

California Independent System Operator Corporation

Financial Statements

December 31, 2022 and 2021

California Independent System Operator Corporation
Index
December 31, 2022 and 2021

	Page(s)
Report of Independent Auditors	1–3
Management’s Discussion and Analysis (Unaudited).....	4–13
Financial Statements	
Statements of Net Position.....	14
Statements of Revenues, Expenses and Changes in Net Position	15
Statements of Cash Flows	16–17
Notes to Financial Statements	18–40
Required Supplementary Information	41–42

Report of Independent Auditors

The Board of Directors and Management
California Independent System Operator Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of California Independent System Operator Corporation, which comprise the statement of net position as of December 31, 2022, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of California Independent System Operator Corporation as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of California Independent System Operator Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about California Independent System Operator Corporation's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of California Independent System Operator Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about California Independent System Operator Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 and the schedule of changes in the net OPEB liability and related ratios on page 38 and schedule of employer contributions to the OPEB plan on page 39 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Prior Year Financial Statements

The financial statements of the California Independent System Operator Corporation as of and for the year ended December 31, 2021 were audited by other auditors whose report dated April 15, 2022 expressed an unmodified opinion on those financial statements.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Portland, Oregon
April 17, 2023

California Independent System Operator Corporation

Management's Discussion and Analysis (Unaudited)

December 31, 2022 and 2021

The following discussion and analysis of the California Independent System Operator Corporation (the "Company") provides an overview of the Company's financial activities for the years ended December 31, 2022 and 2021. This discussion and analysis should be read in conjunction with the Company's financial statements and accompanying notes, which follow this section.

Background

The Company, a nonprofit public benefit corporation, is responsible for ensuring the reliable and efficient use of the transmission grid in most of California and a part of Nevada. The Company operates this grid, which is one of the largest and most modern power grids in the world, as a balancing authority within the Western Electricity Coordinating Council. The Company conducts comprehensive planning for the future development of this grid.

In addition, the Company administers a competitive energy market that matches supply with demand, procures operating reserves and allocates space on transmission lines for delivering electricity efficiently, all of which ultimately benefits consumers. This market provides open and nondiscriminatory access to the transmission grid for more than 200 market participants. The Company also administers the Western Energy Imbalance Market ("WEIM"), the name of which was formally changed from EIM to WEIM effective 2022 as part of the Company's regionalization effort. This extension of the Company's real-time energy market facilitates transactions with and among several balancing authority areas in the western interconnection that are not a part of the grid the Company operates.

The Company's markets and its grid operations are regulated by the Federal Energy Regulatory Commission, and comply with standards set by the North American Electric Reliability Corporation and the Western Electricity Coordinating Council. A five-member Board of Governors (the "Board") appointed by the Governor of California and confirmed by the California State Senate governs the Company.

Financial Reporting

The Company's accounting records are maintained in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board ("GASB").

Cash held by the Company on behalf of market participants is recorded in a restricted asset account with a corresponding liability due to market participants in the Statements of Net Position. Except for the retention of restricted assets noted above, the financial statements reflect a net reporting of market activities wherein the financial statements do not include the revenues and expenses, cash flows, or assets and liabilities associated with the market transactions the Company facilitates.

Revenue

The Company charges a Grid Management Charge ("GMC") to market participants to recover the Company's operating costs, capital expenditures, debt service costs, and to provide for an operating reserve. The GMC is comprised of the following three service categories: market services, system operations, and congestion revenue rights services.

The Company receives other revenues outside of its GMC charges including, but not limited to: fees paid for participation in the Western Energy Imbalance Market, Reliability Coordinator services, generator interconnection studies, and for operation of the California-Oregon Intertie Path.

After accounting for other revenues, the Company establishes its annual net revenue requirement, which is allocated to the three GMC service categories based on percentages established in the tariff. Category costs are then divided by forecasted volumes to establish the annual rates.

California Independent System Operator Corporation

Management's Discussion and Analysis (Unaudited)

December 31, 2022 and 2021

Liquidity

The Company's tariff allows for GMC rates to be adjusted during the year to ensure collection of the revenue requirement. During a year, if forecasted revenues from any of the three GMC service categories is materially different, as defined in the tariff, from budgeted revenues, the Company may adjust the rate for the affected category to realign the forecast revenue with the budgeted revenue.

Per the tariff, the revenue requirement includes an operating reserve, which is 15% of the current year's operating and maintenance budget, and a debt service reserve, which is 25% of the debt service to be paid during the year. The Company's operating and debt service reserves were fully funded in 2022 and 2021. Furthermore, the Company maintains capital reserves in its unrestricted funds, which consist of funds collected through the revenue requirement for future capital expenditures.

The Market and Reliability Coordinator Service

The Company's wholesale energy market is the vehicle for providing open-access transmission service to users of the transmission grid. It includes a day-ahead market for all twenty-four hours of the next operating day, and a real-time market that schedules resources in 15-minute intervals and dispatches them in 5-minute intervals. The day-ahead market clears supply and demand offers for short-term energy purchases and sales. The real-time market clears supply offers and the Company's forecast of demand. Together, these enable the economic scheduling and dispatch of generating resources to maintain continuous balance of supply and demand and management of congestion on the grid. The market also procures reserve capacity or ancillary services to maintain reliable operation under unexpected changes in grid conditions. In addition, the Company performs a settlement and clearing function by charging and collecting payments from users of these services and paying providers of such services.

The Company continues to develop market enhancements to increase reliability, efficiency and the accuracy of market results. The market prices energy at the points it enters and leaves the grid, which increases transparency by sending signals for competitive investments in transmission and generation. The market operates on an advanced and flexible platform helping to integrate renewable resources as well as demand response. These enhancements increase the functionality and flexibility of the market system to meet the on-going needs of market participants.

The Company also operates the Western Energy Imbalance Market. This extension of the Company's real-time energy market facilitates transactions with and among several balancing authority areas in the western interconnection that are not a part of the grid the Company operates. The WEIM provides reliability, efficiency and renewable integration benefits to the West while also providing economic benefits to participants. The broader footprint for the real-time market provides more opportunities to integrate cleaner sources of energy, such as wind and solar, that may be produced in one area but needed in another. In addition to the Company, eighteen other balancing authorities are participating in the WEIM as of the end of 2022 and several others have committed to participate in the future.

The Company is the Reliability Coordinator for entities within its footprint and for most of the balancing authorities and transmission operators in the West. As the Reliability Coordinator (known externally as "RC West"), the Company has the highest level of authority and responsibility for the reliable operation of the power grid, and has a wide-area view of the bulk electricity system. It is required to comply with federal and regional grid standards, and can authorize measures to prevent or mitigate system emergencies in day-ahead or real-time operations. The Company is currently the Reliability Coordinator of record for forty-two balancing authorities and transmission operators in the West.

California Independent System Operator Corporation
Management's Discussion and Analysis (Unaudited)
December 31, 2022 and 2021

Financial Highlights

Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position

The financial statements provide both short-term and long-term information about the Company's financial status. The *Statements of Net Position* include all of the Company's assets and liabilities, using the accrual method of accounting, and identify any assets, which are restricted as a result of bond covenants or external commitments. These Statements also provide information about the nature and amount of resources and obligations at specific points in time.

The *Statements of Revenues, Expenses and Changes in Net Position* report all of the Company's revenues and expenses during the year.

The Statements of *Cash Flows* report the cash provided and used during the year by operating activities, as well as other cash sources such as investment income and debt financing, and other cash used such as payments for bond principal and capital additions.

Condensed Statements of Net Position (in millions)

	2022	2021	2020
Assets and deferred outflows			
Current assets	\$ 1,192.1	\$ 680.5	\$ 559.4
Fixed assets, net	133.4	151.0	165.7
Other noncurrent assets	249.9	248.8	220.0
Deferred outflows	12.5	14.0	6.4
Total assets and deferred outflows	<u>\$ 1,587.9</u>	<u>\$ 1,094.3</u>	<u>\$ 951.5</u>
Liabilities and net position			
Current liabilities	\$ 1,207.7	\$ 682.0	\$ 553.0
Long-term debt, net of current portion	156.7	165.4	164.0
Other noncurrent liabilities	5.5	4.1	8.9
Deferred inflows	7.1	10.4	9.6
Net position	<u>210.9</u>	<u>232.4</u>	<u>216.0</u>
Total liabilities, deferred inflows and net position	<u>\$ 1,587.9</u>	<u>\$ 1,094.3</u>	<u>\$ 951.5</u>

Assets

Current Assets (in millions)

	2022	2021	2020
Cash and cash equivalents	\$ 1,122.1	\$ 599.0	\$ 471.0
Short-term investments	40.0	51.9	68.1
Accounts receivable and other assets	30.0	29.6	20.3
Total current assets	<u>\$ 1,192.1</u>	<u>\$ 680.5</u>	<u>\$ 559.4</u>

California Independent System Operator Corporation
Management's Discussion and Analysis (Unaudited)
December 31, 2022 and 2021

2022 Compared to 2021

As of December 31, 2022, current assets increased by \$511.6 million during the year. This net increase is largely due to increases in collateral funds from increased market activity and higher energy prices and other market accounts held for market participants.

2021 Compared to 2020

As of December 31, 2021, current assets increased by \$121.1 million during the year. This net increase is largely due to increases in collateral funds, generator interconnection project study deposits and other market accounts held for market participants. Additionally, accounts receivable is higher as a result of the timing of the settlement of market invoices at year end.

Fixed Assets, Net (in millions)

	2022	2021	2020
Net assets in service	\$ 123.4	\$ 145.5	\$ 155.5
Work-in-progress	10.1	5.5	10.2
Total fixed assets, net	<u>\$ 133.4</u>	<u>\$ 151.0</u>	<u>\$ 165.7</u>

2022 Compared to 2021

Total fixed assets, net of accumulated depreciation, decreased in 2022 by \$17.6 million compared to 2021. The decrease is primarily due to lower net assets in service of \$22.1 million, as a result of the current year depreciation expense of \$ 36.7 million, partially offset by new net assets placed-in-service of \$14.6 million. Work in-progress decreased by \$4.5 million compared to 2020 due to the completion of projects during the year.

2021 Compared to 2020

Total fixed assets, net of accumulated depreciation, decreased in 2021 by \$14.7 million compared to 2020. The decrease is primarily due to lower net assets in service of \$10.0 million, as a result of the current year depreciation expense of \$ 30.6 million, partially offset by new net assets placed-in-service of \$20.6 million. Work in-progress decreased by \$4.7 million compared to 2020 due to the completion of projects during the year.

