

QUARTERLY FINANCIAL REPORT

September 30, 2012

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
QUARTERLY FINANCIAL REPORT - September 30, 2012

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CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY

For the quarter ended September 30, 2012

Results of Operations

Revenues

For the three quarters ending September 30, 2012, Grid Management Charge (GMC) revenues were higher by \$2.4 million compared to the budgeted amounts. The overall increase in revenues was primarily due to the prolonged summer heat in California which resulted in much larger volumes than projected.

The increased volumes triggered a tariff required rate adjustment effective October 1 for the Market Services charge code. The rate was reduced to account for the higher than expected volumes.

Expenses

Operating expenses are \$5.3 million under budget for the three quarters of the year, largely due to lower actual labor costs and consulting expenses. The savings in labor costs are typically the result of employee vacancies and efficient use of overtime.

Material Changes to Assets and Liabilities

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

Capital Projects

Through the end of September 30, 2012, \$18.0 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 4, 2012 the ISO maintained \$1.7 billion in collateral from market participants to support \$267.9 million in aggregate liabilities due in the market. Approximately \$1.2B of the collateral is from unsecured sources (i.e., unsecured credit limits and parent guarantees) with investment grade or equivalent ratings, and \$490.6 million is from secured forms (i.e., cash, letters of credit, etc.). This collateral is predominantly invested in AAA rate money market funds or backed by A rated or better financial institutions.

CALIFORNIA ISO

Statement of Operations

For the quarter ended September 30, 2012
(dollars in thousands)

	Quarter		Year to Date		Annual Budget
	Actual	Prior Year	Actual	Prior Year	
<u>Operating Revenues:</u>					
Grid Management Charge	\$ 57,061	\$ 52,447	\$ 148,877	\$ 141,510	\$ 194,821
Other Revenues	1,724	673	4,195	4,803	5,500
Total operating revenues	58,785	53,120	153,072	146,313	200,321
<u>Operating Expenses:</u>					
Salaries and Benefits	27,920	28,587	82,073	\$ 82,146	113,150
Building, Leases and Facility	1,686	2,822	5,659	7,615	7,450
Insurance	842	837	1,702	1,835	2,006
Third Party Vendor Contracts	3,936	3,434	11,741	13,160	15,696
Consulting and Contracting Services	3,321	3,262	9,622	9,529	14,494
Legal and Audit	1,152	810	3,135	2,620	4,355
Training, Travel and Professional Dues	688	734	2,421	2,427	3,695
Other	408	431	1,177	1,633	2,202
Total operating expenses	39,953	40,917	117,530	120,965	163,048
OIBDA	18,832	12,203	35,542	25,348	37,273
Depreciation and amortization	18,430	16,039	55,674	49,172	65,000
Net Operating Income (Loss)	402	(3,836)	(20,132)	(23,824)	(27,727)
<u>Other Income (Expenses)</u>					
Interest income & other	696	631	2,944	2,553	2,900
Interest expense	(3,621)	(3,622)	(10,446)	(10,973)	(13,633)
Total Other Income (Expenses)	(2,925)	(2,991)	(7,502)	(8,420)	(10,733)
Excess (Deficiency) of Revenues Over Expenses	\$ (2,523)	\$ (6,827)	\$ (27,634)	\$ (32,244)	\$ (38,460)

Number of Full-time Employees

580 593 601

CALIFORNIA ISO**Balance Sheet**

As of September 30, 2012

(dollars in thousands)

	Current Quarter 9/30/2012	Prior Year 12/31/2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents, including restricted amounts	\$ 319,095	\$ 450,166
Accounts Receivable	23,447	11,965
Short-term Investments, including restricted amounts	35,462	22,790
Other current assets	6,730	6,835
Total Current Assets	<u>384,734</u>	<u>491,756</u>
NONCURRENT ASSET		
Long-term investments, including restricted amounts	\$ 89,105	\$ 90,074
Fixed Assets, net	264,532	303,868
Other Assets	4,735	4,856
Total Noncurrent Assets	<u>358,372</u>	<u>398,798</u>
TOTAL ASSETS	<u><u>\$ 743,106</u></u>	<u><u>\$ 890,554</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 10,852	\$ 18,541
Accrued salaries and compensated absences	21,982	25,919
Current portion of Long-term Debt	39,580	28,585
Due to Market Participants	262,627	347,208
Generator noncompliance fines refund obligation	1,317	638
Total Current Liabilities	<u>336,358</u>	<u>420,891</u>
NONCURRENT LIABILITIES		
Long-term Debt, Net of Current Portion	218,810	259,201
Employee Retirement Plan obligations	20,683	19,343
Total Noncurrent Liabilities	<u>239,493</u>	<u>278,544</u>
TOTAL LIABILITIES	<u>575,851</u>	<u>699,435</u>
TOTAL NET ASSETS	<u>167,255</u>	<u>191,119</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 743,106</u></u>	<u><u>\$ 890,554</u></u>

