

QUARTERLY FINANCIAL REPORT

December 31, 2014

Preliminary and Unaudited

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
QUARTERLY FINANCIAL REPORT - December 31, 2014 (Preliminary and Unaudited)

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CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY (Preliminary and Unaudited)

For the quarter ended December 31, 2014

Results of Operations

Revenues

Revenues from the grid management charge were strong during the 4th quarter, totaling \$47.7 million. Year to date, total operating revenues total \$203.9 million, slightly lower than budget due to lower GMC and lower other revenues.

Expenses

Year-to-date actual operating expenses are \$0.2 million under budget largely due to a decrease in outside legal and audit expenses, partially offset by increases in consulting and other expenses.

Interest income and other are higher than budget during the 4th quarter and year to date due to unrealized gains on investments as a result of lower interest rates. For the 4th quarter, interest expense is slightly greater than budget due to an adjustment to generator-fines interest. However, when compared to previous periods, 4th quarter and year-to-date interest expense continues to be lower due to the final maturity of the 2008 Bonds in February 2014 and the refinancing of the 2009 Bonds in November 2013.

Material Changes to Assets and Liabilities

Debt service and market collateral transactions were the primary contributors to the changes in company assets and liabilities during the year. Additionally, net fixed assets decreased compared to Q4 2013 as a result of the depreciation expenses that were recognized during the period.

Capital Projects

Through the end of the fourth quarter of 2014, \$23.6 million in projects were approved by the Corporate Management Committee. These projects will enhance the current systems' performance and effectiveness in meeting future challenges and FERC mandates.

Collateral Held Report

As of January 7, 2015 the ISO maintained \$1.8 billion in collateral from market participants to support \$284.0 million in aggregate liabilities due in the market. Approximately \$1.4 billion of the collateral is from unsecured sources (i.e., unsecured credit limits and parent guarantees) with investment grade or equivalent ratings, and \$450.8 million is from secured forms (i.e., cash and letters of credit). This collateral is predominantly invested in AAA rated money market funds or backed by A rated or better financial institutions.

CALIFORNIA ISO

Statement of Operations (Preliminary and Unaudited)

For the quarter ended December 31, 2014

(dollars in thousands)

| | 4th Quarter | | Year to Date | | Annual Budget |
|---|-------------|-------------|--------------|-------------|---------------|
| | Actual | Prior Year | Actual | Prior Year | |
| Operating revenues: | | | | | |
| Grid management charge | \$ 47,716 | \$ 45,370 | \$ 197,687 | \$ 195,306 | \$ 197,979 |
| Other revenues | 689 | 1,188 | 6,180 | 5,757 | 6,450 |
| Total operating revenues | 48,405 | 46,558 | 203,867 | 201,063 | 204,429 |
| Operating expenses: | | | | | |
| Salaries and benefits | 32,309 | 30,058 | 114,620 | 112,077 | 114,001 |
| Building, leases and facility | 762 | 766 | 2,910 | 3,258 | 3,133 |
| Insurance | 756 | 196 | 1,761 | 1,786 | 2,007 |
| Third party vendor contracts | 3,344 | 3,114 | 14,126 | 14,719 | 14,988 |
| Consulting and contracting services | 5,645 | 4,513 | 18,296 | 17,625 | 17,498 |
| Legal and audit | 1,674 | 1,788 | 4,762 | 5,224 | 6,863 |
| Training, travel and professional dues | 1,426 | 903 | 3,430 | 3,091 | 4,019 |
| Other | 1,686 | 1,138 | 4,252 | 2,934 | 1,882 |
| Total operating expenses | 47,602 | 42,476 | 164,157 | 160,714 | 164,391 |
| Operating income before depreciation and amortization | 803 | 4,082 | 39,710 | 40,349 | 40,038 |
| Depreciation and amortization | 5,797 | 35,405 | 37,771 | 74,615 | 65,000 |
| Net operating income (loss) | (4,994) | (31,323) | 1,939 | (34,266) | (24,962) |
| Other income (expenses) | | | | | |
| Interest income & other | 2,298 | 2,020 | 2,970 | 3,387 | 1,900 |
| Interest expense | (2,287) | (2,243) | (9,019) | (11,217) | (7,709) |
| Total other income (expenses) | 11 | (223) | (6,049) | (7,830) | (5,809) |
| Excess (deficiency) of revenues over expenses | \$ (4,983) | \$ (31,546) | \$ (4,110) | \$ (42,096) | \$ (30,771) |
| Number of full-time employees | | | 587 | 581 | 593 |

