



California Independent
System Operator Corporation

Issuance of ISO Audited Financial Statements and FERC Form 1 for 2005 and 2004

**Presented to the Audit Committee by
Michael Epstein, Controller
April 19, 2006**

Overview

- **Management prepared the financial statements for 2005 and 2004.**
- **PricewaterhouseCoopers is completing their audit and will issue an unqualified opinion on the ISO's financial statements.**

Balance Sheets

	<u>2005</u>	<u>2004</u>	<u>Significant Activities</u>
Assets:	\$513M	\$522M	<ul style="list-style-type: none"> - Decrease in current assets of \$ 28M - Decrease in long term investments by \$11M - Increased fixed assets by \$30M
Liabilities:	\$390M	\$453M	<ul style="list-style-type: none"> - Debt payments of \$58M - Decrease in derivative liability of \$4M
Net Assets:	\$123M	\$69M	<ul style="list-style-type: none"> - Change in net assets of \$53M - Difference driven primarily by timing of depreciation and debt service

Statements of Operations

	<u>2005</u>	<u>2004</u>	<u>Significant Activities</u>
Revenues:	\$214M	\$225M	<ul style="list-style-type: none"> - 2004 Generator Fines of \$10M - 2005 GMC revenue \$6M lower - 2005 Other revenue \$5M higher
Expenses:	\$162M	\$160M	
Net Interest:	\$1M	\$(5)M	<ul style="list-style-type: none"> - Net interest \$4M less in 2005 - \$2M capitalized to MRTU in 2005
Change in Net assets	\$53M	\$60M	

Recap of 2005 Operating (O&M) expenses

O&M expenses per preliminary December Report to Board	\$141M
Additional year-end accruals	<u>5M</u>
Total before GAAP adjustments	146M
 GAAP Adjustments	
Depreciation	18M
MRTU project costs expensed	4M
Capitalized internal software development costs	<u>(6M)</u>
Total GAAP adjustments	16M
 Total O&M expenses per audit	 \$162M

Notes to Financial Statements

- Note 1 - Description of organization
 - FERC refund case ongoing in 2005

- Note 4 - Fixed Assets
 - \$78M under development for MRTU and \$9M land

- Note 6 - Generator Fines
 - \$41M of fines & interest refundable from FERC refund case

- Note 7 - Long term debt
 - Issued \$124M in 2004; \$247M outstanding in 2005
 - Swap agreements from variable to fixed
 - \$77M at 4.8% and \$74M at 2.6%

- Note 8 - Employee Benefit Plans
 - Post Retirement liability of \$6M

Notes to Financial Statements (continued)

- Note 9 - Contingencies
 - GMC rate cases settled except 2001
 - 2001 refund of \$2M accrued; awaiting FERC to rule on reallocation of 2001 behind the meter charges
 - SDG&E settlement of \$6.9M accrued and filed with FERC
 - SDG&E won trial case on recovery of costs in transmission rates
 - if FERC approves, \$6.9M settlement could be returned to ISO
 - 3 significant market billing disputes
 - 2 PG&E COTP disputes of \$28.5M to be charged to the market
 - Grant County claim for unpaid market invoices of \$18.3M from 2000 due to PX bankruptcy - awaiting outcome of FERC Refund case

FERC Form 1

- Form 1 is the same as financial statements except:
 - Presentation financial statements based on FERC chart of accounts
 - More detailed schedules
 - Inclusion of Schedule of Officers' Compensation