



California ISO
Your Link to Power

California Independent
System Operator

MONTHLY FINANCIAL REPORT

September 2010

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Controller

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
MONTHLY FINANCIAL REPORT - September 30, 2010

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CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY

For the nine-months ended September 30, 2010

OPERATIONS: (pages 1, 4, 5, and 6)

- ♦ YTD operating revenues were \$870K under budget.
 - This is primarily due to lower GMC revenues during the period as a result of lower than budgeted volumes in the market caused by a reduction in energy exports and the prevailing economic conditions of the state. In April and July 2010, the Company adjusted the rates of some Grid Management Charge components in order to align the collection of revenues with the associated costs.
- ♦ YTD operating revenues were \$8.3M lower than the previous year.
 - This variance is primarily due to lower GMC revenues as a result of lower budgeted volumes (explained above).
- ♦ YTD O&M expenses were \$4.5M under budget.
 - This is primarily due to lower than expected year to date headcount reflected in salaries and benefits, and lower third party vendor contracts.
- ♦ YTD O&M expenses were \$1.2M lower than the previous year.
 - This variance is primarily due to decreased salaries and benefits because of less overtime and consulting and contracting expenses due to the implementation of the new market in 2009. This reduced expenditure is partially offset by higher legal and audit expenses related to the new building headquarters in 2010.
- ♦ Currently there are 595 full-time employees compared to 615 full-time employees budgeted. There were 575 full-time employees YTD last year.
 - Employee headcount is lower than budgeted due to the timing of hires and attrition.

INTEREST COSTS and INTEREST INCOME: (page 1)

- ♦ YTD Interest income and other were \$1.9M higher than budget.
 - Primarily due to interest earned on restricted funds which is a non-budgeted item that is treated as an adjustment to debt service costs for the year.
- ♦ YTD Interest income and other were higher by \$2.0M compared to the previous year due to larger investment balances.
- ♦ YTD Interest expense, as compared to budget, was higher by \$1.3 million due to interest expense adjustments related to the bonds for the period.
- ♦ YTD Interest expense was higher overall compared to last year due to the generator fines interest expense reversal and to the issuance of the 2009 bonds.
- ♦ YTD Gains and losses on investments are higher as a result of recovering bond prices.
- ♦ YTD Gains and losses on investments in 2010 are lower by \$2.7M compared to 2009 because the 2009 gains were primarily due to the initial recovery after the 2008 historic lows.

BALANCE SHEET: (page 2)

- ♦ Changes to the other accounts were mainly due to normal business activity during the month.
- ♦ The increase in Investments compared to the prior month is because of increased collateral and interconnection deposit amounts and the timing of the monthly investment of GMC funds. This increase is balanced by a decrease in Unrestricted Cash and Cash Equivalents and an increase in Customer Deposits and Other.

CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY

For the nine-months ended September 30, 2010

CAPITAL PROJECTS: (pages 3 and 7)

- ♦ The 2010 capital projects budget is \$31.0M, and is separate from the Iron Point budget of \$160.0M for the new facility. YTD 2010 capital projects approved through September totaled \$20.6M.
- ♦ Actual expenditures to date for 2010-approved capital projects and the new facility totaled \$7.1M and \$122.4M, respectively.
- ♦ Expenditures for 2009-approved capital projects totaled \$14.1M.

The ISO Markets

MARKET REVENUES: (page 8, 9 and 10)

- ♦ The total costs managed by the ISO include GMC, Reliability Must Run (RMR) charges, Ancillary Services Capacity, Energy (Real-time and Day-ahead), Transmission and Other, and InterSC Trades.
- ♦ Revenues from InterSC trades is now a significant share of our market revenues as a result of the new market.
- ♦ 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 11 and 12)

- ♦ Outstanding obligations of market participants reflects the seasonality of energy usage during the year.
- ♦ The increase in market obligations in November 2009 reflects the collateral requirements under payment acceleration and the requirements to participate in the annual congestion revenue rights auction in December.

CALIFORNIA ISO

Statement of Operations

For the nine-months ended September 30, 2010

(dollars in thousands)

	Year to Date					2010
	Actual	Budget	Variance	PY Actual	Variance	Budget
Revenues:						
Grid Management Charge	\$ 147,572	\$ 148,405	\$ (832)	\$ 155,042	\$ (7,469)	\$ 195,067
Fines, WSCC & Other Fees	3,190	3,225	(35)	4,069	(879)	4,300
Total revenues	150,762	151,630	(868)	159,111	(8,349)	199,367
Operating Expenses:						
Salaries and Benefits	81,937	84,243	(2,306)	82,676	\$ (738)	110,028
Building, Leases and Facility	6,790	7,047	(257)	6,333	457	9,396
Insurance	1,709	1,654	55	1,880	(171)	2,205
Third Party Vendor Contracts	11,427	13,471	(2,045)	12,053	(627)	17,962
Consulting and Contracting Services	8,974	8,043	932	11,026	(2,051)	11,022
Legal and Audit	3,485	4,222	(737)	2,452	1,033	5,630
Training, Travel and Professional Dues	2,737	2,815	(78)	1,820	917	3,797
Other	1,863	1,962	(99)	1,909	(47)	2,656
Total operating expenses	118,923	123,458	(4,535)	120,150	(1,227)	162,696
Net operating income (loss)	31,840	28,172	3,667	38,961	(7,121)	36,672
Interest and Other Expenses						
Interest income & other	4,778	2,850	1,928	2,756	2,023	2,736
Interest expense	13,432	12,134	1,297	(3,810)	17,242	8,399
Gains and losses on investments (realized and unrealized)	505	-	505	3,195	(2,691)	-
Depreciation and amortization	44,655	44,655	-	28,239	16,416	62,000
Total interest and other expenses	52,804	53,939	(127)	18,478	28,945	67,663
Excess (Deficiency) of Revenues Over Expenses	\$ (20,964)	\$ (25,767)	\$ 3,794	\$ 20,483	\$ (36,066)	\$ (30,991)
Number of Full-time Employees	595			575		615