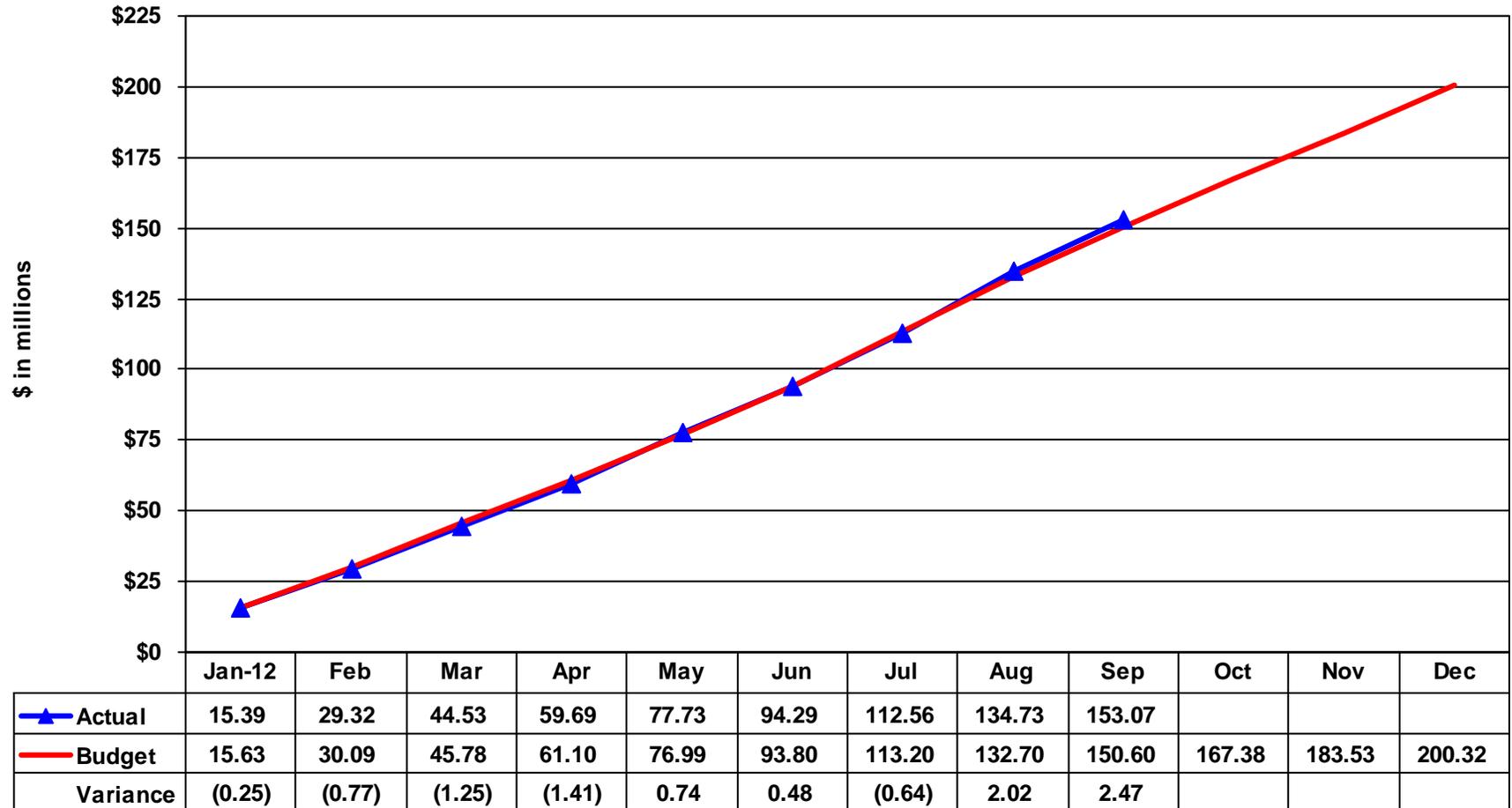
CALIFORNIA ISO
Capital Projects Report

For the quarter ended September 30, 2012
(dollars in thousands)

