

QUARTERLY FINANCIAL REPORT

December 31, 2014

Preliminary and Unaudited

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

Table of Contents

	<i>Page Number</i>
Summary, Discussion and Commentary	<i>i</i>
<i>THE ISO</i>	
Statement of Operations (Preliminary and Unaudited)	1
Balance Sheet (Preliminary and Unaudited)	2
Capital Projects Report (Preliminary and Unaudited)	3
<i>Summary Financial Data</i>	
Cumulative Operating Revenues (Preliminary and Unaudited)	4
Monthly GMC Revenues (Preliminary and Unaudited)	5
Monthly Operating and Maintenance Expenses (Preliminary and Unaudited)	6
Cumulative Capital Expenditures (Preliminary and Unaudited)	7
ISO Market Costs by Month - January 2013 through December 2014	8
ISO Market Costs by Quarter - 1st Quarter 2011 through 3rd Quarter 2014	9
Collateral and Estimated Aggregate Liability	10
Unsecured Collateral	11
Secured Collateral	12

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
<u>Depreciation and amortization</u>	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)

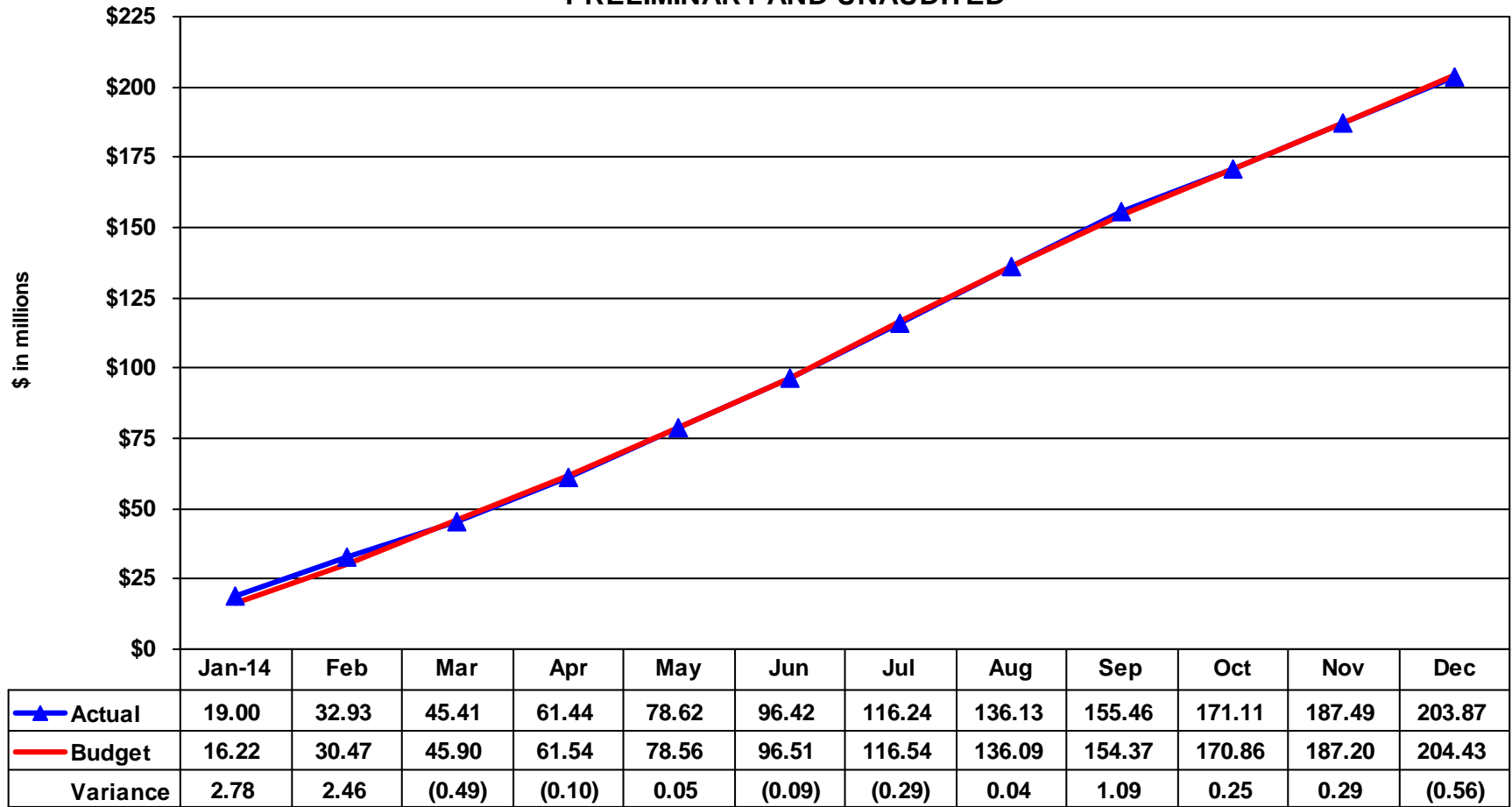
For the quarter ended December 31, 2014
(dollars in thousands)