CALIFORNIA ISO
Balance Sheet (Preliminary and Unaudited)
As of December 31, 2014
(dollars in thousands)

| | 2014 | | | | 2013 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Q4 | Q3 | Q2 | Q1 | Q4 |
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents, including restricted amounts | \$ 429,497 | \$ 350,730 | \$ 369,877 | \$ 331,940 | \$ 415,995 |
| Accounts receivable | 28,306 | 37,682 | 50,222 | 25,552 | 22,518 |
| Short-term Investments, including restricted amounts | 62,410 | 58,678 | 54,856 | 35,462 | 62,366 |
| Other current assets | 8,580 | 5,513 | 5,891 | 5,935 | 5,026 |
| Total current Assets | 528,793 | 452,603 | 480,846 | 398,889 | 505,905 |
| NONCURRENT ASSETS | | | | | |
| Long-term investments, including restricted amounts | 122,049 | 123,797 | 113,469 | 89,105 | 105,687 |
| Fixed assets, net | 181,613 | 179,302 | 177,303 | 237,589 | 193,853 |
| Other assets | 12,787 | 12,012 | 18,701 | 4,405 | 15,892 |
| Total noncurrent assets | 316,449 | 315,111 | 309,473 | 331,099 | 315,432 |
| TOTAL ASSETS | \$ 845,242 | \$ 767,714 | \$ 790,319 | \$ 729,988 | \$ 821,337 |
| LIABILITIES AND NET ASSETS | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts payable and accrued expenses | 9,265 | 13,683 | 25,310 | 7,685 | 14,170 |
| Accrued salaries and compensated absences | 29,908 | 20,730 | 19,605 | 12,176 | 29,496 |
| Current portion of long-term debt | 4,415 | 4,415 | 4,415 | 27,145 | 23,465 |
| Due to market participants | 468,818 | 393,193 | 418,631 | 321,275 | 416,195 |
| Generator noncompliance fines refund obligation | 2,127 | 2,127 | 2,344 | 2,667 | 2,658 |
| Total current liabilities | 514,533 | 434,148 | 470,305 | 370,948 | 485,984 |
| NONCURRENT LIABILITIES | | | | | |
| Long-term debt, net of current portion | 197,202 | 197,371 | 197,540 | 191,241 | 202,325 |
| Employee retirement plan obligations | 22,203 | 22,533 | 22,475 | 20,418 | 22,117 |
| Total noncurrent liabilities | 219,405 | 219,904 | 220,015 | 211,659 | 224,442 |
| TOTAL LIABILITIES | 733,938 | 654,052 | 690,320 | 582,607 | 710,426 |
| TOTAL NET ASSETS | 111,304 | 113,662 | 99,999 | 147,381 | 110,910 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 845,242 | \$ 767,714 | \$ 790,319 | \$ 729,988 | \$ 821,337 |

CALIFORNIA ISO
Capital Projects Report (Preliminary and Unaudited)