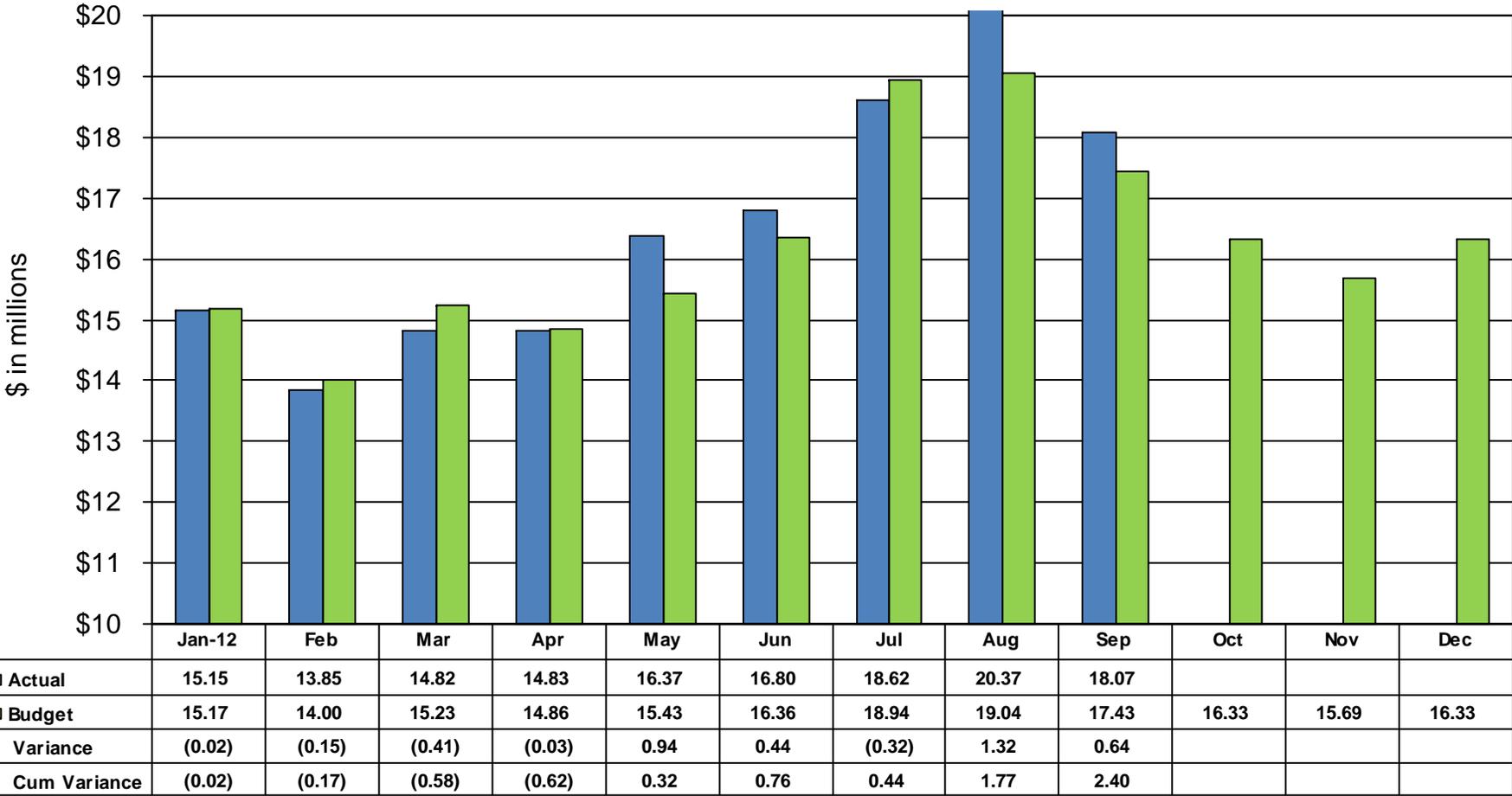
	Approved Projects				
	Q3 Actual	YTD Actual	2012 Approved Projects	Projected Costs for Approved Projects	Original/ Current Budget
Implement Systems, Tools and Forecasting	\$ 420	\$ 2,042	\$ 3,273	\$ 3,273	\$ 3,800
Enhance Markets & Performance	572	1,049	6,215	6,215	8,400
Compliance Culture	32	39	374	374	2,900
Infrastructure Improvements	2,905	5,781	7,028	7,028	7,000
Blue Ravine Decommissioning Costs			1,143	1,143	1,300
Total 2012 Capital Spending	3,929	8,911	18,032	18,032	23,400
Prior Year Capital Projects	1,252	5,756	-	9,879	9,879
Total Capital	\$ 5,181	\$ 14,667	\$ 18,032	\$ 27,912	\$ 33,279