Other Noncurrent Assets (in millions)

	2022	2021	2020
Long-term investments	\$ 241.4	\$ 242.3	\$ 212.1
Other assets	8.5	6.5	7.9
Total other noncurrent assets	<u>\$ 249.9</u>	<u>\$ 248.8</u>	<u>\$ 220.0</u>

2022 Compared to 2021

Other noncurrent assets increased by \$1.1 million in 2022. This change is largely attributable to increases in other assets of \$2.0 million primarily as a result of higher prepaid balances, partially offset by a slight decrease in long-term investments of \$0.9 million.

California Independent System Operator Corporation
Management's Discussion and Analysis (Unaudited)
December 31, 2022 and 2021

2021 Compared to 2020

Other noncurrent assets increased by \$28.8 million in 2021. This change is largely attributable to increased long-term investments amounting to \$30.2 million during the year due to higher corporate reserves and continued investing in fixed income mutual funds, which are considered to be long-term assets. Other assets decreased by \$1.4 million primarily as a result of lower executive benefit plans trust account balances, partially offset by higher prepaid balances.

Deferred Outflows (in millions)

	2022	2021	2020
Unamortized loss on refunding of bonds	\$ 12.5	\$ 14.0	\$ 6.4
Total deferred outflows	<u>\$ 12.5</u>	<u>\$ 14.0</u>	<u>\$ 6.4</u>

2022 Compared to 2021

The decrease in the deferred outflows balance of \$1.5 million is due to the current year amortization of the unamortized loss on refunding of bonds.

2021 Compared to 2020

The increase in the deferred outflows balance of \$7.6 million is due to the net loss associated with the issuance of the 2021 Series bonds and the retirement of the 2013 Series bonds, offset by the current year amortization of the unamortized loss on refunding of bonds.

Liabilities

Current Liabilities (in millions)

	2022	2021	2020
Accounts payable and accrued expenses	\$ 10.3	\$ 11.7	\$ 11.8
Accrued salaries and compensated absences	46.1	43.3	43.4
Current portion of long-term debt	8.7	9.1	5.4
Due to market participants	<u>1,142.5</u>	<u>617.9</u>	<u>492.4</u>
Total current liabilities	<u>\$ 1,207.7</u>	<u>\$ 682.0</u>	<u>\$ 553.0</u>

2022 Compared to 2021

Current liabilities as of December 31, 2022 increased by \$525.7 million during the year. This increase is primarily due to higher amounts due to market participants of \$524.6 million, as a result of increases in the balances of collateral accounts of \$485.7 million, market funds of \$51.6 million and pass-through fees due to others of \$3.2 million. These were partially offset by decreases in interconnection study deposits of \$14.9 million and nonrefundable deposits pending distribution of \$1.0 million. Collateral funds were higher due to increased market activity and prices, in addition to increased number of participants. Interconnection study deposits were lower as a result of the Company's decision to defer accepting any new project studies in 2022. Market funds were higher due to the timing of the market clearing at the end of the year. Additionally, there were decreases in the year-end balance for accounts payable and accrued expenses of \$1.4 million but increases in accrued salaries and compensated absences of \$2.8 million.

California Independent System Operator Corporation
Management's Discussion and Analysis (Unaudited)
December 31, 2022 and 2021

2021 Compared to 2020

Current liabilities as of December 31, 2021 increased by \$ 129.0 million during the year. This increase is primarily due to higher amounts due to market participants of \$125.5 million, as a result of increases in the balances of collateral accounts of \$37.2 million, interconnection study deposits of \$92.5 million, and market funds of \$5.5 million. These were partially offset by a decrease in nonrefundable deposits pending distribution of \$7.5 million and pass-through fees due to others of \$2.2 million. Collateral funds were higher due to increased number of participants and increased market activity. Interconnection study deposits are higher due to more projects that are currently in queue to be completed. Market funds were higher due to the timing of the market clearing at the end of the year. Additionally, there were increases in the year-end balance for accounts payable and accrued expenses of \$0.2 million but decreases in accrued salaries and compensated absences of \$0.4 million

Long-Term Debt (in millions)

Summarized activity of long-term debt for the year ended December 31, 2022, is as follows:

	Beginning	Issuances	End of Year
	of Year	(Payments/ Amortization)	
CSCDA Taxable Refunding Revenue Bonds, Series 2021 bonds	\$ 174.4	\$ (9.0)	\$ 165.4
Total long-term debt	174.4	(9.0)	165.4
Less: Current portion	9.0	(0.3)	8.7
Total long-term debt, net of current portion	<u>\$ 165.4</u>	<u>\$ (8.7)</u>	<u>\$ 156.7</u>

Summarized activity of long-term debt for the year ended December 31, 2021, is as follows:

	Beginning	Issuances	End of Year
	of Year	(Payments/ Amortization)	
CIEDB Revenue Bonds, Series 2013	\$ 163.4	\$ (163.4)	\$ -
Unamortized net premium, Series 2013 Bonds	6.1	(6.1)	-
CSCDA Taxable Refunding Revenue Bonds, Series 2021 bonds	-	174.4	174.4
Total long-term debt	169.5	4.9	174.4
Less: Current portion	5.4	3.6	9.0
Total long-term debt, net of current portion	<u>\$ 164.1</u>	<u>\$ 1.3</u>	<u>\$ 165.4</u>

As of December 31, 2022, the Company had an underlying rating of A+ from S&P, A1 by Moody's and A+ by Fitch.

In January 2021, the CIEDB Revenue Bonds, Series 2013 was refunded and defeased by the issuance of the California Statewide Communities Development Authority ("CSCDA") 2021 Series bonds, as explained in Note 6.

California Independent System Operator Corporation
Management's Discussion and Analysis (Unaudited)
December 31, 2022 and 2021

2022 Compared to 2021

At December 31, 2022, the Company had \$165.3 million of outstanding bonds issued through the CSCDA. The decrease in long-term debt is due to a principal payment made during the year.

2021 Compared to 2020

At December 31, 2021, the Company had \$174.4 million of outstanding bonds issued through the CSCDA. The increase in long-term debt is primarily attributable to the new refunding debt, partially offset by the defeasance of the Series 2013 bonds in 2021.

Other Noncurrent Liabilities (in millions)

	2022	2021	2020
Employee retirement plan obligations	\$ 5.5	\$ 4.1	\$ 8.9
Total other noncurrent liabilities	<u>\$ 5.5</u>	<u>\$ 4.1</u>	<u>\$ 8.9</u>

2022 Compared to 2021

Other noncurrent liabilities at December 31, 2022 were higher by \$1.4 million. The increase is primarily due to the change in liability associated with the post-employment medical benefit plan of \$1.8 million due to changes in actuarial assumptions and to a decrease in executive benefit plans of \$0.4 million, due to funds withdrawals by some participants.

2021 Compared to 2020

Other noncurrent liabilities at December 31, 2021 were lower by \$4.8 million. The decrease is primarily due to the reduction in liability associated the post-employment medical benefit plan liability of \$3.1 million due to changes in actuarial assumptions and to a decrease in executive benefit plans of \$1.7 million, due to funds withdrawals by some participants.

Deferred Inflows (in millions)

	2022	2021	2020
Unamortized other postemployment benefit costs	\$ 7.1	\$ 10.4	\$ 9.6
Total deferred inflows	<u>\$ 7.1</u>	<u>\$ 10.4</u>	<u>\$ 9.6</u>

2022 Compared to 2021

The decrease of \$3.3 million in the deferred inflows balance is due to the current year's net outflow of \$1.8 million, consisting of the loss arising from the net difference between projected and actual earnings on the OPEB investments of \$4.5 million, partially offset by the gains in the differences between expected and actual experience of \$1.1 million and changes in assumptions of \$1.6 million. In addition, net amortizations of \$1.4 million of the net outflows were recognized during the year.

2021 Compared to 2020

The increase of \$0.8 million in the deferred inflows balance is due to the current year's net inflow of \$3.0 million, consisting of the gains arising from changes in assumptions of \$2.5 million and the net difference between projected and actual earnings on the OPEB investments of \$0.8 million. This was partially offset by the loss in the differences between expected and

California Independent System Operator Corporation
Management’s Discussion and Analysis (Unaudited)
December 31, 2022 and 2021

actual experience of \$0.3 million. In addition, net amortizations of \$2.2 million of the net inflows were recognized during the year.

Net Position (in millions)

	2022	2021	2020
Net investment in fixed assets	\$ 19.2	\$ 25.9	\$ 17.0
Unrestricted	191.7	206.5	199.0
Total net position	<u>\$ 210.9</u>	<u>\$ 232.4</u>	<u>\$ 216.0</u>

2022 Compared to 2021

Net investment in capital assets at December 31, 2022 decreased by \$6.7 million during the year. This decrease is primarily due to normal depreciation during the year, partially offset by increased commitment of funds for capital projects. The unrestricted component of the net position at December 31, 2022 decreased by \$14.8 million during the year primarily as a result of net cash flows from operations.

2021 Compared to 2020

Net investment in capital assets at December 31, 2021 slightly increased by \$8.8 million during the year. This increase is primarily attributable to increased commitment of funds for capital projects, partially offset by normal depreciation during the year. The unrestricted component of the net position at December 31, 2021 increased by \$7.5 million during the year primarily as a result of net cash flows from operations.

Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position (in millions)

	2022	2021	2020
Operating revenues	\$ 246.6	\$ 244.3	\$ 240.5
Operating expenses	246.1	223.1	216.1
Operating income	0.5	21.1	24.4
Other income (expenses), net	(22.0)	(4.7)	5.2
Change in net position	<u>\$ (21.5)</u>	<u>\$ 16.4</u>	<u>\$ 29.6</u>

Operating Revenues

2022 Compared to 2021

Total operating revenues increased during the year by \$2.3 million. This is due to increases in other revenues of \$2.8 million primarily due to increases in Metered Sub-Systems (MSS) revenues of \$1.7 million, generator interconnection revenues of \$0.9 million, WEIM administration charges of \$0.8 million, forecasting fees of \$0.4 million and increases in other categories of \$0.2 million, partially offset by a decrease in WEIM implementation revenues of \$1.2 million. The increase in other revenues was offset by a decrease in GMC revenues of \$0.5 million due to a lower revenue requirement.

