

QUARTERLY FINANCIAL REPORT

March 31, 2014

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
QUARTERLY FINANCIAL REPORT - March 31, 2014

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CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY

For the quarter ended March 31, 2014

Results of Operations

Revenues

Through the first quarter ending March 31, 2014, operating revenues were lower by \$0.6 million compared to the budgeted amounts. The overall decrease in revenues was primarily due to lower GMC and lower LGIP revenues. The Company is monitoring changes in GMC revenues and will adjust rates, if necessary, to align actual GMC revenues closer to budget, as required by the Tariff.

Expenses

Operating expenses are \$2.8 million under budget through the first quarter of the year, largely due to timing of expenses.

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 the first quarter. 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 first quarter of 2014, \$10.2 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 April 7, 2014 the ISO maintained \$1.8 billion in collateral from market participants to support \$333.3 million in aggregate liabilities due in the market. Approximately \$1.3 billion of the collateral is from unsecured sources (i.e., unsecured credit limits and parent guarantees) with investment grade or equivalent ratings, and \$466.8 million is from secured forms (i.e., cash , letters of credit, etc.). 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 March 31, 2014
(dollars in thousands)

	Quarter		Year to Date		Annual Budget
	Actual	Prior Year	Actual	Prior Year	
<u>Operating revenues:</u>					
Grid management charge	\$ 44,270	\$ 45,148	\$ 44,270	\$ 45,148	\$ 197,979
Other revenues	1,083	999	1,083	999	6,450
Total operating revenues	45,353	46,147	45,353	46,147	204,429
<u>Operating expenses:</u>					
Salaries and benefits	26,025	26,364	26,025	26,364	113,965
Building, leases and facility	525	734	525	734	3,133
Insurance	408	452	408	452	2,007
Third party vendor contracts	3,551	3,909	3,551	3,909	15,122
Consulting and contracting services	2,889	3,063	2,889	3,063	17,569
Legal and audit	761	1,001	761	1,001	6,645
Training, travel and professional dues	675	683	675	683	4,029
Other	616	318	616	318	1,922
Total operating expenses	35,450	36,524	35,450	36,524	164,392
Operating income before depreciation and amortization	9,903	9,623	9,903	9,623	40,037
<u>Depreciation and amortization</u>	18,437	18,017	18,437	18,017	65,000
Net operating income (loss)	(8,534)	(8,394)	(8,534)	(8,394)	(24,963)
<u>Other income (expenses)</u>					
Interest income & other	394	749	394	749	1,900
Interest expense	(2,287)	(2,928)	(2,287)	(2,928)	(7,709)
Total other income (expenses)	(1,893)	(2,179)	(1,893)	(2,179)	(5,809)
Excess (deficiency) of revenues over expenses	\$ (10,427)	\$ (10,573)	\$ (10,427)	\$ (10,573)	\$ (30,772)
Number of full-time employees			577	587	593

CALIFORNIA ISO**Balance Sheet**

As of March 31, 2014

(dollars in thousands)

	Current Quarter 3/31/2014	Prior Year 12/31/2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, including restricted amounts	\$ 376,574	\$ 415,995
Accounts receivable	42,414	22,518
Short-term Investments, including restricted amounts	52,848	62,366
Other current assets	5,514	5,026
Total current Assets	<u>477,350</u>	<u>505,905</u>
NONCURRENT ASSETS		
Long-term investments, including restricted amounts	103,422	105,687
Fixed assets, net	186,568	193,853
Other assets	18,538	15,892
Total noncurrent assets	<u>308,528</u>	<u>315,432</u>
TOTAL ASSETS	<u><u>\$ 785,878</u></u>	<u><u>\$ 821,337</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 8,690	\$ 14,170
Accrued salaries and compensated absences	10,997	29,496
Current portion of long-term debt	4,415	23,465
Due to market participants	431,334	416,195
Generator noncompliance fines refund obligation	2,658	2,658
Total current liabilities	<u>458,094</u>	<u>485,984</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	197,710	202,325
Employee retirement plan obligations	22,176	22,117
Total noncurrent liabilities	<u>219,886</u>	<u>224,442</u>
TOTAL LIABILITIES	<u>677,980</u>	<u>710,426</u>
TOTAL NET ASSETS	<u>107,898</u>	<u>110,910</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 785,878</u></u>	<u><u>\$ 821,337</u></u>