	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

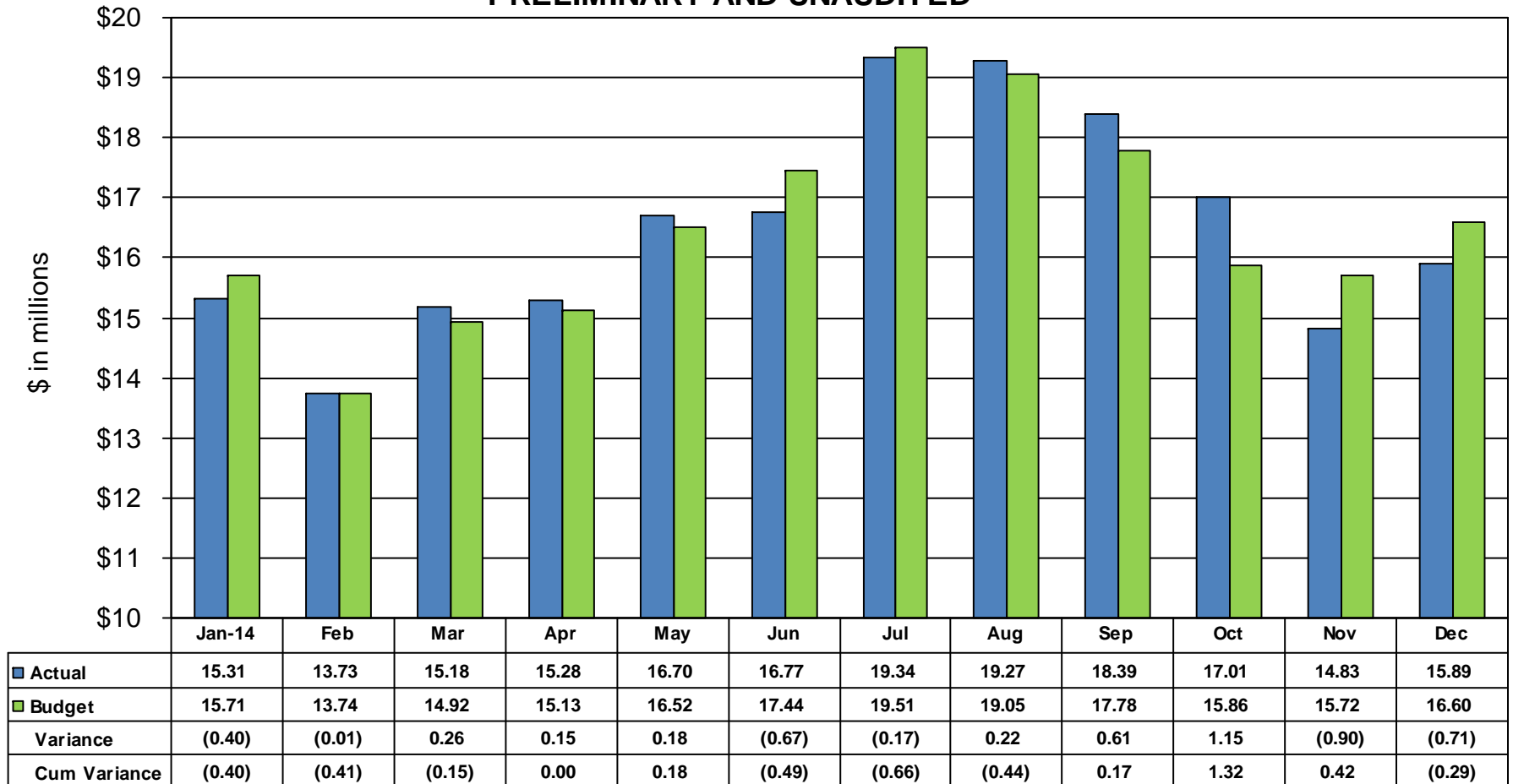