CALIFORNIA ISO**Balance Sheet**

As of September 30, 2010

(dollars in thousands)

	<u>Current Month</u>	<u>Prior Month</u>	<u>Change</u>	<u>%</u>
ASSETS				
NET ELECTRIC UTILITY PLANT	<u>\$ 335,368</u>	<u>\$ 328,863</u>	<u>\$ 6,505</u>	2%
CURRENT ASSETS				
Unrestricted Cash and Cash Equivalents	1,873	23,218	(21,345)	-92%
Restricted Cash and Cash Equivalents	340,105	326,466	13,639	4%
Other Special Deposits	34,935	34,863	72	0%
Accounts Receivable, net	29,082	34,197	(5,115)	-15%
Investments	241,706	215,517	26,189	12%
Accrued Interest	1,017	1,244	(227)	-18%
Prepayments	7,765	6,912	853	12%
Total Current Assets	<u>656,483</u>	<u>642,417</u>	<u>14,066</u>	2%
NONCURRENT ASSET AND DEFERRED CHARGES				
Unamortized Debt Expenses and Other	3,796	4,233	(437)	-10%
Total Noncurrent Asset and Deferred Charges	<u>3,796</u>	<u>4,233</u>	<u>(437)</u>	-10%
TOTAL ASSETS	<u><u>\$ 995,647</u></u>	<u><u>\$ 975,513</u></u>	<u><u>\$ 20,134</u></u>	2%
CAPITALIZATION AND LIABILITIES				
CAPITALIZATION				
Stakeholders' Surplus	\$ 232,140	\$ 230,894	\$ 1,246	1%
Long-term Debt	289,803	289,978	(175)	0%
TOTAL CAPITALIZATION	<u>521,943</u>	<u>520,872</u>	<u>1,071</u>	0%
CURRENT LIABILITIES				
Long-term Debt Due Within One Year	42,250	42,250	-	0%
Accounts Payable	40,018	42,038	(2,020)	-5%
Customer Deposits & Other	343,062	322,367	20,695	6%
Fines Subject to Refund	47,141	46,753	388	1%
Total Current Liabilities	<u>472,471</u>	<u>453,408</u>	<u>19,063</u>	4%
NONCURRENT LIABILITY AND DEFERRED CREDITS				
Other	1,233	1,233	-	0%
Total Noncurrent Liability and Deferred Credits	<u>1,233</u>	<u>1,233</u>	<u>-</u>	0%
TOTAL LIABILITIES	<u>473,704</u>	<u>454,641</u>	<u>19,063</u>	4%
TOTAL CAPITALIZATION AND LIABILITIES	<u><u>\$ 995,647</u></u>	<u><u>\$ 975,513</u></u>	<u><u>\$ 20,134</u></u>	2%

CALIFORNIA ISO
Capital Projects Report

For the nine-months ended September 30, 2010
(dollars in thousands)

	Approved Projects				
	Month	YTD	2010	Total Projected	Original
	<u>Actual</u>	<u>Actual</u>	<u>Approved</u> <u>Projects</u>	<u>Costs for</u> <u>Approved</u> <u>Projects</u>	<u>2010</u> <u>Budget</u>
Customer Focus	\$ 8	\$ 165	\$ 1,907	\$ 1,907	\$ 821
Operational Excellence	113	650	5,782	5,782	13,620
Continuous Transformation	486	2,973	7,336	7,336	10,415
Reasonable Costs & Essential Projects	42	3,325	5,544	5,508	6,144
Total 2010 Capital Spending	<u>649</u>	<u>7,113</u>	<u>20,569</u>	<u>20,533</u>	<u>31,000</u>
Iron Point Building	5,334	122,410	-	160,000	160,000
2009 Capital Projects	<u>715</u>	<u>14,131</u>	<u>-</u>	<u>20,023</u>	<u>20,023</u>
Total Capital	<u>\$ 6,698</u>	<u>\$ 143,654</u>	<u>\$ 20,569</u>	<u>\$ 200,555</u>	<u>\$ 211,023</u>

Notes:

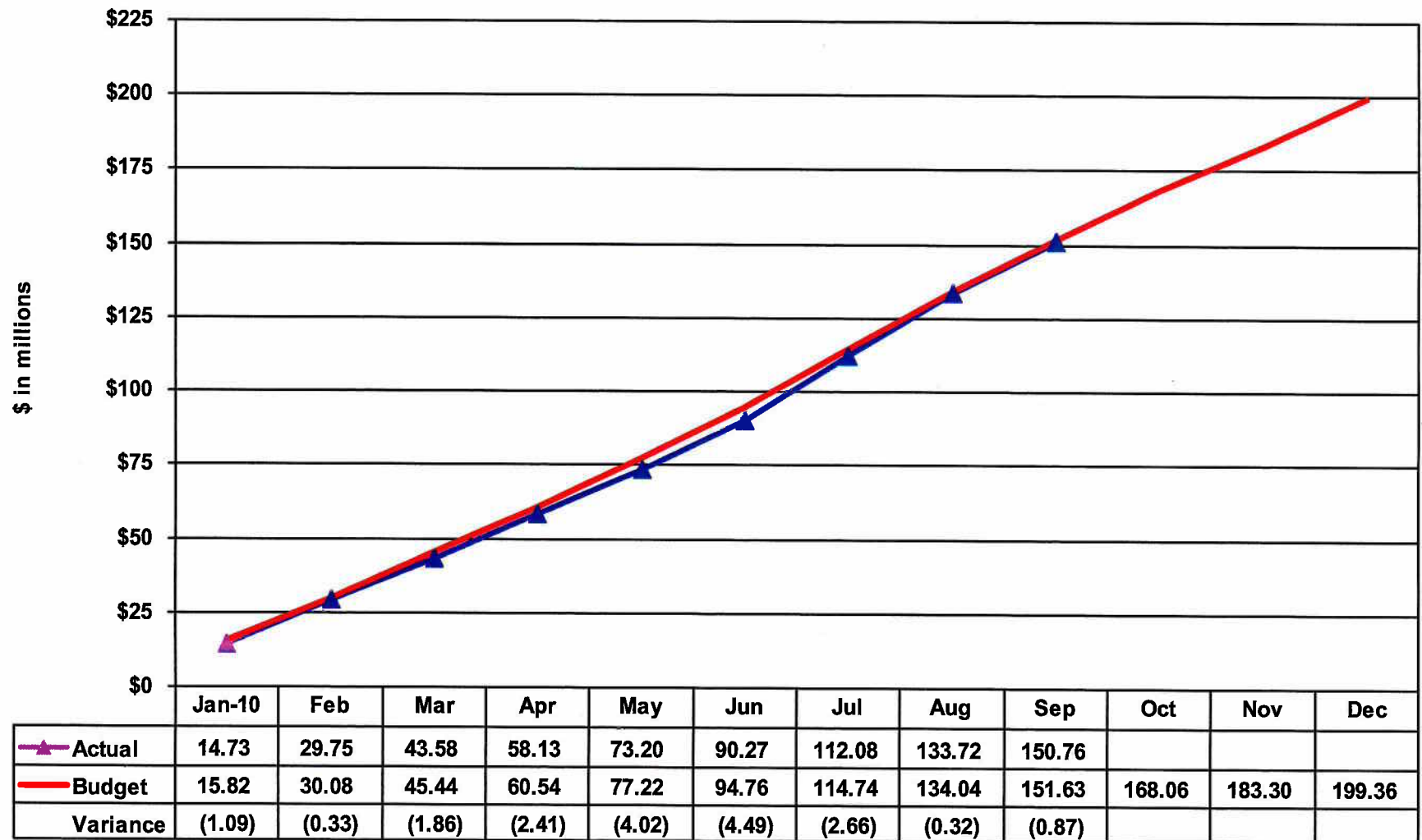
2009 capital projects are funded by prior year rate collections.

The Iron Point Project (Phase 2) is funded from the 2009 bond proceeds.