California Independent System Operator Corporation
Management's Discussion and Analysis (Unaudited)
December 31, 2022 and 2021

2021 Compared to 2020

Total operating revenues increased during the year by \$3.8 million. This is primarily due to increases in other revenues of \$9.4 million primarily due to the new nodal pricing model fees of \$8.4 million, forecasting fees of \$0.7 million and WEIM administration charges of \$0.5 million, partially offset by slight decreases in other revenue categories of \$0.2 million. The increase in other revenues was offset by a decrease in GMC revenues of \$5.6 million due to a lower revenue requirement.

Operating Expenses and Percentages (in millions)

	2022	2021	2020
Salaries and related benefits	\$ 150.5	\$ 139.1	\$ 138.0
Communication and technology costs	21.8	20.0	20.7
Legal and consulting costs	25.2	21.5	20.1
Leases, facilities and other administrative costs	11.9	12.0	11.1
Depreciation and amortization	36.7	30.6	26.2
Total operating expenses	<u>\$ 246.1</u>	<u>\$ 223.1</u>	<u>\$ 216.1</u>
Salaries and related benefits	61 %	62 %	64 %
Communication and technology costs	9	9	10
Legal and consulting costs	10	10	9
Leases, facilities and other administrative costs	5	5	5
Depreciation and amortization	15	14	12
Total operating expenses (%)	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

2022 Compared to 2021

Operating expenses were \$23.0 million higher for the year ended December 31, 2022, compared to the year ended December 31, 2021. The increase is primarily due to higher salaries and related benefits of \$11.4 million, higher depreciation of \$6.1 million, higher legal and consulting costs of \$3.7 million and higher communication and technology costs of \$1.8 million. Salaries and wages are higher due to cost of living, merit and incentive increases and to a higher number of headcount. Depreciation is higher in 2022 due to a higher depreciation base resulting from completion of projects during the period. Legal and consulting costs are higher due to increases in consultant contracts costs. Communication and technology costs were higher due to increased costs of software and hardware maintenance contracts and to increases in contract staff.

California Independent System Operator Corporation
Management's Discussion and Analysis (Unaudited)
December 31, 2022 and 2021

2021 Compared to 2020

Operating expenses were \$7.0 million higher for the year ended December 31, 2021, compared to the year ended December 31, 2020. The increase is primarily due to higher depreciation of \$4.4 million, higher legal and consulting costs of \$1.4 million, higher salaries and related benefits of \$1.1 million, and higher leases, facilities and other administrative costs of \$0.9 million. Depreciation is higher in 2021 due to a higher depreciation base due resulting from completion of projects in 2021. Legal and consulting costs are higher due to an increase in contract staff to fill in job vacancies. Salaries and wages are higher due to cost of living and merit increases. Leases, facilities and other administrative costs are higher due to hardware and facility costs incurred to prepare for the physical return of employees to the office. These increases are offset by lower communication and technology costs of \$0.7 million due to primarily cost reductions in the cost of software maintenance contracts.

Other Income (Expense), Net (in millions)

	2022	2021	2020
Interest income (loss)	\$ (17.5)	\$ 1.6	\$ 12.0
Bond issuance costs	-	(1.3)	-
Generator fines settlement	-	-	1.4
Interest expense	<u>(4.5)</u>	<u>(4.9)</u>	<u>(8.2)</u>
Total other income (expense), net	<u>\$ (22.0)</u>	<u>\$ (4.7)</u>	<u>\$ 5.2</u>

2022 Compared to 2021

Total other income decreased by \$17.3 million for the year ended December 31, 2022 compared to the year ended December 31, 2021. This decrease is attributable to \$19.1 million of lower interest income, partially offset by lower interest expense of \$0.4 million, due to the refunding of the higher cost 2013 Series bonds with the 2021 Series bonds. Additionally, in 2021 the Company recorded \$1.3 million in debt expenses resulting from the issuance of the 2021 Series bonds and none were recorded in 2022. Interest income decrease is due primarily to unrealized losses on the market value of investments as a result of rising interest rates.

2021 Compared to 2020

Total other income decreased by \$9.9 million for the year ended December 31, 2021 compared to the year ended December 31, 2020. This decrease is attributable to \$10.4 million of lower interest income due to unrealized losses on the market value of investments as a result of rising interest rates. Additionally, the Company recorded \$1.3 million in debt expenses resulting from the issuance of the 2021 Series bonds. The one-time recognition in 2020 of a gain related to the de-recognition of the generator fines liability, further contributed to the comparative decrease in other income. The decrease is partially offset by lower interest expense of \$3.3 million, due to the refunding of the higher cost 2013 Series bonds with the 2021 Series bonds.

California Independent System Operator Corporation
Statements of Net Position
December 31, 2022 and 2021

	2022	2021
	<i>(in thousands)</i>	
Assets and deferred outflows		
Current assets		
Cash and cash equivalents, including restricted amounts	\$ 1,122,096	\$ 598,970
Accounts receivable	23,394	23,057
Short-term investments, including restricted amounts	40,015	51,874
Other current assets	6,627	6,618
Total current assets	<u>1,192,132</u>	<u>680,519</u>
Noncurrent assets		
Long-term investments, including restricted amounts	241,366	242,296
Fixed assets, net	133,409	150,950
Other assets	8,457	6,482
Total noncurrent assets	<u>383,232</u>	<u>399,728</u>
Total assets	<u>1,575,364</u>	<u>1,080,247</u>
Deferred outflows		
Unamortized loss on refunding of bonds	12,536	14,017
Total deferred outflows	<u>12,536</u>	<u>14,017</u>
Total assets and deferred outflows	<u>\$ 1,587,900</u>	<u>\$ 1,094,264</u>
Liabilities, deferred inflows and net position		
Current liabilities		
Accounts payable and accrued expenses	\$ 10,297	\$ 11,684
Accrued salaries and compensated absences	46,149	43,273
Current portion of long-term debt	8,735	9,050
Due to market participants	1,142,518	617,937
Total current liabilities	<u>1,207,699</u>	<u>681,944</u>
Noncurrent liabilities		
Long-term debt, net of current portion	156,660	165,395
Employee retirement plan obligations	5,508	4,112
Total noncurrent liabilities	<u>162,168</u>	<u>169,507</u>
Total liabilities	<u>1,369,867</u>	<u>851,451</u>
Deferred inflows		
Unamortized other post employment benefit costs	7,122	10,389
Total deferred inflows	<u>7,122</u>	<u>10,389</u>
Commitments and contingencies (See Notes 10-12)		
Net position		
Net investment in fixed assets	19,229	25,930
Unrestricted	191,682	206,494
Total net position	<u>210,911</u>	<u>232,424</u>
Total liabilities, deferred inflows and net position	<u>\$ 1,587,900</u>	<u>\$ 1,094,264</u>

The accompanying notes are an integral part of these financial statements.

California Independent System Operator Corporation
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021
	<i>(in thousands)</i>	
Operating revenues		
GMC revenue	\$ 185,659	\$ 186,154
Other revenues	<u>60,899</u>	<u>58,103</u>
Total operating revenues	<u>246,558</u>	<u>244,257</u>
Operating expenses		
Salaries and related benefits	150,500	139,060
Equipment leases and facility costs	2,359	2,095
Communications, technology and temporary staffing contracts	21,790	19,978
Legal and consulting services	25,201	21,510
Training, travel and professional dues	2,525	1,280
Insurance, administrative and other expenses	7,056	8,655
Depreciation	<u>36,660</u>	<u>30,568</u>
Total operating expenses	<u>246,091</u>	<u>223,146</u>
Operating income from operations	<u>467</u>	<u>21,111</u>
Other income (expense)		
Interest income	(17,484)	1,562
Bond issuance costs	-	(1,359)
Interest expense	<u>(4,496)</u>	<u>(4,930)</u>
Total other income (expense), net	<u>(21,980)</u>	<u>(4,727)</u>
Change in net position	(21,513)	16,384
Net position		
Beginning of year	<u>232,424</u>	<u>216,040</u>
End of year	<u>\$ 210,911</u>	<u>\$ 232,424</u>

The accompanying notes are an integral part of these financial statements.

California Independent System Operator Corporation
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
	<i>(in thousands)</i>	
Cash flows from operating activities		
Receipts from scheduling coordinators for GMC	\$ 186,593	\$ 179,600
Other receipts	59,627	55,597
Payments to employees and to others for related benefits	(142,536)	(143,121)
Payments to vendors others	(68,519)	(50,619)
Receipts from market participants	1,130,651	674,139
Payments to market participants	<u>(606,070)</u>	<u>(548,621)</u>
Net cash provided by operating activities	<u>559,746</u>	<u>166,975</u>
Cash flows from capital and related financing activities		
Proceeds from refunding of bonds	-	174,445
Repayment of bonds	(9,050)	(182,505)
Payment for bond issuance costs	-	(1,359)
Purchases and development of fixed assets	(19,915)	(15,722)
Interest on debt	<u>(3,024)</u>	<u>(1,561)</u>
Net cash used in capital financing activities	<u>(31,989)</u>	<u>(26,702)</u>
Cash flows from investing activities		
Purchases of investments	(258,323)	(288,324)
Sales and maturities of investments	244,757	274,434
Interest received	<u>8,935</u>	<u>1,582</u>
Net cash used in investing activities	<u>(4,631)</u>	<u>(12,308)</u>
Net increase in cash and cash equivalents, restricted and unrestricted	523,126	127,965
Cash and cash equivalents, restricted and unrestricted		
Beginning of year	<u>598,970</u>	<u>471,005</u>
End of year	<u>\$ 1,122,096</u>	<u>\$ 598,970</u>

The accompanying notes are an integral part of these financial statements.

California Independent System Operator Corporation
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
	<i>(in thousands)</i>	
Reconciliation of income from operations to net cash provided by (used in) operating activities		
Operating income from operations	\$ 467	\$ 21,111
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization	36,660	30,568
Changes in operating assets, deferred outflows and liabilities		
Accounts receivable and other assets	(2,084)	(8,013)
Deferred inflows/outflows	(3,267)	793
Accounts payable and other accrued expenses	3,390	(3,002)
Due to market participants	524,580	125,518
Net cash provided by (used in) operating activities	<u>\$ 559,746</u>	<u>\$ 166,975</u>
Supplemental disclosure of noncash financing and investing activities		
Amortization of bond premium	\$ -	\$ 48
Amortization of loss on refunding	(1,481)	(1,476)
Change in purchases and development of fixed assets included in accounts payable and accrued expenses	796	(115)

The accompanying notes are an integral part of these financial statements.

