

MONTHLY FINANCIAL REPORT

December 2011

PRELIMINARY AND UNAUDITED

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
MONTHLY FINANCIAL REPORT - December 31, 2011 (Preliminary and Unaudited)

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

For the twelve-months ended December 31, 2011

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

- ♦ YTD operating revenues were \$1.6M under budget
 - This is primarily due to lower GMC revenues during the period as a result of lower market volumes.
- ♦ YTD operating revenues were \$16.2M lower than the previous year:
 - This variance is primarily due to lower market volumes attributed to the generally milder weather pattern during the current year and an overall lower revenue requirement.
- ♦ YTD operating expenses were \$4.2M under budget
 - This is primarily due budget discipline during the period.
- ♦ YTD operating expenses were \$1.6M higher than last year
 - This is primarily due to higher third party vendor contract payments as a result of new maintenance contracts for the new market system, and higher building, leases and facility expenses, due to costs associated with the Iron Point facility and the vacant Blue Ravine campus.
- ♦ Currently there are 583 full-time employees compared to 601 full-time employees budgeted. There were 579 full-time employees YTD last year.

INTEREST COSTS and INTEREST INCOME: (page 1)

- ♦ YTD Interest income and other was \$1.8M higher than budget due to interest earned on restricted funds. (Interest income earned on restricted funds is not budgeted, it is adjusted at the end of the year as part of the debt service costs.)
- ♦ YTD interest income and other were lower by \$2.1M compared to the previous year due to lower fund balances as a result of capital spending and debt service.
- ♦ YTD interest expenses is \$0.4M under budget as a result of the capitalization of interest costs, which was not budgeted.
- ♦ YTD interest expenses compared to last year were higher overall due to the a lower amount capitalized for capital projects. In 2010, the amount capitalized was \$7.2M, mostly of which was associated with the construction of the new headquarters facility. In 2011, only \$0.2M was capitalized.
- ♦ YTD losses on investments represent the mark-to-market adjustments of the fixed income investments held.

BALANCE SHEET: (page 2)

- ♦ The changes in restricted cash and cash equivalents were primarily due to market collateral returns as result of the conclusion of the annual Congestion Revenue Rights auction. Changes in the rest of the accounts were a result of normal business activity during the month.

CAPITAL PROJECTS: (pages 3 and 7)

- ♦ 2011 capital projects were budgeted for the year at \$23.5M.
- ♦ YTD capital projects approved through December totaled \$19.6M, actual capital project expenditure totaled \$12.7M.
- ♦ YTD expenditures for the Iron Point facility and the 2010-approved capital projects totaled \$145.3M and \$8.8M, respectively.

CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY (Preliminary and Unaudited)

For the twelve-months ended December 31, 2011

The ISO Markets

MARKET CHARGES: (page 8 and 9)

- ◆ The total market charges managed by the ISO include GMC, Reliability Must Run (RMR) charges, Ancillary Services Capacity, Real Time Energy, Transmission, Congestion and Other, and InterSC Trades.
- ◆ Other market charges fluctuate with the season or as a result of certain external factors (wildfires, extreme temperatures and drought conditions).

OBLIGATIONS OF MARKET PARTICIPANTS: (page 10)

- ◆ As of January 4, 2012 the ISO maintained \$1.8B in collateral from market participants. This supported \$137.8M in aggregate liabilities due in the market.
- ◆ Approximately \$1.3B of the collateral is from unsecured sources (i.e., unsecured credit limits and parent guarantees) with investment grade or equivalent ratings.
- ◆ \$480.9M of the collateral is from secured forms (i.e., cash , letters of credit, escrow accounts, etc.). This collateral is predominantly invested in AAA rated securities or backed by single A rated or better financial institutions.

CALIFORNIA ISO

Statement of Operations (Preliminary and Unaudited)

For the twelve-months ended December 31, 2011

(dollars in thousands)