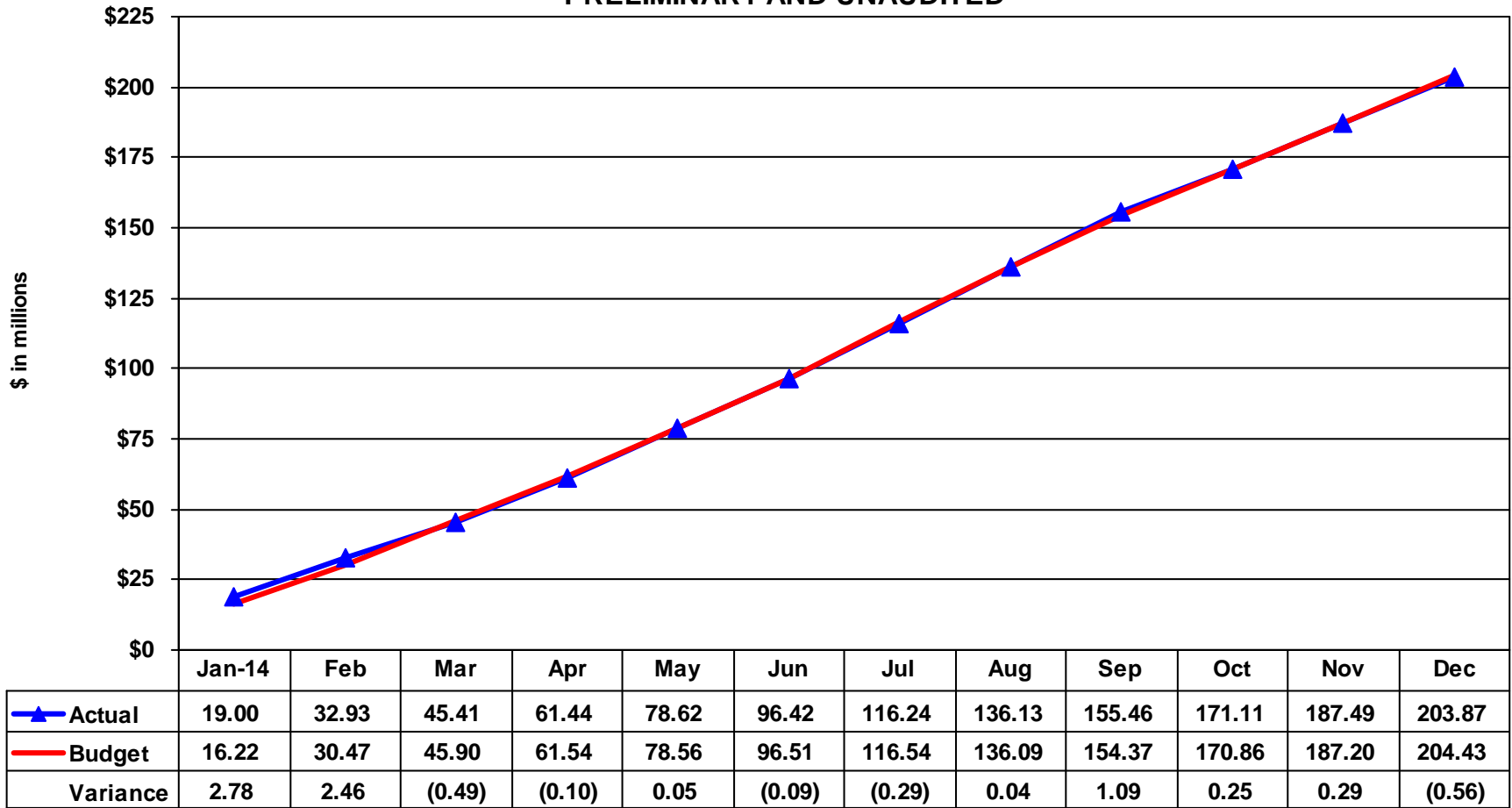
For the quarter ended December 31, 2014
(dollars in thousands)

| | Approved Projects | | | | |
|--|--------------------------|------------------|------------------------------|--|--------------------------------|
| | Q4 Actual | YTD Actual | 2014 Approved Projects | Projected Costs for Approved Projects | Original/ Current Budget |
| Implement Systems, Tools and Forecasting | \$ 2,442 | \$ 5,077 | \$ 6,941 | \$ 6,822 | \$ 5,675 |
| Enhance Markets & Performance | 1,831 | 6,060 | 7,449 | 7,596 | 10,425 |
| Compliance Culture | 5 | 69 | 264 | 264 | 1,400 |
| Infrastructure Improvements | 364 | 3,233 | 8,953 | 8,835 | 6,500 |
| Total 2014 Capital Spending | 4,642 | 14,439 | 23,608 | 23,518 | 24,000 |
| Prior Year Capital Projects | 1,428 | 10,462 | - | 10,500 | 10,500 |
| Total Capital | \$ 6,070 | \$ 24,901 | \$ 23,608 | \$ 34,018 | \$ 34,500 |