Cumulative Operating Revenues

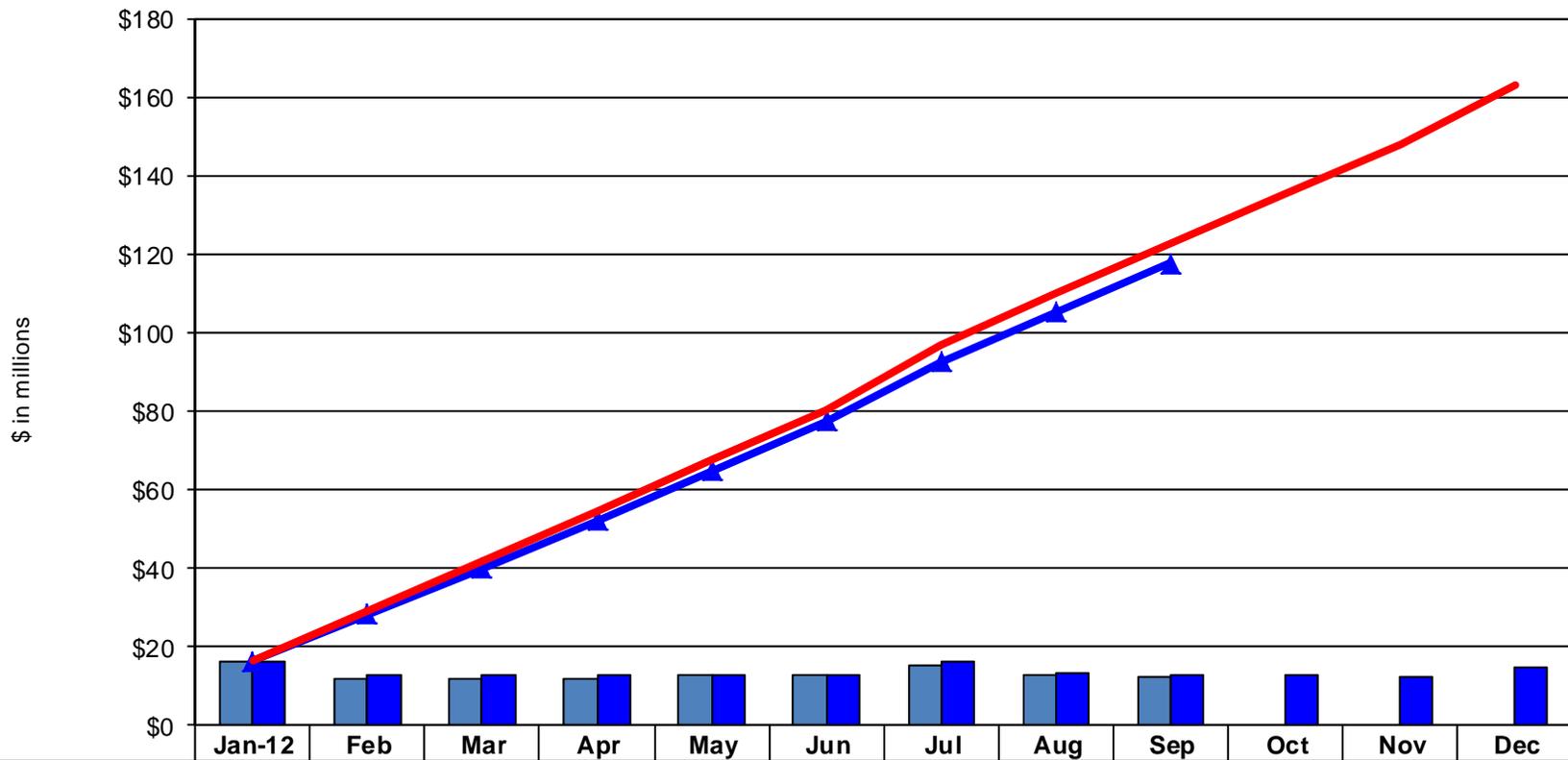
Revenues = GMC & Other Revenues