Revenues = GMC & Other Revenues

PRELIMINARY AND UNAUDITED



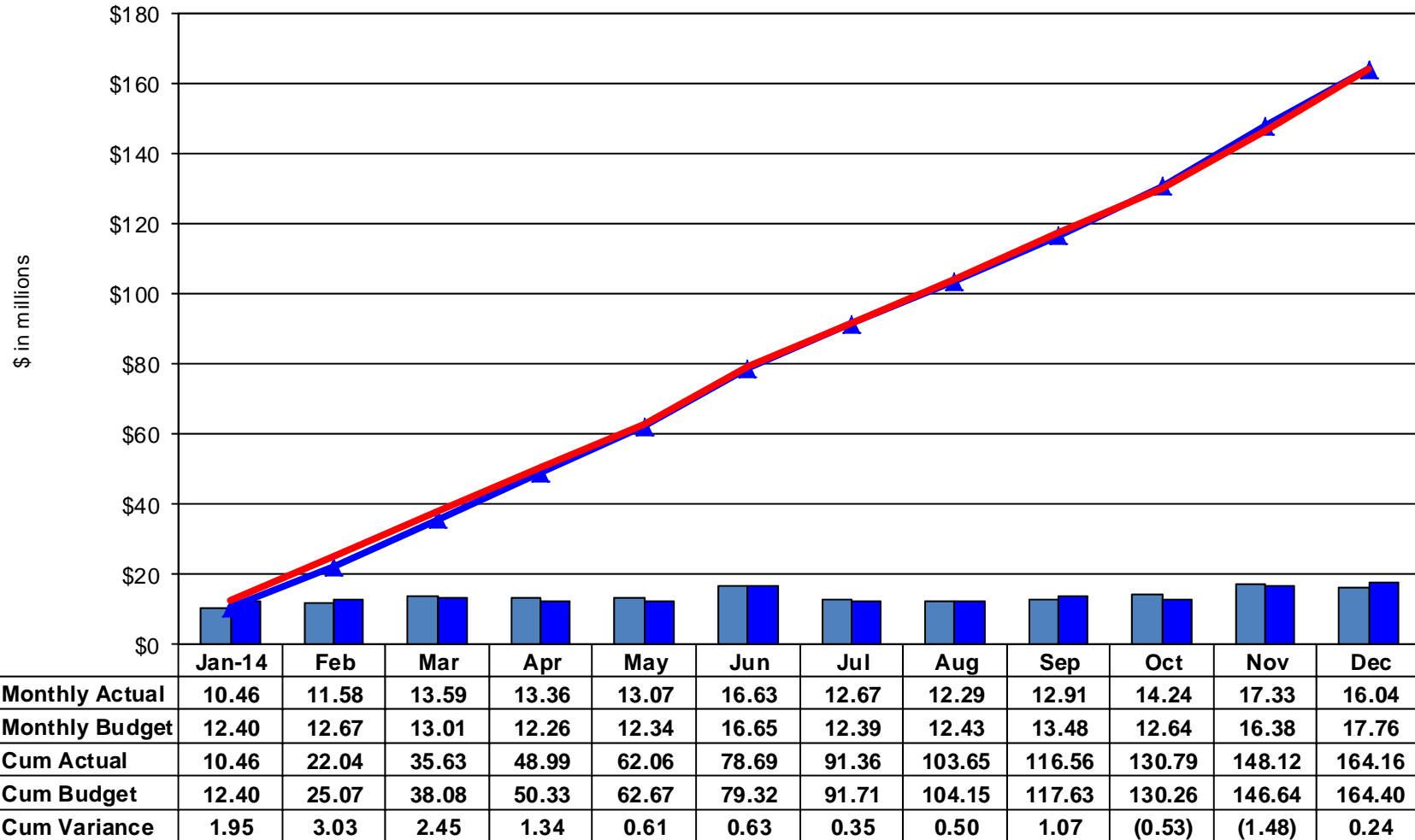
Monthly GMC Revenues

