

QUARTERLY FINANCIAL REPORT

September 30, 2014

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
QUARTERLY FINANCIAL REPORT - September 30, 2014

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CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY

For the quarter ended September 30, 2014

Results of Operations

Revenues

Revenues from the grid management charge were strong during the quarter, totaling \$57.1 million, due to the summer months and a particularly hot September. Year to date, total operating revenues are slightly ahead of budget.

Expenses

Year-to-date actual operating expenses are \$1.1 million under budget largely due to decreases in most expense categories, partially offset by higher than budgeted salaries and benefits.

Interest income and other are lower than budget during the 3rd quarter and year to date due to unrealized losses on investments as a result of rising interest rates. For the 3rd quarter, interest expense is greater than budget due to an adjustment to generator-fines interest. However, when compared to previous periods, 3rd 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, market collateral transactions, incentive compensation payouts and annual 401k contributions were the primary contributors to the changes in company assets and liabilities during the three quarters. Additionally, net fixed assets decreased as a result of the depreciation expenses that were recognized during the period.

Capital Projects

Through the end of the third quarter of 2014, \$20.0 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 October 3, 2014 the ISO maintained \$1.8 billion in collateral from market participants to support \$264.0 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 \$534.7 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

For the quarter ended September 30, 2014
(dollars in thousands)

	3rd Quarter		Year to Date		Budget	
	Actual	Prior Year	Actual	Prior Year	YTD	Annual
<u>Operating revenues:</u>						
Grid management charge	\$ 57,052	\$ 54,828	\$ 150,023	\$ 149,936	\$ 149,802	\$ 197,979
Other revenues	1,880	1,783	5,323	4,569	4,575	6,450
Total operating revenues	58,932	56,611	155,346	154,505	154,377	204,429
<u>Operating expenses:</u>						
Salaries and benefits	26,051	25,149	82,310	82,019	81,373	114,001
Building, leases and facility	710	885	2,149	2,492	2,350	3,133
Insurance	298	853	1,005	1,590	1,706	2,007
Third party vendor contracts	3,036	3,547	10,791	11,605	10,527	14,988
Consulting and contracting services	5,263	5,862	12,648	13,112	12,876	17,498
Legal and audit	1,201	1,091	3,088	3,436	4,272	6,863
Training, travel and professional dues	397	638	2,004	2,188	3,092	4,019
Other	917	980	2,566	1,797	1,428	1,882
Total operating expenses	37,873	39,005	116,561	118,239	117,624	164,391
Operating income before depreciation and amortization	21,059	17,606	38,785	36,266	36,753	40,038
<u>Depreciation and amortization</u>	5,521	9,133	33,974	39,210	48,750	65,000
Net operating income (loss)	15,538	8,473	4,811	(2,944)	(11,997)	(24,962)
<u>Other income (expenses)</u>						
Interest income & other	(315)	623	672	1,367	1,425	1,900
Interest expense	(2,414)	(2,997)	(6,732)	(8,974)	(5,781)	(7,709)
Total other income (expenses)	(2,729)	(2,374)	(6,060)	(7,607)	(4,356)	(5,809)
Excess (deficiency) of revenues over expenses	\$ 12,809	\$ 6,099	\$ (1,249)	\$ (10,551)	\$ (16,353)	\$ (30,771)
Number of full-time employees			582	577	593	593

CALIFORNIA ISO**Balance Sheet**

As of September 30, 2014

(dollars in thousands)

	2014			2013
	Q3	Q2	Q1	Q4
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents, including restricted amounts	\$ 350,730	\$ 369,877	\$ 376,574	\$ 415,995
Accounts receivable	37,682	50,222	42,414	22,518
Short-term Investments, including restricted amounts	58,678	54,856	52,848	62,366
Other current assets	5,513	5,891	5,514	5,026
Total current Assets	452,603	480,846	477,350	505,905
NONCURRENT ASSETS				
Long-term investments, including restricted amounts	123,797	113,469	103,422	105,687
Fixed assets, net	179,302	177,303	186,568	193,853
Other assets	12,012	18,701	18,538	15,892
Total noncurrent assets	315,111	309,473	308,528	315,432
TOTAL ASSETS	\$ 767,714	\$ 790,319	\$ 785,878	\$ 821,337
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	13,683	25,310	8,690	14,170
Accrued salaries and compensated absences	20,730	19,605	10,997	29,496
Current portion of long-term debt	4,415	4,415	4,415	23,465
Due to market participants	393,193	418,631	431,334	416,195
Generator noncompliance fines refund obligation	2,127	2,344	2,658	2,658
Total current liabilities	434,148	470,305	458,094	485,984
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	197,371	197,540	197,710	202,325
Employee retirement plan obligations	22,533	22,475	22,176	22,117
Total noncurrent liabilities	219,904	220,015	219,886	224,442
TOTAL LIABILITIES	654,052	690,320	677,980	710,426
TOTAL NET ASSETS	113,662	99,999	107,898	110,910
TOTAL LIABILITIES AND NET ASSETS	\$ 767,714	\$ 790,319	\$ 785,878	\$ 821,337