Monthly GMC Revenues

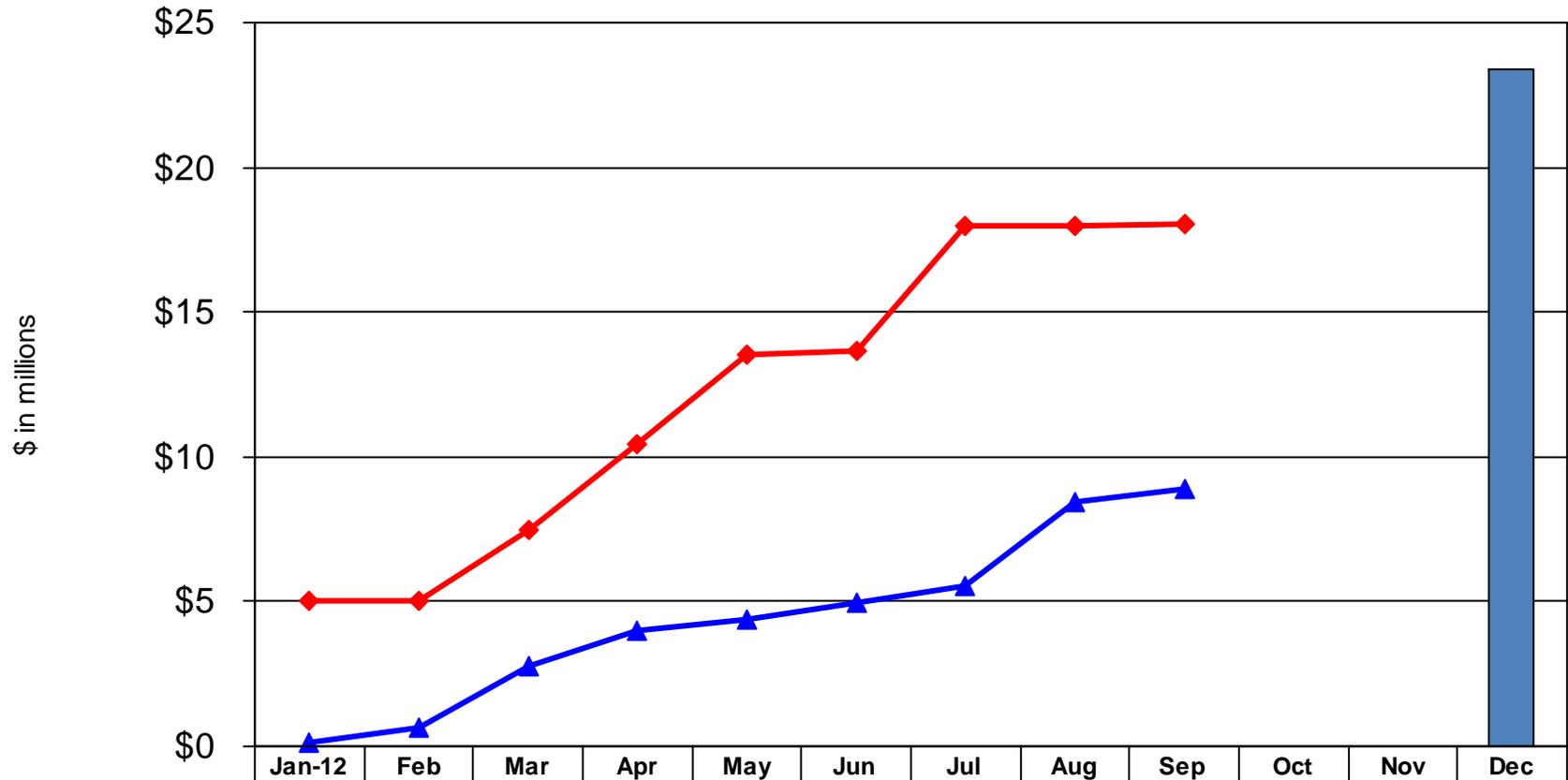


Operating and Maintenance Expenses (O&M)