Cumulative Operating Revenues

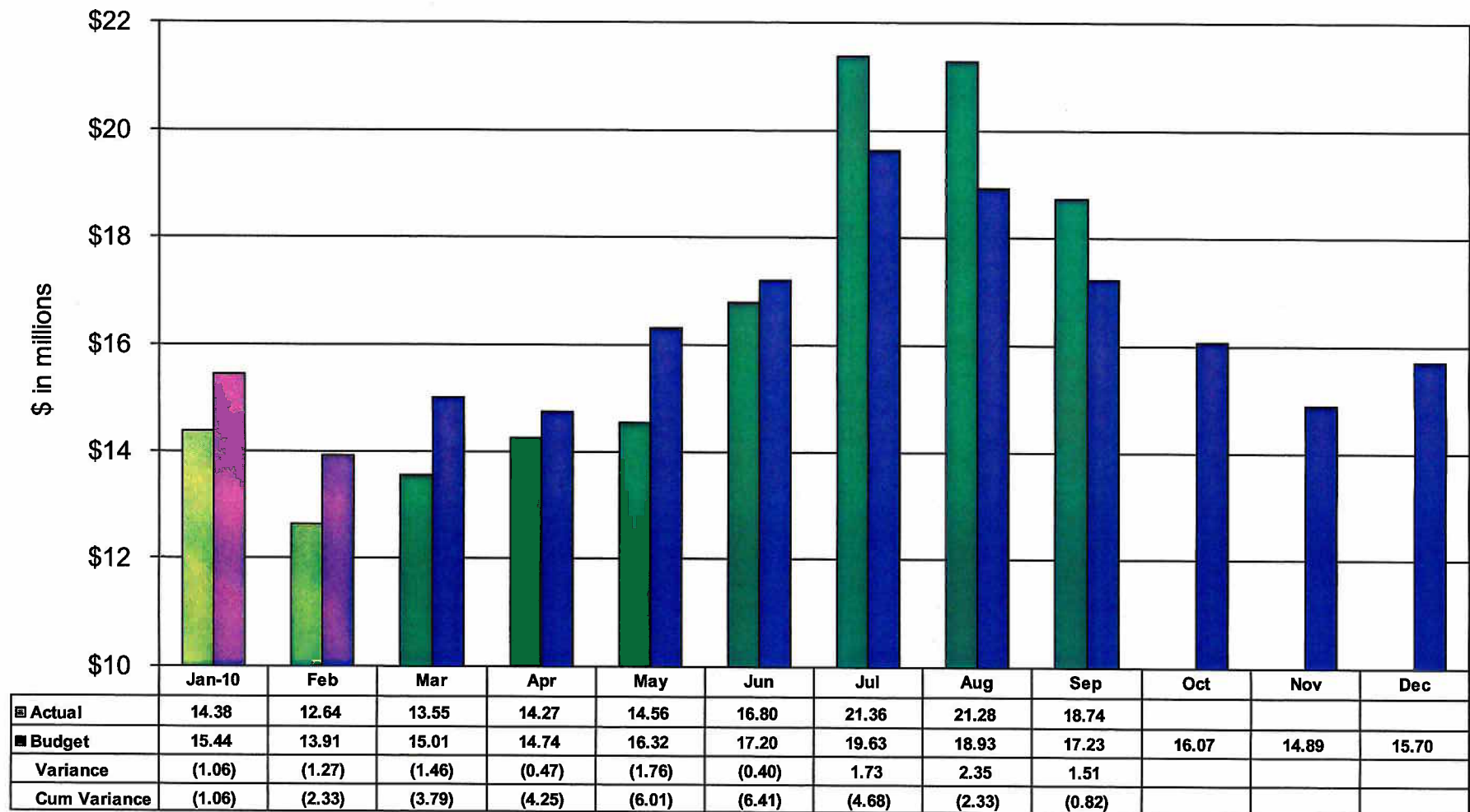
Revenues = GMC, LGIP, WSCC Security & Other Fees



September revenues are estimates.



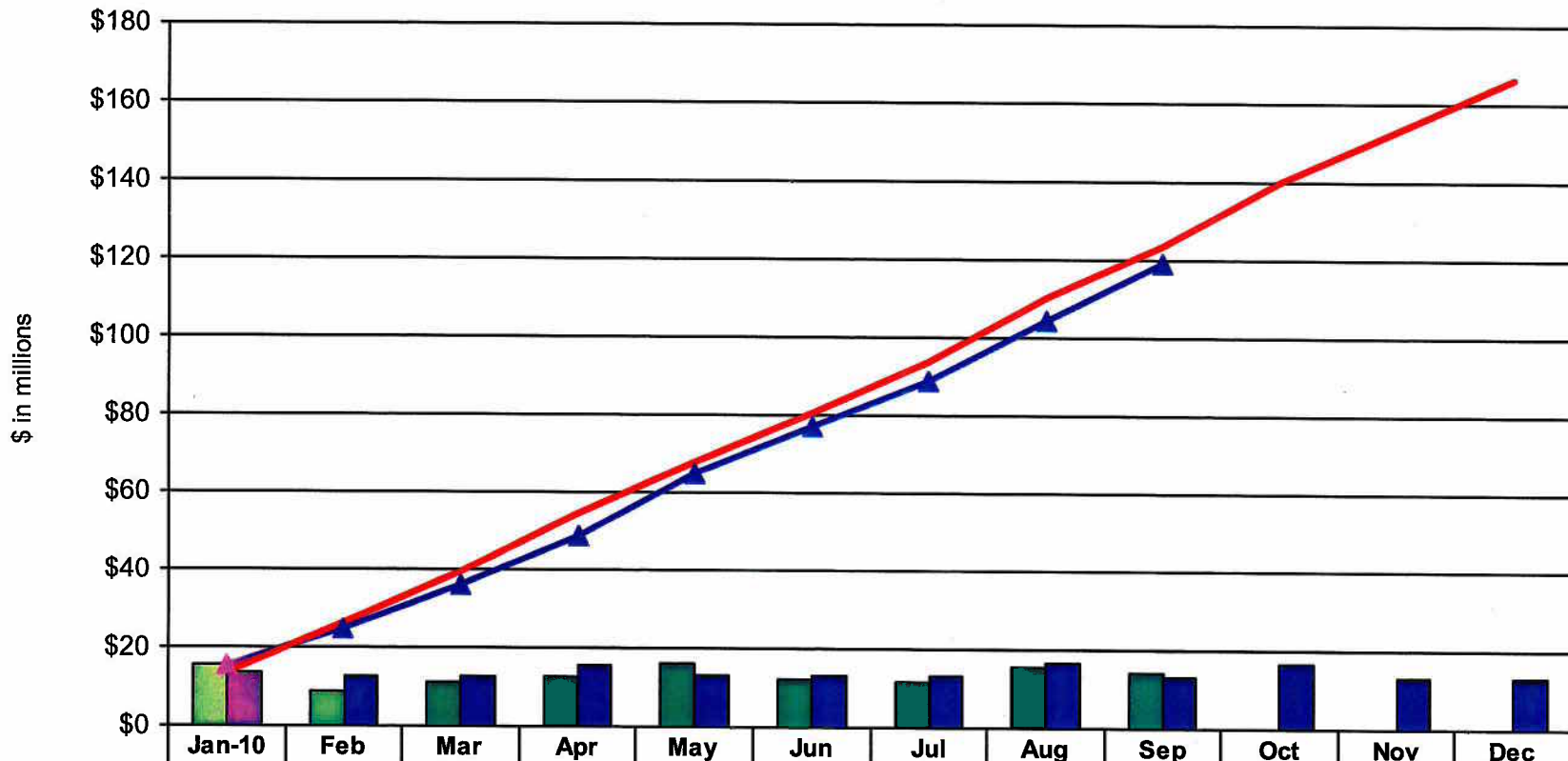
Monthly GMC Revenues



September revenues are estimates.



