

MONTHLY FINANCIAL REPORT

December 2010

Preliminary and Unaudited

Denise Walsh

Controller

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
MONTHLY FINANCIAL REPORT - December 31, 2010 (Preliminary and Unaudited)

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CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY (Preliminary and Unaudited)

For the year ended December 31, 2010

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

- ◆ YTD operating revenues were \$8.1M over budget.
This is primarily due to higher GMC revenues during the period as a result of higher volumes in the market and the impact of the adjustment of some GMC component rates earlier in the year. In April and July 2010, the Company adjusted the rates of some GMC components in order to align the collection of revenues with associated costs.
- ◆ YTD operating revenues were \$1.2M higher than the previous year.
 - This variance is primarily due to the recognition of additional generator fine revenue of \$1.4M due to further mitigation of energy transactions related to the FERC refund case.
- ◆ YTD O&M expenses were \$7.2M 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 \$8.4M lower than the previous year.
 - This variance is primarily due to lower consulting and contracting expenses and third party vendor contracts in 2010 compared to 2009 when these costs were higher because of the implementation of the new market in 2009.
- ◆ Currently there are 579 full-time employees compared to 615 full-time employees budgeted. There were 581 full-time employees YTD last year.
 - Employee headcount is lower than budgeted due to the 2010 realignment process and to the timing of hires and attrition.

INTEREST COSTS and INTEREST INCOME: (page 1)

- ◆ YTD Interest income and other were \$2.5M 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 \$1.3M compared to the previous year due to larger investment balances.
- ◆ YTD Interest expense, as compared to budget, was higher by \$0.7 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 reflect a net loss based on market activity.
- ◆ YTD Gains and losses on investments in 2010 are lower by \$3.0M compared to 2009 because the 2009 gains were primarily due to the market recovery after the 2008 historic lows.

BALANCE SHEET: (page 2)

- ◆ The decrease in unrestricted cash and cash equivalents compared to the prior month is due the distribution of the generator fines funds as a result of the settlement.
- ◆ Additionally, certain unrestricted cash and cash equivalents were moved to longer term investments during the month.
- ◆ The decrease in restricted cash and cash equivalents compared to the prior month is due collateral returns and market clearing activities.
- ◆ Changes to the other accounts were mainly due to normal business activity during the month.

CALIFORNIA ISO
SUMMARY, DISCUSSION AND COMMENTARY (Preliminary and Unaudited)

For the year ended December 31, 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 December totaled \$25.7M.
- ♦ Actual expenditures to date for 2010-approved capital projects and the new facility totaled \$12.7M and \$136.1M, respectively.
- ♦ Expenditures for 2009-approved capital projects totaled \$17.7M.

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).

CALIFORNIA ISO

Statement of Operations (Preliminary and Unaudited)

For the year ended December 31, 2010

(dollars in thousands)

	Year to Date					2010 Budget
	Actual	Budget	Variance	PY Actual	Variance	
Revenues:						
Grid Management Charge	\$ 201,823	\$ 195,067	\$ 6,756	\$ 202,353	\$ (529)	\$ 195,067
Fines, WSCC & Other Fees	5,672	4,300	1,372	4,020	1,652	4,300
Total revenues	<u>207,495</u>	<u>199,367</u>	<u>8,127</u>	<u>206,372</u>	<u>1,122</u>	<u>199,367</u>
Operating Expenses:						
Salaries and Benefits	109,123	110,028	(905)	109,139	\$ (16)	110,028
Building, Leases and Facility	8,725	9,396	(671)	8,912	(186)	9,396
Insurance	2,037	2,205	(168)	2,007	29	2,205
Third Party Vendor Contracts	14,238	17,962	(3,724)	16,359	(2,121)	17,962
Consulting and Contracting Services	12,170	11,022	1,148	16,727	(4,557)	11,022
Legal and Audit	3,552	5,630	(2,078)	4,186	(634)	5,630
Training, Travel and Professional Dues	2,827	3,797	(969)	3,669	(842)	3,797
Other	2,838	2,656	183	2,910	(72)	2,656
Total operating expenses	<u>155,511</u>	<u>162,696</u>	<u>(7,185)</u>	<u>163,910</u>	<u>(8,399)</u>	<u>162,696</u>
Net operating income (loss)	<u>51,984</u>	<u>36,672</u>	<u>15,312</u>	<u>42,462</u>	<u>9,522</u>	<u>36,672</u>
Interest and Other Expenses						
Interest income & other	6,257	3,800	2,457	4,990	1,267	2,736
Interest expense	16,883	16,197	687	(3,144)	20,027	8,399
Gains and losses on investments (realized and unrealized)	(626)	-	(626)	2,402	(3,028)	-
Depreciation and amortization	54,798	54,798	-	42,784	12,014	62,000
Total interest and other expenses	<u>66,050</u>	<u>67,194</u>	<u>(2,397)</u>	<u>32,249</u>	<u>27,745</u>	<u>67,663</u>
Excess (Deficiency) of Revenues Over Expenses	<u>\$ (14,066)</u>	<u>\$ (30,523)</u>	<u>\$ 17,709</u>	<u>\$ 10,213</u>	<u>\$ (18,224)</u>	<u>\$ (30,991)</u>
Number of Full-time Employees	<u>579</u>			<u>581</u>		<u>615</u>