| | Year to Date | | | | | 2011 Budget |
|---|--------------------|--------------------|-----------------|--------------------|--------------------|--------------------|
| | Actual | Budget | Variance | Prior Year Actual | Variance | |
| Operating Revenues: | | | | | | |
| Grid Management Charge | \$ 186,537 | \$ 189,788 | \$ (3,252) | \$ 202,093 | \$ (15,556) | \$ 189,788 |
| Fines, WSCC & Other Fees | 4,976 | 3,300 | 1,676 | 5,564 | (588) | 3,300 |
| Total operating revenues | <u>191,512</u> | <u>193,088</u> | <u>(1,576)</u> | <u>207,657</u> | <u>(16,145)</u> | <u>193,088</u> |
| Operating Expenses: | | | | | | |
| Salaries and Benefits | 108,149 | 110,706 | (2,557) | 108,852 | \$ (703) | 110,026 |
| Building, Leases and Facility | 9,858 | 10,435 | (576) | 8,968 | 891 | 10,435 |
| Insurance | 1,778 | 2,257 | (479) | 2,047 | (269) | 2,208 |
| Third Party Vendor Contracts | 16,418 | 16,585 | (167) | 14,890 | 1,528 | 16,585 |
| Consulting and Contracting Services | 13,298 | 10,299 | 2,999 | 11,638 | 1,660 | 10,053 |
| Legal and Audit | 3,696 | 6,012 | (2,316) | 4,282 | (586) | 6,992 |
| Training, Travel and Professional Dues | 2,631 | 3,802 | (1,171) | 2,860 | (229) | 3,797 |
| Other | 2,485 | 2,452 | 33 | 3,160 | (675) | 2,452 |
| Total operating expenses | <u>158,314</u> | <u>162,548</u> | <u>(4,234)</u> | <u>156,696</u> | <u>1,617</u> | <u>162,548</u> |
| Net operating income (loss) | <u>33,199</u> | <u>30,540</u> | <u>2,659</u> | <u>50,961</u> | <u>(17,762)</u> | <u>30,540</u> |
| Interest and Other Expenses | | | | | | |
| Interest income & other | 4,410 | 2,600 | 1,810 | 6,523 | (2,113) | 2,600 |
| Interest expense | 14,259 | 14,639 | (380) | 9,651 | 4,608 | 14,639 |
| Gains and losses on investments (realized and unrealized) | (1,293) | - | (1,293) | (626) | (667) | - |
| Depreciation and amortization | 59,991 | 59,991 | - | 60,910 | (919) | 59,991 |
| Total interest and other expenses | <u>71,133</u> | <u>72,030</u> | <u>(897)</u> | <u>64,664</u> | <u>6,469</u> | <u>72,030</u> |
| Excess (Deficiency) of Revenues Over Expenses | <u>\$ (37,934)</u> | <u>\$ (41,490)</u> | <u>\$ 3,556</u> | <u>\$ (13,703)</u> | <u>\$ (24,231)</u> | <u>\$ (41,490)</u> |
| Number of Full-time Employees | <u>583</u> | | | <u>579</u> | | <u>601</u> |

CALIFORNIA ISO
Balance Sheet (Preliminary and Unaudited)

As of December 31, 2011

(dollars in thousands)

| | <u>Current Month</u> | <u>Prior Month</u> | <u>Change</u> | <u>%</u> |
|---|--------------------------|------------------------|--------------------|----------|
| ASSETS | | | | |
| NET ELECTRIC UTILITY PLANT | \$ 313,493 | \$ 309,728 | \$ 3,765 | 1% |
| CURRENT ASSETS | | | | |
| Unrestricted Cash and Cash Equivalents | 31,132 | 34,075 | (2,943) | -9% |
| Restricted Cash and Cash Equivalents | 299,615 | 333,609 | (33,994) | -10% |
| Other Special Deposits | 34,677 | 34,677 | - | 0% |
| Accounts Receivable, net | 21,642 | 24,265 | (2,622) | -11% |
| Investments | 197,827 | 197,213 | 613 | 0% |
| Accrued Interest | 1,287 | 1,008 | 279 | 28% |
| Prepayments | 5,811 | 5,293 | 518 | 10% |
| Total Current Assets | <u>591,991</u> | <u>630,140</u> | <u>(38,149)</u> | -6% |
| NONCURRENT ASSET AND DEFERRED CHARGES | | | | |
| Unamortized Debt Expenses and Other | 3,781 | 3,966 | (185) | -5% |
| Total Noncurrent Asset and Deferred Charges | <u>3,781</u> | <u>3,966</u> | <u>(185)</u> | -5% |
| TOTAL ASSETS | <u>\$ 909,266</u> | <u>\$ 943,834</u> | <u>\$ (34,568)</u> | -4% |
| CAPITALIZATION | | | | |
| Stakeholders' Surplus | \$ 200,070 | \$ 198,277 | \$ 1,793 | 1% |
| Long-term Debt | 259,201 | 259,321 | (120) | 0% |
| TOTAL CAPITALIZATION | <u>459,271</u> | <u>457,598</u> | <u>1,673</u> | 0% |
| CURRENT LIABILITIES | | | | |
| Long-term Debt Due Within One Year | 28,585 | 28,585 | - | 0% |
| Accounts Payable | 44,562 | 38,984 | 5,578 | 14% |
| Customer Deposits & Other | 374,832 | 416,618 | (41,787) | -10% |
| Fines Subject to Refund | 638 | 746 | (108) | -14% |
| Total Current Liabilities | <u>448,617</u> | <u>484,933</u> | <u>(36,316)</u> | -7% |
| NONCURRENT LIABILITY AND DEFERRED CREDITS | | | | |
| Other | 1,377 | 1,303 | 75 | 6% |
| Total Noncurrent Liability and Deferred Credits | <u>1,377</u> | <u>1,303</u> | <u>75</u> | 6% |
| TOTAL LIABILITIES | <u>449,994</u> | <u>486,236</u> | <u>(36,242)</u> | -7% |
| TOTAL CAPITALIZATION AND LIABILITIES | <u>\$ 909,266</u> | <u>\$ 943,834</u> | <u>\$ (34,568)</u> | -4% |

CALIFORNIA ISO
Capital Projects Report (Preliminary and Unaudited)