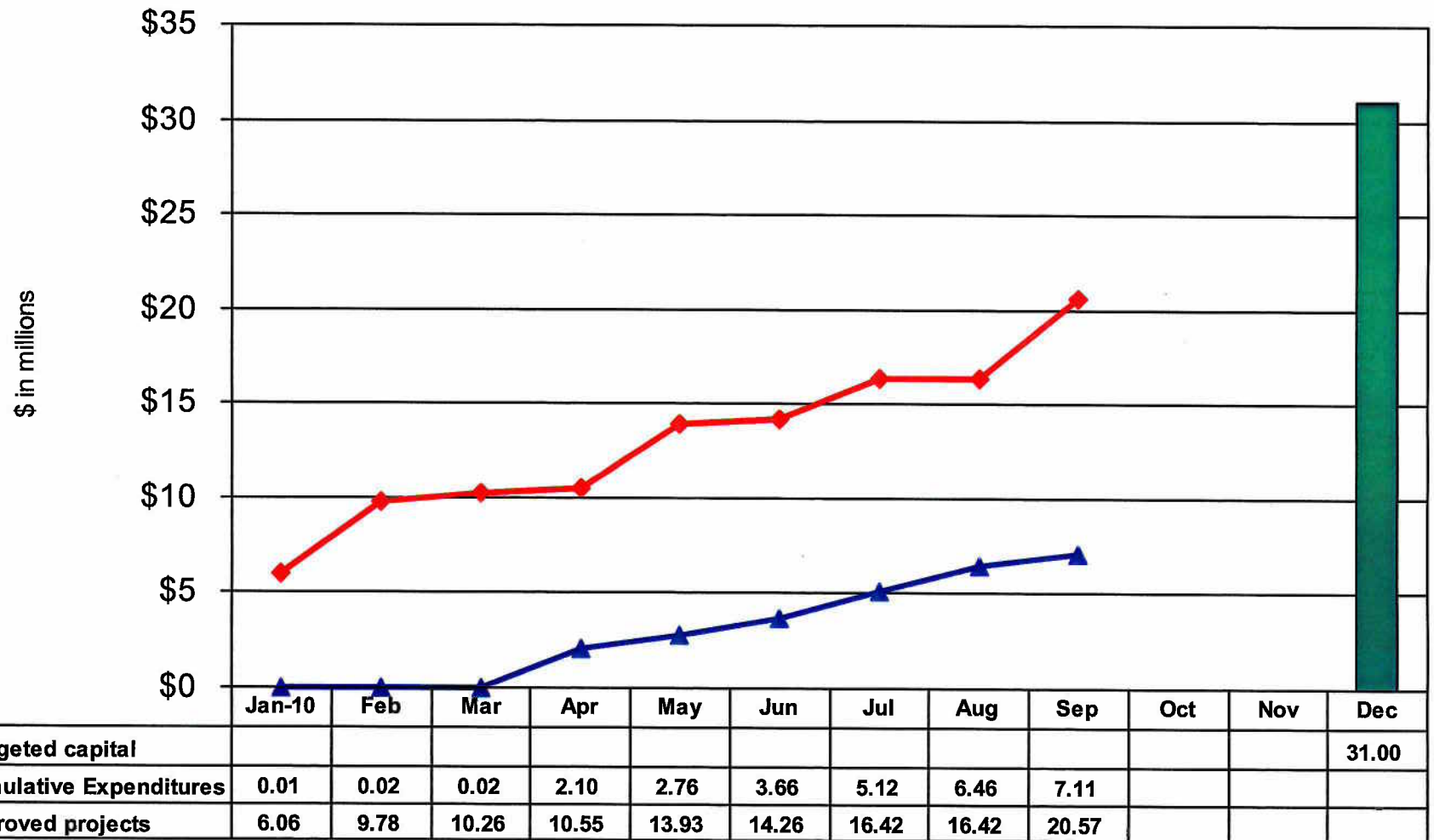
Operating and Maintenance Expenses (O&M)



	Jan-10	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	15.85	8.86	11.23	12.63	16.15	12.25	11.93	15.69	14.33			
Monthly Budget	13.62	12.86	12.87	15.39	13.02	12.97	13.09	16.60	13.05	16.60	13.10	13.10
Cum Actual	15.85	24.71	35.94	48.57	64.72	76.97	88.90	104.59	118.92			
Cum Budget	13.62	26.48	39.35	54.74	67.76	80.73	93.81	110.41	123.46	140.06	153.16	166.26
Cum Variance	(2.23)	1.77	3.41	6.17	3.04	3.76	4.91	5.82	4.54			

