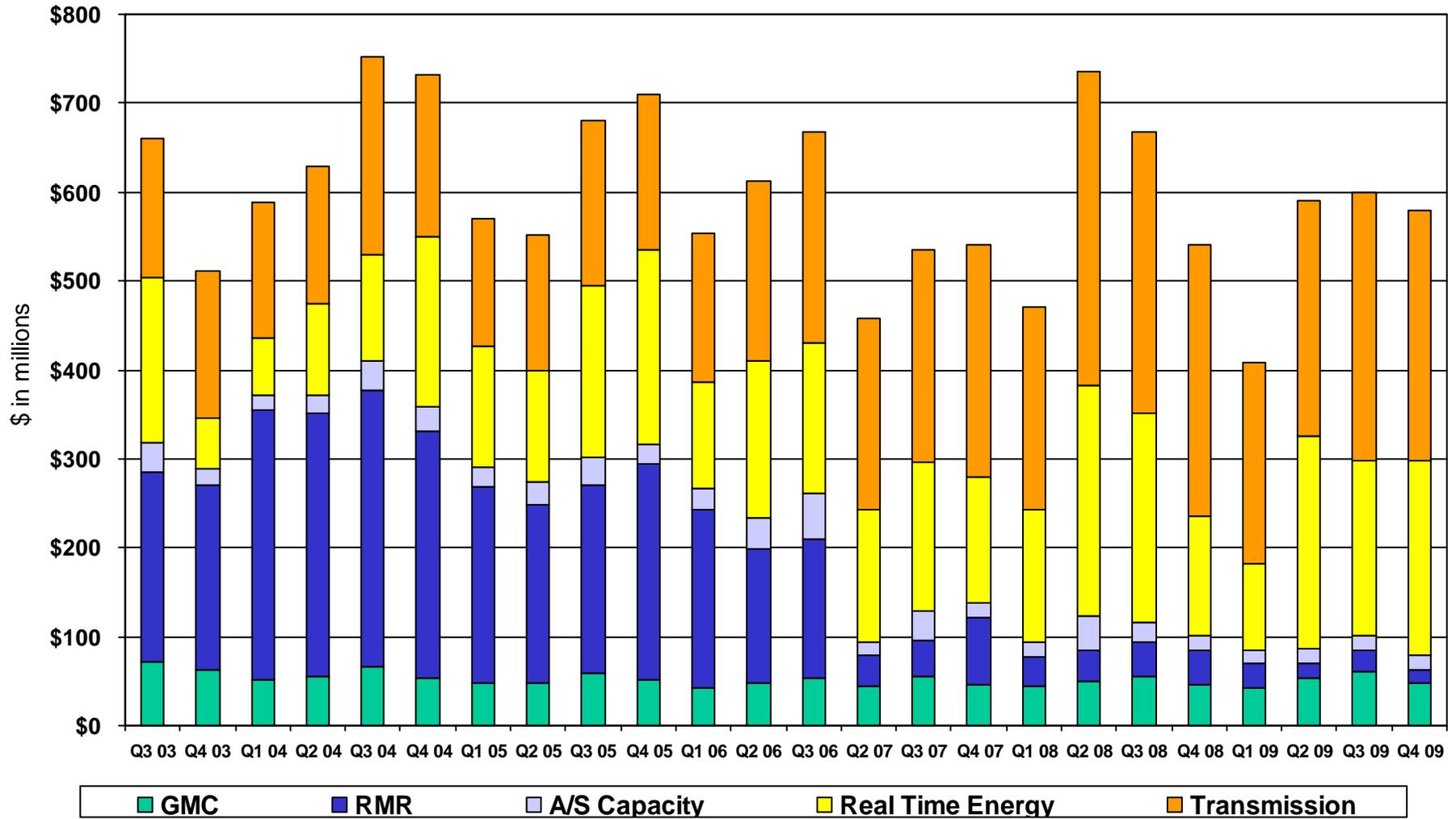
Preliminary and Unaudited



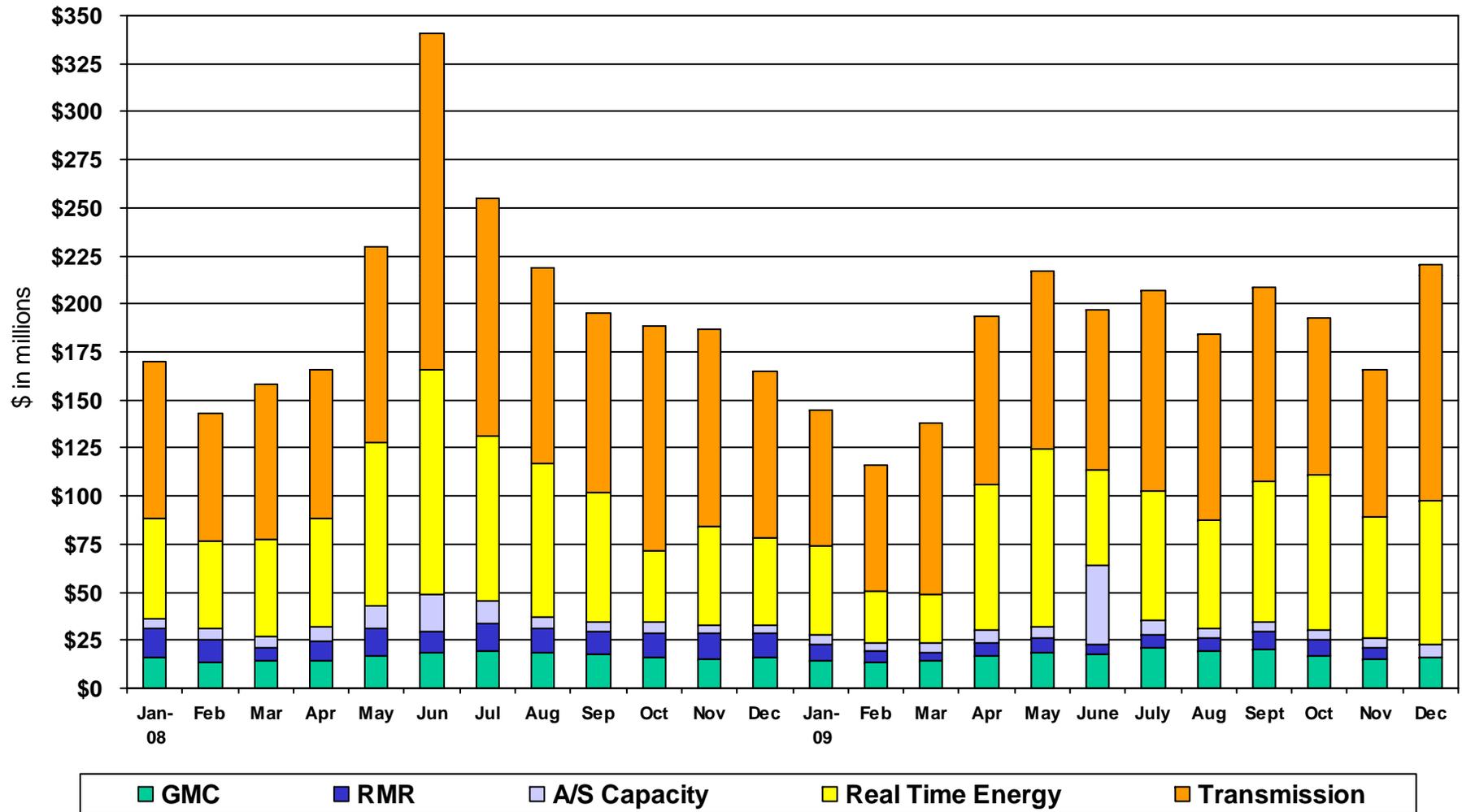
	Jan-09	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
 Budgeted capital												198.50
 Cumulative Expenditures	0.50	2.20	3.26	6.55	9.38	21.55	35.62	41.22	47.54	54.25	64.11	76.68
 Approved projects	172.21	172.21	172.85	173.55	173.55	173.55	181.10	181.10	182.30	192.15	193.80	194.00