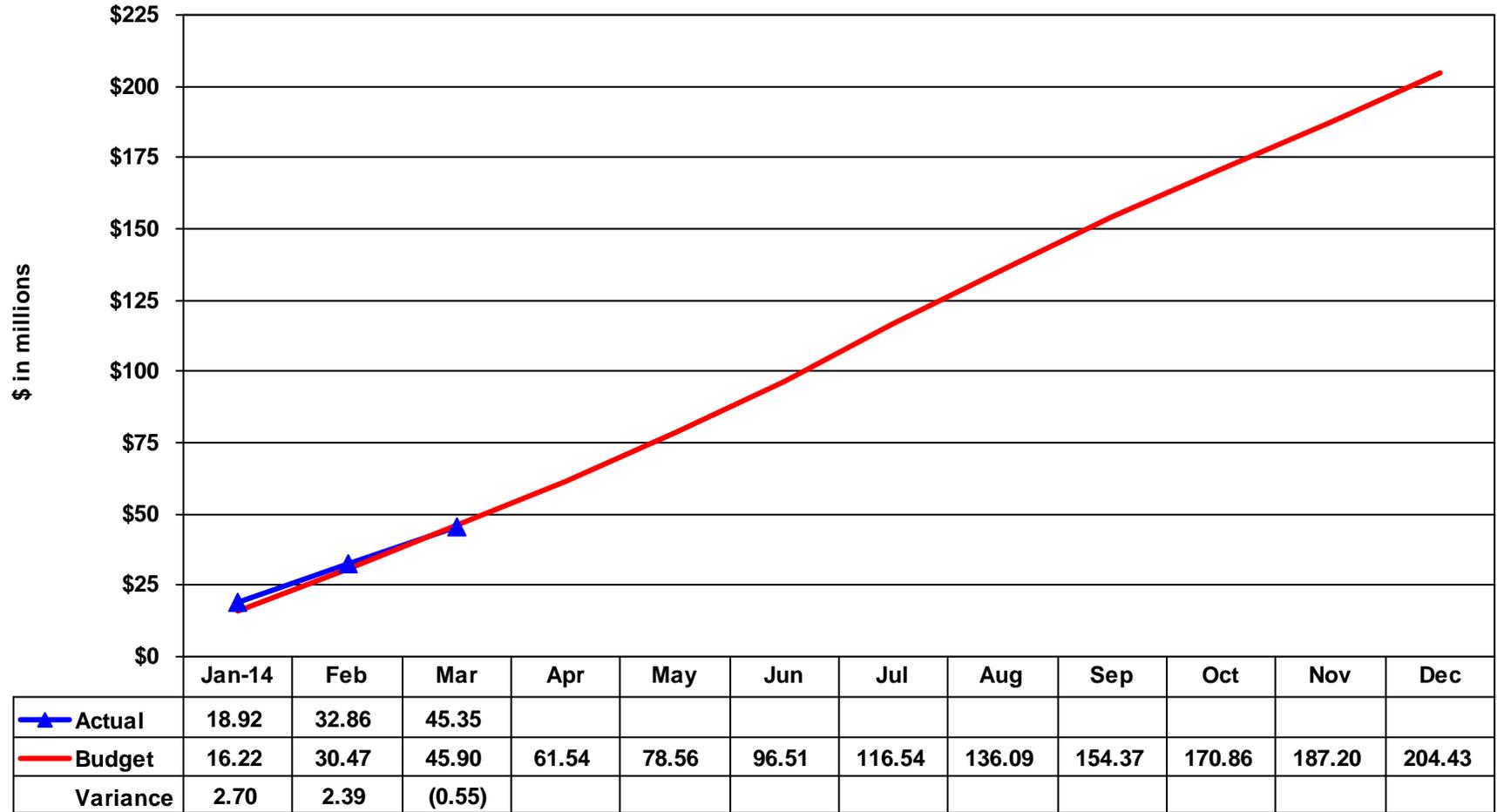
CALIFORNIA ISO
Capital Projects Report

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

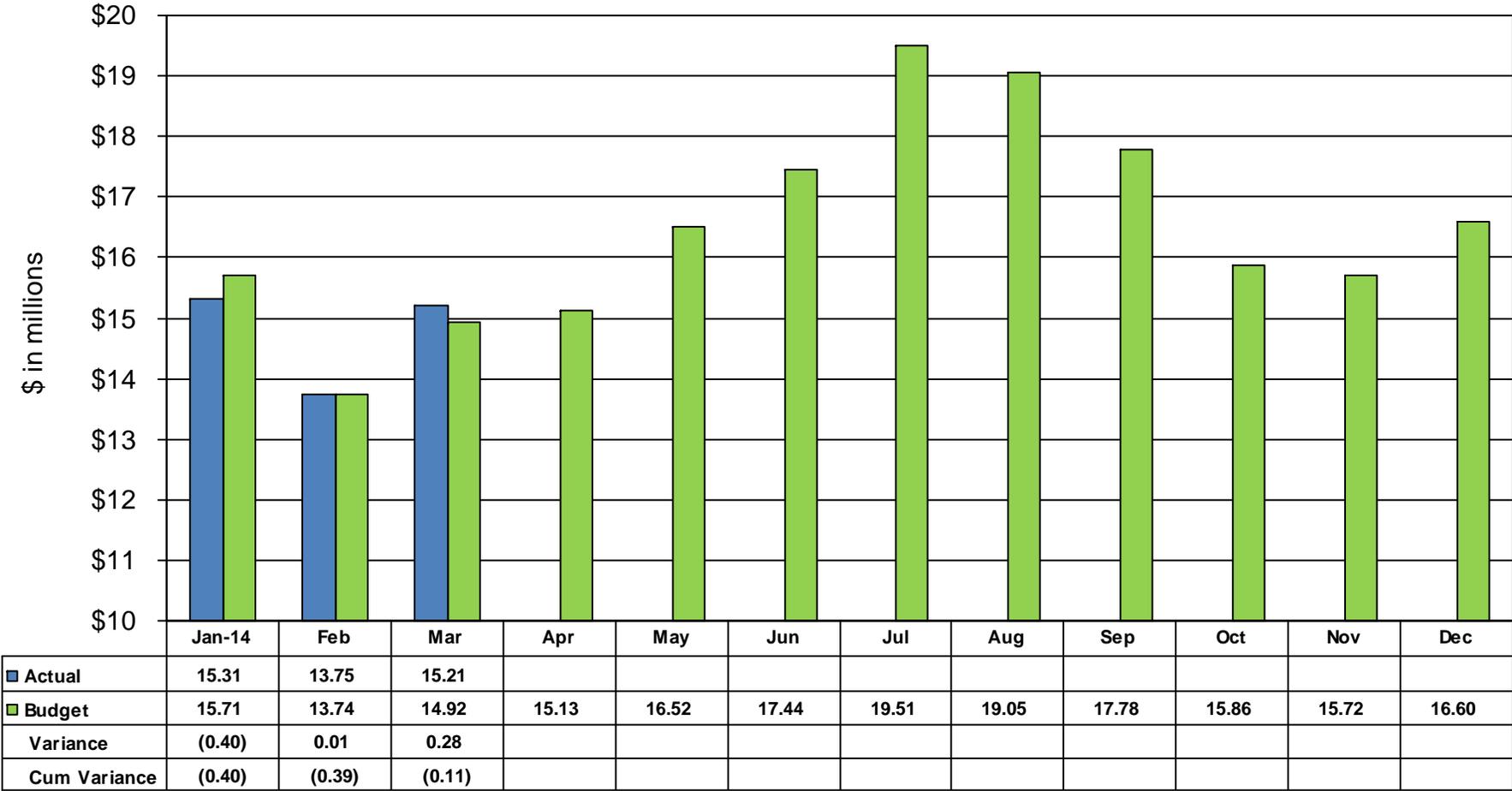
	Approved Projects				
	Q1 Actual	YTD Actual	2014 Approved Projects	Projected Costs for Approved Projects	Original/ Current Budget
Implement Systems, Tools and Forecasting	\$ 55	\$ 55	\$ 1,939	\$ 1,939	\$ 5,675
Enhance Markets & Performance	815	815	4,935	4,935	10,425
Compliance Culture	4	4	42	42	1,400
Infrastructure Improvements	1,343	1,343	3,247	3,247	6,500
Total 2014 Capital Spending	<u>2,217</u>	<u>2,217</u>	<u>10,163</u>	<u>10,163</u>	<u>24,000</u>
Prior Year Capital Projects	<u>2,583</u>	<u>2,583</u>	<u>-</u>	<u>8,315</u>	<u>8,315</u>
Total Capital	<u><u>\$ 4,800</u></u>	<u><u>\$ 4,800</u></u>	<u><u>\$ 10,163</u></u>	<u><u>\$ 18,478</u></u>	<u><u>\$ 32,315</u></u>