Cumulative Operating Revenues

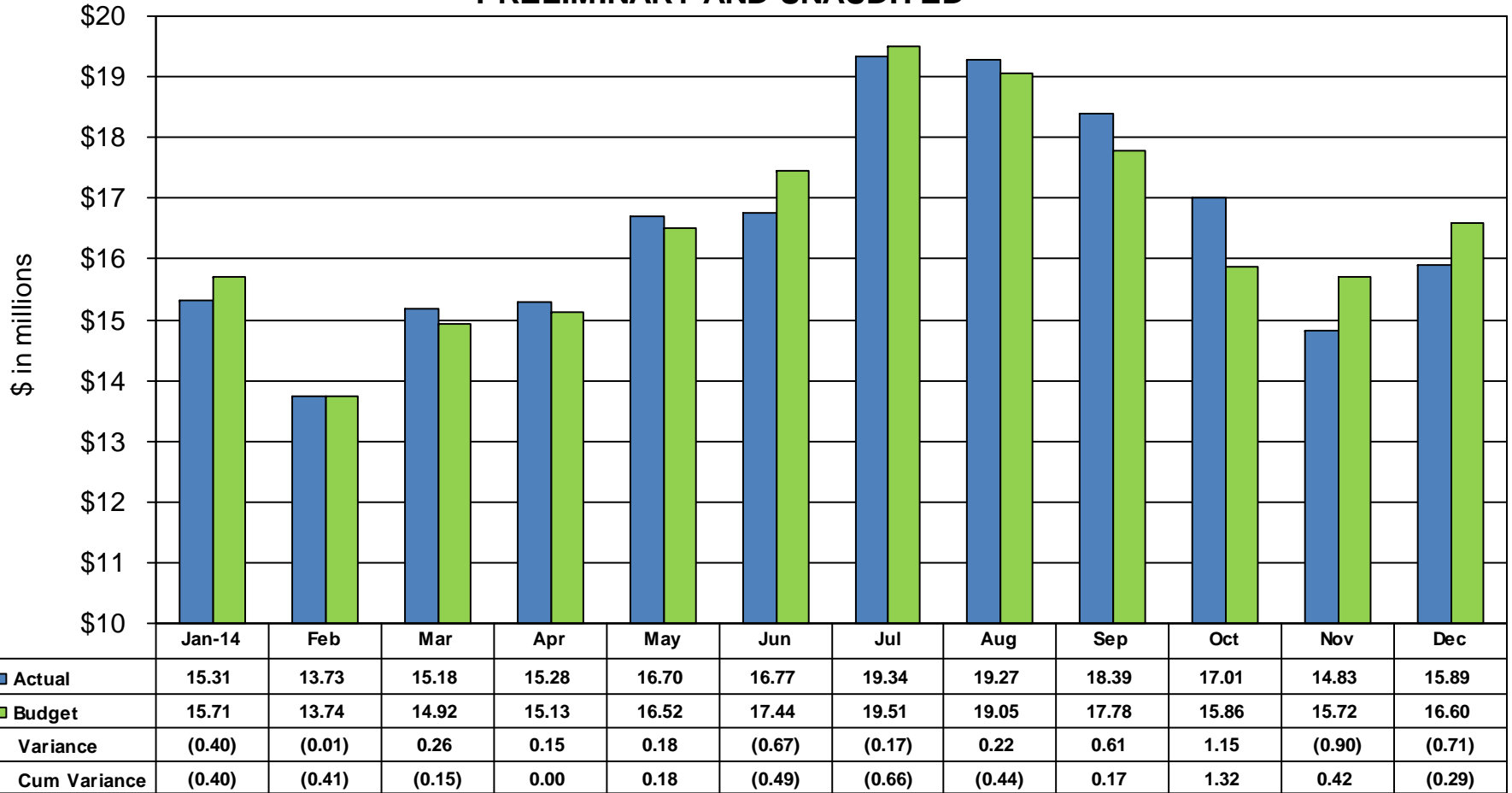
Revenues = GMC & Other Revenues

PRELIMINARY AND UNAUDITED