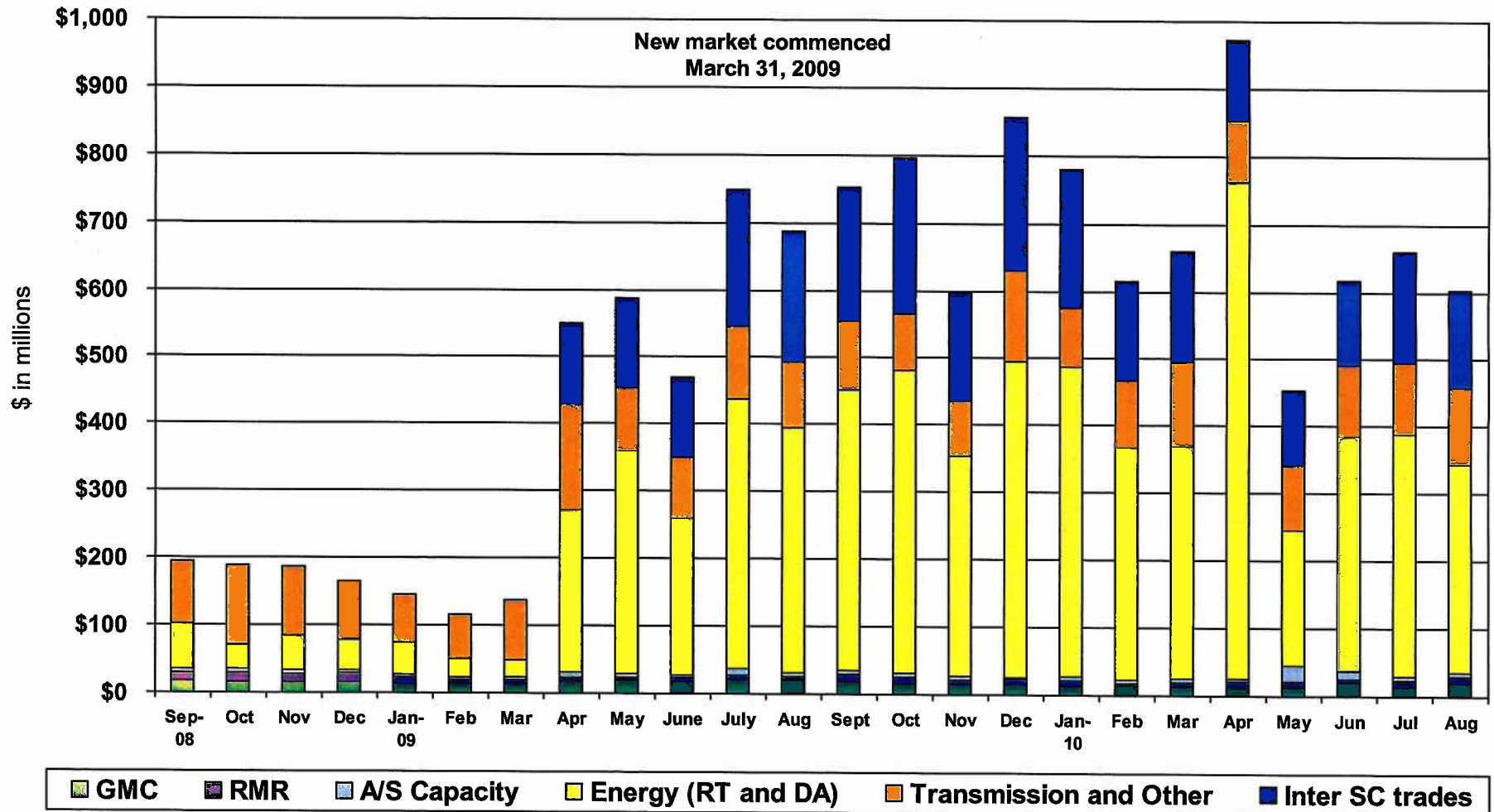


Cumulative Capital Expenditures



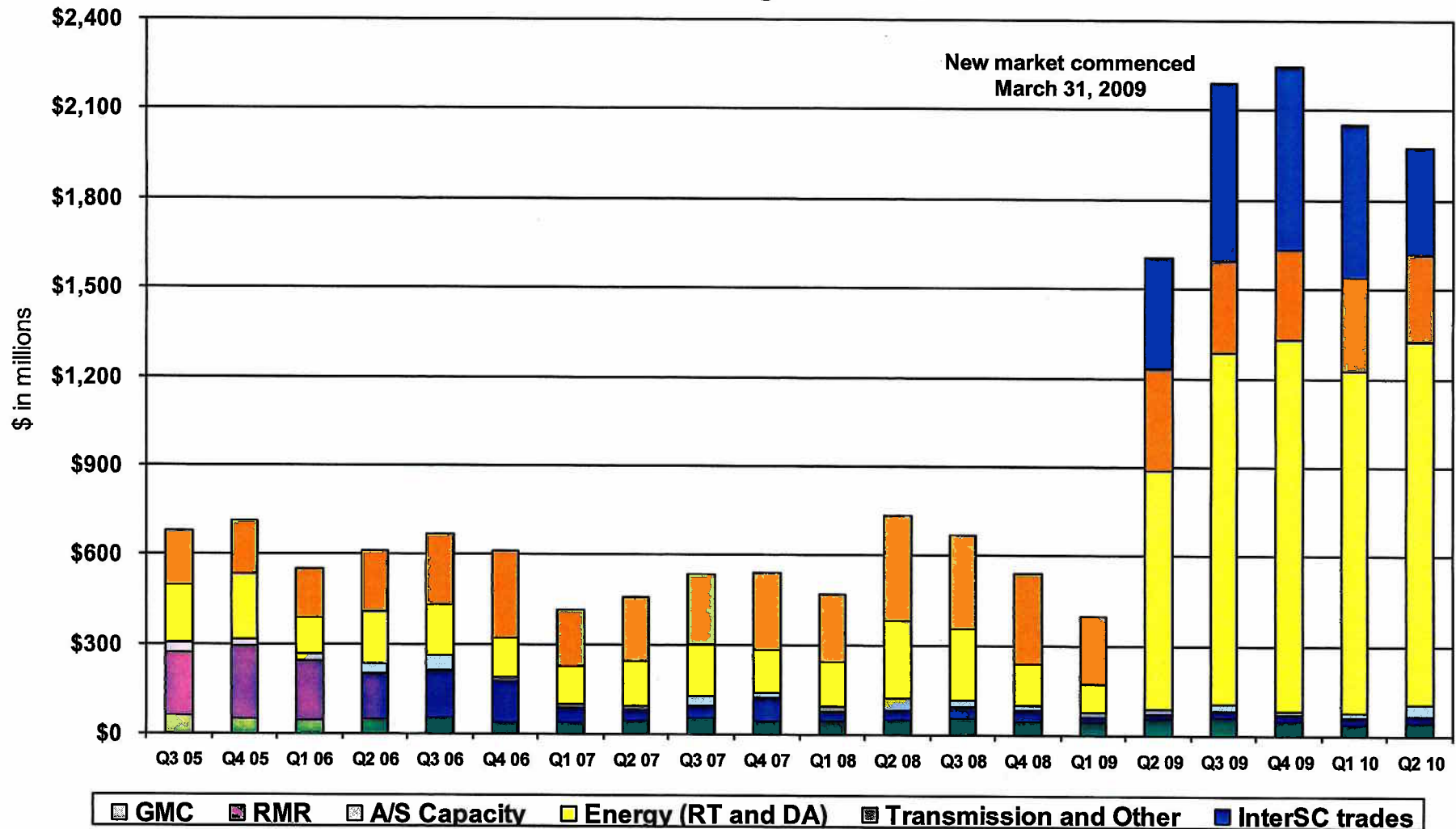


CAISO Market Revenues By Month