For the twelve-months ended December 31, 2011

(dollars in thousands)

| | Approved Projects | | | | |
|---------------------------------------|--------------------------|----------------------|-------------------------------------|---|-----------------------------------|
| | Month <u>Actual</u> | YTD <u>Actual</u> | 2011 Approved <u>Projects</u> | Total Projected Costs for Approved <u>Projects</u> | Original 2011 <u>Budget</u> |
| Customer Focus | \$ 445 | \$ 1,104 | \$ 2,396 | \$ 2,362 | |
| Operational Excellence | 1,106 | 2,173 | 4,698 | 4,577 | |
| Continuous Transformation | 1,056 | 5,364 | 7,826 | 7,797 | |
| Reasonable Costs & Essential Projects | 1,271 | 4,065 | 4,713 | 4,697 | |
| Total 2011 Capital Spending | <u>3,878</u> | <u>12,706</u> | <u>19,633</u> | <u>19,433</u> | <u>23,500</u> |
| Iron Point Building | 77 | 145,370 | - | 160,000 | 160,000 |
| 2010 Capital Projects | <u>1,261</u> | <u>8,754</u> | <u>-</u> | <u>13,512</u> | <u>13,512</u> |
| Total Capital | <u>\$ 5,216</u> | <u>\$ 166,830</u> | <u>\$ 19,633</u> | <u>\$ 192,945</u> | <u>\$ 197,012</u> |

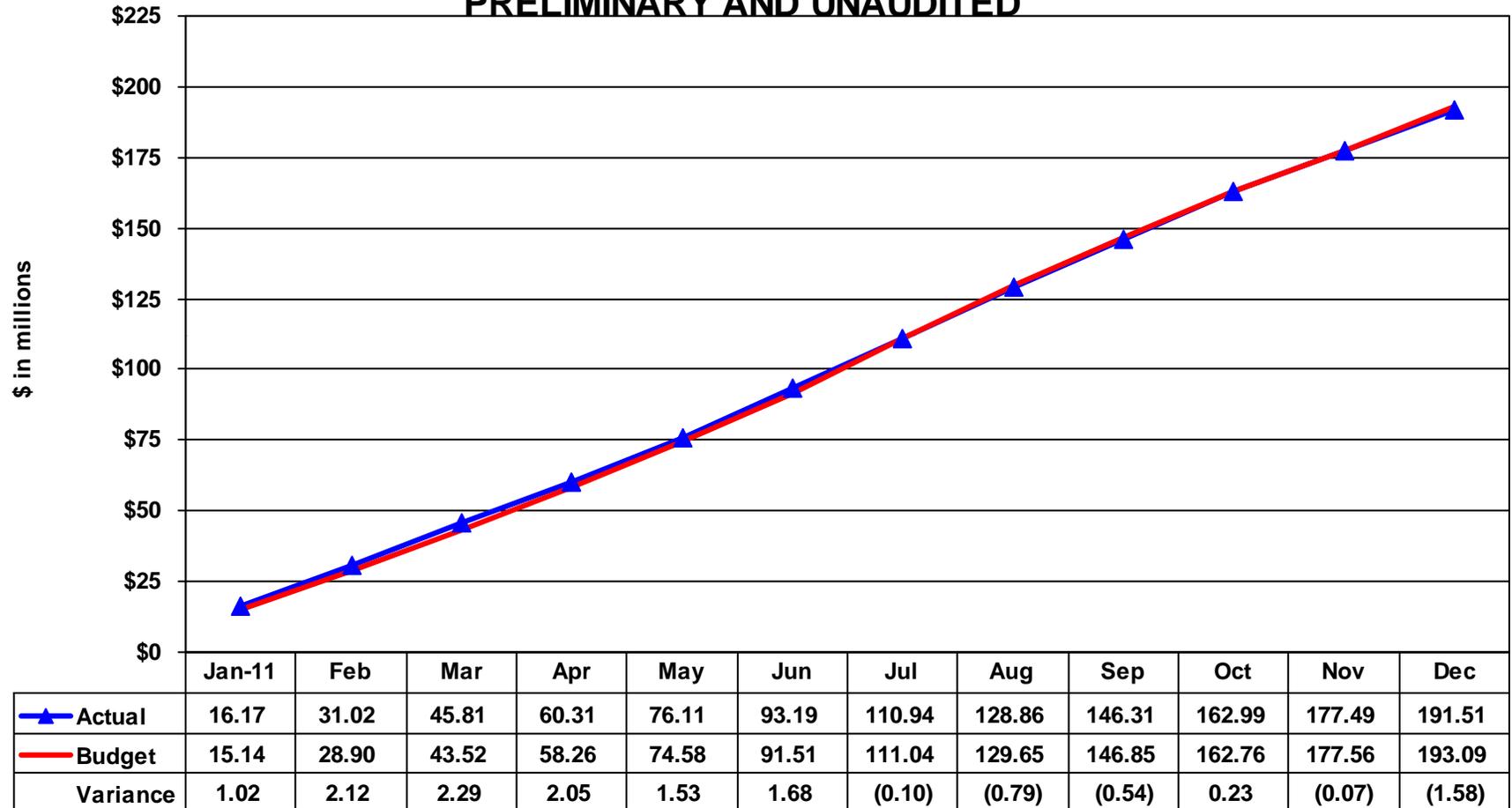
Notes:

The Iron Point Building is funded from 2009 bond proceeds.