Cumulative Operating Revenues

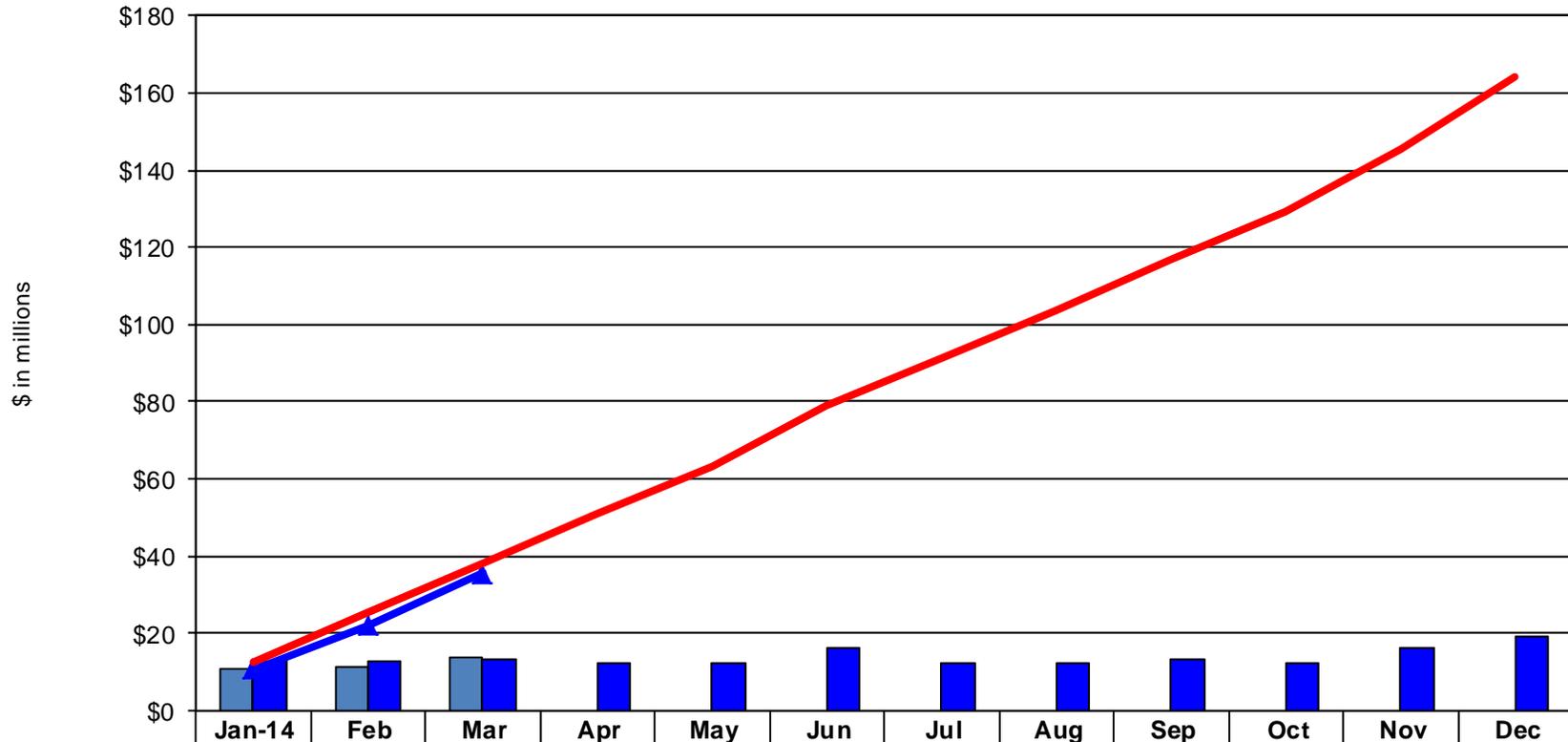
Revenues = GMC & Other Revenues



