

QUARTERLY FINANCIAL REPORT

March 31, 2017

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
QUARTERLY FINANCIAL REPORT - March 31, 2017**

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CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY

For the quarter ended March 31, 2017

Results of Operations

Revenues

Through the first quarter ending March 31, 2017, operating revenues were slightly higher by \$0.9 million compared to the budgeted amounts. The overall increase in revenues was primarily due to higher GMC revenues of \$0.5 million and to higher other revenues of \$0.4 million. The Company monitors changes in GMC revenues and will adjust rates, if necessary, to align actual GMC revenues closer to budget, as required by the Tariff.

Expenses

Operating expenses are \$4.3 million under budget through the first quarter of the year, largely due to timing of expenses.

Interest income and other are higher than budget during the 1st quarter due to higher interest rates.

Material Changes to Assets and Liabilities

Debt service, market collateral transactions, incentive compensation payouts and annual 401k contributions were the primary contributors to the changes in company assets and liabilities during the the first quarter.

Capital Projects

Through the end of the first quarter of 2017, \$9.9 million in projects were approved by the Corporate Management Committee. These projects will enhance the current systems' performance and effectiveness in meeting future challenges and FERC mandates.

Collateral Held Report

As of April 6, 2017, the ISO maintained \$1.8 billion in collateral from market participants to support \$187.4 million in aggregate liabilities due in the market. Approximately \$1.4 billion of the collateral is from unsecured sources (i.e., unsecured credit limits and parent guarantees) with investment grade or equivalent ratings, and \$446.5 million is from secured forms (i.e., cash and letters of credit). This collateral is predominantly invested in AAA-rated money market funds or backed by A rated or better financial institutions.

CALIFORNIA ISO
Statement of Operations
For the quarter ended March 31, 2017
(dollars in thousands)

	Quarter		Year to Date		Year to Date Budget
	Actual	Prior Year	Actual	Prior Year	
<u>Operating revenues:</u>					
Grid management charge	\$ 44,507	\$ 43,436	\$ 44,507	\$ 43,436	\$ 44,006
Other revenues	2,931	2,258	2,931	2,258	2,502
Total operating revenues	47,438	45,694	47,438	45,694	46,508
<u>Operating expenses:</u>					
Salaries and benefits	28,324	28,033	28,324	28,033	28,056
Building, leases and facility	346	621	346	621	780
Insurance	314	409	314	409	506
Third party vendor contracts	3,309	3,706	3,309	3,706	4,368
Consulting and contracting services	2,828	2,926	2,828	2,926	4,044
Legal and audit	150	285	150	285	950
Training, travel and professional dues	555	637	555	637	1,164
Other	360	408	360	408	609
Total operating expenses	36,186	37,025	36,186	37,025	40,477
Operating income before depreciation and amortization	11,252	8,669	11,252	8,669	6,031
<u>Depreciation and amortization</u>	6,191	5,742	6,191	5,742	6,000
Net operating income (loss)	5,061	2,927	5,061	2,927	31
<u>Other income (expenses)</u>					
Interest income & other	1,035	1,384	1,035	1,384	525
Interest expense	(2,240)	(2,244)	(2,240)	(2,244)	(2,210)
Total other income (expenses)	(1,205)	(860)	(1,205)	(860)	(1,685)
Excess (deficiency) of revenues over expenses	\$ 3,856	\$ 2,067	\$ 3,856	\$ 2,067	\$ (1,654)
Number of full-time employees			584	591	593

CALIFORNIA ISO
Balance Sheet

As of March 31, 2017
(dollars in thousands)

	Current Quarter 3/31/2017	Prior Year 12/31/2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, including restricted amounts	\$ 300,419	\$ 363,471
Accounts receivable	34,206	15,629
Short-term Investments, including restricted amounts	45,681	50,431
Other current assets	6,422	6,603
Total current Assets	<u>386,728</u>	<u>436,134</u>
NONCURRENT ASSETS		
Long-term investments, including restricted amounts	145,395	153,116
Fixed assets, net	186,756	187,171
Other assets	13,554	12,834
Total noncurrent assets	<u>345,705</u>	<u>353,121</u>
TOTAL ASSETS	<u>\$ 732,433</u>	<u>\$ 789,255</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	6,721	10,811
Accrued salaries and compensated absences	15,192	33,170
Current portion of long-term debt	4,765	4,625
Due to market participants	359,356	395,857
Generator noncompliance fines refund obligation	2,292	2,262
Total current liabilities	<u>388,326</u>	<u>446,725</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	181,844	186,767
Employee retirement plan obligations	22,322	21,260
Total noncurrent liabilities	<u>204,166</u>	<u>208,027</u>
TOTAL LIABILITIES	<u>592,492</u>	<u>654,752</u>
TOTAL NET ASSETS	<u>139,941</u>	<u>134,503</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 732,433</u>	<u>\$ 789,255</u>

Capital Projects Report

For the quarter ended March 31, 2017
(\$ in thousands)

Project Classification	2017		Projects		Remaining		Expenditures	
	Capital and Project Budget ¹	Budget ¹	Approved YTD	YTD	Budget	Budget	YTD	YTD
Market and Operational Excellence	\$	12,200	\$	5,228	\$	6,972	\$	211
Enhance the Technology Foundation		5,425		3,912		1,513		313
Focus on Customer Service and Other Costs		1,675		650		1,025		-
Grid Evolution Readiness and Regional Innovation Opportunities		700		90		610		-
	\$	20,000	\$	9,880	\$	10,120	\$	524
								3,940
							\$	4,463

Expenditures on projects approved prior to 2017²:

¹ The Board approved a maximum level of \$20 million in capital and project commitments for 2017 at their December 2016 meeting. The sub-amounts allocated to the project classifications will vary as actual projects are approved during the year by the Corporate Management Committee.

² Expenditures on projects approved in a prior budget year. Does not include EIM implementation projects as those expenditures are reimbursed by the EIM entity.