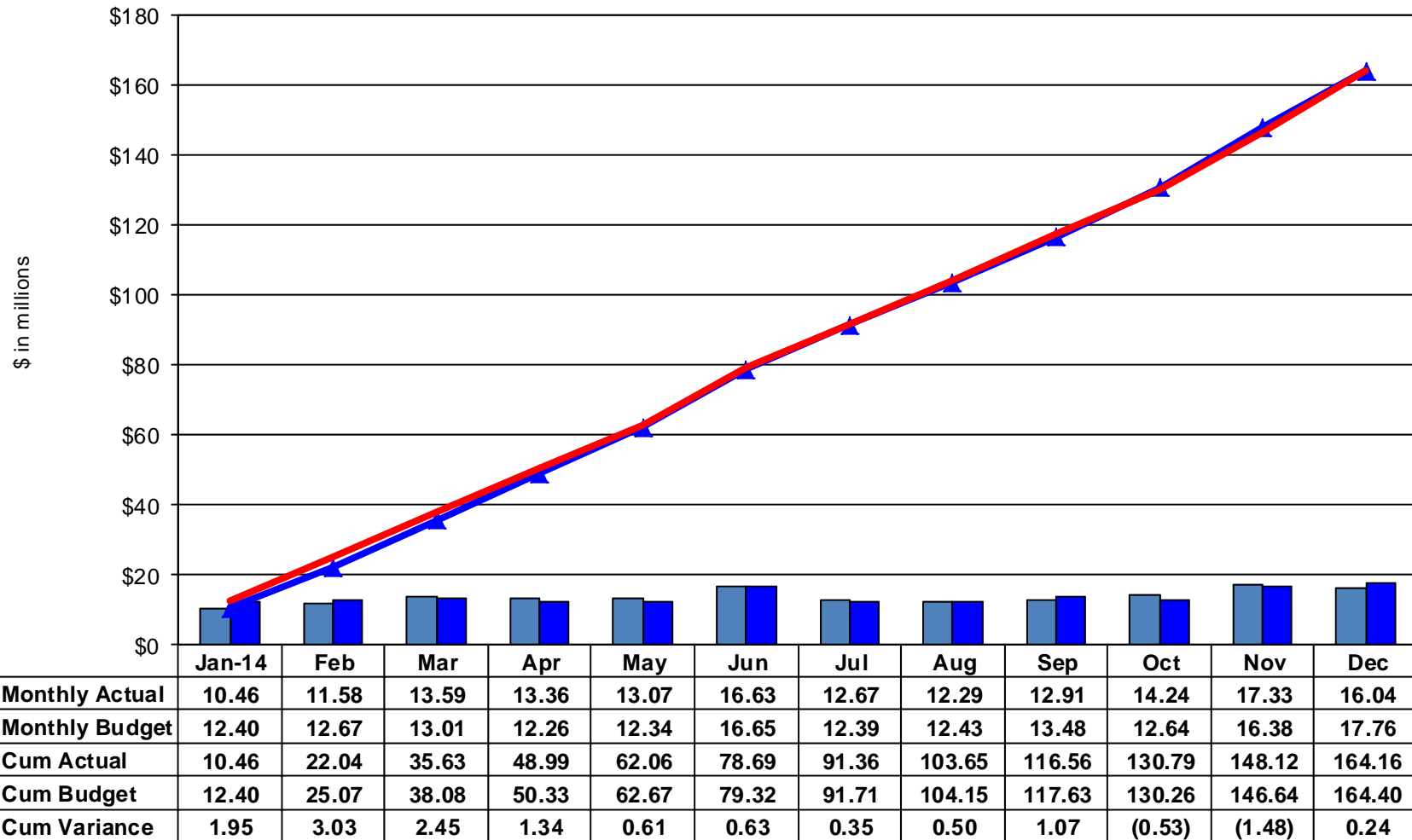
Monthly GMC Revenues

PRELIMINARY AND UNAUDITED



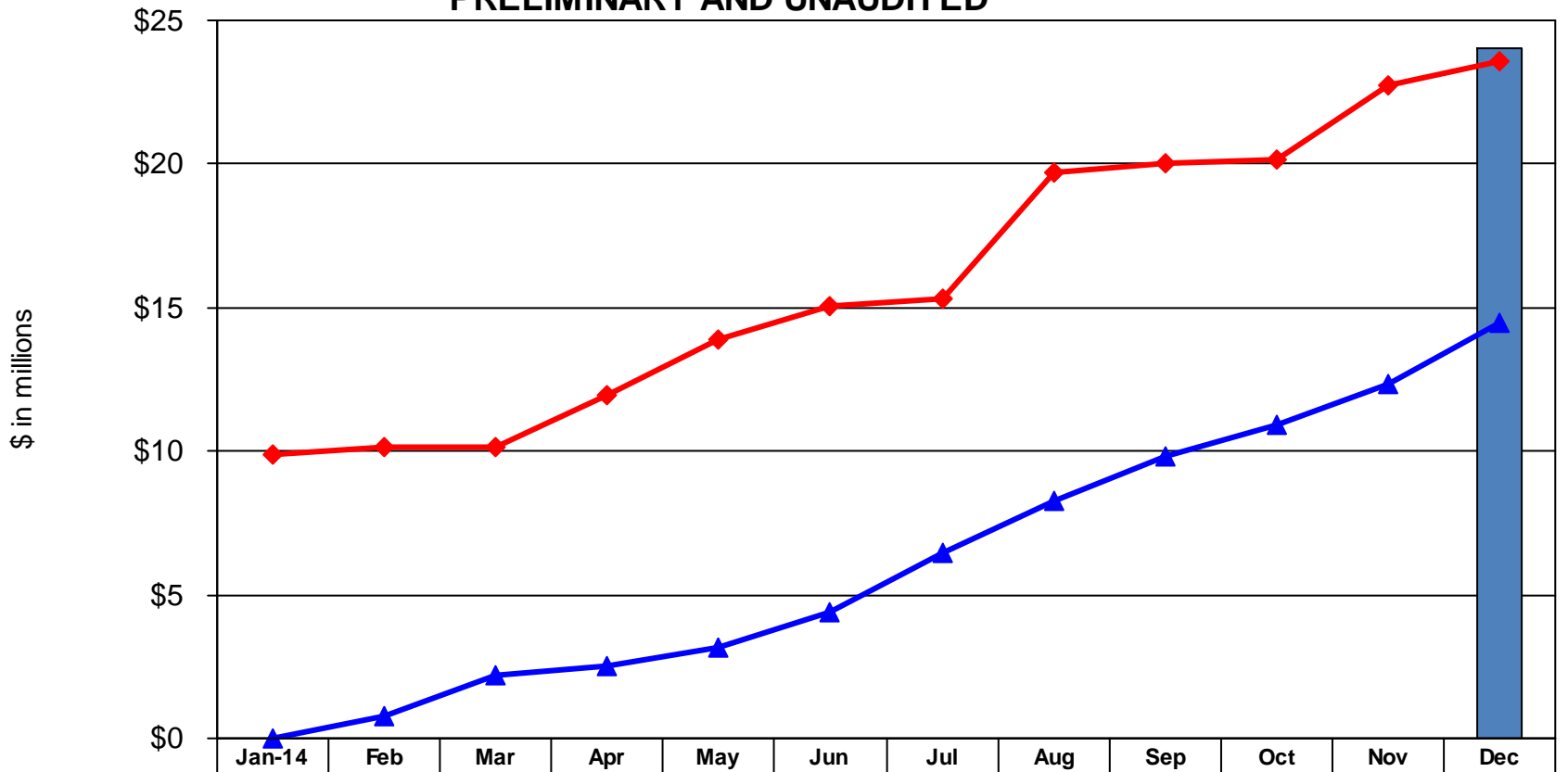
Operating and Maintenance Expenses (O&M)