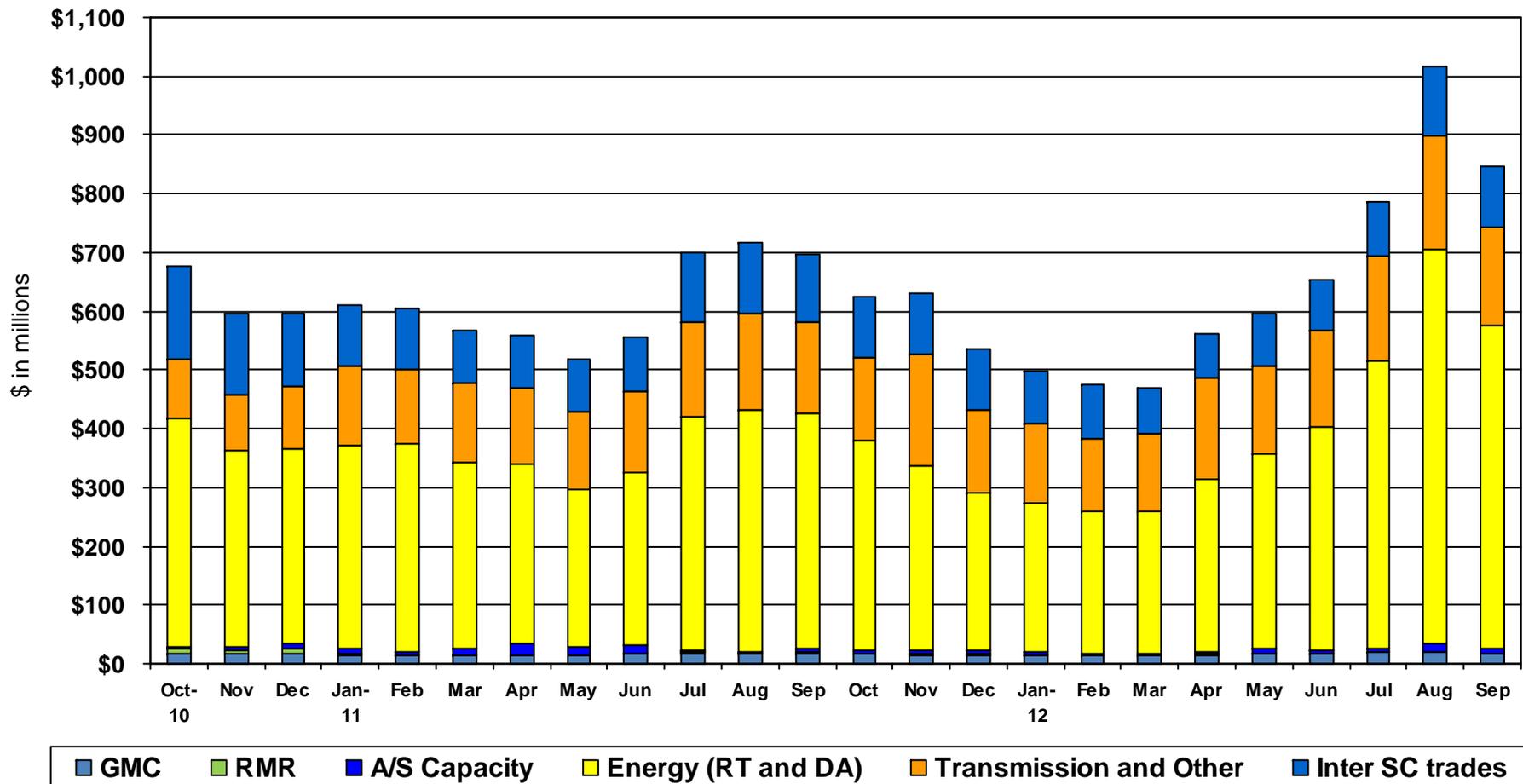
	Jan-12	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	16.32	11.89	11.89	12.08	12.67	12.72	15.07	12.64	12.25			
Monthly Budget	16.45	12.67	12.74	12.76	12.89	12.87	16.51	13.25	12.68	12.65	12.54	15.05
Cum Actual	16.32	28.21	40.10	52.18	64.85	77.58	92.65	105.29	117.53			
Cum Budget	16.45	29.12	41.86	54.62	67.50	80.37	96.88	110.13	122.82	135.46	148.00	163.05
Cum Variance	0.13	0.91	1.76	2.43	2.65	2.79	4.23	4.85	5.29			