September 2008 through August 2010



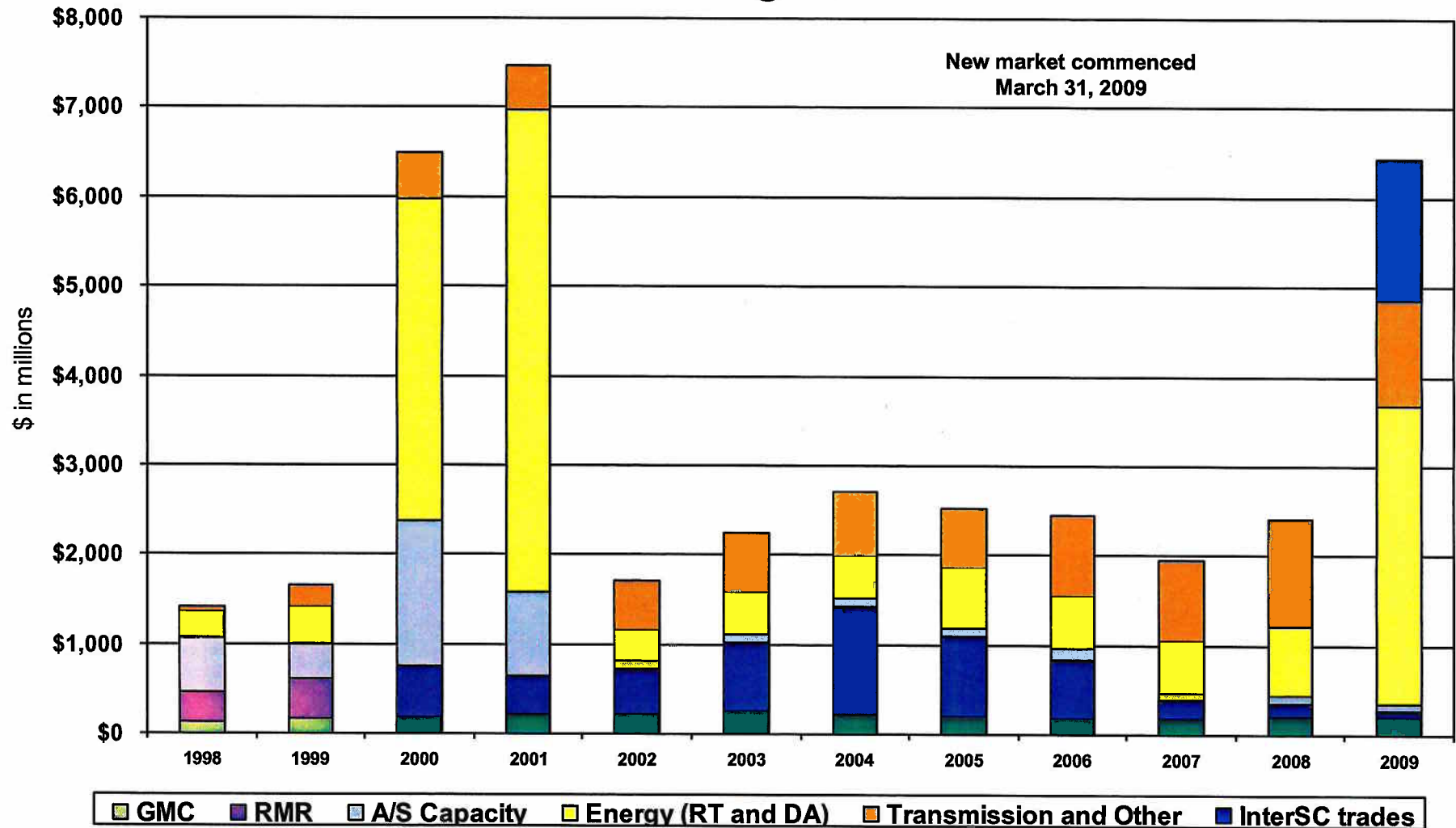


CAISO Market Revenues By Quarter 2nd Quarter 2005 through 2nd Quarter 2010