California Independent System Operator Corporation

Notes to Financial Statements

December 31, 2022 and 2021

1. Organization and Operations

The Company, a nonprofit public benefit corporation, is responsible for ensuring the reliable and efficient use of the transmission grid in most of California and a part of Nevada. The Company operates this grid, which is one of the largest and most modern power grids in the world, as a balancing authority within the Western Electricity Coordinating Council. The Company conducts comprehensive planning for the future development of this grid.

The Company is regulated by the Federal Energy Regulatory Commission and complies with standards set by the North American Electric Reliability Corporation and the Western Electricity Coordinating Council. A five-member Board of Governors (the “Board”) appointed by the Governor of California and confirmed by the California State Senate governs the Company.

The Company’s wholesale energy market is the vehicle for providing open-access transmission service to users of the transmission grid. It includes a day-ahead market for all twenty-four hours of the next operating day, and a real-time market that schedules resources in 15-minute intervals and dispatches them in 5-minute intervals. The day-ahead market clears supply and demand offers for short-term energy purchases and sales. The real-time market clears supply offers and the Company’s forecast of demand. Together, these enable the economic scheduling and dispatch of generating resources to maintain continuous balance of supply and demand and management of congestion on the grid. The market also procures reserve capacity or ancillary services to maintain reliable operation under unexpected changes in grid conditions.

The Company continues to develop enhancements to increase reliability, efficiency and the accuracy of market results. The market prices energy at the points it enters and leaves the grid, which increases transparency by sending signals for competitive investments in transmission and generation. The market operates on an advanced flexible platform that helps to integrate renewable resources as well as demand response. These on-going enhancements increase the functionality and flexibility of the market system to meet the needs of market participants.

The Company also operates the Western Energy Imbalance Market (the “WEIM.”). This extension of the Company’s real-time energy market facilitates transactions with and among several balancing authority areas in the western interconnection that are not a part of the grid the Company operates. The WEIM provides reliability, efficiency and renewable integration benefits to the West while also providing economic benefits to participants. The broader footprint for the real-time market provides more opportunities to integrate cleaner sources of energy, such as wind and solar, that may be produced in one area but needed in another. In addition to the Company, eighteen other balancing authorities are participating as of the end of 2022 and several others have committed to participate in the future.

The Company is the Reliability Coordinator for entities within its footprint and for most of the balancing authorities and transmission operators in the West. As the Reliability Coordinator (a business unit known externally as “RC West”), the ISO has the highest level of authority and responsibility for the reliable operation of the power grid, and has a wide-area view of the bulk electricity system. It is required to comply with federal and regional grid standards, and can authorize measures to prevent or mitigate system emergencies in day-ahead or real-time operations. The ISO is currently the Reliability Coordinator of record for forty-two balancing authorities and transmission operators in the West.

California Independent System Operator Corporation

Notes to Financial Statements

December 31, 2022 and 2021

In addition, the Company also performs a settlement and clearing function by charging and collecting payments from users of these services and paying providers of such services. Cash held by the Company on behalf of market participants is recorded in a restricted asset account with a corresponding liability due to market participants in the statements of net position. Except for the retention of restricted assets noted above, the Company's financial statements reflect a net reporting of market activities wherein the financial statements do not include the revenues and expenses, cash flows, or assets and liabilities associated with the market transactions it facilitates. GMC revenues have a priority claim against any market-related receipts. Any market defaults are allocated to market participants.

2. Summary of Significant Accounting Policies

Method of Accounting

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with accounting principles for proprietary funds as prescribed by the Government Accounting Standards Board ("GASB"). The Company uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Net Presentation of Market Activity

The Company is a central counterparty to the market transactions that it financially settles, with certain limited exceptions. The Company is a buyer to every seller and a seller to every buyer, but market participants are responsible for supplying electricity and other services to their customers. The Company's market participants are the primary obligors with respect to those obligations. In the event of a market default, the defaulted amount is allocated among market participants, in accordance with the tariff. Market participants continue to bear the credit risk associated with any financial defaults by other market participants. Accordingly, the Company's financial statements continue to reflect a net reporting of market activities and exclude the revenues and expenses, cash flows and assets and liabilities associated with the market transactions the Company facilitates.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents, restricted and unrestricted, include cash in bank accounts, money market funds and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents are unrestricted unless specifically restricted by bond indentures or the tariff.

Accounts Receivable and Revenue Recognition

The GMC is based on rates filed with the Federal Energy Regulatory Commission and is designed to recover the Company's operating costs, capital expenditures, debt service costs, and to provide for an operating reserve. The GMC billings are recognized as revenue. The initial billings are based on estimated meter data submitted by market participants and therefore may be subject to adjustment over time to reflect the difference between actual meter data and initial estimates.

California Independent System Operator Corporation

Notes to Financial Statements

December 31, 2022 and 2021

The GMC is comprised of the following three service categories: market services, system operations and congestion revenue rights services.

The operating reserve is calculated separately for each GMC service category and accumulates until the reserve becomes fully funded (at 15% of budgeted annual operating costs for each rate service category). At December 31, 2022, the operating reserve for each service category was fully funded. In accordance with the tariff, any surplus operating reserve balance is applied as a reduction in revenue requirements in the following year. The tariff allows GMC rates to be adjusted not more than once per quarter. The rate for a service category is adjusted if the difference in actual versus projected volumes used to set the rate is equal or greater than 2%, or if the difference in actual versus estimated annual revenues for the service category is equal or greater than \$1.0 million. As a result, GMC rates were adjusted effective August 1, 2022 and once again in November 1, 2022. There were no rate adjustments in 2021.

In addition, the Company bills the participants of the WEIM an administrative charge based on gross imbalance WEIM volumes and at a rate that is calculated annually to recover the ongoing costs of operating the WEIM. The WEIM administrative charge is included in other revenues of the Company.

The Company also bills the balancing authorities and transmission owners that use the services of RC West based on net energy loads and at a rate that is developed annually to recover the ongoing costs of the service. Participants with no load are charged a predetermined fixed amount. The Reliability Coordinator charge is included in other revenues of the Company.

Generator Interconnection Studies

The Company is responsible for conducting generator interconnection studies at the request of project sponsors who are developing generating plants that would become connected to the transmission grid operated by the Company. The project sponsors are required to make a deposit before any studies are performed. Sponsors may withdraw their projects from the studies at any time.

In accordance with the tariff, the Company charges the project sponsors the actual costs of the studies. Related study costs include both internal costs and external costs and are recorded, when incurred, as operating expenses. As costs are incurred, the Company recognizes revenue for the same amount, which is recorded as a component of other revenues. The Company applies the deposits against the related receivable as costs are incurred. Certain deposits related to projects abandoned by the project sponsors are retained by the Company and distributed in accordance with the tariff. These distributions do not result in revenues or expenses recognized by the Company.

Investments

Investments, unrestricted or restricted, include instruments with original maturities of greater than three months or, instruments that have no stated maturity and the holding period is intended to be long-term in nature. These investments primarily consist of U.S. government securities, U.S. agency securities, corporate debt securities, and equity and fixed income mutual funds. Income on investments and the gain or loss on the fair value of investments is recorded as a component of interest income.

California Independent System Operator Corporation

Notes to Financial Statements

December 31, 2022 and 2021

Fixed Assets

Fixed assets are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of assets. Most of the Company's investment in fixed assets consists of the headquarters building and the backup facility, both of which are being depreciated over twenty to thirty years, and information systems, which are being depreciated over three to seven years. The cost of improvements to or replacement of fixed assets is capitalized. When assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts and any resulting gain or loss is reflected in the Company's Statement of Changes in Revenues, Expenses and Changes in Net Position for the period. Repair and maintenance costs are expensed when incurred. The Company capitalizes direct costs of salaries and certain indirect costs to develop or obtain software for internal use. Costs related to software development during the preliminary stage of a project and training and maintenance costs are expensed as incurred. Costs related to abandoned projects are expensed when the decision to abandon is made.

Other Assets

Other assets include certain employee retirement plan trust accounts.

Compensated Absences

The Company accrues vacation leave when the employee becomes eligible for the benefit.

The Company does not record sick leave or other leave as a liability since there are no cash payments for sick leave or other leave made when employees terminate or retire. At December 31, 2022 and 2021, the total accrued liability for vacation was \$12.6 million, at the end of each year, respectively.

Income Taxes

The Company is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Service (IRS) Code and is exempt from California State franchise income taxes.

Net Position

The Company classifies its net position into three components:

- **Net investment in fixed assets** - This component consists of fixed assets, net of accumulated depreciation reduced by the outstanding debt balances, net of unamortized debt expenses.
- **Restricted** - This component consists of net assets with constraints placed on their use. Constraints include those imposed by debt covenants (excluding amounts considered in net capital, above) and by the Company's tariff and agreements with external parties.
- **Unrestricted** - This component consists of net assets that do not meet the definition of "invested in capital, net of related debt" or "restricted".

The Company had no restricted component of the net position at December 31, 2022 or 2021.

Concentration of Credit Risk

Financial instruments that subject the Company to credit risk consist primarily of accounts receivable relating to GMC billings due from market participants and cash and cash equivalents and investments.

California Independent System Operator Corporation

Notes to Financial Statements

December 31, 2022 and 2021

Most of the Company's receivables are due from entities in the energy industry, including utilities, generation owners and other electricity market participants. For the years ended December 31, 2022 and 2021, approximately 32% and 34% of modified revenues, respectively, were from two market participants. Modified revenues include all operating revenues except for incidental pass-through fees paid by various parties.

GMC revenues have a priority claim against any market-related receipts, which means that even if a market participant defaults on an invoice containing a GMC charge, the Company receives the full GMC so long as sufficient funds were received on other market invoices to fund the GMC due to the Company.

The Company's concentration of credit risk related to cash and cash equivalents, and investments is described in Note 3.

New GASB Guidance

In March 2020, GASB issued Statement No. 93 *Replacement of Interbank Offered Rates*. The guidance is to address issues faced by governmental entities that depend on an interbank offered rate (IBOR), most notably the London Interbank Offered Rate LIBOR for some of their agreements. LIBOR has ceased to exist in its current format and the statement addresses accounting and financial reporting implications that result from the replacement of an IBOR. The statement is effective for reporting periods ending after December 31, 2021.