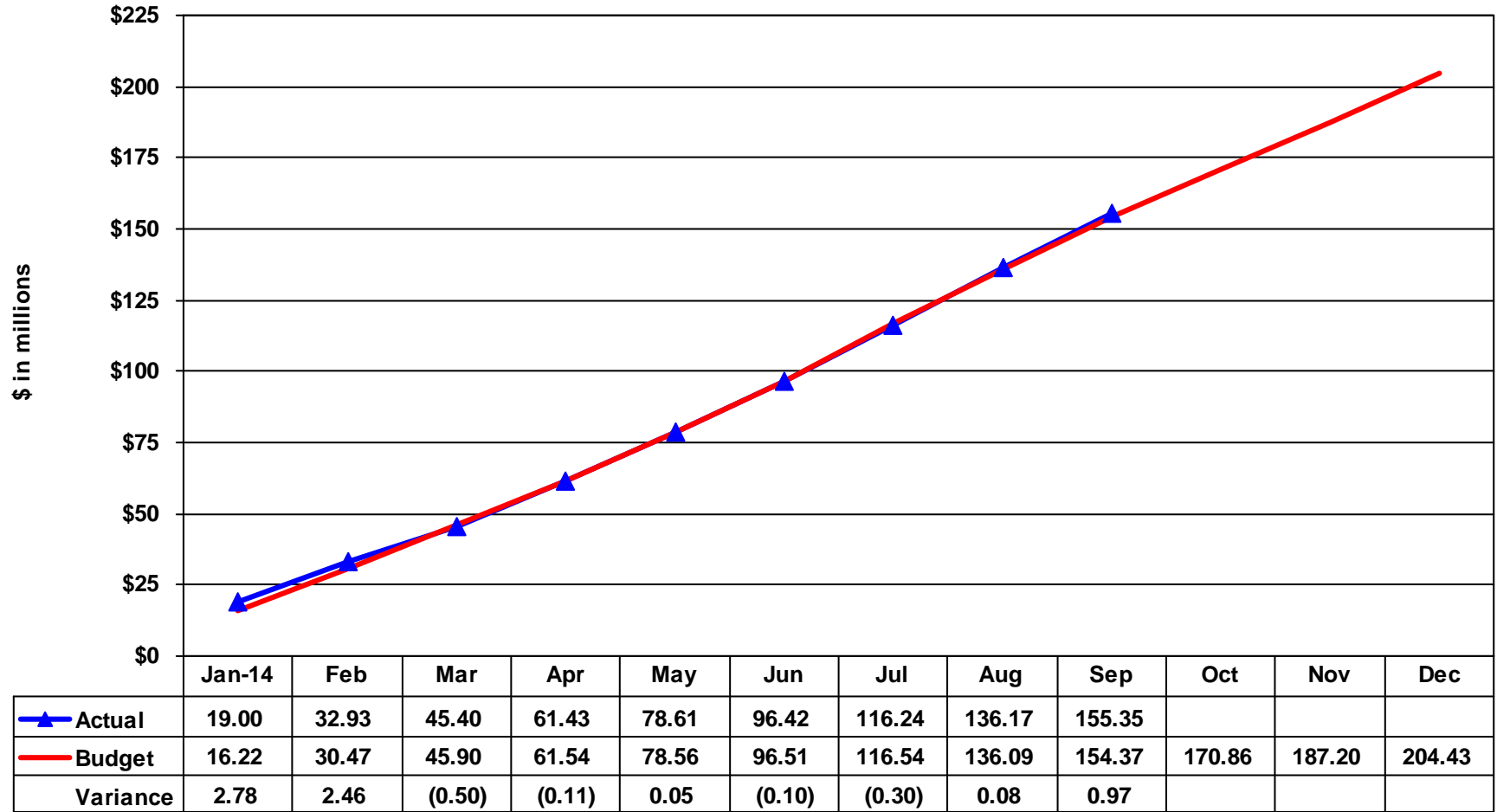
CALIFORNIA ISO
Capital Projects Report

For the quarter ended September 30, 2014
(dollars in thousands)