Cumulative Operating Revenues

Revenues = GMC, LGIP, WSCC Security & Other Fees

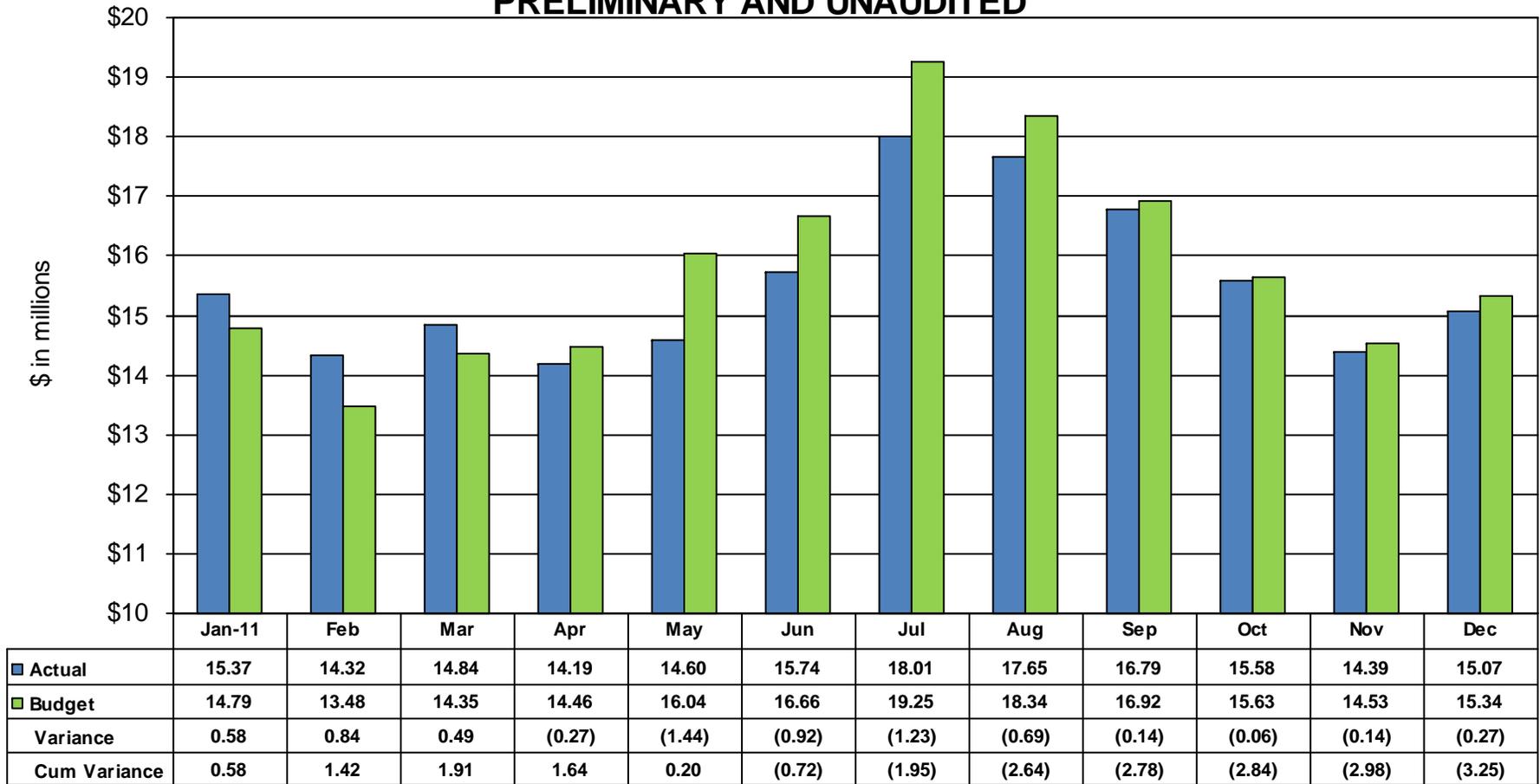
PRELIMINARY AND UNAUDITED



December revenues are preliminary.