PRELIMINARY AND UNAUDITED



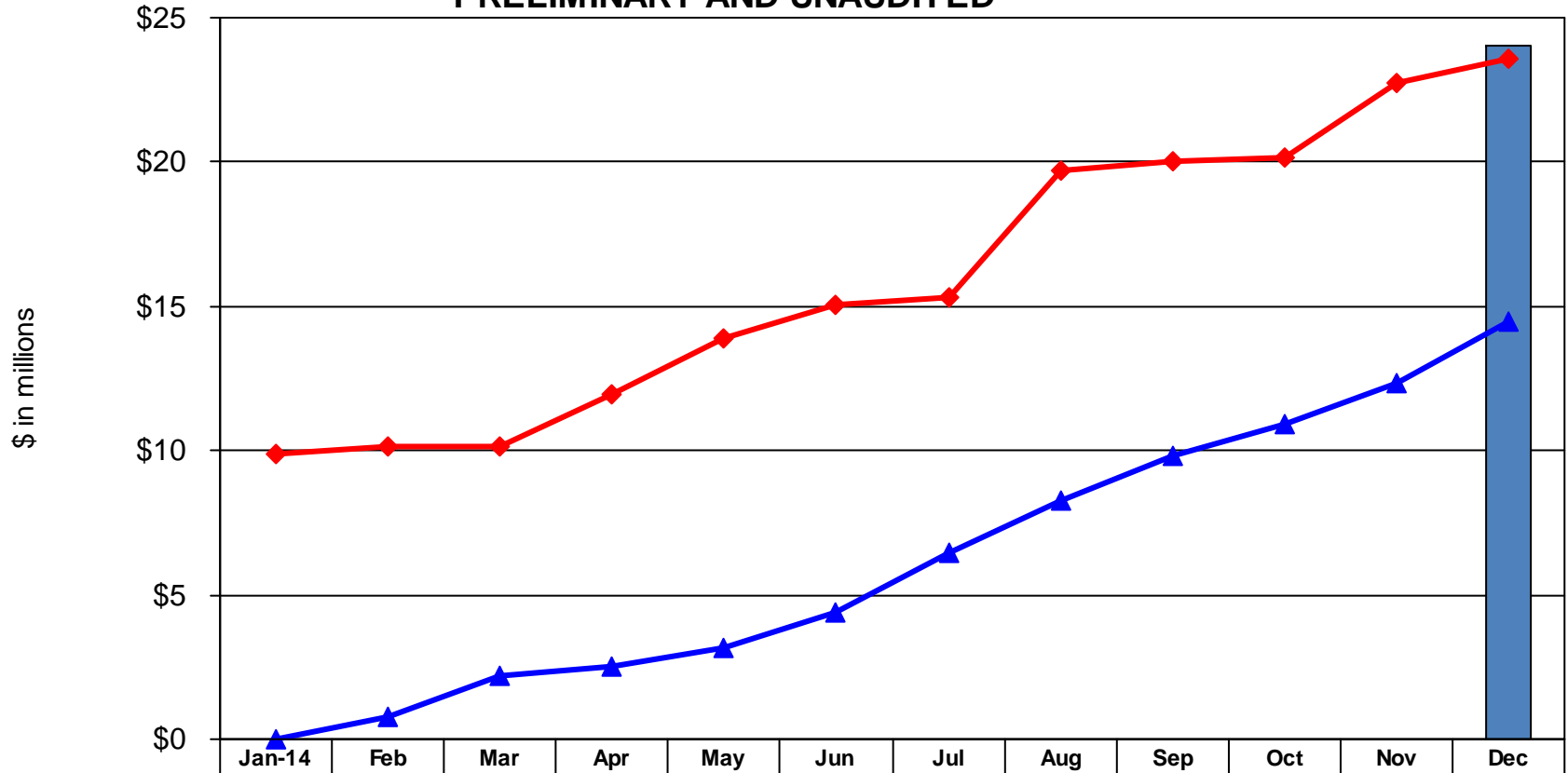
Operating and Maintenance Expenses (O&M)