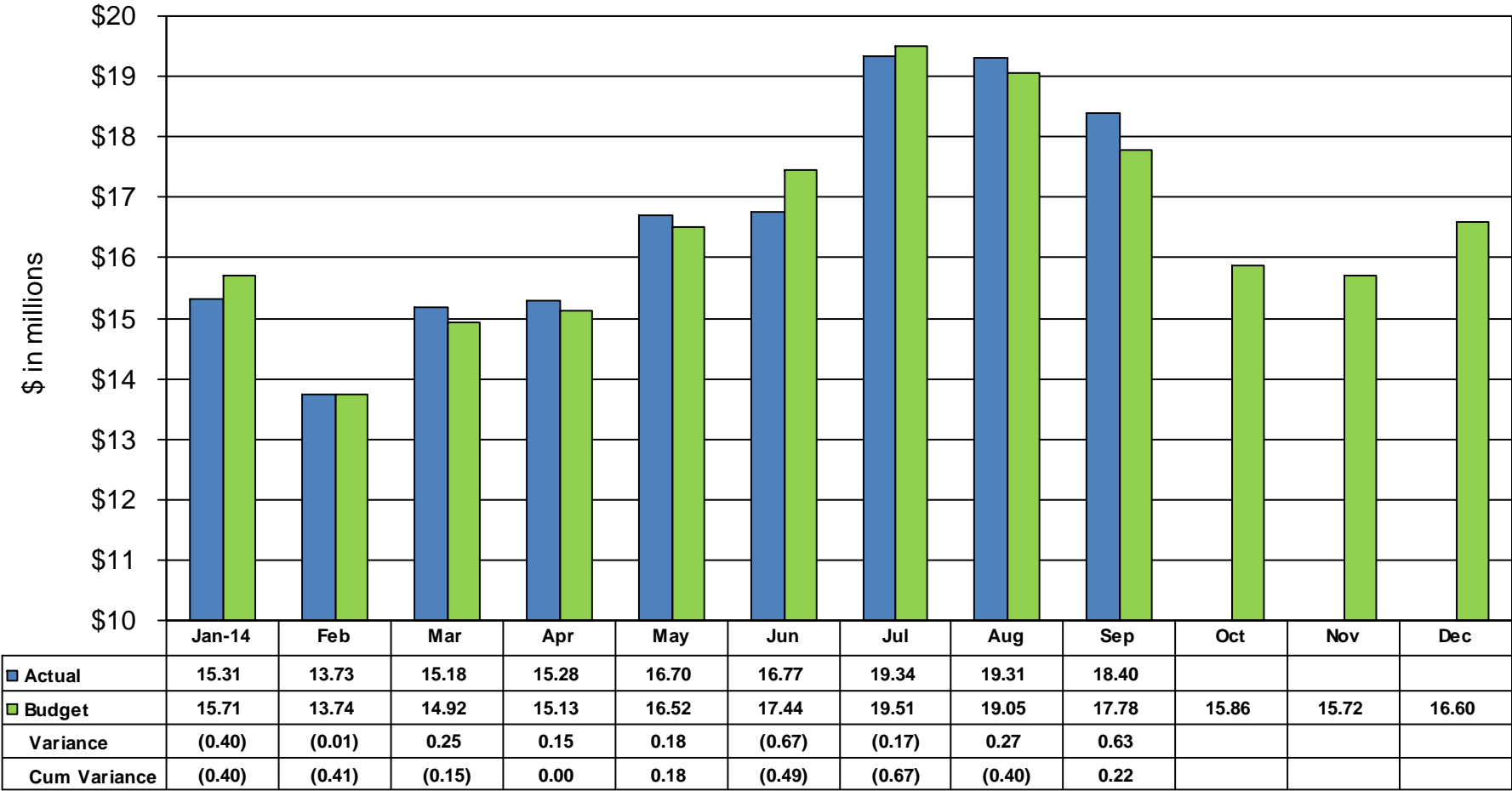
	Approved Projects				
	Q3 Actual	YTD Actual	2014 Approved Projects	Projected Costs for Approved Projects	Original/ Current Budget
Implement Systems, Tools and Forecasting	\$ 1,883	\$ 2,635	\$ 5,043	\$ 5,043	\$ 5,675
Enhance Markets & Performance	2,413	4,229	5,927	5,927	10,425
Compliance Culture	21	64	264	264	1,400
Infrastructure Improvements	1,081	2,869	8,788	8,750	6,500
Total 2014 Capital Spending	5,398	9,797	20,023	19,985	24,000
Prior Year Capital Projects	2,566	9,034	-	8,315	8,315
Total Capital	\$ 7,964	\$ 18,831	\$ 20,023	\$ 28,300	\$ 32,315