In January 2020, GASB issued Statement No. 92 *Omnibus 2020*, which aims to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The statement has several requirements, which have differing effective dates but should be adopted for reporting periods after June 15, 2021.

In May 2019, GASB issued Statement No. 91 *Conduit Debt Obligations*. Under this statement, conduit debt issuers will now have a single method of reporting of reporting conduit debt obligations. The statement is effective for reporting periods beginning after December 15, 2021.

The Company evaluated the impact of these statements and concluded that implementation of these statements did not have a material impact to the Company's financial statements.

3. Cash and Cash Equivalents and Investments

Investment Policy

The Company maintains an investment policy approved by its Board of Governors, which provides investment guidelines of the majority of the Company's unrestricted funds. The policy guidelines address permissible investment types, credit risk, concentration of credit risk, interest rate risk, custodial credit risk and other investment portfolio parameters.

Restricted funds, such as bond proceeds and amounts due to market participants, are invested according to the Company's bond indentures and tariff, respectively, both of which are more restrictive than the investment policy. A portion of the Company's unrestricted funds, \$2.9 million as of December 31, 2022, has been designated by the Company as assets related to the liabilities associated with the Company's Retiree Medical Plan. These assets are governed by a separate investment policy approved by the Board of Governors, which is aligned with the Company's long-term pension obligations to fund postretirement health benefits.

California Independent System Operator Corporation

Notes to Financial Statements

December 31, 2022 and 2021

Credit Risk

To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, the Company limits purchases of investments to those rated at the time of purchase by two of the following nationally recognized statistical rating organizations: Standard & Poor's, Moody's, and Fitch. The investment must have at least two ratings that meet a minimum rating of at least A-1 (or equivalent) for short-term obligations such as commercial paper and at least A- (or equivalent) for longer term obligations like corporate medium-term notes. In the event of split ratings, the lowest rating is considered the overall credit rating. This policy includes exceptions that allow the Company to invest in certificates of deposit issued by lower rated banks up to the FDIC insured limit and to hold investments that have been downgraded below the policy rating minimums if approved to do so by the Company's internal investment committee.

Money Market Fund rules require the use of a floating net asset (NAV) for institutional prime money market funds and provide boards with the ability to impose liquidity fees, as well as implement redemption gates, for all nongovernmental money market funds during periods of stress in the financial markets. Under normal circumstances, a floating NAV money market fund investment would continue to meet the definition of a cash equivalent. However, in the event credit or liquidity issues arise causing a meaningful decrease of the money market investments below \$1.0000 per share the classification of such investments as cash equivalents may not be appropriate. There were no credit or liquidity issues that resulted in meaningful decreases in the Company's money market investments in 2022. Therefore, amounts invested in money market funds remain classified as cash equivalents.

Concentration of Credit Risk

This is the risk of loss associated with the percentage of an entity's investment in a single issuer. The Company's investment policy limits investments in any single issuer to no more than 5% of the portfolio, with exceptions relating to obligations issued by or fully guaranteed as to principal and interest by the United States, federal agencies or United States government sponsored enterprises, pooled investments such as money market funds, and investments procured in connection with Company bond offerings. As of December 31, 2022, other than the security exceptions described above, the Company had no investments in any one issuer representing more than 5% of total cash and cash equivalents and investments.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution or counterparty, the Company will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party.

The Company may maintain balances in bank accounts exceeding the FDIC insured level of \$250,000. In the event of a bank default, the Company's deposits may not be returned. The Company had no unrestricted noninterest-bearing bank deposits at December 31, 2022 and 2021, respectively. Additionally, the Company had restricted noninterest-bearing bank deposits in amounts of \$15.3 million and \$0.0 million at December 31, 2022 and 2021, respectively. All other investments purchased by the Company, by policy, are held in custodial accounts by third-party custodians and are registered in the Company's name, thereby minimizing any custodial credit risk.

Interest Rate Risk

Changes in interest rates may adversely affect the fair value of the Company's investments and its cash flows. A sharp rise in market interest rates could have a material adverse impact on the fair value of our fixed income investment portfolio. Conversely, declines in interest rates, could have a

California Independent System Operator Corporation
Notes to Financial Statements
December 31, 2022 and 2021

material adverse impact on interest income for our investment portfolio. The Company's investment policy attempts to mitigate this risk by limiting the maximum maturity of any direct investment to five years with the exception of bond proceeds and the assets associated with the Retiree Medical Plan liabilities. The fixed income mutual funds that the Company invests in also have similar duration targets.

Summary of Balances

At December 31, 2022, the Company's cash, cash equivalents and investments consist of the following (in thousands):

Description	Credit Rating*	Remaining Maturities (in Years)			Total
		Less than 1	1 - 5	More than 5	
Cash and cash equivalents - unrestricted					
Deposits		\$ (1,045)	\$ -	\$ -	\$ (1,045)
Money Market Funds	AAAm	16,219			16,219
		<u>15,174</u>	<u>-</u>	<u>-</u>	<u>15,174</u>
Cash and cash equivalents - restricted					
Deposits		15,302			15,302
Money Market Funds	AAAm	1,091,620			1,091,620
		<u>1,106,922</u>	<u>-</u>	<u>-</u>	<u>1,106,922</u>
Total cash and cash equivalents		<u>1,122,096</u>	<u>-</u>	<u>-</u>	<u>1,122,096</u>
Short term investments - unrestricted					
Mutual Funds	Unrated	15,520			15,520
U.S Treasury	AA+	4,467			4,467
		<u>19,987</u>	<u>-</u>	<u>-</u>	<u>19,987</u>
Short term investments - restricted					
Certificate of Deposits	FDIC Insured	20,028			20,028
		<u>20,028</u>	<u>-</u>	<u>-</u>	<u>20,028</u>
Total short-term investments		<u>40,015</u>	<u>-</u>	<u>-</u>	<u>40,015</u>
Long-term investments - unrestricted					
Affinity Insurance Ltd.	Unrated	-	-	37	37
Mutual Funds	Unrated	-	227,512		227,512
		<u>-</u>	<u>227,512</u>	<u>37</u>	<u>227,549</u>
Long-term investments - restricted					
Certificate of Deposits	FDIC Insured	-	13,817	-	13,817
Total long-term investments		<u>-</u>	<u>241,329</u>	<u>37</u>	<u>241,366</u>
Total cash, cash equivalents and investments		<u>\$1,162,111</u>	<u>\$ 241,329</u>	<u>\$ 37</u>	<u>\$1,403,477</u>

*Represents S&P rating.

California Independent System Operator Corporation
Notes to Financial Statements
December 31, 2022 and 2021

At December 31, 2021, the Company's cash, cash equivalents and investments consist of the following (in thousands):

Description	Credit Rating*	Remaining Maturities (in Years)			Total
		Less than 1	1 - 5	More than 5	
Cash and cash equivalents - unrestricted					
Money Market Funds	AAA	\$ 20,072	\$ -	\$ -	\$ 20,072
		<u>20,072</u>	<u>-</u>	<u>-</u>	<u>20,072</u>
Cash and cash equivalents - restricted					
Money Market Funds	AAA	578,898			578,898
		<u>578,898</u>	<u>-</u>	<u>-</u>	<u>578,898</u>
Total cash and cash equivalents		<u>598,970</u>	<u>-</u>	<u>-</u>	<u>598,970</u>
Short term investments - unrestricted					
Mutual Funds	Unrated	15,344			15,344
Certificate of Deposits	FDIC Insured	342			342
Government-sponsored Enterprises	AA+	2,000			2,000
U.S Treasury	AA+	4,319			4,319
Corporate Notes	AA+	1,006			1,006
Corporate Notes	A+	1,523			1,523
Corporate Notes	A	1,005			1,005
Corporate Notes	A-	1,706			1,706
		<u>27,245</u>	<u>-</u>	<u>-</u>	<u>27,245</u>
Short term investments - restricted					
Certificate of Deposits	FDIC Insured	24,629			24,629
		<u>24,629</u>	<u>-</u>	<u>-</u>	<u>24,629</u>
Total short-term investments		<u>51,874</u>	<u>-</u>	<u>-</u>	<u>51,874</u>
Long-term investments - unrestricted					
Affinity Insurance Ltd.	Unrated	-	-	37	37
Mutual Funds	Unrated	-	225,212	-	225,212
U.S. Treasury	AA+	-	4,631	-	4,631
		-	229,843	37	229,880
Long-term investments - restricted					
Certificate of Deposits	FDIC Insured	-	12,416	-	12,416
Total long-term investments		<u>-</u>	<u>242,259</u>	<u>37</u>	<u>242,296</u>
Total cash, cash equivalents and investments		<u>\$ 650,844</u>	<u>\$ 242,259</u>	<u>\$ 37</u>	<u>\$ 893,140</u>

*Represents S&P rating.

California Independent System Operator Corporation
Notes to Financial Statements
December 31, 2022 and 2021

The Company's cash, cash equivalents and investments at December 31 consist of unrestricted and restricted funds as follows (in thousands):

	2022	2021
Unrestricted funds, operating account	\$ 262,710	\$ 277,197
Restricted funds, debt service	-	40
Restricted funds, market participants	<u>1,140,767</u>	<u>615,903</u>
Total cash, cash equivalents and investments	<u>\$ 1,403,477</u>	<u>\$ 893,140</u>

Cash, cash equivalents and investments restricted for market participants consist of the following at December 31 (in thousands):

	2022	2021
Security deposits	\$ 825,490	\$ 339,663
Market funds pending settlement	128,889	77,327
Pass-through fees due to others	14,924	11,774
Generator interconnection study deposits	170,938	185,650
Non-refundable deposits pending distribution	<u>526</u>	<u>1,489</u>
Total amounts restricted for market participants	<u>\$ 1,140,767</u>	<u>\$ 615,903</u>

Cash, cash equivalents and investments restricted for market participants consist of amounts held by the Company to be remitted to market participants or others on their behalf. Security deposits are amounts received from market participants who are required to post collateral for their transactions in the Company's markets. Market funds pending settlement consist of amounts collected during the settlement and clearing function that will pass-through to market participants in subsequent periods. Pass-through fees due to others consist of amounts collected from market participants that will be paid to market participants for summer reliability, startup costs and emission costs. Generator interconnection study deposits are amounts collected for future studies. Nonrefundable deposits consist of interconnection amounts, which are nonrefundable to project sponsors in accordance with tariff requirements.