PRELIMINARY AND UNAUDITED



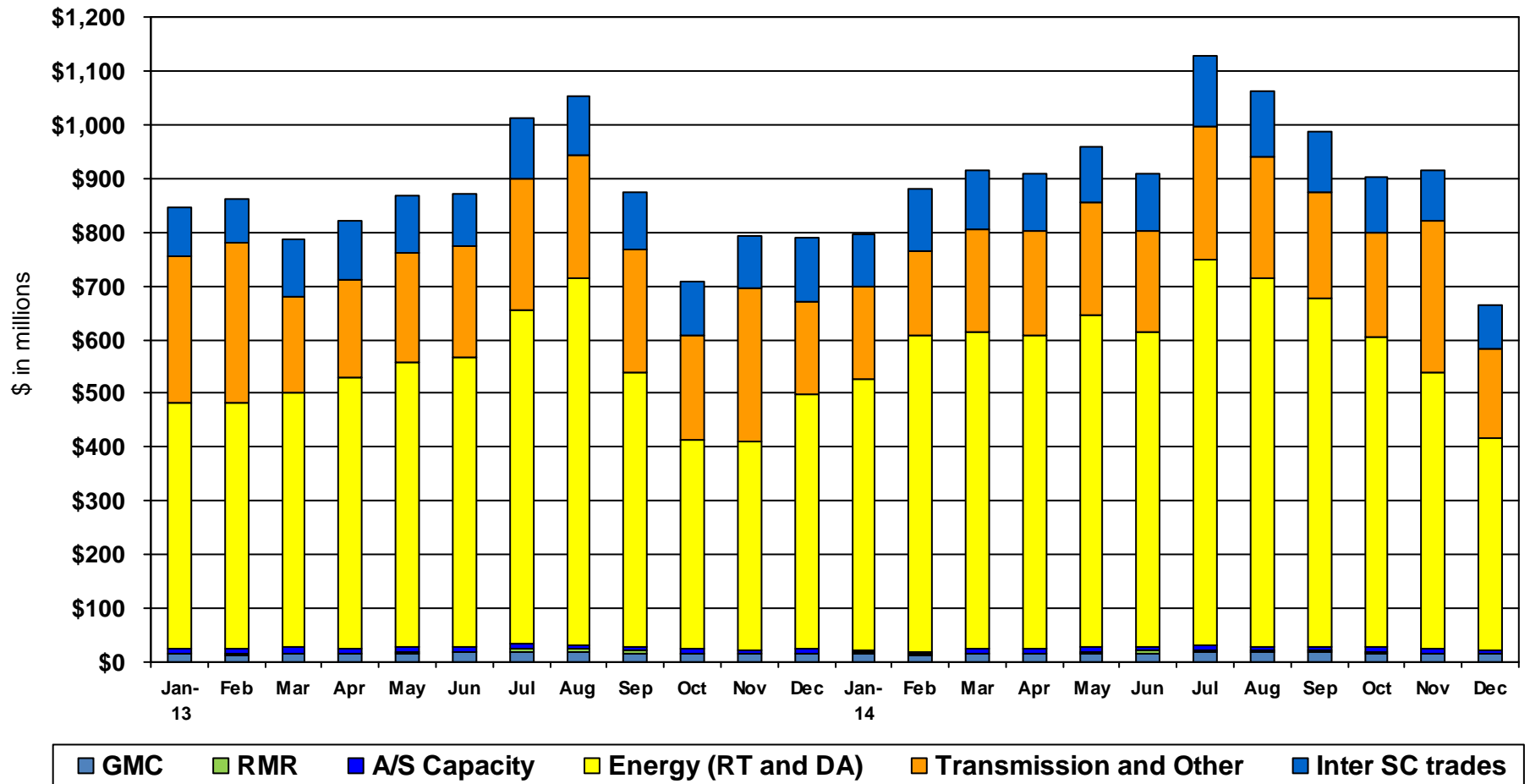
Cumulative Capital Expenditures

PRELIMINARY AND UNAUDITED

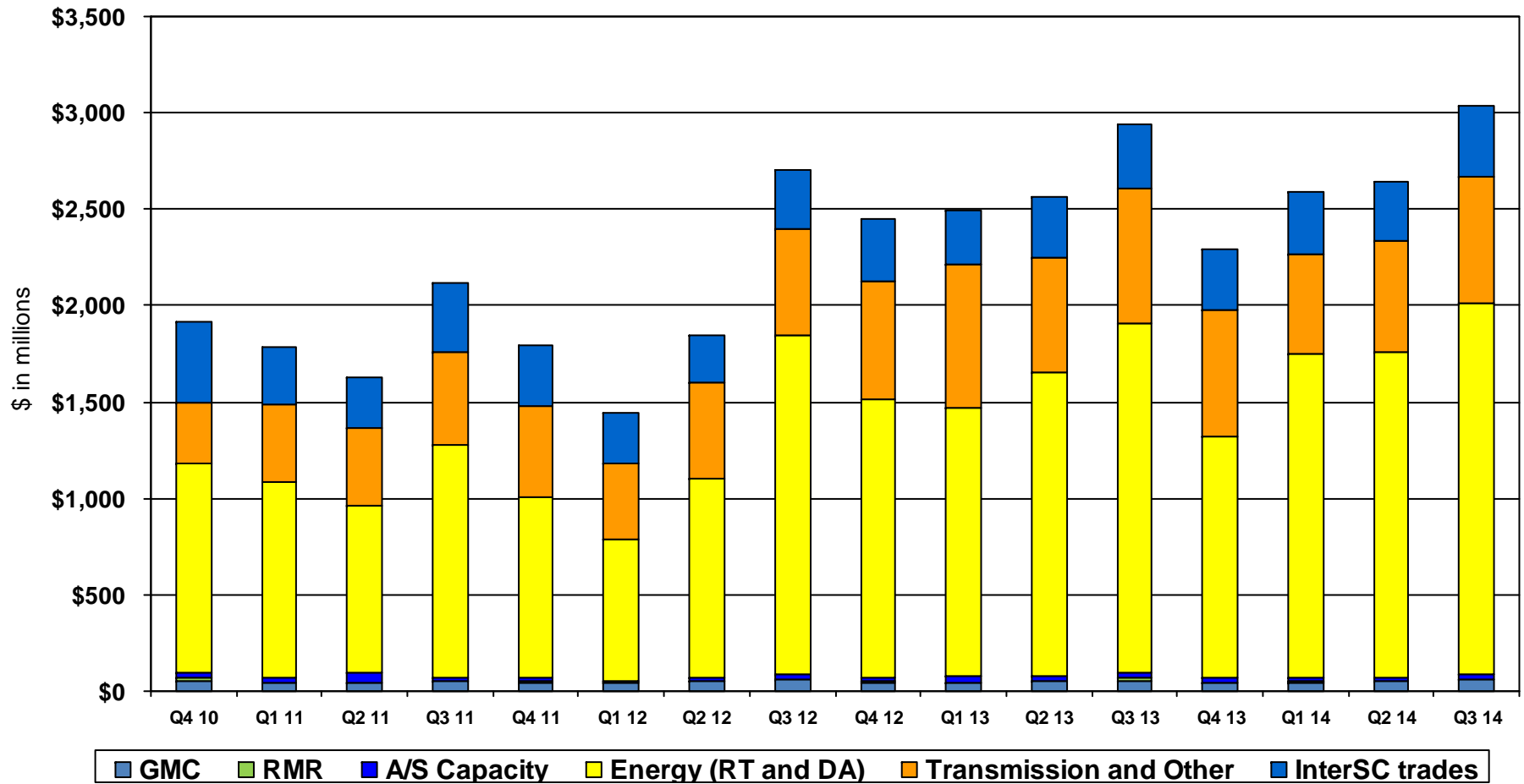


Budgeted capital												24.00
Cumulative Expenditures	0.00	0.78	2.22	2.54	3.15	4.40	6.46	8.28	9.80	10.89	12.36	14.44
Approved projects	9.86	10.11	10.16	11.97	13.90	15.08	15.34	19.73	20.02	20.18	22.75	23.61