Cumulative Capital Expenditures

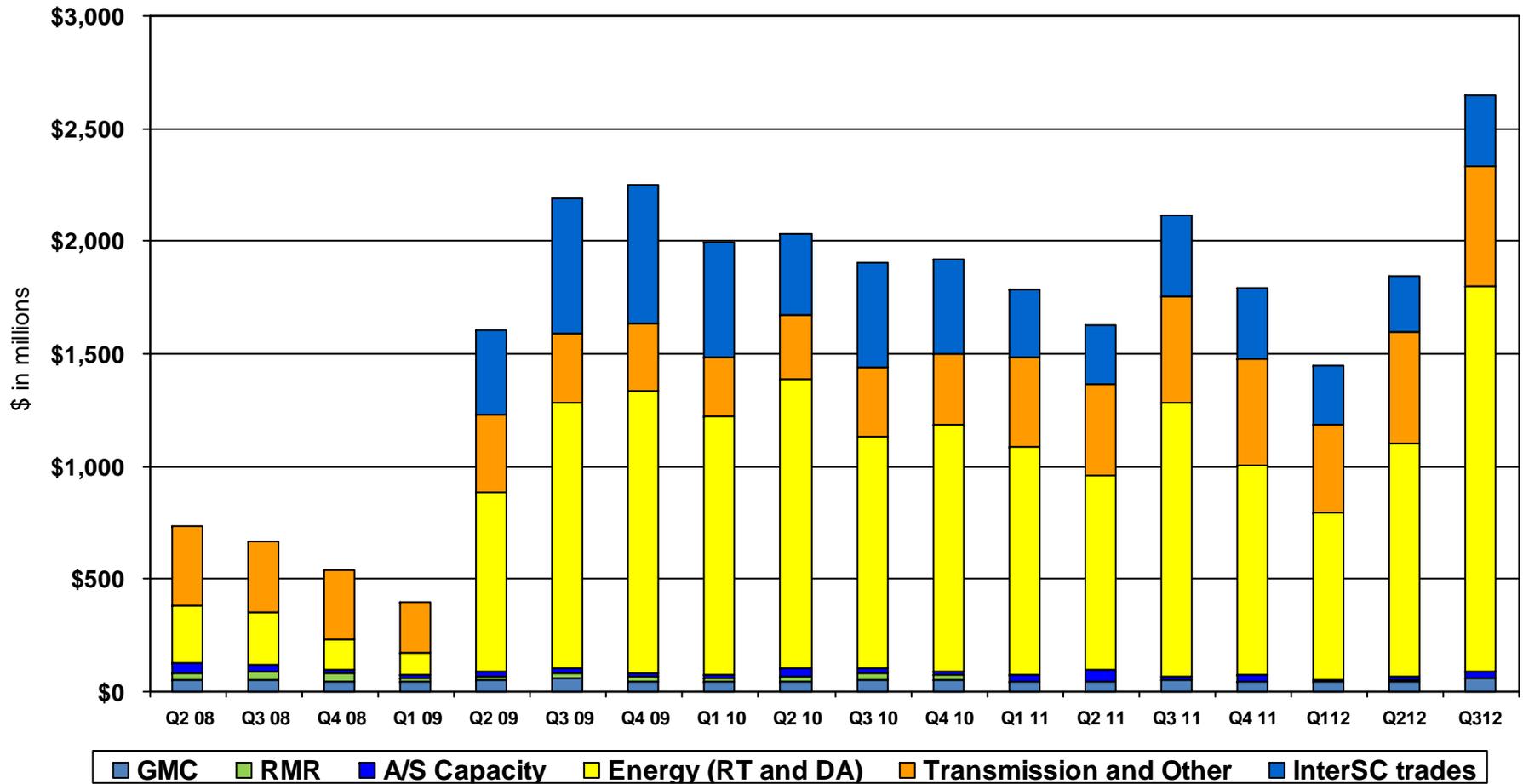


Budgeted capital												23.40
Cumulative Expenditures	0.10	0.63	2.80	3.99	4.37	4.98	5.51	8.41	8.91			
Approved projects	5.03	5.03	7.50	10.45	13.56	13.69	17.99	17.99	18.03			