Monthly GMC Revenues

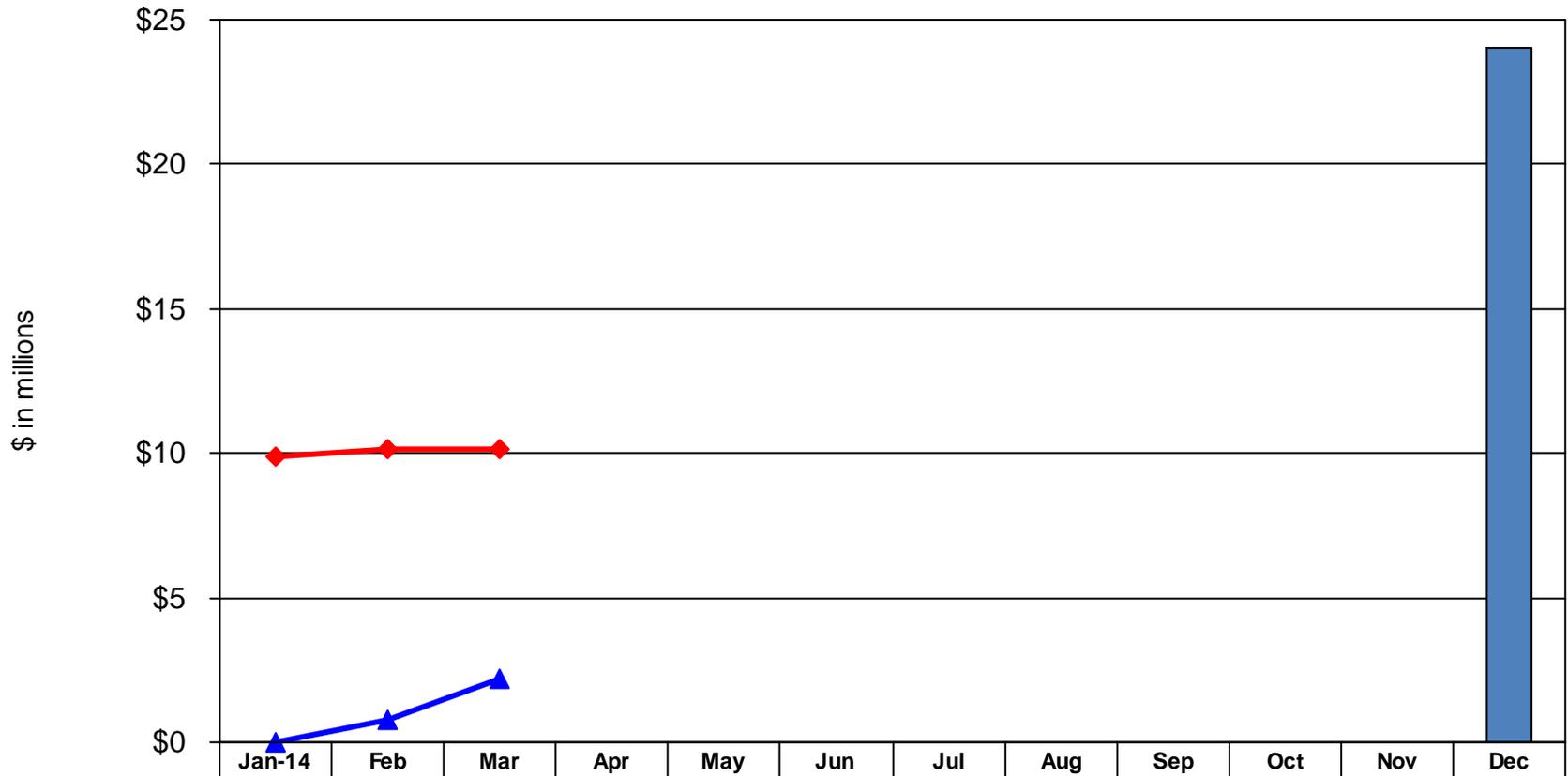


Operating and Maintenance Expenses (O&M)