CALIFORNIA ISO
Balance Sheet (Preliminary and Unaudited)

As of December 31, 2010

(dollars in thousands)

	<u>Current Month</u>	<u>Prior Month</u>	<u>Change</u>	<u>%</u>
ASSETS				
NET ELECTRIC UTILITY PLANT	<u>\$ 343,130</u>	<u>\$ 336,569</u>	<u>\$ 6,561</u>	2%
CURRENT ASSETS				
Unrestricted Cash and Cash Equivalents	10,137	85,427	(75,289)	-88%
Restricted Cash and Cash Equivalents	300,641	346,683	(46,042)	-13%
Other Special Deposits	35,013	35,012	1	0%
Accounts Receivable, net	26,691	29,196	(2,506)	-9%
Investments	193,449	169,254	24,194	14%
Accrued Interest	1,446	1,270	177	14%
Prepayments	<u>7,767</u>	<u>8,270</u>	<u>(502)</u>	-6%
Total Current Assets	<u>575,144</u>	<u>675,111</u>	<u>(99,967)</u>	-15%
NONCURRENT ASSET AND DEFERRED CHARGES				
Unamortized Debt Expenses and Other	4,190	4,206	(16)	0%
Total Noncurrent Asset and Deferred Charges	<u>4,190</u>	<u>4,206</u>	<u>(16)</u>	0%
TOTAL ASSETS	<u><u>\$ 922,465</u></u>	<u><u>\$ 1,015,887</u></u>	<u><u>\$ (93,422)</u></u>	-9%
CAPITALIZATION AND LIABILITIES				
CAPITALIZATION				
Stakeholders' Surplus	\$ 237,356	\$ 233,628	\$ 3,728	2%
Long-term Debt	<u>289,277</u>	<u>289,452</u>	<u>(175)</u>	0%
TOTAL CAPITALIZATION	<u>526,633</u>	<u>523,081</u>	<u>3,553</u>	1%
CURRENT LIABILITIES				
Long-term Debt Due Within One Year	42,250	42,250	-	0%
Accounts Payable	41,391	37,251	4,139	11%
Customer Deposits & Other	309,410	364,653	(55,243)	-15%
Fines Subject to Refund	1,270	47,141	(45,871)	-97%
Total Current Liabilities	<u>394,321</u>	<u>491,296</u>	<u>(96,975)</u>	-20%
NONCURRENT LIABILITY AND DEFERRED CREDITS				
Other	1,510	1,510	-	0%
Total Noncurrent Liability and Deferred Credits	<u>1,510</u>	<u>1,510</u>	<u>-</u>	0%
TOTAL LIABILITIES	<u>395,831</u>	<u>492,806</u>	<u>(96,975)</u>	-20%
TOTAL CAPITALIZATION AND LIABILITIES	<u><u>\$ 922,465</u></u>	<u><u>\$ 1,015,887</u></u>	<u><u>\$ (93,422)</u></u>	-9%

CALIFORNIA ISO
Capital Projects Report (Preliminary and Unaudited)

For the year ended December 31, 2010
(dollars in thousands)