Monthly GMC Revenues

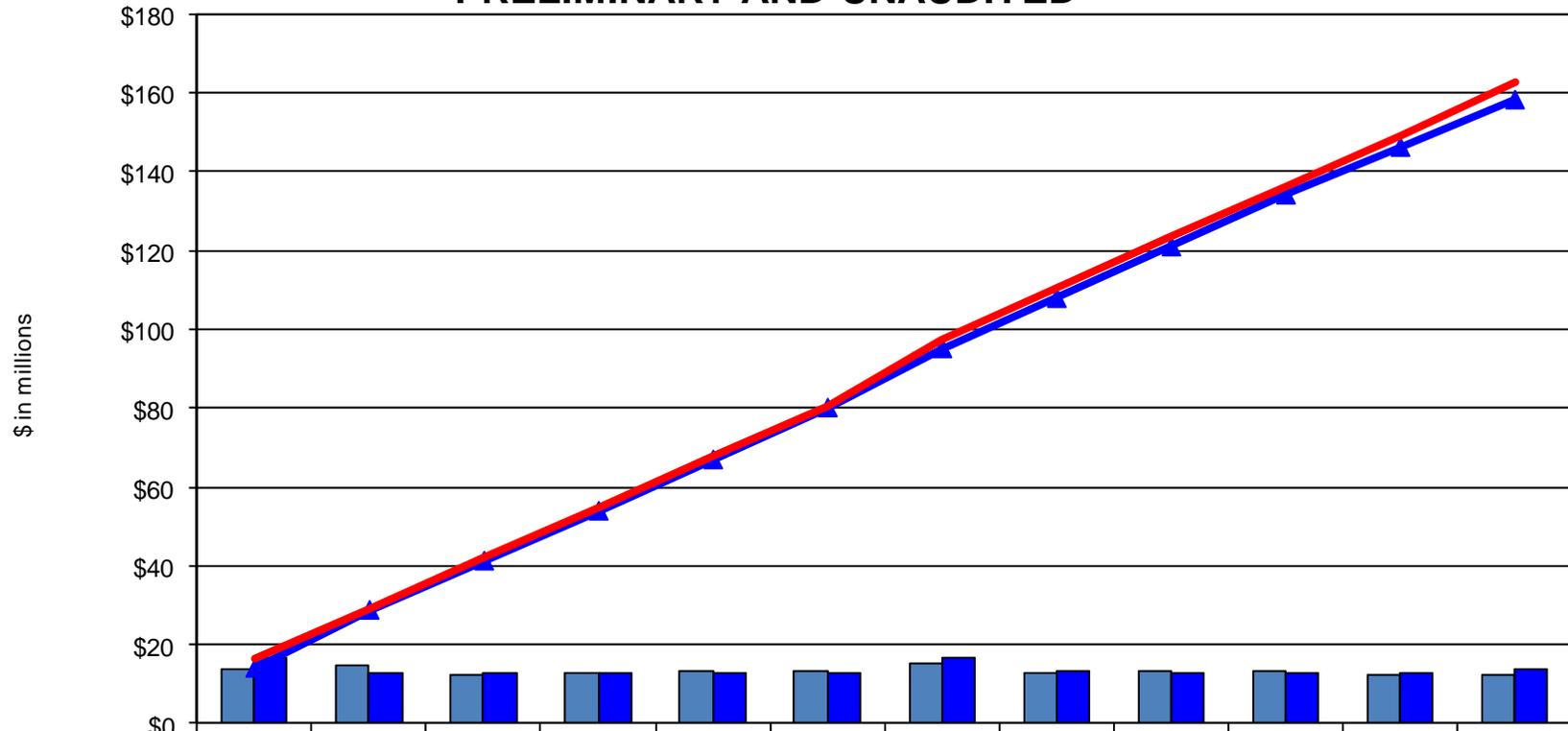
PRELIMINARY AND UNAUDITED



December revenues are preliminary.

Operating and Maintenance Expenses (O&M)