Cumulative Operating Revenues

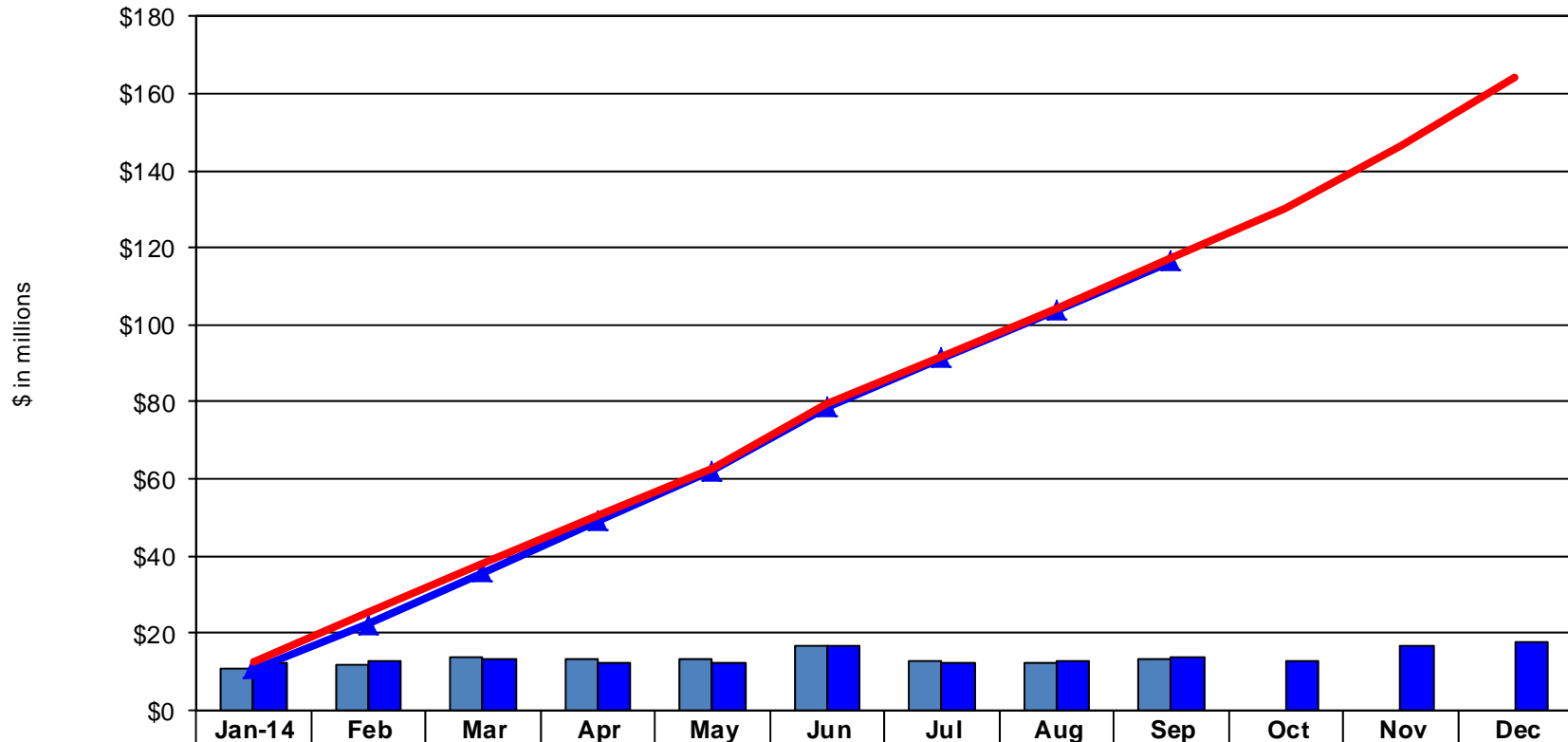
Revenues = GMC & Other Revenues