	Approved Projects				
	<u>Month</u> <u>Actual</u>	<u>YTD</u> <u>Actual</u>	<u>2010</u> <u>Approved</u> <u>Projects</u>	<u>Total Projected</u> <u>Costs for</u> <u>Approved</u> <u>Projects</u>	<u>Original</u> <u>2010</u> <u>Budget</u>
Customer Focus	\$ 209	\$ 590	\$ 1,907	\$ 1,907	\$ 821
Operational Excellence	401	1,524	9,482	9,388	13,620
Continuous Transformation	1,203	5,554	7,740	7,769	10,415
Reasonable Costs & Essential Projects	366	4,995	6,600	6,351	6,144
Total 2010 Capital Spending	<u>2,179</u>	<u>12,663</u>	<u>25,729</u>	<u>25,415</u>	<u>31,000</u>
Iron Point Building	3,353	136,120	-	160,000	160,000
2009 Capital Projects	<u>1,211</u>	<u>17,731</u>	<u>-</u>	<u>20,023</u>	<u>20,023</u>
Total Capital	<u><u>\$ 6,743</u></u>	<u><u>\$ 166,514</u></u>	<u><u>\$ 25,729</u></u>	<u><u>\$ 205,438</u></u>	<u><u>\$ 211,023</u></u>

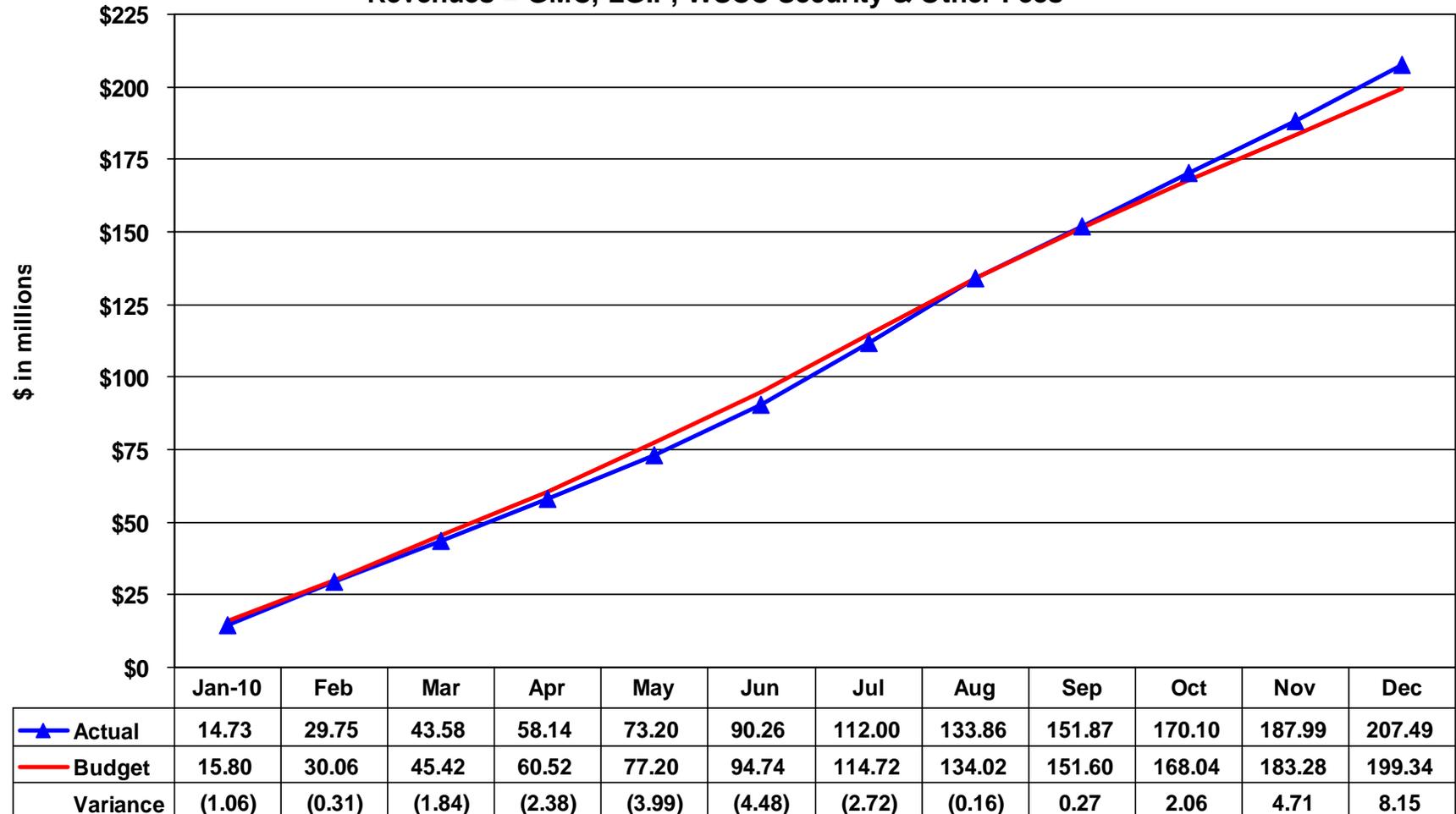
Notes:

*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

Preliminary and Unaudited

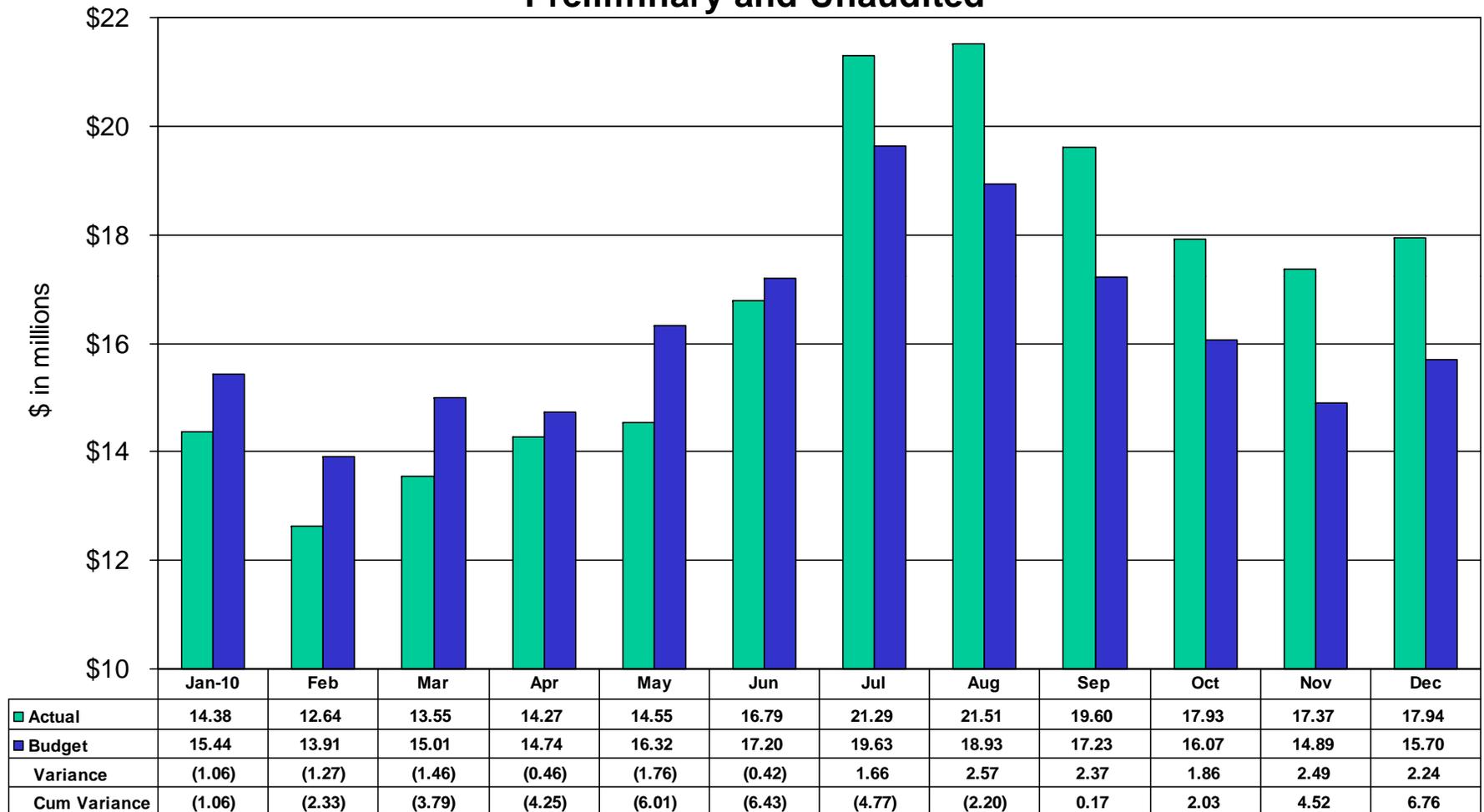
Revenues = GMC, LGIP, WSCC Security & Other Fees



December revenues are estimates.