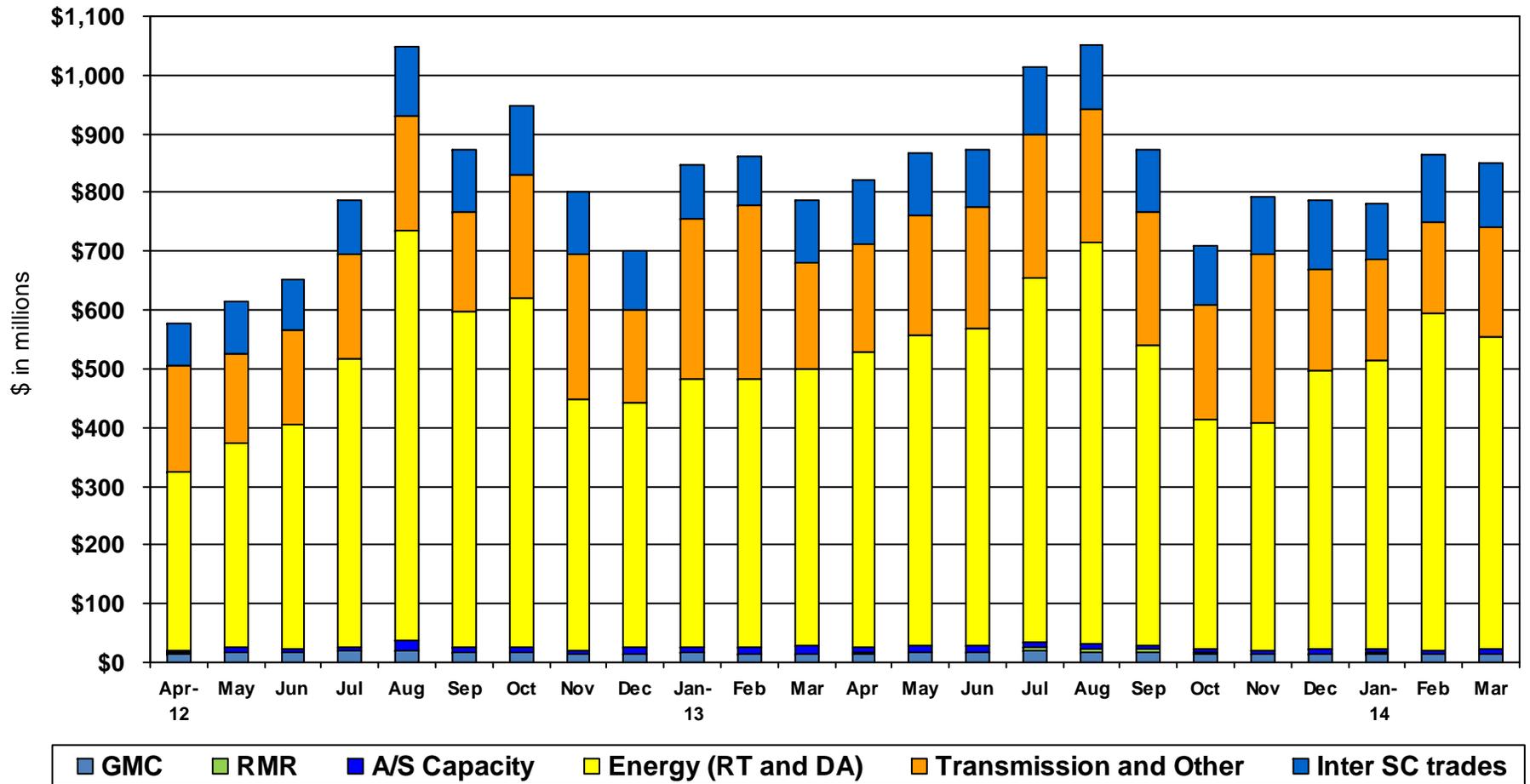
	Jan-14	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	10.46	11.43	13.56									
Monthly Budget	12.47	12.72	13.10	12.35	12.37	16.10	12.35	12.39	13.00	12.36	16.11	19.10
Cum Actual	10.46	21.89	35.45									
Cum Budget	12.47	25.19	38.29	50.64	63.01	79.11	91.45	103.84	116.84	129.20	145.31	164.40
Cum Variance	2.02	3.30	2.84									