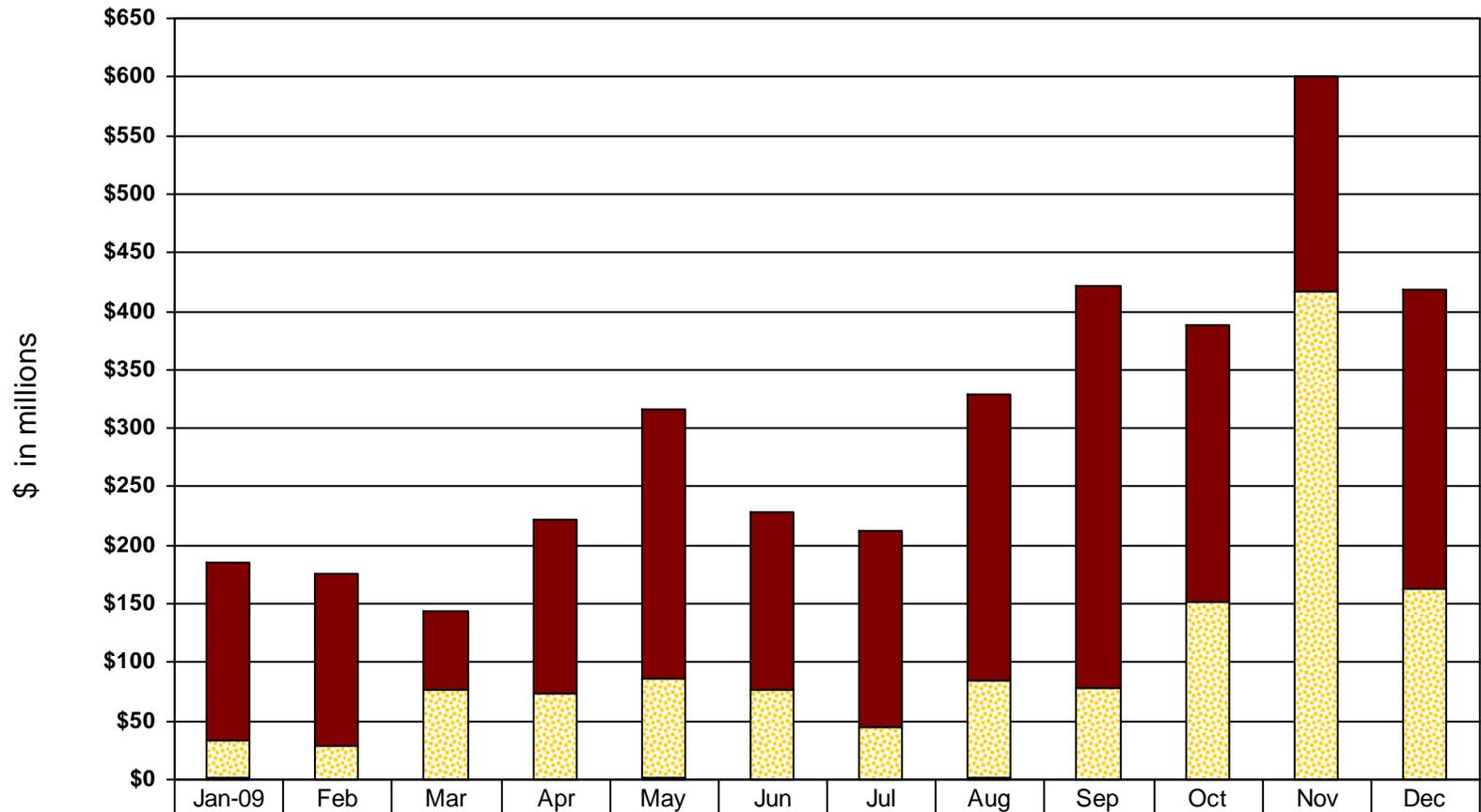
CAISO Market Costs By Quarter 3rd Quarter 2003 through 4th Quarter 2009



CAISO Market Costs By Month January 2008 through December 2009



Outstanding Obligations of Market Participants



■ Backed by UCL or GRN	151	147	67	148	229	151	169	245	343	237	184	255
■ Backed by posted security	33	29	76	74	86	77	44	83	78	151	417	163
■ Outstanding security requests	1	0	0	0	1	0	0	1	0	0	0	0

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