PRELIMINARY AND UNAUDITED



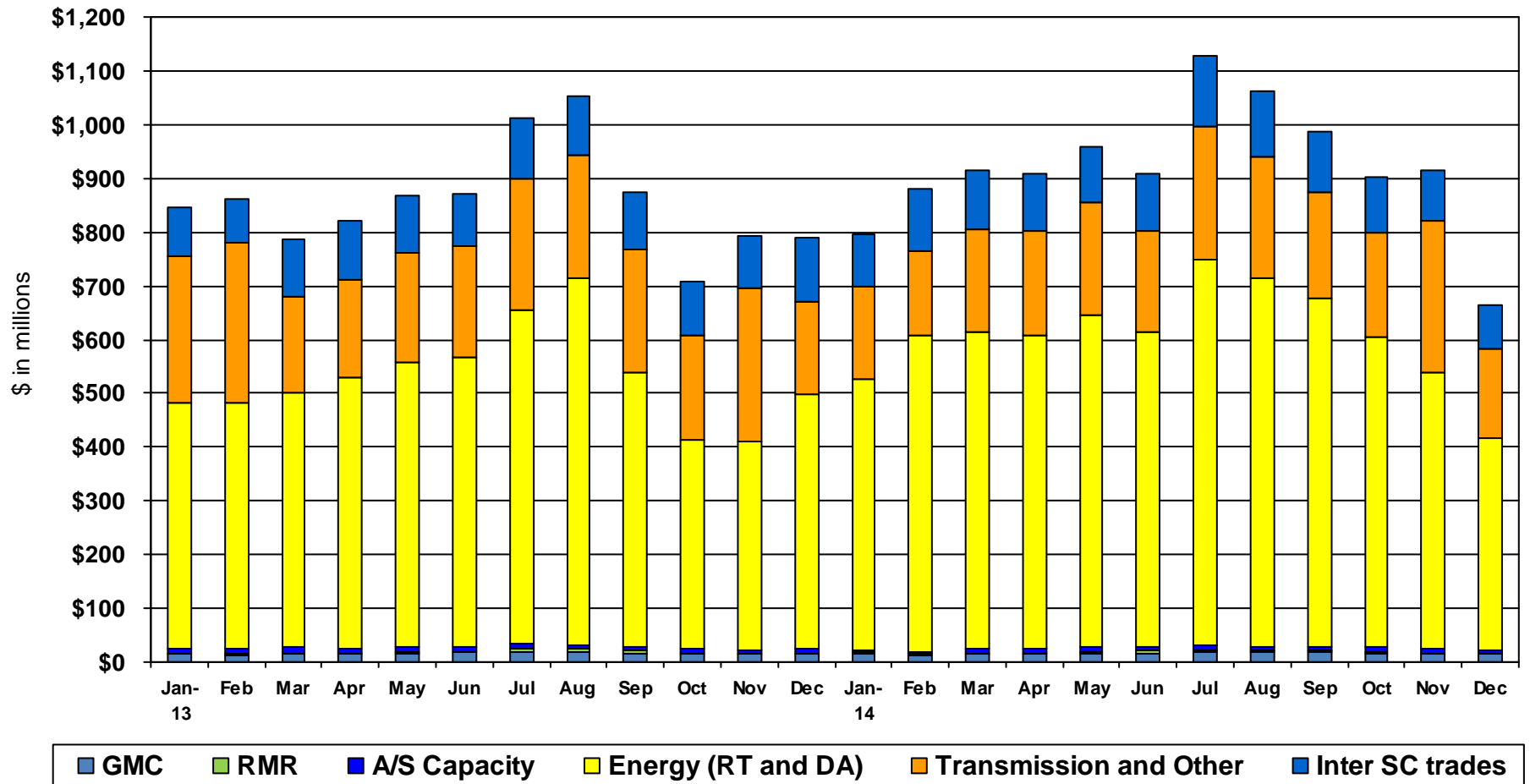
Cumulative Capital Expenditures

PRELIMINARY AND UNAUDITED

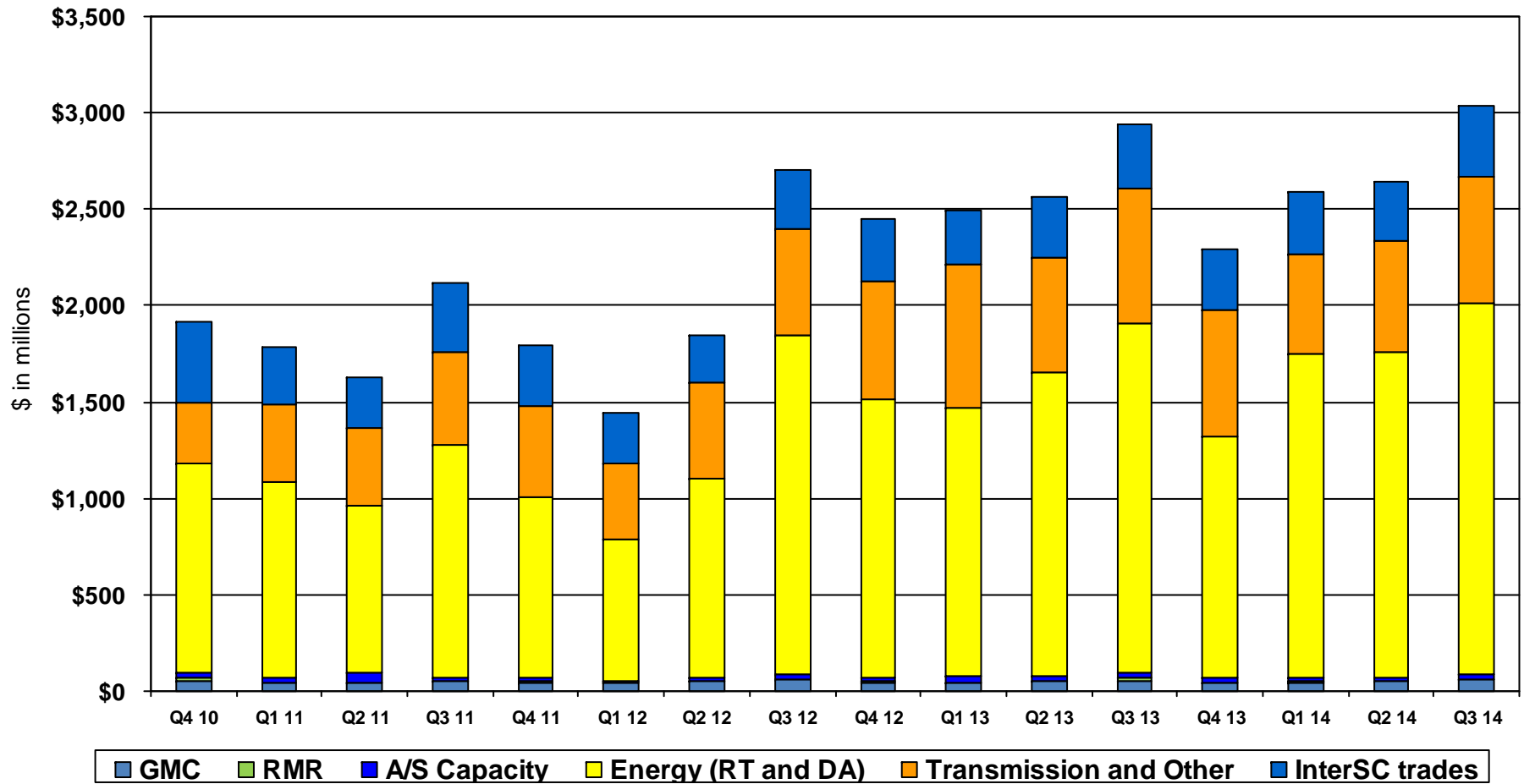


| | | | | | | | | | | | | |
|-------------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Budgeted capital | | | | | | | | | | | | 24.00 |
| Cumulative Expenditures | 0.00 | 0.78 | 2.22 | 2.54 | 3.15 | 4.40 | 6.46 | 8.28 | 9.80 | 10.89 | 12.36 | 14.44 |
| Approved projects | 9.86 | 10.11 | 10.16 | 11.97 | 13.90 | 15.08 | 15.34 | 19.73 | 20.02 | 20.18 | 22.75 | 23.61 |