ISO Market Revenues By Month January 2013 through December 2014



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



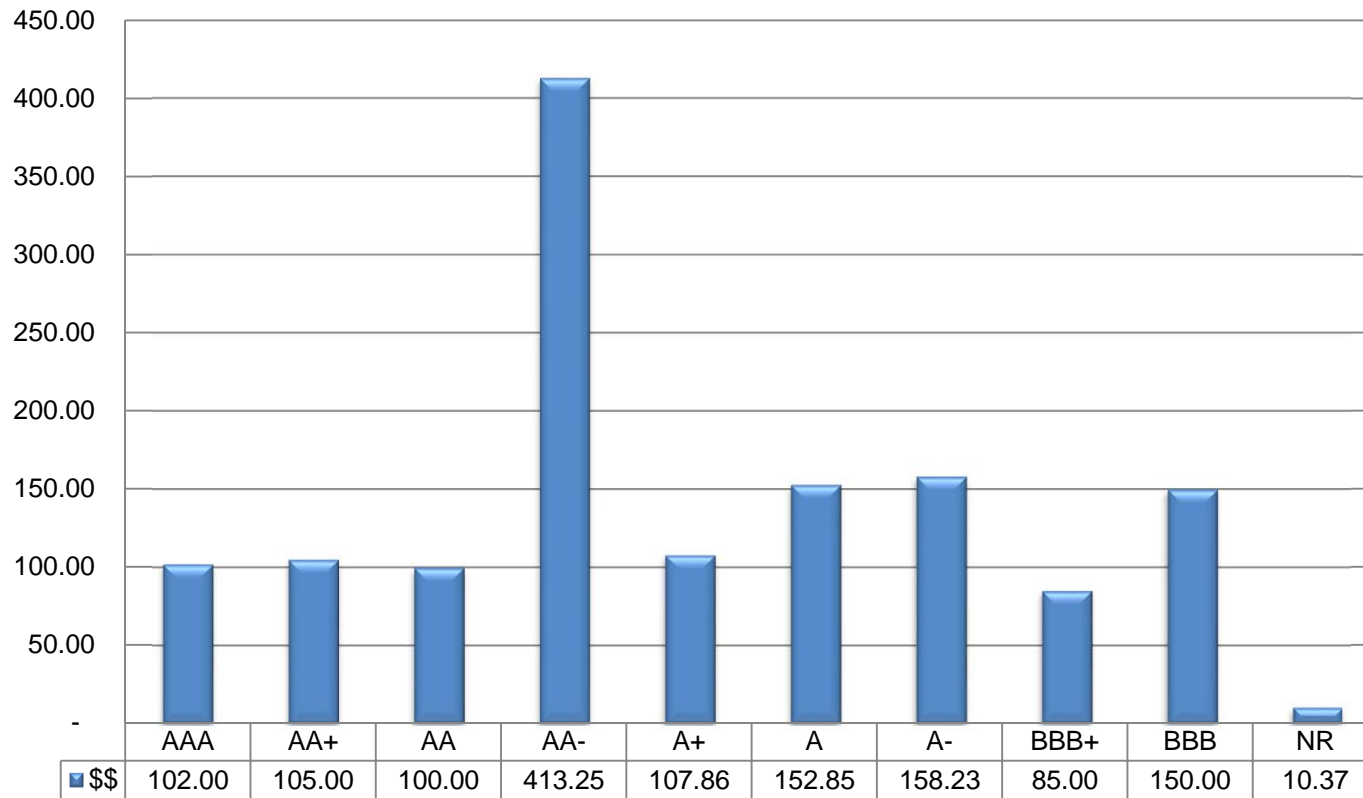
Collateral & Estimated Aggregate Liability (as of 01/07/15)

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)