Monthly GMC Revenues

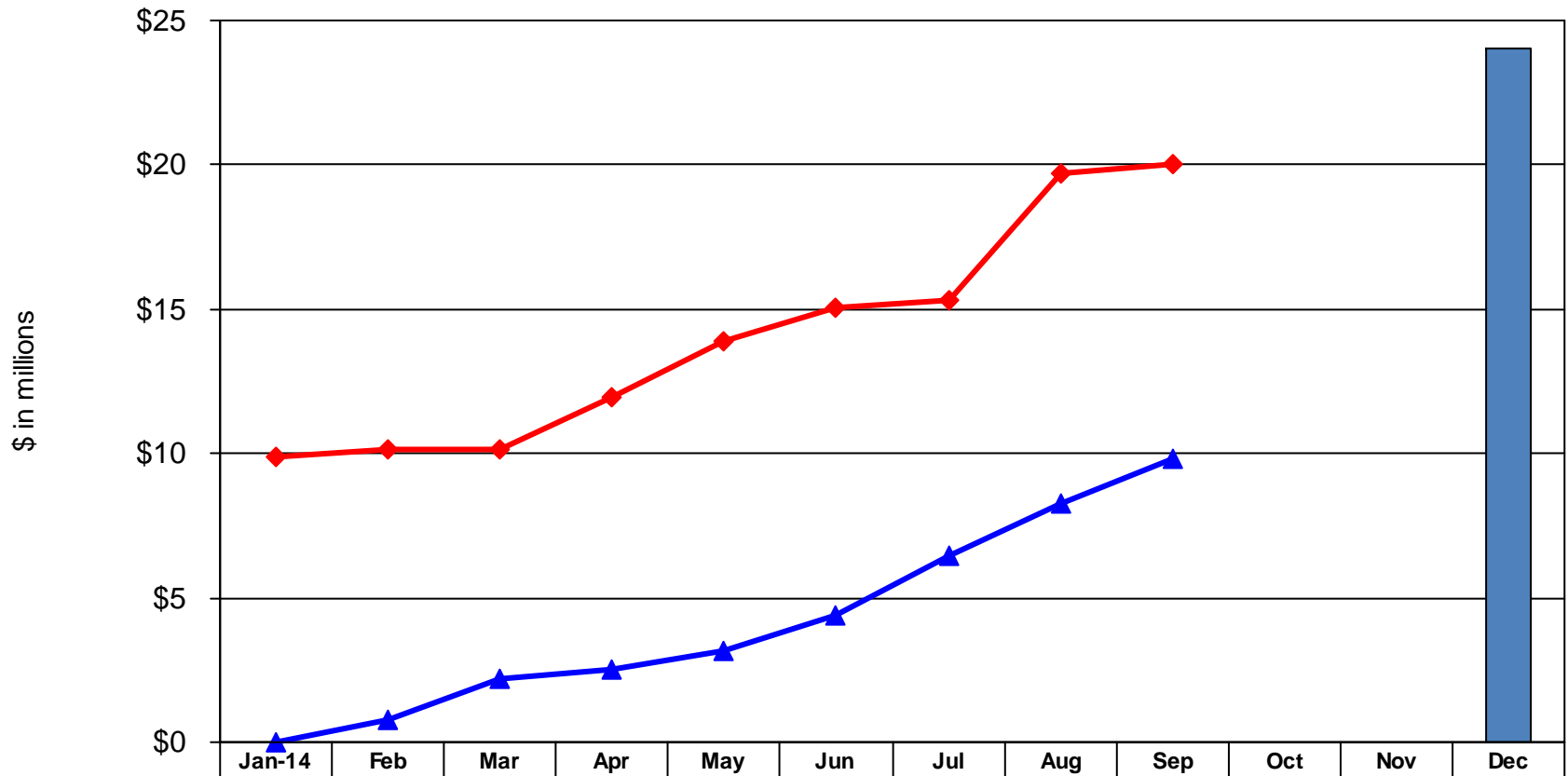


Operating and Maintenance Expenses (O&M)



