

QUARTERLY FINANCIAL REPORT

December 31, 2018

Preliminary and Unaudited

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
QUARTERLY FINANCIAL REPORT - December 31, 2018 (Preliminary and Unaudited)

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CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY (Preliminary and Unaudited)

For the quarter ended December 31, 2018

Results of Operations

Revenues

Through the fourth quarter ending December 31, 2018, operating revenues were higher by \$6.5 million compared to the budgeted amounts. The overall increase in revenues was primarily due to higher other revenues of \$4.4 million, due to higher than planned EIM volumes and forecasting fees. Additionally, GMC revenues were higher by \$2.1 million, due to stronger volumes in the second half of the year.

Expenses

Operating expenses are \$0.8 million under budget through the fourth quarter of the year, largely due to the underlying company goal of reducing expenses. Expenses were lower across most of the expense categories, especially in the legal and audit, and travel and training categories. Salaries and wages were higher during the year due to the personnel brought on to support the new reliability function and the recognition of a one-time cost associated with the plan design change in the Company's Retirees Medical Plan.

Interest income and other are \$0.2 million lower than budget through the fourth quarter due to rising interest rates which resulted in unrealized losses on the Company's investments.

Material Changes to Assets and Liabilities

Material changes in Company assets and liabilities on a year over year basis are largely driven by amounts due to market participants, such as market collateral transactions.

Capital Projects

Through the end of the fourth quarter of 2018, \$18.0 million in projects were approved by the Corporate Management Committee. These projects will enhance the current systems' performance and effectiveness in meeting future challenges and FERC mandates.

Collateral Held Report

As of January 3, 2019, the ISO maintained \$1.8 billion in collateral from market participants to support \$284.0 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 \$450.8 million is from secured forms (i.e., cash and letters of credit). This collateral is predominantly invested in AAA-rated government money market funds or backed by A-rated or better financial institutions.

CALIFORNIA ISO

Statement of Operations (Preliminary and Unaudited)

For the quarter ended December 31, 2018

(dollars in thousands)

	Quarter		Year to Date		Year to Date Budget
	Actual	Prior Year	Actual	Prior Year	
<u>Operating revenues:</u>					
Grid management charge	\$ 48,712	\$ 46,918	\$ 199,334	\$ 198,282	\$ 197,250
Other revenues	3,910	4,161	18,651	16,088	14,200
Total operating revenues	52,622	51,079	217,985	214,370	211,450
<u>Operating expenses:</u>					
Salaries and benefits	36,177	33,829	133,737	122,838	131,998
Building, leases and facility	655	572	2,183	2,182	2,422
Insurance	282	967	1,914	1,986	2,301
Third party vendor contracts	3,208	3,120	13,495	13,488	14,039
Consulting and contracting services	6,800	4,982	16,092	14,215	17,111
Legal and audit	969	923	2,609	2,307	3,810
Training, travel and professional dues	1,260	1,244	3,594	2,801	4,142
Other	2,506	1,093	4,124	2,574	2,680
Total operating expenses	51,857	46,730	177,748	162,391	178,503
Operating income before depreciation and amortization	765	4,349	40,237	51,979	32,947
<u>Depreciation and amortization</u>	9,401	7,386	35,305	27,765	36,000
Net operating income (loss)	(8,636)	(3,037)	4,932	24,214	(3,053)
<u>Other income (expenses)</u>					
Interest income & other	815	538	2,311	3,214	2,500
Interest expense	(2,149)	(2,007)	(8,714)	(8,712)	(8,612)
Total other income (expenses)	(1,334)	(1,469)	(6,403)	(5,498)	(6,112)
Excess (deficiency) of revenues over expenses	\$ (9,970)	\$ (4,506)	\$ (1,471)	\$ 18,716	\$ (9,165)
Number of full-time employees			618	599	600

CALIFORNIA ISO
Balance Sheet (Preliminary and Unaudited)

As of December 31, 2018

(dollars in thousands)

	Current Quarter 12/31/2018	Prior Year 12/31/2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, including restricted amounts	\$ 324,728	\$ 332,767
Accounts receivable	31,558	16,404
Short-term Investments, including restricted amounts	54,760	49,050
Other current assets	7,556	5,708
Total current Assets	<u>418,602</u>	<u>403,929</u>
NONCURRENT ASSETS		
Long-term investments, including restricted amounts	174,141	143,281
Fixed assets, net	169,406	178,898
Other assets	11,157	14,579
Total noncurrent assets	<u>354,704</u>	<u>336,758</u>
TOTAL ASSETS	<u><u>\$ 773,306</u></u>	<u><u>\$ 740,687</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	10,475	10,186
Accrued salaries and compensated absences	31,968	32,700
Current portion of long-term debt	4,970	4,765
Due to market participants	354,645	330,381
Generator noncompliance fines refund obligation	2,269	2,167
Total current liabilities	<u>404,327</u>	<u>380,199</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	175,788	181,372
Employee retirement plan obligations	19,779	17,218
Total noncurrent liabilities	<u>195,567</u>	<u>198,590</u>
TOTAL LIABILITIES	<u>599,894</u>	<u>578,789</u>
TOTAL NET ASSETS	<u>173,412</u>	<u>161,898</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 773,306</u></u>	<u><u>\$ 740,687</u></u>