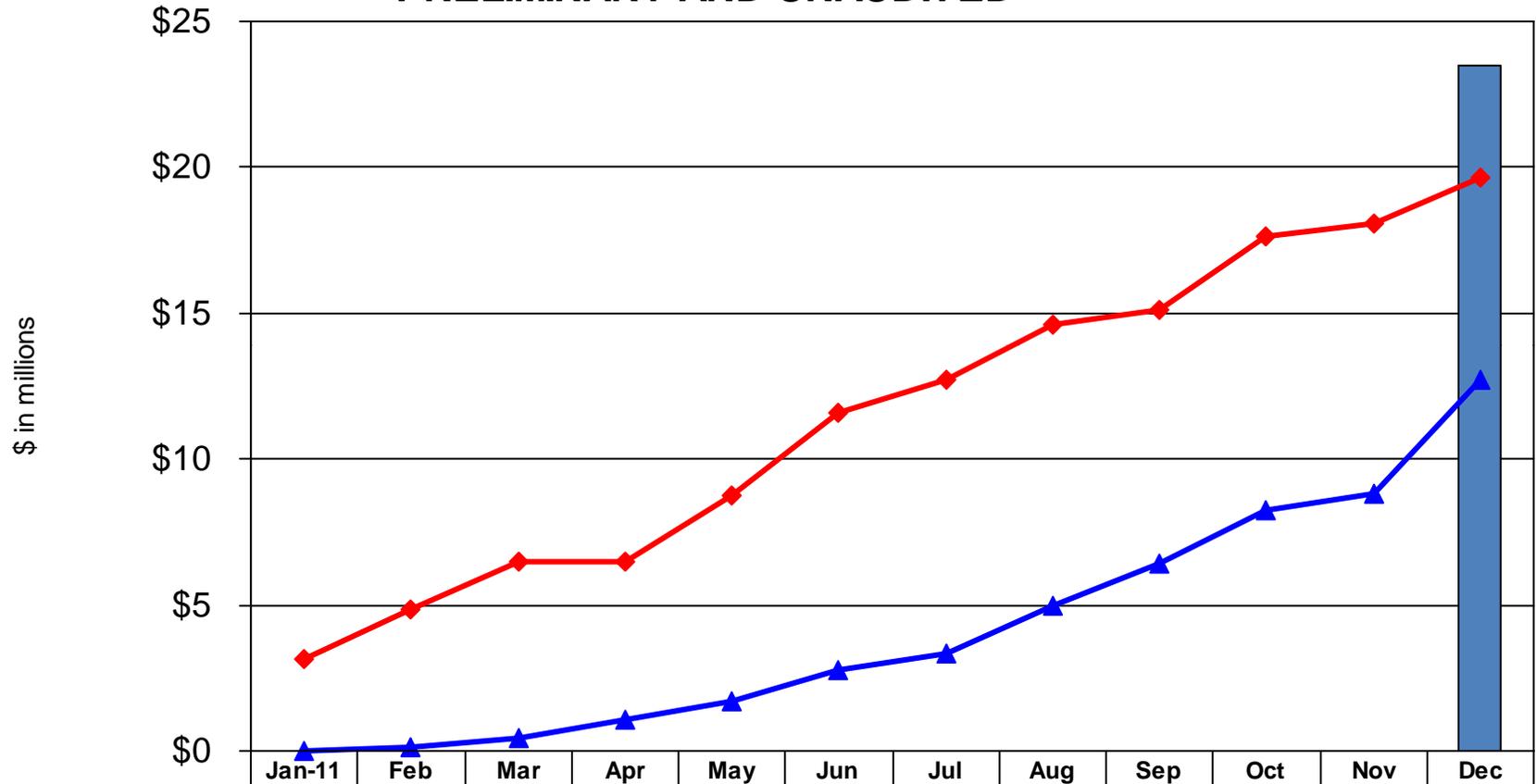
PRELIMINARY AND UNAUDITED



| | Jan-11 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|----------------|--------|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|--------|
| Monthly Actual | 13.92 | 14.73 | 12.48 | 12.70 | 13.03 | 13.18 | 15.04 | 12.78 | 13.10 | 13.17 | 12.12 | 12.06 |
| Monthly Budget | 16.49 | 12.70 | 12.82 | 12.84 | 12.80 | 12.85 | 16.67 | 13.32 | 12.91 | 12.88 | 12.67 | 13.59 |
| Cum Actual | 13.92 | 28.65 | 41.13 | 53.83 | 66.86 | 80.05 | 95.09 | 107.87 | 120.96 | 134.13 | 146.25 | 158.31 |
| Cum Budget | 16.49 | 29.19 | 42.01 | 54.85 | 67.66 | 80.50 | 97.17 | 110.49 | 123.40 | 136.28 | 148.95 | 162.55 |
| Cum Variance | 2.57 | 0.54 | 0.88 | 1.02 | 0.79 | 0.46 | 2.09 | 2.63 | 2.44 | 2.15 | 2.70 | 4.23 |