	Jan-14	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	10.46	11.58	13.59	13.36	13.07	16.63	12.67	12.29	12.91			
Monthly Budget	12.40	12.67	13.01	12.26	12.34	16.65	12.39	12.43	13.48	12.64	16.38	17.76
Cum Actual	10.46	22.04	35.63	48.99	62.06	78.69	91.36	103.65	116.56			
Cum Budget	12.40	25.07	38.08	50.33	62.67	79.32	91.71	104.15	117.63	130.26	146.64	164.40
Cum Variance	1.95	3.03	2.45	1.34	0.61	0.63	0.35	0.50	1.07			

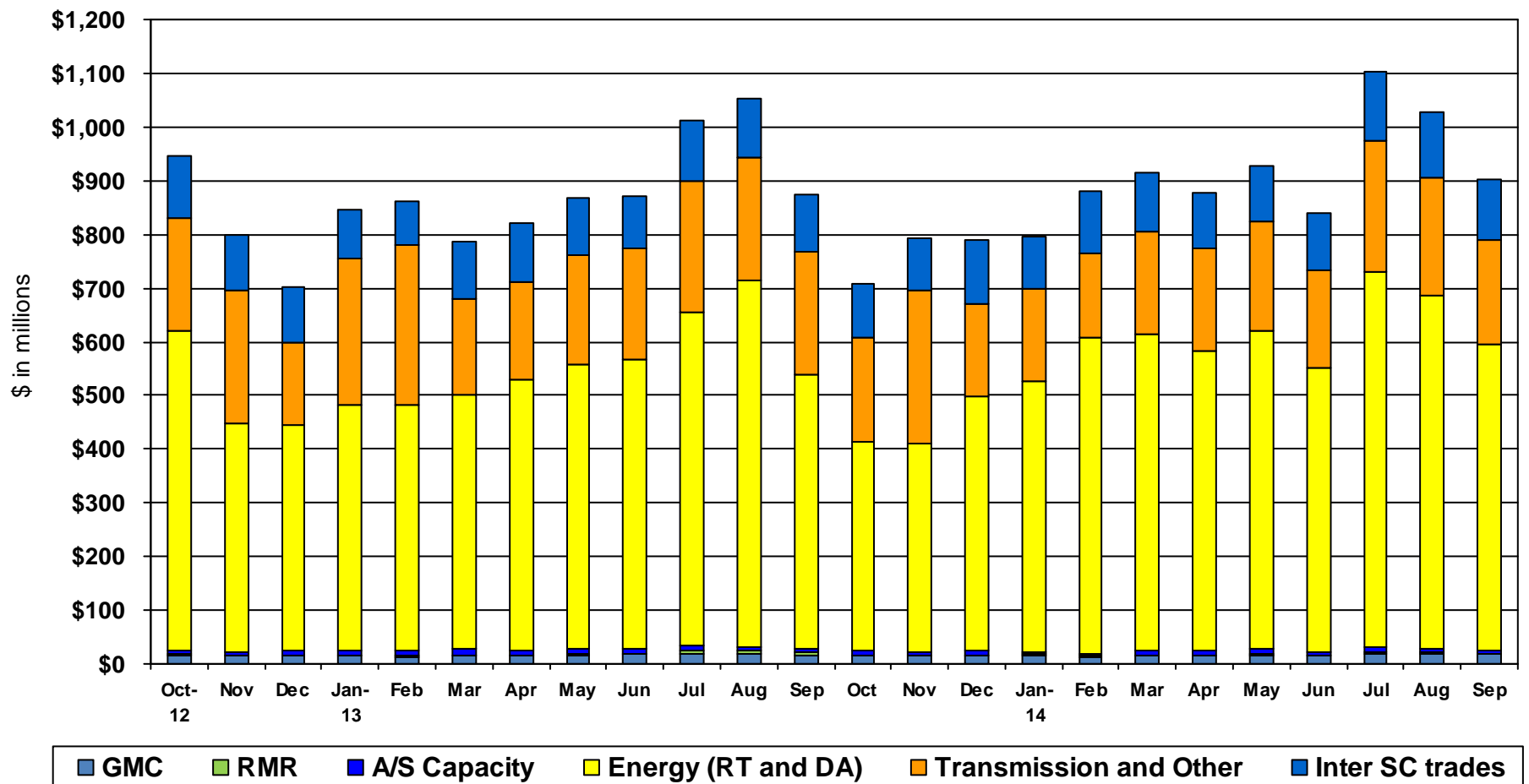
Cumulative Capital Expenditures



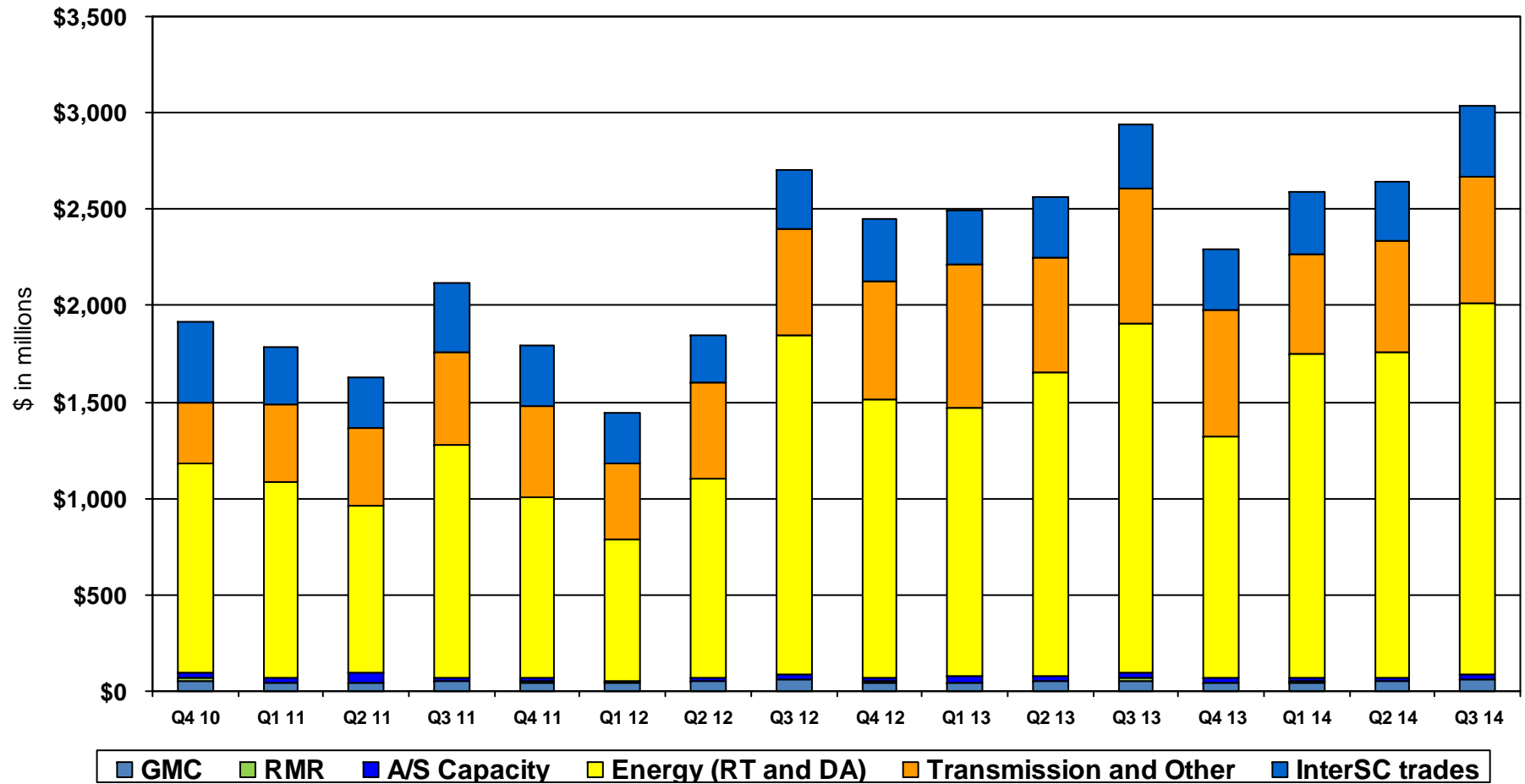
Budgeted capital												24.00
Cumulative Expenditures	0.00	0.78	2.22	2.54	3.15	4.40	6.46	8.28	9.80			
Approved projects	9.86	10.11	10.16	11.97	13.90	15.08	15.34	19.73	20.02			