California Independent System Operator Corporation
Notes to Financial Statements
December 31, 2022 and 2021

4. Fixed Assets

Changes in the Company's fixed assets for the year ended December 31, 2022, are as follows (in thousands):

	2021	Additions and Transfers In	Disposals and Transfers Out	2022
Nondepreciable fixed assets				
Land	\$ 10,561	\$ -	\$ -	\$ 10,561
Work-in-progress	5,483	19,119	(14,550)	10,052
	<u>16,044</u>	<u>19,119</u>	<u>(14,550)</u>	<u>20,613</u>
Depreciable fixed assets				
Regional transmission operator software	474,048	9,530	-	483,578
Regional transmission operator hardware	22,134	2,314	(64)	24,384
Communication equipment	11,302	1,968	-	13,270
ISO Facilities (HQ and Lincoln)	162,251	-	-	162,251
Furniture, fixtures and other	19,889	741	(306)	20,324
	<u>689,624</u>	<u>14,553</u>	<u>(370)</u>	<u>703,807</u>
Less: Accumulated depreciation	<u>(554,718)</u>	<u>(36,660)</u>	<u>367</u>	<u>(591,011)</u>
	<u>134,906</u>	<u>(22,107)</u>	<u>(3)</u>	<u>112,796</u>
Total fixed assets, net	<u>\$ 150,950</u>	<u>\$ (2,988)</u>	<u>\$ (14,553)</u>	<u>\$ 133,409</u>

Changes in the Company's fixed assets for the year ended December 31, 2021, are as follows (in thousands):

	2020	Additions and Transfers In	Disposals and Transfers Out	2021
Nondepreciable fixed assets				
Land	\$ 10,561	\$ -	\$ -	\$ 10,561
Work-in-progress	10,237	15,849	(20,603)	5,483
	<u>20,798</u>	<u>15,849</u>	<u>(20,603)</u>	<u>16,044</u>
Depreciable fixed assets				
Regional transmission operator software	455,095	18,953	-	474,048
Regional transmission operator hardware	21,501	688	(55)	22,134
Communication equipment	10,670	632	-	11,302
ISO Facilities (HQ and Lincoln)	162,251	-	-	162,251
Furniture, fixtures and other	19,559	330	-	19,889
	<u>669,076</u>	<u>20,603</u>	<u>(55)</u>	<u>689,624</u>
Less: Accumulated depreciation	<u>(524,205)</u>	<u>(30,568)</u>	<u>55</u>	<u>(554,718)</u>
	<u>144,871</u>	<u>(9,965)</u>	<u>-</u>	<u>134,906</u>
Total fixed assets, net	<u>\$ 165,669</u>	<u>\$ 5,884</u>	<u>\$ (20,603)</u>	<u>\$ 150,950</u>

California Independent System Operator Corporation
Notes to Financial Statements
December 31, 2022 and 2021

5. Long-term Debt and Related Agreements

Long-term debt consists of the following at December 31 (in thousands):

	2022	2021
CSCDA Taxable Refunding Revenue Bonds, Series 2021 Fixed interest rates of 0.25% - 2.68% with maturities through 2039	<u>\$ 165,395</u>	<u>\$ 174,445</u>
Total long-term debt	165,395	174,445
Less: Current portion	<u>(8,735)</u>	<u>(9,050)</u>
Total long-term debt, net of current portion	<u>\$ 156,660</u>	<u>\$ 165,395</u>

Summarized activity of long-term debt for the year ended December 31, 2022, is as follows (in thousands):

	Beginning of Year	Issuances (Payments)	End of Year
CSCDA Taxable Refunding Revenue Bonds, Series 2021	\$ 174,445	\$ (9,050)	\$ 165,395
Total long-term debt	<u>\$ 174,445</u>	<u>\$ (9,050)</u>	<u>\$ 165,395</u>

California Independent System Operator Corporation
Notes to Financial Statements
December 31, 2022 and 2021

Summarized activity of long-term debt for the year ended December 31, 2021, is as follows (in thousands):

	Beginning of Year	Issuances (Payments)	End of Year
CIEDB Revenue Bonds, Series 2013	\$ 163,380	\$ (163,380)	\$ -
CSCDA Taxable Refunding Revenue Bonds, Series 2021	\$ -	174,445	\$ 174,445
Total long-term debt	<u>\$ 163,380</u>	<u>\$ 11,065</u>	<u>\$ 174,445</u>

Scheduled future debt service payments for these bonds as of December 31, 2022, are as follows (in thousands):

	Principal	Interest	Total
2023	\$ 8,735	\$ 3,013	\$ 11,748
2024	8,770	2,983	11,753
2025	8,815	2,938	11,753
2026	8,875	2,874	11,749
2027	8,960	2,791	11,751
2028 - 2032	46,855	11,901	58,756
2033 - 2037	51,800	6,947	58,747
2038 - 2039	22,585	913	23,498
Total debt service payments	<u>\$ 165,395</u>	<u>\$ 34,360</u>	<u>\$ 199,755</u>

In January 2021, the Company issued \$174.5 million of fixed rate taxable refunding revenue bonds ("2021 bonds") through the California Statewide Communities Development Authority (CSCDA) at par, to advance refund \$163.4 million of outstanding 2013 bonds. The net proceeds of \$173.0 million (after payment of \$1.4 million in underwriting fees and other issuance costs) together with other funds of the Company were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2013 bonds. As a result, in 2021, the 2013 bonds are considered to have been defeased and were removed from the Statements of Net Position in 2021.

The debt defeasance transaction extinguished the outstanding debt related to the 2013 bonds. The recording of this transaction within the financial statements resulted in a net loss of \$15.0 million in 2021 because the acquisition price of the bonds, together with the other funds used in the transaction, was greater than the net carrying value of the 2013 debt. This loss is recognized as an unamortized loss on refunding that will be expensed equitably over the term of the new debt and is presented as a deferred outflow of resources.

Although the advance refunding resulted in the recognition of an accounting loss, the Company reduced its debt service payments by just under \$1.8 million annually over the next 18 years and obtained an economic gain (difference between the present value of the old and new debt service payments) of \$26.0 million.

California Independent System Operator Corporation
Notes to Financial Statements
December 31, 2022 and 2021

6. Supplemental Disclosure of Derivative Financial Instruments – Congestion Revenue Rights (CRRs)

As described in Note 2, the Company is the central counterparty to market participant transactions, which include CRRs. CRRs are financial instruments that enable market participants to reduce their congestion-related price risk when delivering or selling energy on the grid. A CRR provides an economic hedging mechanism against congestion charges that can be transacted by market participants separately from transmission service. These instruments are considered derivative financial instruments for accounting purposes, which would require presentation at fair value if they were recognized as assets and liabilities of the Company.

Consistent with its role in facilitating other market transactions, the Company facilitates the allocation, auctioning and ultimate settlement of CRRs in its market, but does not have economic risks and rewards associated with these financial instruments. Any market defaults are allocated to market participants. As such, they are not recognized as assets and liabilities in the Company's Statements of Net Position. However, unlike other market transactions administered by the Company, CRRs can be outstanding for extended periods.

At December 31, 2022, the average life of the Company's CRRs was 2.77 years and there were a total of 110 CRR holders, compared to 3.04 years and 107 CRR holders at December 31, 2021. The estimated net fair value of both the CRR assets and liabilities as of December 31, 2022 was \$742.5 million related to a total of 525,214 megawatts, which vary in length from one month to several years. This is compared to \$536.8 million related to a total of 584,249 megawatts at December 31, 2021. The value of each megawatt of CRR is a function of numerous factors including the length of period the CRR covers.

While these amounts are not presented in the Statements of Net Position, their estimated net fair value is disclosed for informational purposes given their longer term nature. Their fair value was determined based on several factors including actual auction prices transacted in the most recent annual and monthly auction processes, the Company's models that calculate the estimated value of all transmission constraints, net present value discounting and other factors. In addition to the high level of uncertainty associated with these inputs to the valuation calculation model, changes to actual or anticipated flows and constraints on the transmission system managed by the Company or in the value of electricity flowing on the transmission system create volatility that can significantly affect CRR values. Changes in generation, load, weather, and transmission outages are other factors that can have immediate and significant impact on CRR values.

The following is a summary of CRR megawatts, by type, outstanding at December 31, 2022:

Type (in Megawatts)	
Monthly (January 2023)	89,691
Annual (February - December 2023)	249,703
Long Term (January 2023 - December 2032)	185,819
	<hr/>
Total CRRs (Megawatts)	525,213
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California Independent System Operator Corporation
Notes to Financial Statements
December 31, 2022 and 2021

The following is a summary of CRR megawatts, by type, outstanding at December 31, 2021:

Type (in Megawatts)	
Monthly (January 2022)	97,421
Annual (February - December 2022)	265,730
Long Term (January 2022 - December 2031)	221,098
Total CRRs (Megawatts)	<u>584,249</u>

7. Fair Value of Financial Instruments

Accounting guidance for fair value measurement requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard establishes a three-tier fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

- Level 1 Applies to assets or liabilities for which there are quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.
- Level 2 Applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs and significant value drivers are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3 Applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Financial assets and liabilities are classified in their entirety based on the level of input that is considered most significant to the fair value measurement.

California Independent System Operator Corporation
Notes to Financial Statements
December 31, 2022 and 2021

The Company's assets measured at fair value on a recurring basis at December 31, 2022, were as follows (in thousands):

	Total	Level 1	Level 2	Level 3
Cash:	\$ 14,257	\$ -	\$ -	\$ -
Cash equivalents:				
Money market funds	1,107,839	1,107,839		
Short-term investments:				
Publicly traded mutual funds	15,520	15,520		
U.S. Treasury securities	4,467	4,467		
Negotiable certificates of deposit	20,028		20,028	
Long-term investments:				
Negotiable certificates of deposit	13,817		13,817	
Publicly traded mutual funds	227,512	227,512		
Captive insurance investment	37			37
Total cash, cash equivalents and investments	<u>\$ 1,403,477</u>	<u>\$ 1,355,338</u>	<u>\$ 33,845</u>	<u>\$ 37</u>

The Company's assets measured at fair value on a recurring basis at December 31, 2021, were as follows (in thousands):

	Total	Level 1	Level 2	Level 3
Cash equivalents:				
Money market funds	\$ 598,970	\$ 598,970	\$ -	\$ -
Short-term investments:				
Publicly traded mutual funds	15,344	15,344		
U.S. Treasury securities	4,319	4,319		
U.S. government agency securities	2,000	2,000		
Negotiable certificates of deposit	24,970		24,970	
Corporate debt securities	5,241		5,241	
Long-term investments:				
U.S. Treasury securities	4,631	4,631		
Negotiable certificates of deposit	12,416		12,416	
Publicly traded mutual funds	225,212	225,212		
Captive insurance investment	37			37
Total cash, cash equivalents and investments	<u>\$ 893,140</u>	<u>\$ 850,476</u>	<u>\$ 42,627</u>	<u>\$ 37</u>

Level 1 money market funds and publicly traded mutual funds are determined by using quoted prices in active markets. Level 2 fixed income securities are priced using quoted market prices for similar instruments or nonbinding market prices that are corroborated by observable market data. Level 3 assets are nonnegotiable instruments that require the use of unobservable inputs in determining fair value.