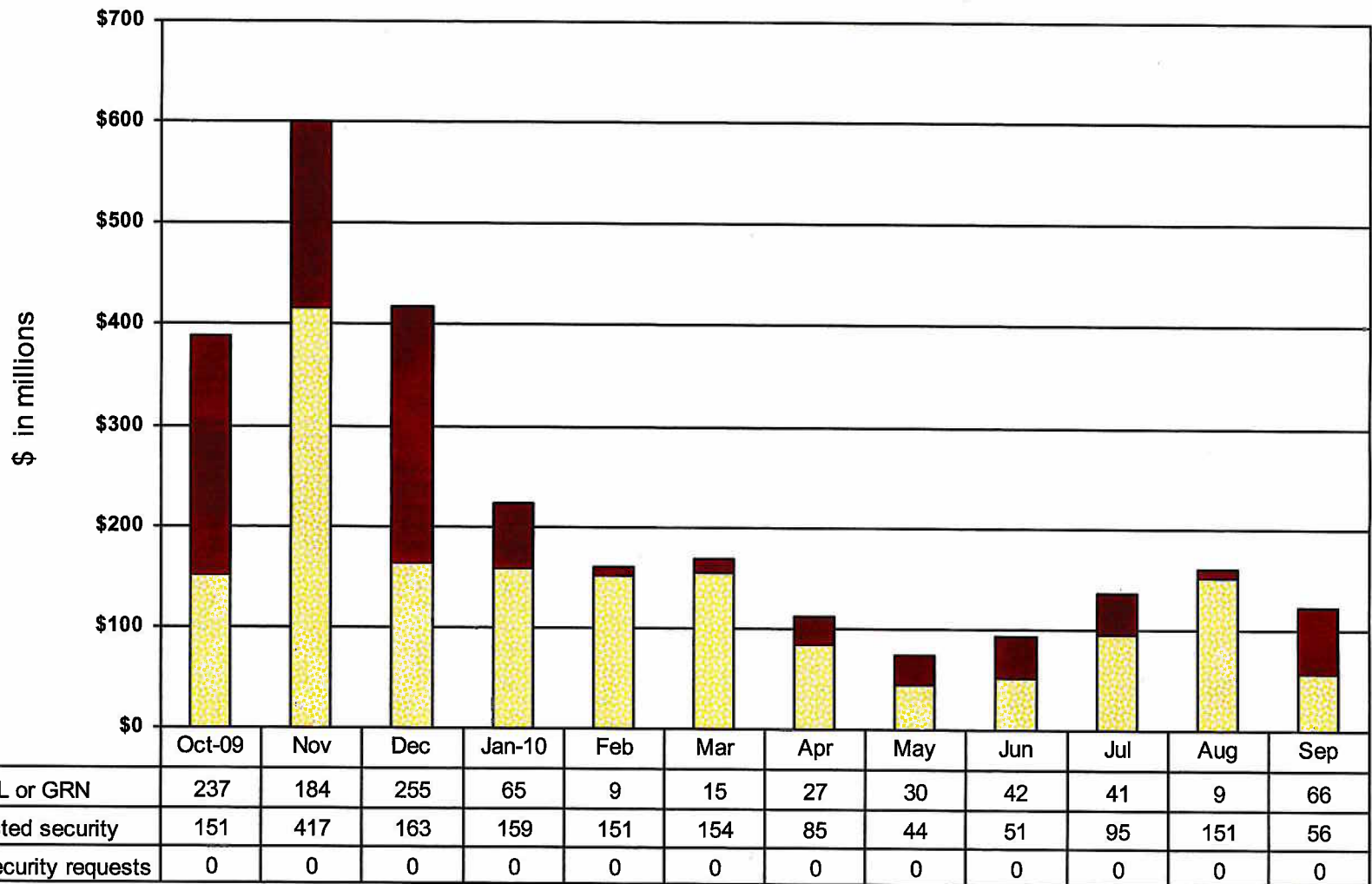


CAISO Market Revenues By Year 1998 through 2009





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