Cumulative Capital Expenditures

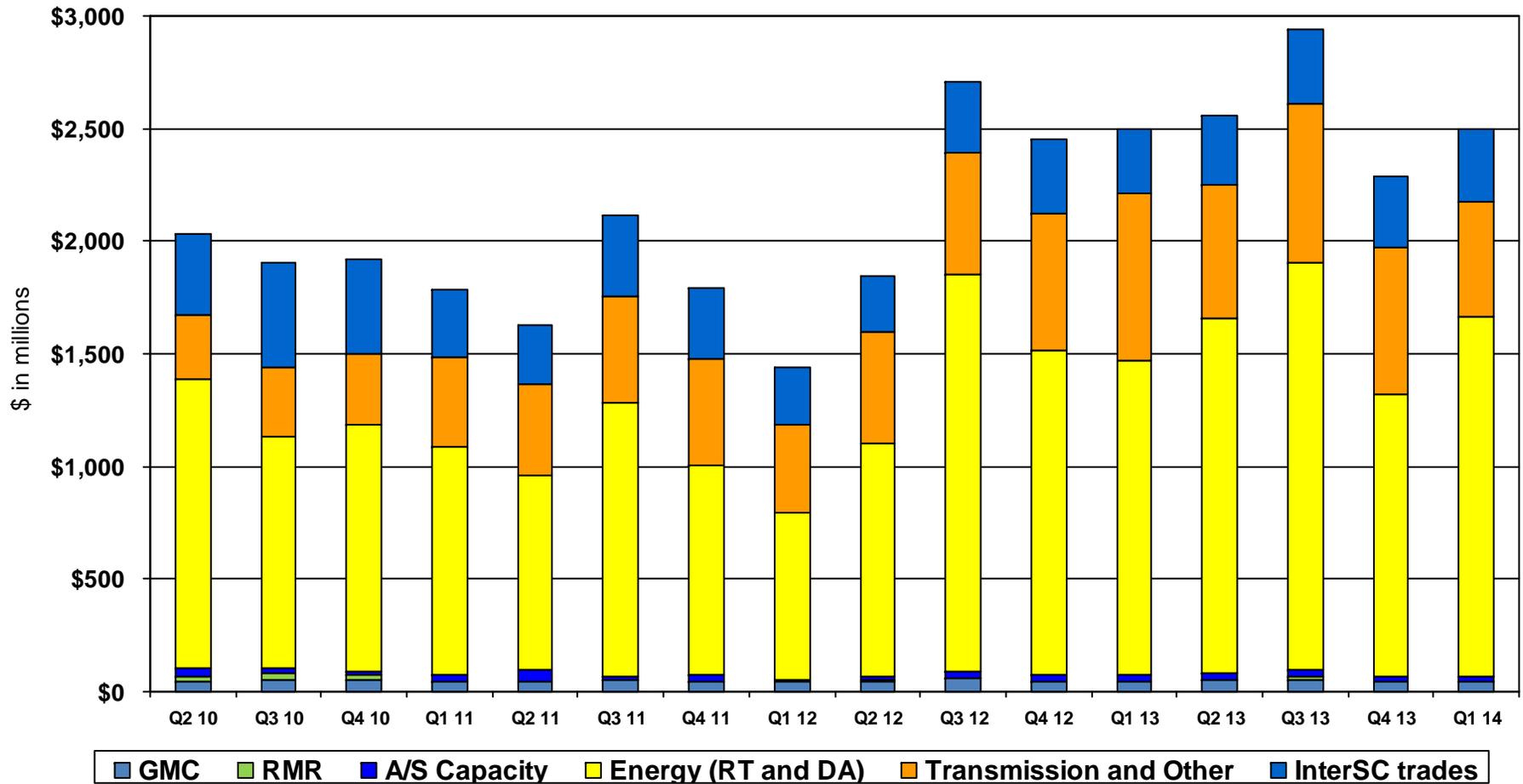


Budgeted capital												24.00
Cumulative Expenditures	0.00	0.78	2.22									
Approved projects	9.86	10.11	10.16									