The fair value of the employee retirement plan trust accounts at December 31, 2022 and 2021 was \$2.9 million and \$4.0 million, respectively. These accounts are invested in cash equivalents and publicly traded mutual funds and are classified as Level 1 assets.

California Independent System Operator Corporation
Notes to Financial Statements
December 31, 2022 and 2021

The fair value of the Company's long-term debt as of December 31, 2022 and 2021 was \$129.5 million and \$173.5 million, respectively. The fair value of fixed rate long-term debt, which includes the short-term portion, is based on current market quotes that are classified as a Level 2 on the fair value hierarchy at both December 31, 2022 and 2021.

The carrying values reported in the balance sheet for current assets and liabilities, excluding amounts discussed above, approximate fair value.

Additionally, the Company had \$17.8 million and \$21.2 million at December 31, 2022 and 2021, respectively, in trust related to the post-employment medical benefit plan (Note 9). At December 31, 2022 and 2021, these trust assets consist primarily of mutual funds and are classified as Level 1 within the fair value hierarchy.

8. Employee Benefit Plans

The Company maintains a number of employee benefit plans. A description of the Plans and key provisions is included below. Obligations included in the Company's Statements of Net Position related to these plans consist of the following at December 31 (in thousands):

	2022	2021
Post-employment medical benefit plan	\$ 1,958	\$ 137
Executive pension restoration plan	2,450	2,113
Executive savings plan	<u>1,100</u>	<u>1,862</u>
Total employee retirement plan obligations	<u>\$ 5,508</u>	<u>\$ 4,112</u>

Post-Employment Medical Benefit Plan

Plan Description

The Company sponsors the California ISO Retirees Medical Plan, a single employer defined benefit plan, to provide post-employment health care benefits to all eligible employees who retire from the Company and meet certain eligibility requirements. The Plan is closed to new hires and rehires effective January 1, 2019.

Eligibility for retirement is age 55 with at least 10 years of continuous service, whose combined age and years of continuous service equals or exceeds 70. For employees born after January 1, 1969, pre-65 spousal coverage ends on the participants' 75th birth date. A Post-65 spouse who is removed from pre-65 coverage may obtain coverage once they reach age 65.

Depending on years of service, the Company pays between 60% and 70% of the premiums on the coverage elections made by the beneficiaries not to exceed \$8,000 per year for individual retiree coverage and \$16,000 per year for retiree plus spouse and/or dependent. Plan benefits are available to eligible retirees and to their spouses, domestic partners and eligible dependents, as provided for under the terms of the Plan. Current plan coverage extends for the lifetime of the participants and their beneficiaries, except for dependents, which generally terminates at age 25.

The Plan provides a monthly amount per post-65 retiree and eligible post-65 dependents towards the cost of enrolling in any of the Medicare supplemental programs, and at the Company's discretion, may increase the allowance annually. Supplemental program costs in excess of the provided monthly amount are the responsibility of the retirees and or dependents.

California Independent System Operator Corporation

Notes to Financial Statements

December 31, 2022 and 2021

There are 392 active employees of which, 118 are fully eligible to retire and 107 retirees eligible to receive benefits pursuant to the Plan as of December 31, 2022.

Funding and Investment Policy

The Company has established a trust for the purposes of funding the Plan. The trust was established as a tax-exempt voluntary employees' beneficiary association. All assets of the trust are to be used for the exclusive benefit of the participants and beneficiaries of the Plan. Although the Company has fiscal accountability for these assets and holds them in a fiduciary capacity, the assets are not considered assets of the Company and are therefore not included in the Statements of Net Position of the Company. As of December 31, 2022, and 2021, the trust assets were \$17.8 million and \$21.2 million, respectively. The Plan issues audited trust financial statements annually, which are available upon request.

The Company's current funding policy is to annually contribute an amount such that the total amount in the trust approximates the actuarially determined liability attributable to retirees and their spouses and to active participants who are fully eligible to retire. Based on this current funding policy, the trust was fully funded at December 31, 2022. The Company does not provide funding into the trust related to future obligations associated with employees who have not become eligible to retire, although, as part of its rate structure, the Company collects annual amounts associated with future other post-employment benefit ("OPEB") obligations for all employees. As a result, assets equivalent to the actuarially determined liability attributable to employees not yet eligible to retire are segregated in a separate custody account. The amounts are adjusted annually to match the current actuarially determined liability. These segregated assets are reported in the Company's Statements of Net Position.

The assets of both the trust and the Company's segregated funds are invested in accordance with the Board approved California ISO Retirees Medical Plan Investment Policy. In general, the assets are invested in a mix of equity and fixed income mutual funds.

The Company also currently funds disbursements for the employer portion of the premiums on the coverage elections made by the pre-65 beneficiaries, their respective spouses and, if any, dependents, and the monthly contributions to the post-65 retirees and their post-65 dependents from the segregated funds.

Net OPEB Liability (NOL)

The Company's annual OPEB liabilities as of December 31, 2022 and 2021, respectively, were determined by an actuarial valuation as of those dates.

California Independent System Operator Corporation
Notes to Financial Statements
December 31, 2022 and 2021

The Company's Net OPEB Liability at December 31, 2022 and 2021 are as follows (in thousands):

	2022	2021
Total OPEB liability (TOL)		
Service cost	\$ 575	\$ 748
Interest cost	1,174	1,217
Changes in benefit terms	-	-
Differences between expected and actual experience	(1,064)	313
Changes in assumptions	(1,619)	(2,468)
Benefit payments	(611)	(1,050)
Net change in TOL	(1,545)	(1,240)
TOL - beginning	21,069	22,309
TOL - ending	19,524	21,069
Plan fiduciary net position (PFNP)		
Employer contributions	555	986
Net investment income	(3,388)	1,857
Benefit payment	(611)	(1,050)
Active subsidy	56	64
Net change in PFNP	(3,388)	1,857
PFNP - beginning	21,159	19,302
PFNP - ending	17,771	21,159
Net OPEB liability	\$ 1,753	\$ (90)
PFNP as a percentage of TOL	91.02 %	100.42 %
Covered-employee payroll	\$ 64,079	\$ 64,368
NOL as a percentage of covered-employee payroll	2.74 %	(0.14)%

Actuarial Methods and Assumptions

The total OPEB liability in the December 31, 2022 and 2021 actuarial valuations were determined using actuarial assumptions, applied to all respective periods included in the measurement. The following significant actuarial methods and assumptions were used in the calculation.

	2022	2021
Discount Rate	6.30%	5.50%
Expected Long-term Rate of Return on Plan Assets	6.30%	5.50%
Rate of Compensation Increase	3.00%	3.00%
Current Health Care Cost Trend Rate	6.50%	6.25%
Ultimate Health Care Cost Trend Rate	5.00%	5.00%
Year of Ultimate Trend Rate	2030	2027

California Independent System Operator Corporation
Notes to Financial Statements
December 31, 2022 and 2021

The mortality rates were based on the Pri-2012 mortality tables (Base mortality table year “2012”, Table type “Total”, Health type “Healthy”, Table weighing “Headcount”), with Scale MP-2021 for mortality improvements to reflect the most recent mortality experience published by the Society of Actuaries. Separate rates, based on the “Employee” table, were developed for annuitants and nonannuitants. Same rates also were developed for retirees, contingent annuitants, and contingent survivors.

The expected long term return on assets assumption reflects the Company’s estimate of future experience for the trust asset returns reflecting the Plan’s current asset allocation and any expected changes during the current plan year, current market conditions and the Company’s expectations for future market conditions. The long-term rate of return was determined using a building-block method in which best estimate ranges of expected investment rates of return over the next 20 years are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the current asset allocation percentage. The current asset allocation and best estimates of the rates of return for each major asset class are summarized in the following table.

Asset Class	Asset Allocation	Long-Term Expected Rate of Return
International stocks	28.0 %	7.62 %
BarCap aggregate funds	25.0	4.39
Large-cap stocks	19.0	7.45
10-year TIPS	10.0	4.21
Cash equivalents	10.0	3.88
Small cap stocks	4.0	7.10
Mid-cap stocks	4.0	7.47
Total	<u>100 %</u>	

The expected long-term return on assets is also used as the discount rate for all periods of projected benefit payments to determine the total OPEB liability since the Company’s contributions to the Plan are made at rates equal to the actuarially determined contribution rates. Additionally, the Plan’s fiduciary net position is projected to be available to make all projected OPEB payments for all current and future retirees.

The actuarial assumptions employed in the development of the OPEB liability and other financial reporting have been selected in accordance with the Actuarial Standards of Practice, which required that each significant assumption is appropriate for the purpose of the measurement; takes into account historical and current economic data that is relevant as of the measurement date; reflects expected future experience and has no significant bias (i.e., it is not significantly optimistic or pessimistic).