Capital Projects Report (Preliminary and Unaudited)

Year-to-Date Through December 31, 2018

(\$ in thousands)

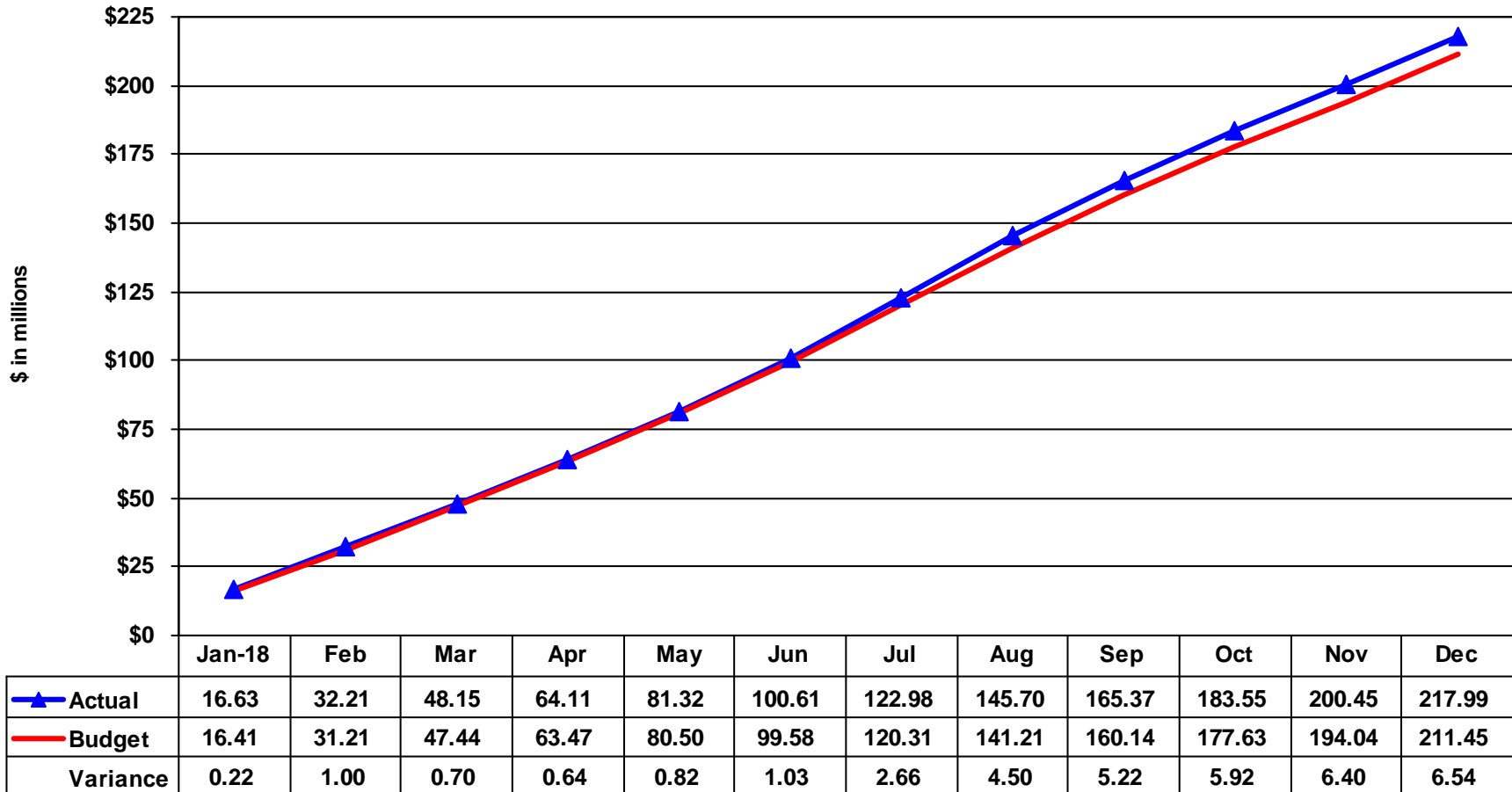
Project Classification	2018 Capital and Project Budget ¹	Projects Approved YTD	Remaining Budget	Expenditures YTD
Market and Operational Excellence	\$ 10,050	\$ 12,320	\$ (2,270)	3,812.67
Enhance the Technology Foundation	6,050	4,739	1,311	2,445.49
Focus on Customer Service and Other Costs	1,150	750	400	74.02
Grid Evolution Readiness and Regional Innovation Opportunities	750	179	571	10.08
	\$ 18,000	\$ 17,988	\$ 12	\$ 6,342
			Expenditures on projects approved prior to 2018 ²	12,534
			Total	\$ 18,876

¹ The Board approved a maximum level of \$18.0 million in capital and project commitments for 2018 at their December 2017 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.

