

QUARTERLY FINANCIAL REPORT

June 30, 2012

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

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CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY

For the quarter ended June 30, 2012

Results of Operations

Revenues

For the six months ending June 30, 2012, Grid Management Charge (GMC) revenues continue to be in line with budgeted amounts. This is an improvement from the first quarter in which actual GMC collections were \$0.6 million under budget. The improvement is a result of some early summer heat in California resulting in larger volumes.

There were two GMC charge codes that required adjustments due to the tariff specifications of variances of 2% or one million dollars. The resulting adjustments are effective on July 1, 2012. The market services GMC charge code was increased and the CRR services GMC charge code was reduced. There is no net overall impact to the ISO.

Expenses

Operating expenses are \$2.9 million under budget for the first six months of the year, largely due to lower actual labor costs. These savings 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 first half of the year.

Capital Projects

Through the end of June, 2012, \$13.7 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 July 3, 2012 the ISO maintained \$1.6B in collateral from market participants to support \$176.9M 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, and \$367.6M 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 June 30, 2012
(dollars in thousands)

	Quarter		Year to Date		Annual Budget
	Actual	Prior Year	Actual	Prior Year	
<u>Operating Revenues:</u>					
Grid Management Charge	\$ 47,868	\$ 44,534	\$ 91,688	\$ 89,063	\$ 194,821
Other Revenues	1,762	2,845	2,471	4,129	5,500
Total operating revenues	49,630	47,379	94,159	93,192	200,321
<u>Operating Expenses:</u>					
Salaries and Benefits	25,213	24,743	54,106	\$ 53,559	113,150
Building, Leases and Facility	1,949	2,297	3,973	4,793	7,450
Insurance	304	274	860	998	2,006
Third Party Vendor Contracts	3,990	5,617	7,805	9,726	15,696
Consulting and Contracting Services	3,449	3,262	6,301	6,267	14,494
Legal and Audit	1,070	1,009	1,983	1,810	4,355
Training, Travel and Professional Dues	963	952	1,734	1,692	3,695
Other	489	757	769	1,202	2,202
Total operating expenses	37,427	38,911	77,531	80,047	163,048
OIBDA	12,203	8,468	16,628	13,145	37,273
Depreciation and amortization	18,564	16,787	37,245	33,134	65,000
Net Operating Income (Loss)	(6,361)	(8,319)	(20,617)	(19,989)	(27,727)
<u>Other Income (Expenses)</u>					
Interest income & other	652	1,142	2,248	1,922	2,900
Interest expense	(3,420)	(3,677)	(6,825)	(7,350)	(13,633)
Total Other Income (Expenses)	(2,768)	(2,535)	(4,577)	(5,428)	(10,733)
Excess (Deficiency) of Revenues Over Expenses	\$ (9,129)	\$ (10,854)	\$ (25,194)	\$ (25,417)	\$ (38,460)
Number of Full-time Employees	<u>577</u>		<u>586</u>		<u>601</u>

CALIFORNIA ISO
Balance Sheet
As of June 30, 2012
(dollars in thousands)

	Current Quarter 6/30/2012	Prior Year 12/31/2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents, including restricted amounts	\$ 326,917	\$ 450,166
Accounts Receivable	22,336	11,965
Short-term Investments, including restricted amounts	32,982	22,790
Other current assets	5,136	6,835
Total Current Assets	<u>387,371</u>	<u>491,756</u>
NONCURRENT ASSET		
Long-term investments, including restricted amounts	\$ 92,184	\$ 90,074
Fixed Assets, net	276,986	303,868
Other Assets	5,168	4,856
Total Noncurrent Assets	<u>374,338</u>	<u>398,798</u>
TOTAL ASSETS	<u><u>\$ 761,709</u></u>	<u><u>\$ 890,554</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 15,007	\$ 18,541
Accrued salaries and compensated absences	18,401	25,919
Current portion of Long-term Debt	39,580	28,585
Due to Market Participants	280,766	347,208
Generator noncompliance fines refund obligation	662	638
Total Current Liabilities	<u>354,416</u>	<u>420,891</u>
NONCURRENT LIABILITIES		
Long-term Debt, Net of Current Portion	219,069	259,201
Employee Retirement Plan obligations	19,933	19,343
Total Noncurrent Liabilities	<u>239,003</u>	<u>278,544</u>
TOTAL LIABILITIES	<u>593,418</u>	<u>699,435</u>
TOTAL NET ASSETS	<u>168,291</u>	<u>191,119</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 761,709</u></u>	<u><u>\$ 890,554</u></u>

CALIFORNIA ISO
Capital Projects Report

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

	Approved Projects				
	Q2 Actual	YTD Actual	2012 Approved Projects	Projected Costs for Approved Projects	Original/ Current Budget
Implement Systems, Tools and Forecasting	\$ 1,103	\$ 1,622	\$ 2,979	\$ 2,979	\$ 3,800
Enhance Markets & Performance	381	477	2,167	2,167	8,400
Compliance Culture	(19)	7	374	374	2,900
Infrastructure Improvements	719	2,876	7,028	7,028	4,400
Blue Ravine Decommissioning Costs			1,143	1,143	1,300
Total 2012 Capital Spending	2,184	4,982	13,690	13,690	20,800
Prior Year Capital Projects	2,200	4,504	-	9,879	9,879
Total Capital	\$ 4,384	\$ 9,486	\$ 13,690	\$ 23,570	\$ 30,679