Cumulative Capital Expenditures

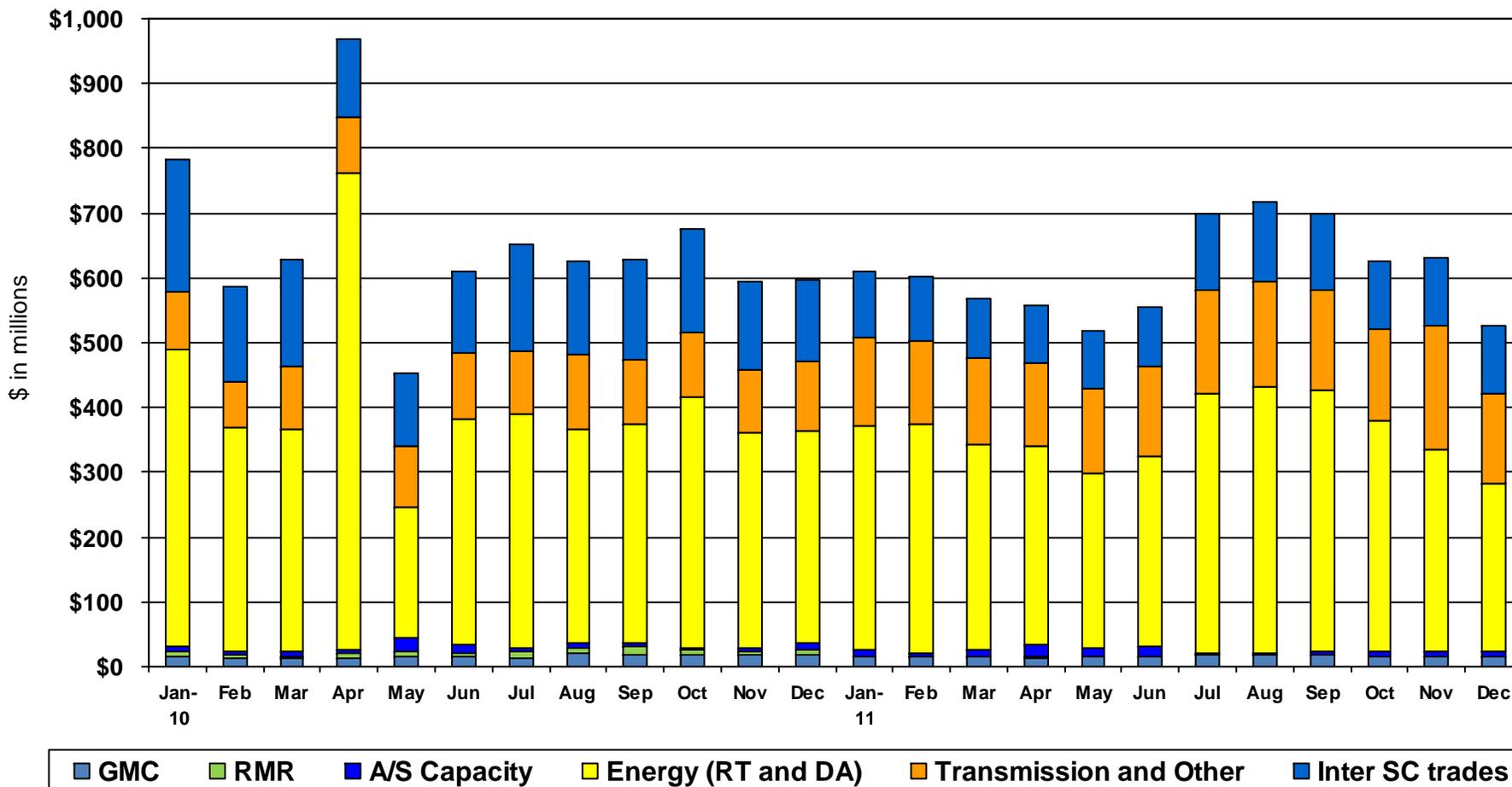
PRELIMINARY AND UNAUDITED



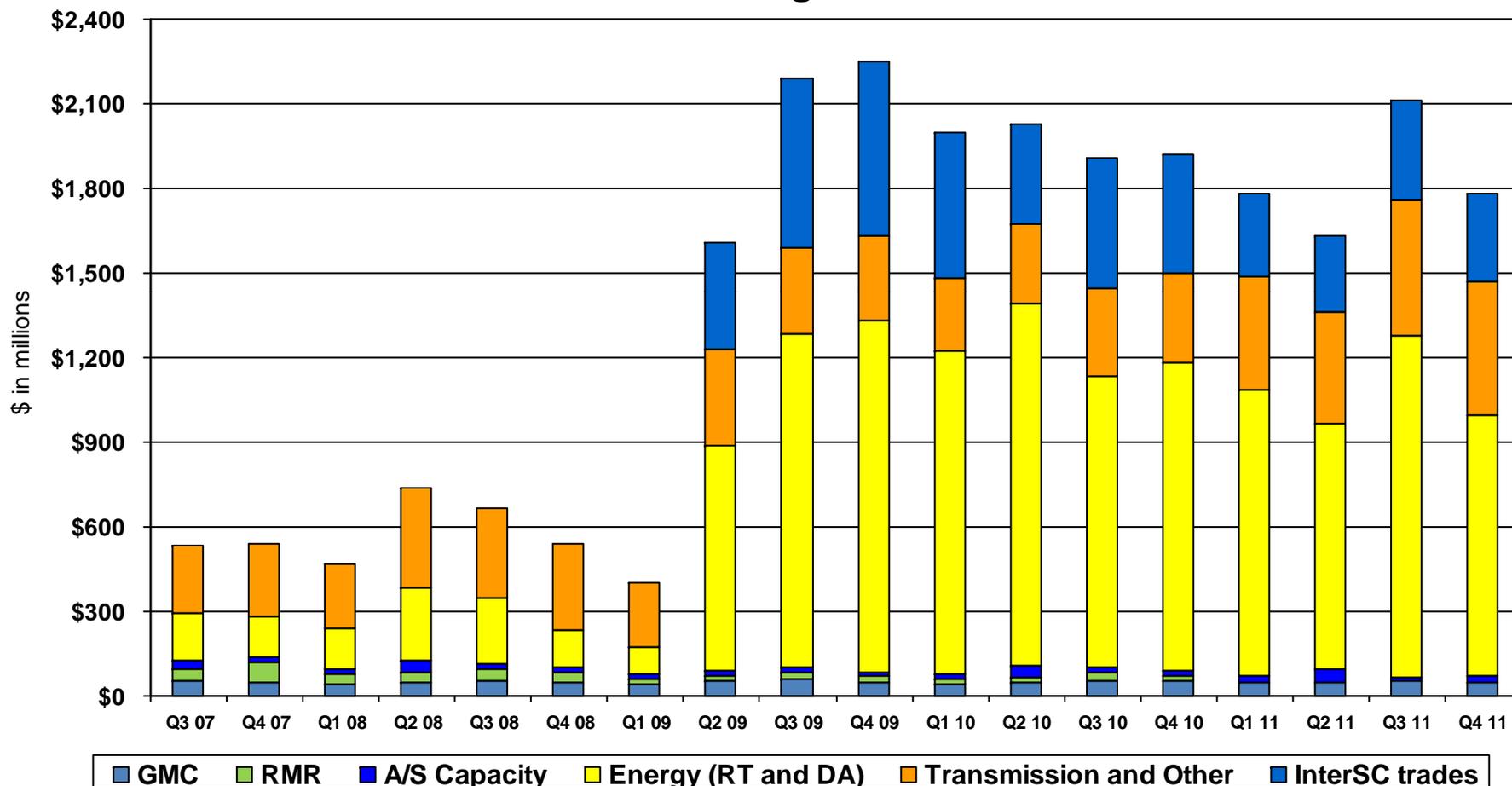
| | | | | | | | | | | | | |
|-------------------------|------|------|------|------|------|-------|-------|-------|-------|-------|-------|-------|
| Budgeted capital | | | | | | | | | | | | 23.50 |
| Cumulative Expenditures | 0.02 | 0.14 | 0.43 | 1.04 | 1.69 | 2.75 | 3.35 | 4.99 | 6.45 | 8.25 | 8.84 | 12.71 |
| Approved projects | 3.16 | 4.84 | 6.46 | 6.51 | 8.78 | 11.57 | 12.72 | 14.60 | 15.14 | 17.66 | 18.08 | 19.63 |