ISO Market Revenues By Month January 2013 through December 2014



ISO Market Revenues By Quarter 1st Quarter 2011 through 4th Quarter 2014



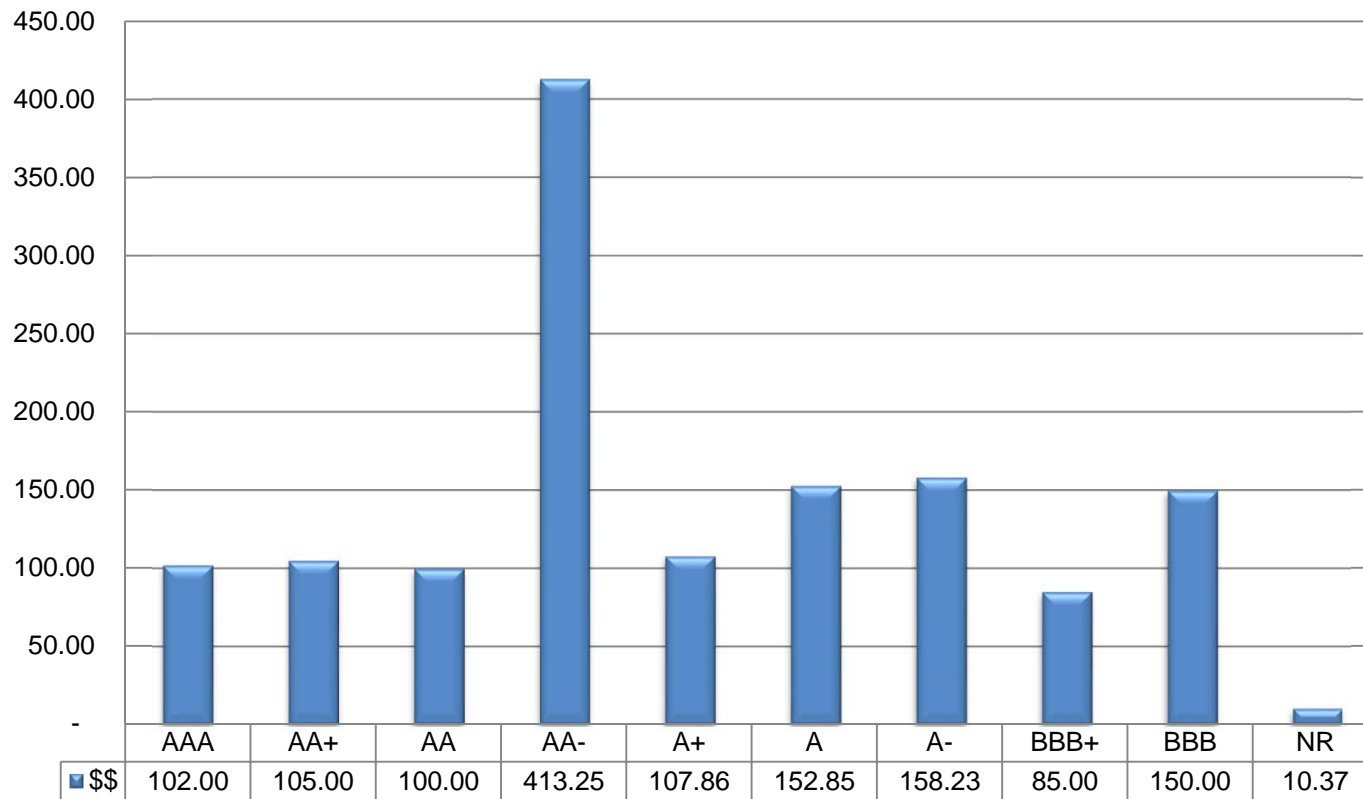
Collateral & Estimated Aggregate Liability (as of 01/07/15)

| Collateral Types | Amount |
|-------------------------|-------------------------|
| Unsecured | \$ 1,384,550,954 |
| Secured | \$ 450,804,827 |
| Total | \$ 1,835,355,781 |

| Estimate Aggregate Liability | Amount |
|-------------------------------------|----------------------|
| Positive EAL | \$284,012,228 |

Unsecured Collateral (as of 01/07/15)

(in millions)



Secured Collateral (as of 01/07/15)

(in millions)