ISO Market Revenues By Month

October 2012 through September 2014



ISO Market Revenues By Quarter 4th Quarter 2010 through 3rd Quarter 2014



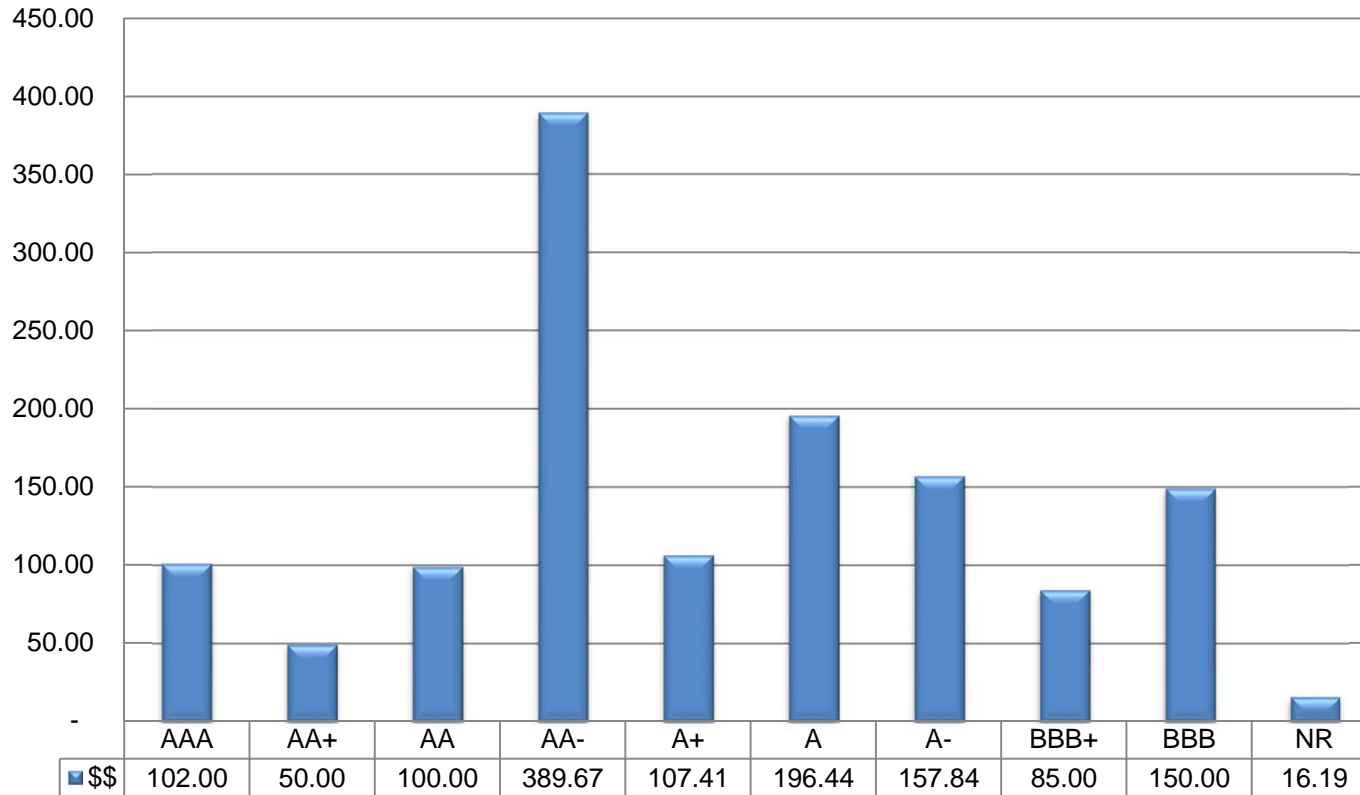
Collateral & Estimated Aggregate Liability (as of 10/03/14)

Collateral Types	Amount
Unsecured	\$ 1,354,543,082
Secured	\$ 534,689,043
Total	\$ 1,889,232,125

Estimate Aggregate Liability	Amount
Positive EAL	\$263,990,682

Unsecured Collateral (as of 10/03/14)

(in millions)



Secured Collateral (as of 10/03/14)

(in millions)