Monthly GMC Revenues

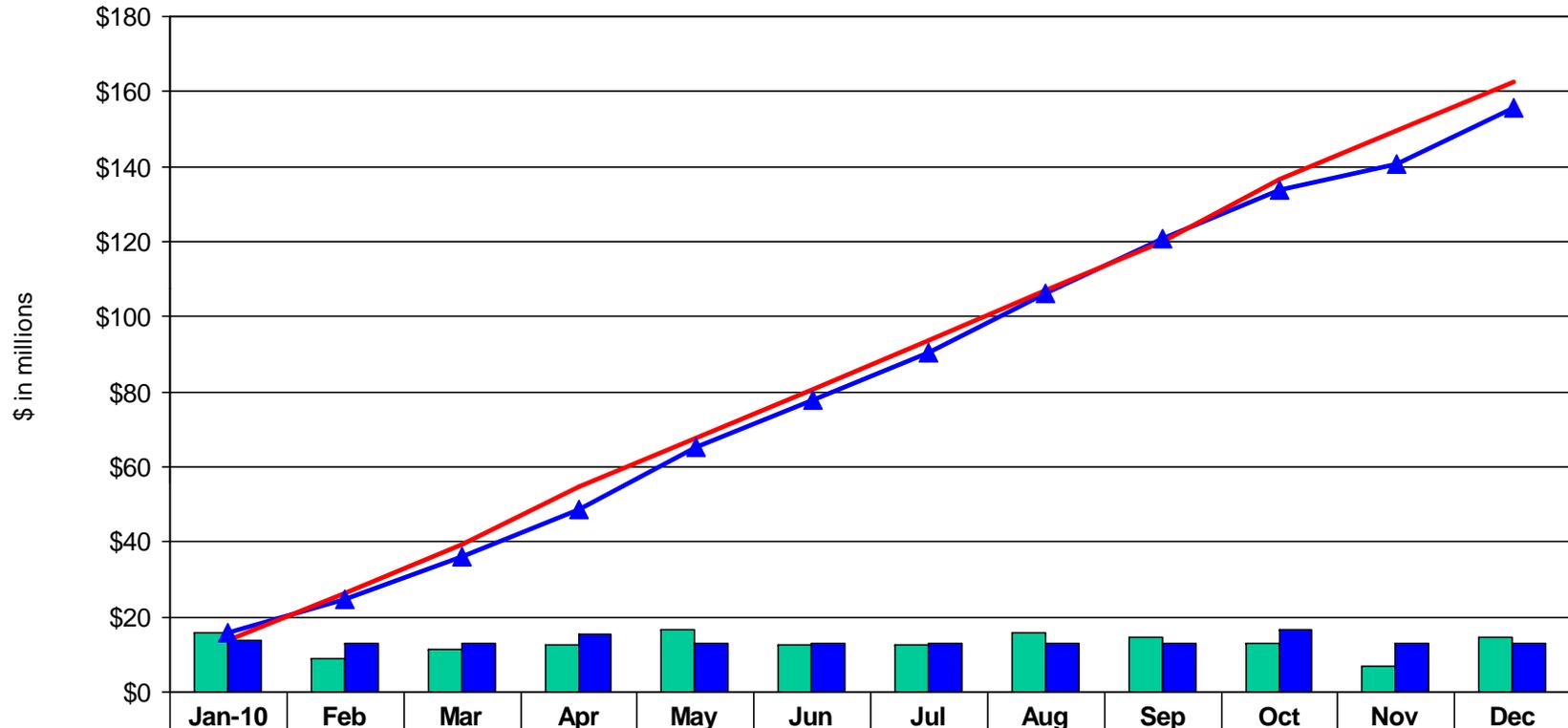
Preliminary and Unaudited



December revenues are estimates.