ISO Market Revenues By Month Apr 2012 through Mar 2014



ISO Market Revenues By Quarter 2nd Quarter 2010 through 1st Quarter 2014



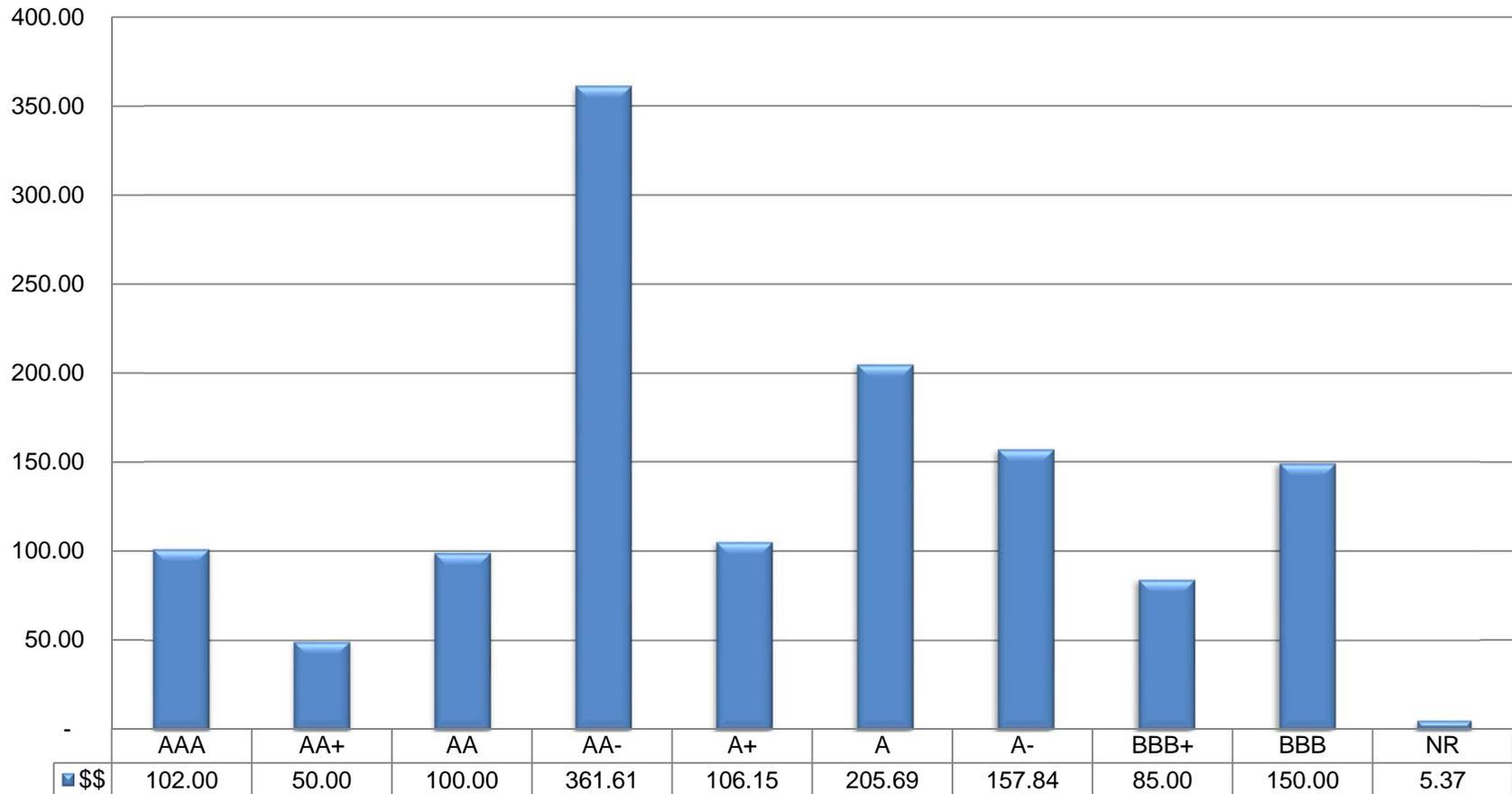
Collateral & Estimated Aggregate Liability (as of 04/07/14)

Collateral Types	Amount
Unsecured	\$1,323,647,033
Secured	\$466,842,768
Total	\$1,790,489,801

Estimate Aggregate Liability	Amount
Positive EAL	\$333,316,794

Unsecured Collateral (as of 04/07/14)

(in millions)



Secured Collateral (as of 04/07/14)

(in millions)