ISO Market Revenues By Month October 2010 through September 2012



ISO Market Revenues By Quarter 2nd Quarter 2008 through 3rd Quarter 2012



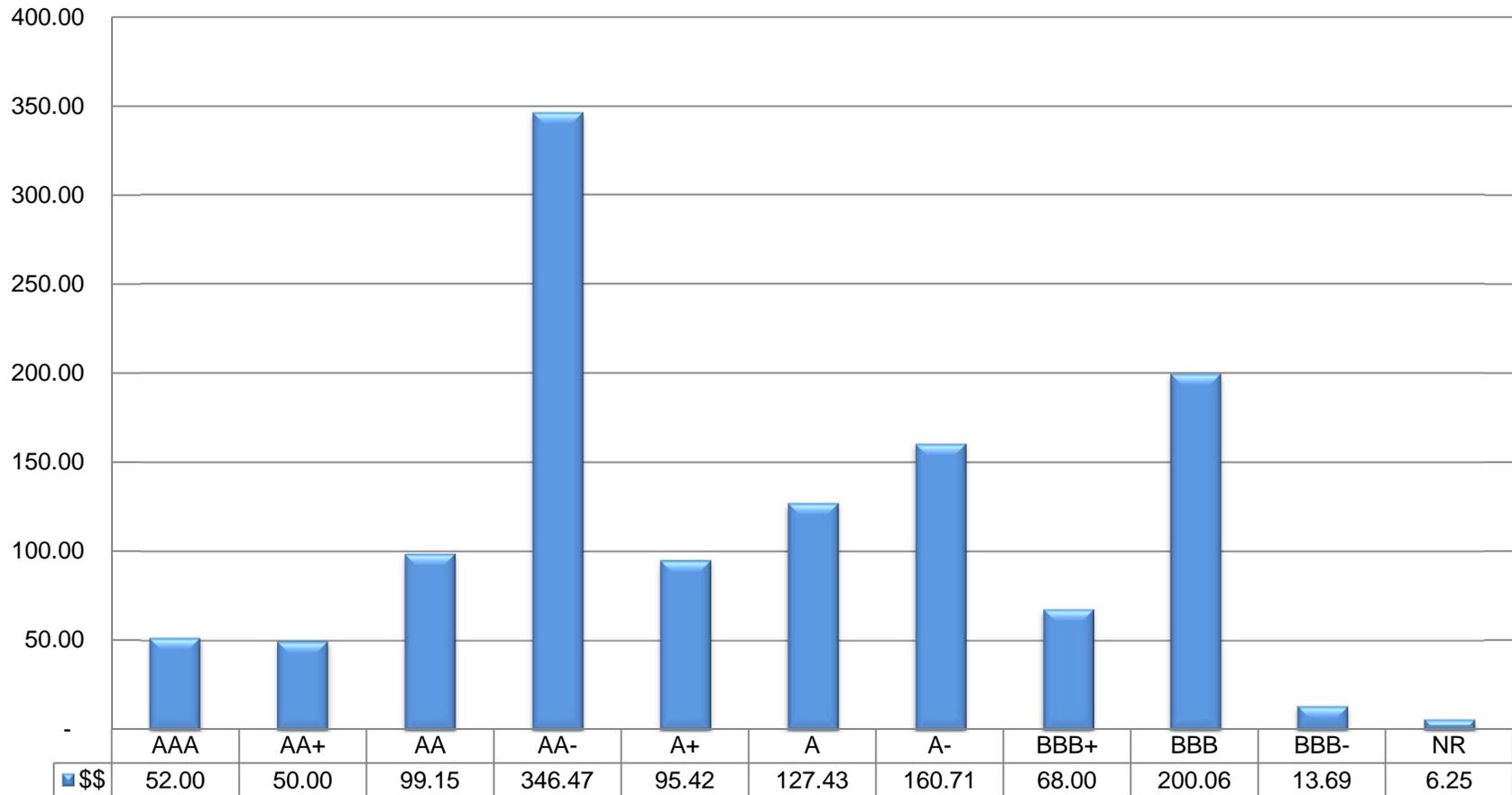
Collateral & Estimated Aggregate Liability (as of 10/04/12)

Collateral Types	Amount
Unsecured	\$1,219,167,354
Secured	\$490,613,232
Total	\$1,709,780,586

Estimate Aggregate Liability	Amount
Positive EAL	\$267,901,688

Unsecured Collateral (as of 10/04/12)

(in millions)



Secured Collateral (as of 10/04/12)

(in millions)