Operating and Maintenance Expenses (O&M)

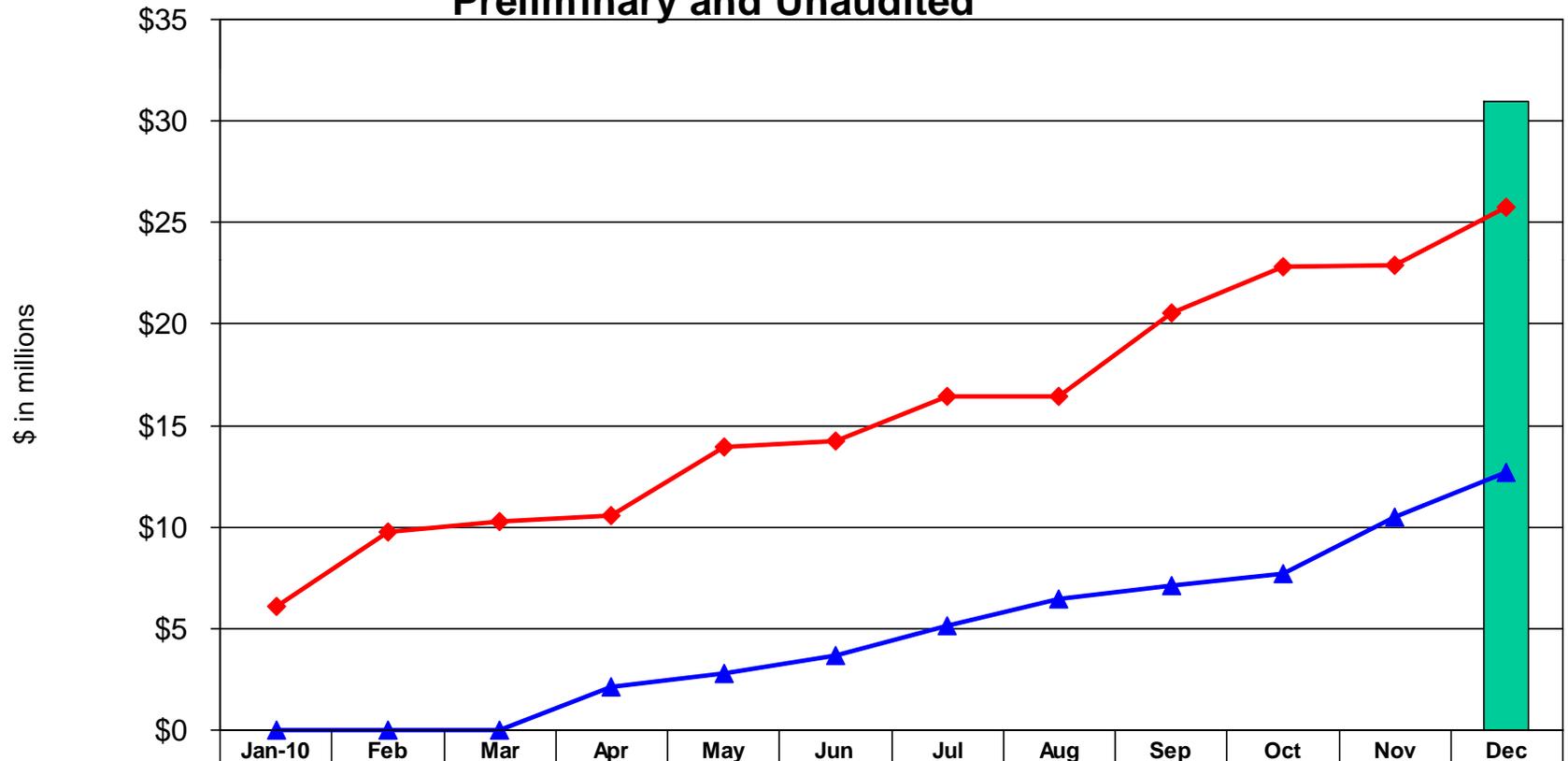
Preliminary and Unaudited



	Jan-10	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
 Monthly Actual	15.84	8.97	11.43	12.60	16.43	12.52	12.54	15.95	14.52	12.96	6.98	14.76
 Monthly Budget	13.60	12.86	12.87	15.39	13.02	12.97	13.09	13.13	13.11	16.55	13.05	13.05
 Cum Actual	15.84	24.81	36.25	48.85	65.28	77.80	90.34	106.29	120.81	133.77	140.75	155.51
 Cum Budget	13.60	26.47	39.34	54.73	67.75	80.72	93.80	106.93	120.04	136.59	149.64	162.69
Cum Variance	(2.23)	1.65	3.09	5.87	2.46	2.92	3.46	0.64	(0.77)	2.82	8.89	7.17