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The Company’s annual OPEB expenses at December 31, 2022 and 2021 are as follows (in thousands):

California Independent System Operator Corporation
Notes to Financial Statements
December 31, 2022 and 2021

	2022	2021
OPEB Expense		
Service cost	\$ 575	\$ 748
Interest cost	1,174	1,217
Differences between expected and actual experience	(476)	(349)
Changes in assumptions	(1,381)	(1,186)
Expected return on assets	(1,164)	(1,042)
Differences between expected and actual return on assets	459	(643)
Annual OPEB expense	<u>\$ (813)</u>	<u>\$ (1,255)</u>

For the year ended December 31, 2022, the Company reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Outflows	Inflows
Differences between expected and actual experience	\$ 547	\$ (3,123)
Changes in assumptions	326	(7,213)
Net difference between projected and actual earnings on OPEB investments	<u>2,341</u>	<u>N/A</u>
Net deferred inflows		<u>\$ (7,122)</u>

For the year ended December 31, 2021, the Company reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Outflows	Inflows
Differences between expected and actual experience	\$ 770	\$ (2,760)
Changes in assumptions	496	(7,144)
Net difference between projected and actual earnings on OPEB investments	<u>N/A</u>	<u>(1,751)</u>
Net deferred inflows		<u>\$ (10,389)</u>

Amounts reported as of December 31, 2022 as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Amount
During fiscal year ending 12/31/2023	\$ (1,663)
During fiscal year ending 12/31/2024	(1,462)
During fiscal year ending 12/31/2025	(1,380)
During fiscal year ending 12/31/2026	(958)
During fiscal year ending 12/31/2027	(713)
During fiscal year ending after 12/31/2028 and thereafter	(946)

California Independent System Operator Corporation
Notes to Financial Statements
December 31, 2022 and 2021

The following table presents the sensitivity of the net OPEB liability to changes in the discount rate and health care cost trend rates if it was separately calculated using a 1% lower or 1% higher than the current discount rate or health care cost trend rate.

	2022	2021
Change in NOL with 1.0% increase in discount rate	\$ (1,824)	\$ (2,080)
Change in NOL with 1.0% decrease in discount rate	2,152	2,473
Change in NOL with 1.0% increase in health care trend rates	162	217
Change in NOL with 1.0% decrease in health care trend rates	(158)	(212)

Executive Pension Restoration Plan

The Company sponsors the Executive Pension Restoration Plan, a nonqualified defined contribution plan, which allows certain officers of the Company to make contributions and receive Company contributions in excess of the 401(k) contribution limits set forth by IRS regulations as described in the retirement savings benefits plan below.

The contributions and earnings thereon are held in a trust and the balances as of December 31, 2022 and 2021, were \$2.5 million and \$2.2 million, respectively, and are included in Other Assets with a corresponding liability in Employee Retirement Plan Obligations. In connection with this plan, the Company recognized expenses for contributions of \$230,645 and \$310,763 in 2022 and 2021, respectively.

Executive Savings Plan

The Company sponsors the Executive Savings Plan, a nonqualified defined contribution plan under section 457(b) of the IRS Code. The Company contributes a percentage of each officer's annual base compensation to the Plan. Officers may elect to make voluntary contributions, subject to statutory limitations. The contributions and earnings thereon are held in a trust and the balance as of December 31, 2022 and 2021 was \$1.1 million and \$1.8 million, respectively, and are included in Other Assets, with a corresponding liability in Employee Retirement Plan Obligations. In connection with this plan, the Company recognized expenses of \$210,414 and \$180,940 in 2022 and 2021, respectively.

Retirement Savings Benefits Plan

The Company sponsors a defined contribution retirement plan, the California ISO Retirement Savings Benefits Plan (the "Retirement Plan") that is subject to the provisions of the Employee Retirement Income Security Act of 1974 and covers substantially all employees. The Company administers the Retirement Plan with the assistance of a third party. The assets of the Plan are held separately from Company assets and are not combined with the assets in the Statements of Net Position.

Employees may elect to contribute up to fifty percent of their eligible compensation to the Retirement Plan, subject to statutory limitations. The Company matches contributions up to six percent of an employees' eligible compensation and an additional contribution equal to five percent of eligible compensation for employees with less than five years of service, or seven percent for employees who have at least five years but not more than ten years of service. An additional contribution of one percent of eligible compensation is also made by the Company for each five-year increment of service after an employees' ten-year anniversary.

California Independent System Operator Corporation
Notes to Financial Statements
December 31, 2022 and 2021

Employee contributions to the Retirement Plan for 2022 and 2021 were \$11.8 million and \$9.7 million, respectively. The Company contributions to the Retirement Plan for 2022 and 2021 were \$12.0 million and \$10.7 million, respectively.

9. Insurance Programs and Claims

The Company is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; nonperformance of duty; injuries to employees; and natural disasters. The Company maintains various commercial and mutual insurance plans that provide coverage for most claims in excess of specific dollar thresholds. Primary insurance policies have coverage limits set based on the Company's assessment of reasonable exposure within that risk category, with consideration of insurance types and coverage limits for comparable entities. Additionally, the Company maintains excess liability coverage that provides umbrella coverage for certain exposures. Losses incurred below insurance deductibles are expensed as incurred. In the last three years, the Company did not incur any claims in excess of the coverage described above.

The Company is a participant in a group captive insurance company for workers compensation insurance coverage. The Company's annual net insurance costs for such coverage vary based on claims incurred at the Company, and to a lesser extent, claims activity of other members of the captive insurance company. The Company's annual insurance expense is limited through reinsurance and risk sharing arrangements of the captive to an additional percentage of the initial base premium paid.

10. Contract Commitments

The Company has a long-term operating contract that expire through 2030.

The following are the future minimum payments under this agreement as of December 31, 2022 (in thousands):

2023	\$	208
2024 -		212
2025		217
2026		222
2027 - 2030		938
Total contract commitment	\$	<u>1,797</u>

11. Contingencies

Market Billing Disputes in Good Faith Negotiations

As part of the tariff and applicable contracts, the Company has dispute resolution processes for market participants to register disagreements regarding information reflected in the settlement statements or billing amounts for market activity.

Market disputes are addressed in the normal course of operations, some of which result in adjustments to previously issued settlement statements. When adjustments are made, the adjustment amounts are reallocated to market participants, with no net cost or credit being realized by the Company. With respect to pending market disputes at December 31, 2022, including those that have escalated to good faith negotiations, management believes that any

California Independent System Operator Corporation

Notes to Financial Statements

December 31, 2022 and 2021

settlements or market awards would be resettled against the market with no liability to the Company.

Indemnifications

The Company's bylaws require its annual financial statements to include disclosures about certain payments made by the Company related to indemnification of officers and Board members. There were no such payments in 2022 or 2021.

Other Matters

The Company, during the ordinary course of its operations, has been involved in various lawsuits and claims. In addition, the Company is subject to compliance with mandatory reliability standards promulgated by the North American Electric Reliability Corporation and approved by the Federal Energy Regulatory Commission, which if violated could result in penalties assessed to the Company.

There are currently some pending claims against the Company as well as matters related to alleged violations of the mandatory reliability standards. Management is of the opinion that none of these matters will have a material adverse impact on the financial position or results of the operations of the Company.

California Independent System Operator Corporation
Required Supplementary Information
December 31, 2022 and 2021

Schedule of Changes in the Net OPEB Liability and Related Ratios

The schedule below presents the Company's total OPEB liability, the Plan fiduciary position, net OPEB liability and related ratios (dollars in thousands):

	2022	2021	2020	2019	2018	2017	2016
Total OPEB liability (TOL)							
Service cost	\$ 575	\$ 748	\$ 811	\$ 1,101	\$ 1,366	\$ 1,369	\$ 1,166
Interest cost	1,174	1,217	1,314	1,580	1,525	1,470	1,175
Changes in benefit terms	-	-	-	-	3,634	-	-
Differences between expected and actual experience	(1,064)	313	(1,883)	(438)	(1,326)	(951)	1,593
Changes in assumptions	(1,619)	(2,468)	89	(4,657)	(3,699)	(228)	1,380
Benefit payments	(611)	(1,050)	(539)	(606)	(883)	(587)	(426)
Net change in TOL	(1,545)	(1,240)	(208)	(3,020)	617	1,073	4,888
TOL - beginning	21,069	22,309	22,517	25,537	24,920	23,847	18,959
TOL - ending	19,524	21,069	22,309	22,517	25,537	24,920	23,847
Plan fiduciary net position (PFNP)							
Employer contributions	555	986	461	4,987	841	384	269
Net investment income	(3,388)	1,857	2,262	2,230	(674)	1,522	534
Benefit payment	(611)	(1,050)	(539)	(606)	(883)	(587)	(426)
Active subsidy	56	64	78	56	42	203	157
Net change in PFNP	(3,388)	1,857	2,262	6,667	(674)	1,522	534
PFNP - beginning	21,159	19,302	17,040	10,373	11,047	9,525	8,991
PFNP - ending	17,771	21,159	19,302	17,040	10,373	11,047	9,525
Net OPEB liability	\$ 1,753	\$ (90)	\$ 3,007	\$ 5,477	\$ 15,164	\$ 13,873	\$ 14,322
PFNP as a percentage of TOL	91.02 %	100.42 %	86.52 %	75.67 %	40.62 %	44.33 %	39.94 %
Covered-employee payroll	\$ 64,079	\$ 64,368	\$ 69,598	\$ 71,588	\$ 72,478	\$ 69,960	\$ 68,984
NOL as a percentage of covered-employee payroll	2.74 %	(0.14)%	4.32 %	7.65 %	20.92 %	19.83 %	2.08 %

Note: This is intended to be a ten-year schedule in accordance with GASB Statement 75; however, the Company adopted the standard in 2018 and revalued the plan retroactively to 2016.

California Independent System Operator Corporation

Required Supplementary Information

December 31, 2022 and 2021

Schedule of Employer Contributions to the OPEB Plan

The schedule below reflects the Company's contributions relative to the actuarially determined contributions for the Plan (dollars in thousands):

	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution in relation to the actuarially determined contribution	555	986	461	550	841	384	269
Contribution deficiency (excess)	<u>\$ (555)</u>	<u>\$ (986)</u>	<u>\$ (461)</u>	<u>\$ (550)</u>	<u>\$ (841)</u>	<u>\$ (384)</u>	<u>\$ (269)</u>
Covered-employee payroll	\$ 64,079	\$ 64,368	\$ 69,598	\$ 71,588	\$ 72,478	\$ 69,960	\$ 68,984
Contribution as a percentage of covered-employee payroll	0.9 %	1.5 %	0.7 %	0.8 %	1.2 %	0.5 %	0.4 %

Note: This is intended to be a ten-year schedule in accordance with GASB Statement 75; however, the Company adopted the standard in 2018 and revalued the plan retroactively to 2016.

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of December 31

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age normal
Amortization period	Average future service for all participants as of 1/1/2022, where inactive participants are assumed to have zero average future service
Asset valuation method	Investments in the trust fund are valued on the basis of their fair market value
Inflation	2.5%
Salary increases	3.0%, average, including inflation
Termination and retirement age	The termination and retirement rates have been updated to reflect current experience
Discount rate	6.30%