ISO Market Revenues By Month

January 2010 through December 2011



ISO Market Revenues By Quarter 3rd Quarter 2007 through 4th Quarter 2011

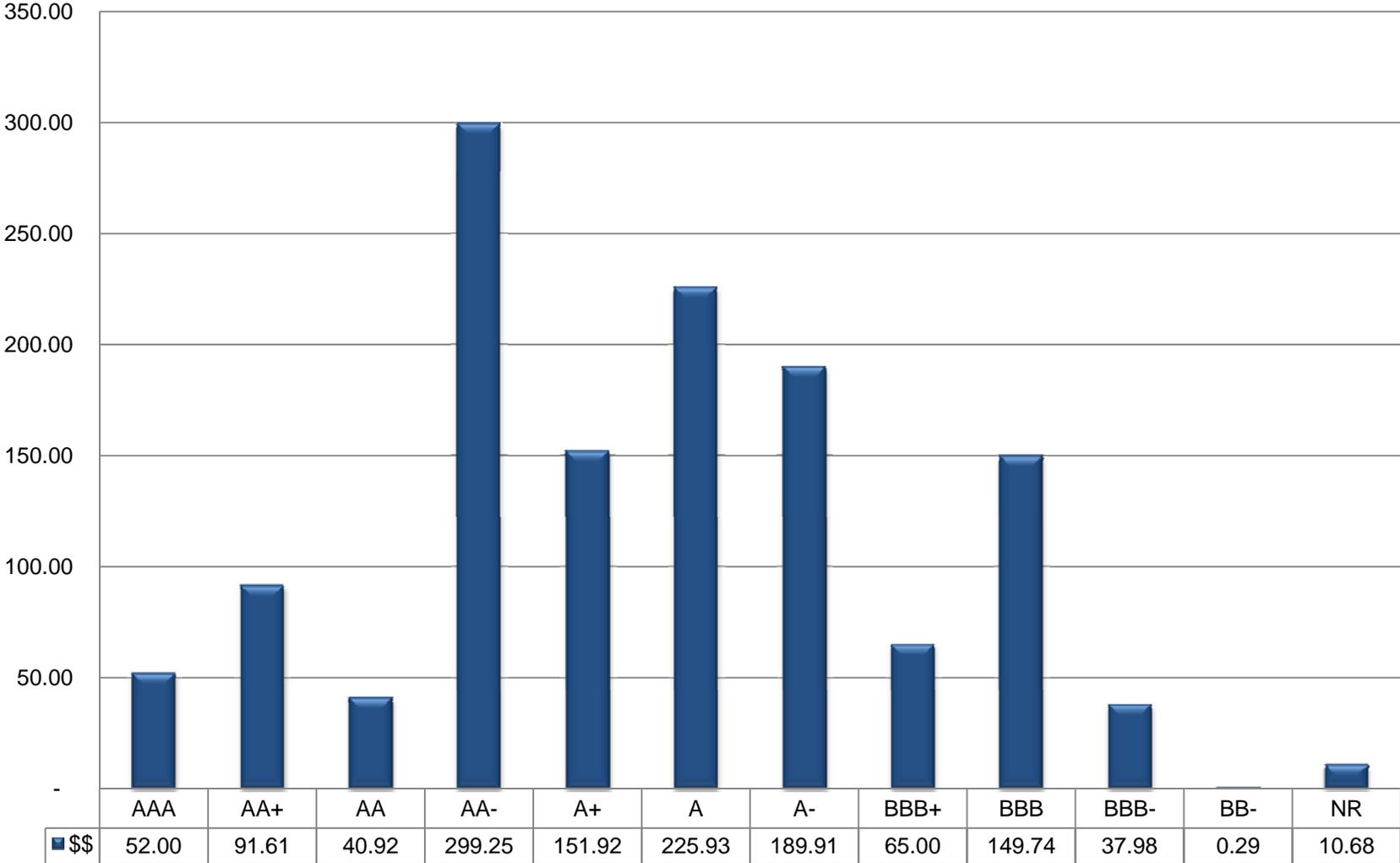


Collateral & Estimated Aggregate Liability (as of Jan 4, 2012)

| Collateral Types | Amount |
|-------------------------|------------------------|
| Unsecured | \$1,315,225,200 |
| Secured | \$480,880,419 |
| Total | \$1,796,105,619 |

| Estimate Aggregate Liability | Amount |
|-------------------------------------|----------------------|
| Positive EAL | \$137,779,847 |

Unsecured Collateral



Secured Collateral