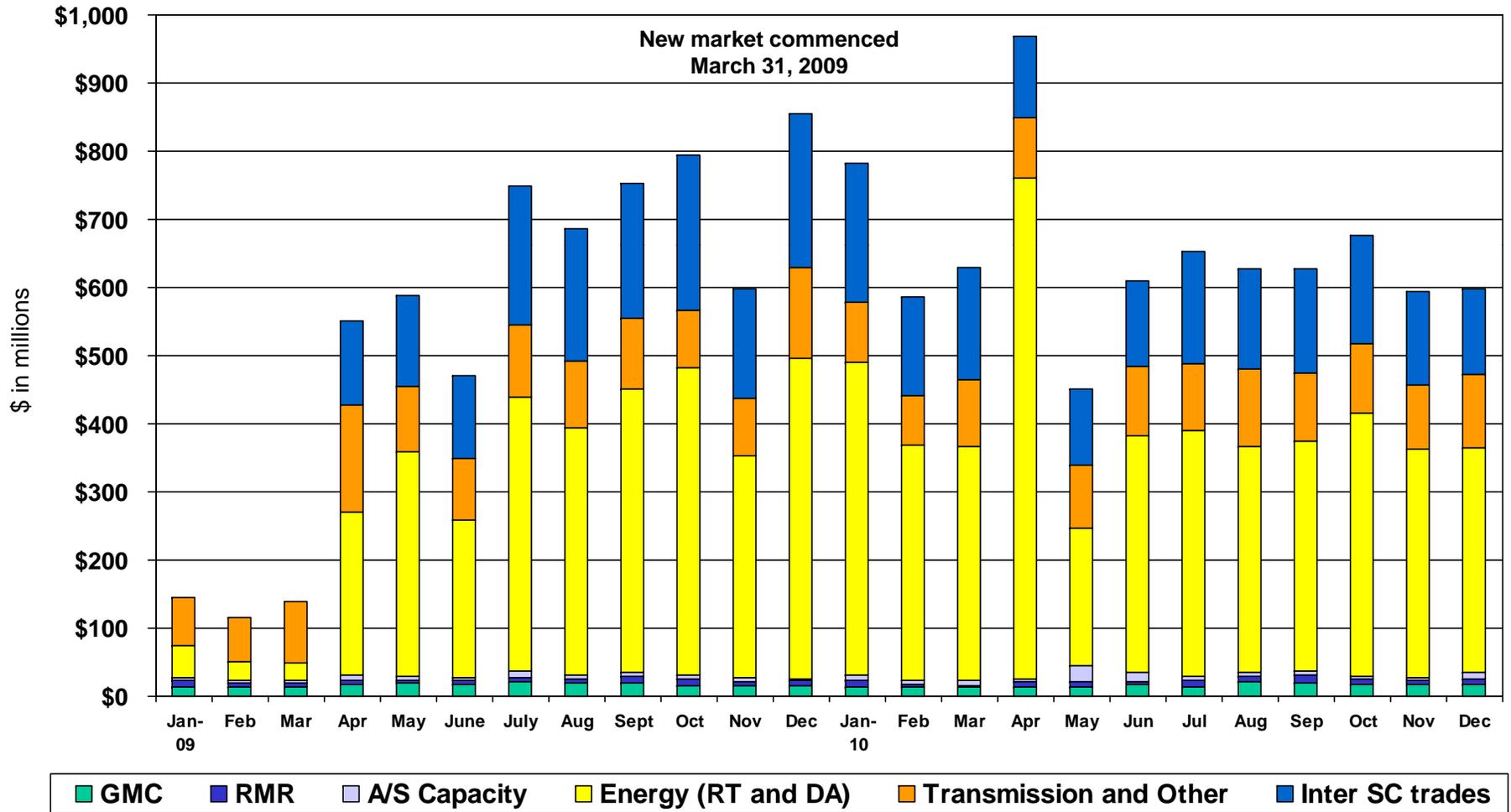
Cumulative Capital Expenditures

Preliminary and Unaudited

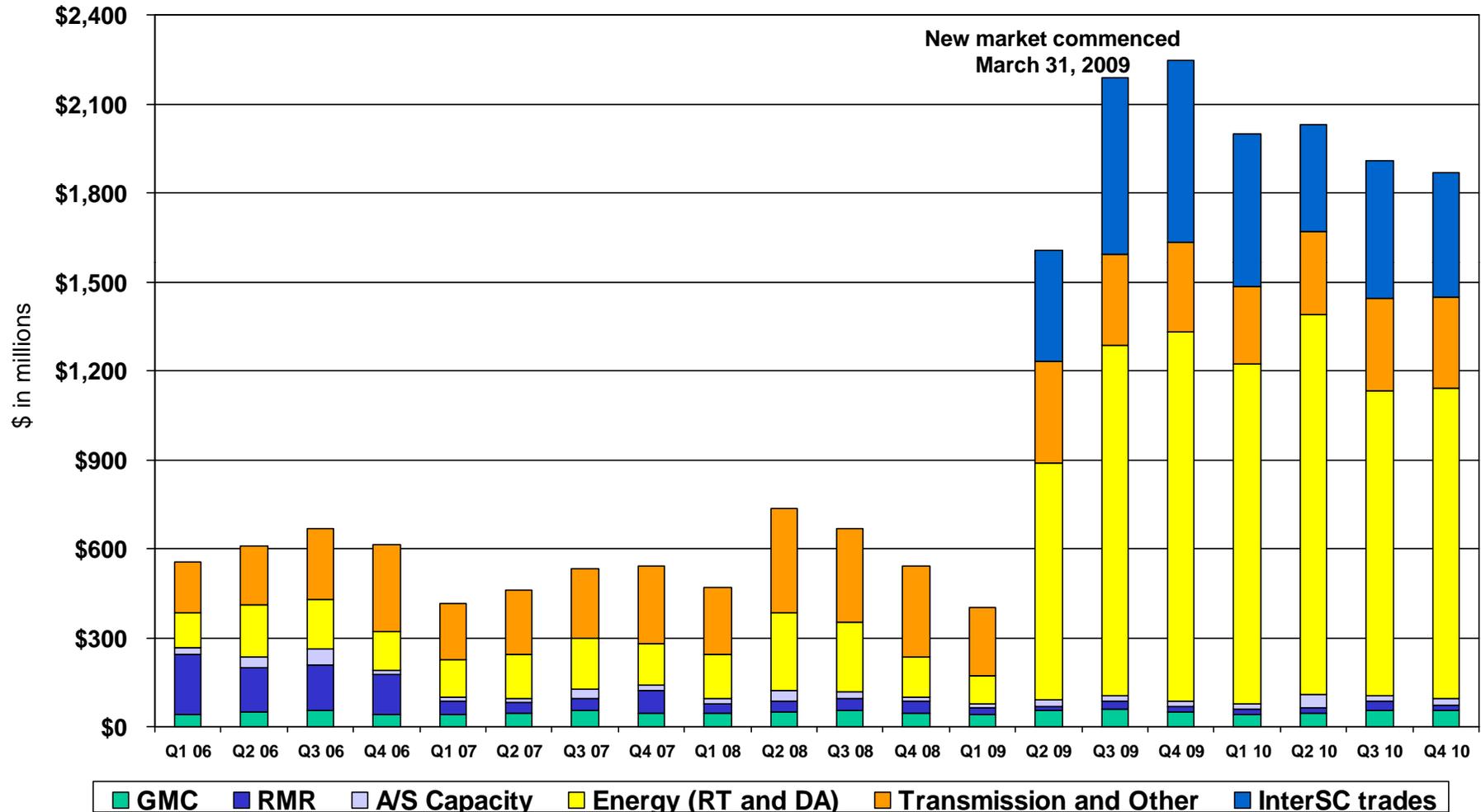


	Jan-10	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
 Budgeted capital												31.00
 Cumulative Expenditures	0.01	0.02	0.02	2.10	2.76	3.66	5.12	6.46	7.11	7.73	10.48	12.66
 Approved projects	6.06	9.78	10.26	10.55	13.93	14.26	16.42	16.42	20.57	22.82	22.86	25.73

CAISO Market Revenues By Month January 2009 through December 2010



CAISO Market Revenues By Quarter 1st Quarter 2006 through 4th Quarter 2010



CAISO Market Revenues By Year 1998 through 2010