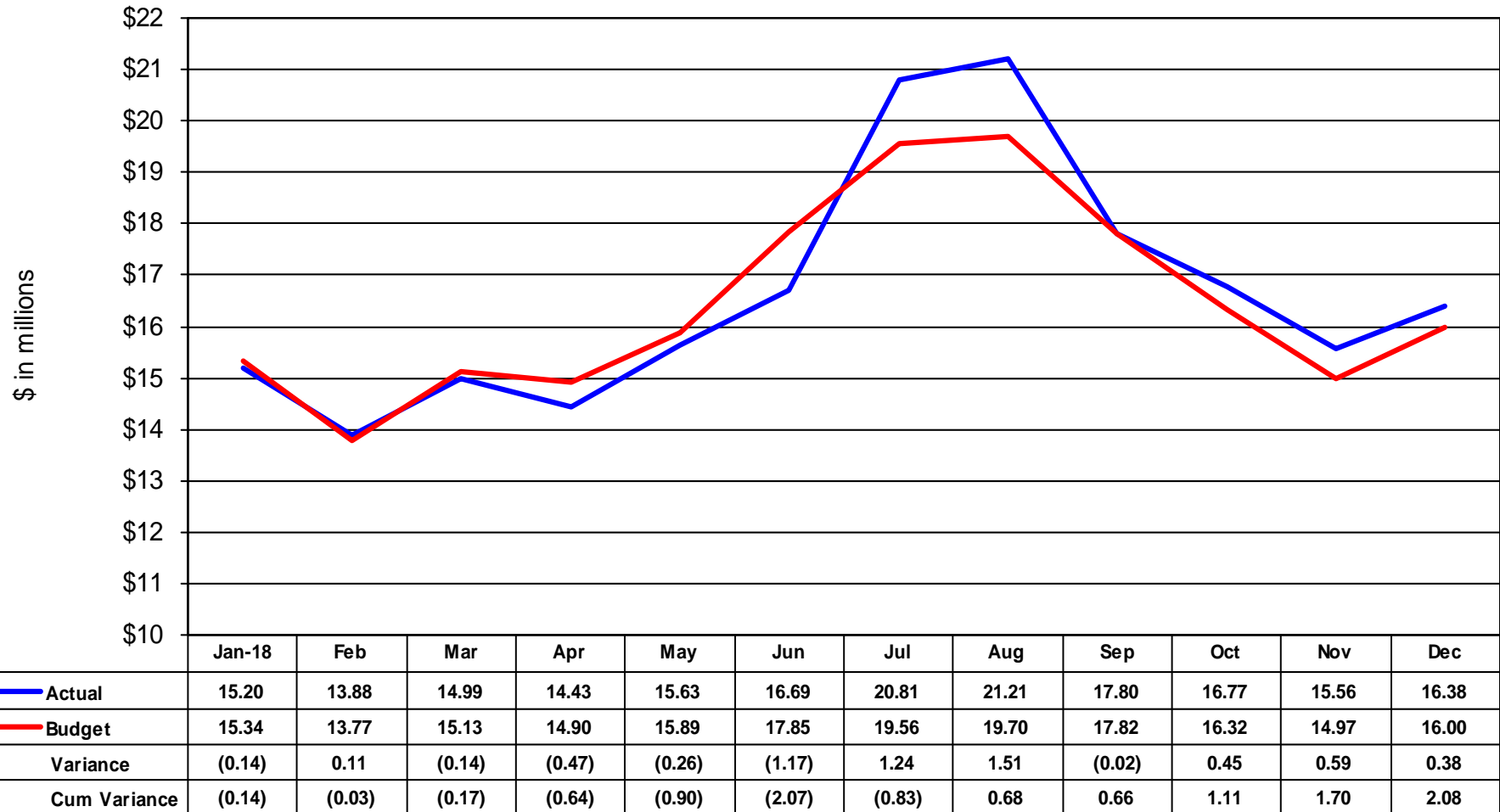
Cumulative Operating Revenues

Revenues = GMC & Other Revenues
PRELIMINARY AND UNAUDITED



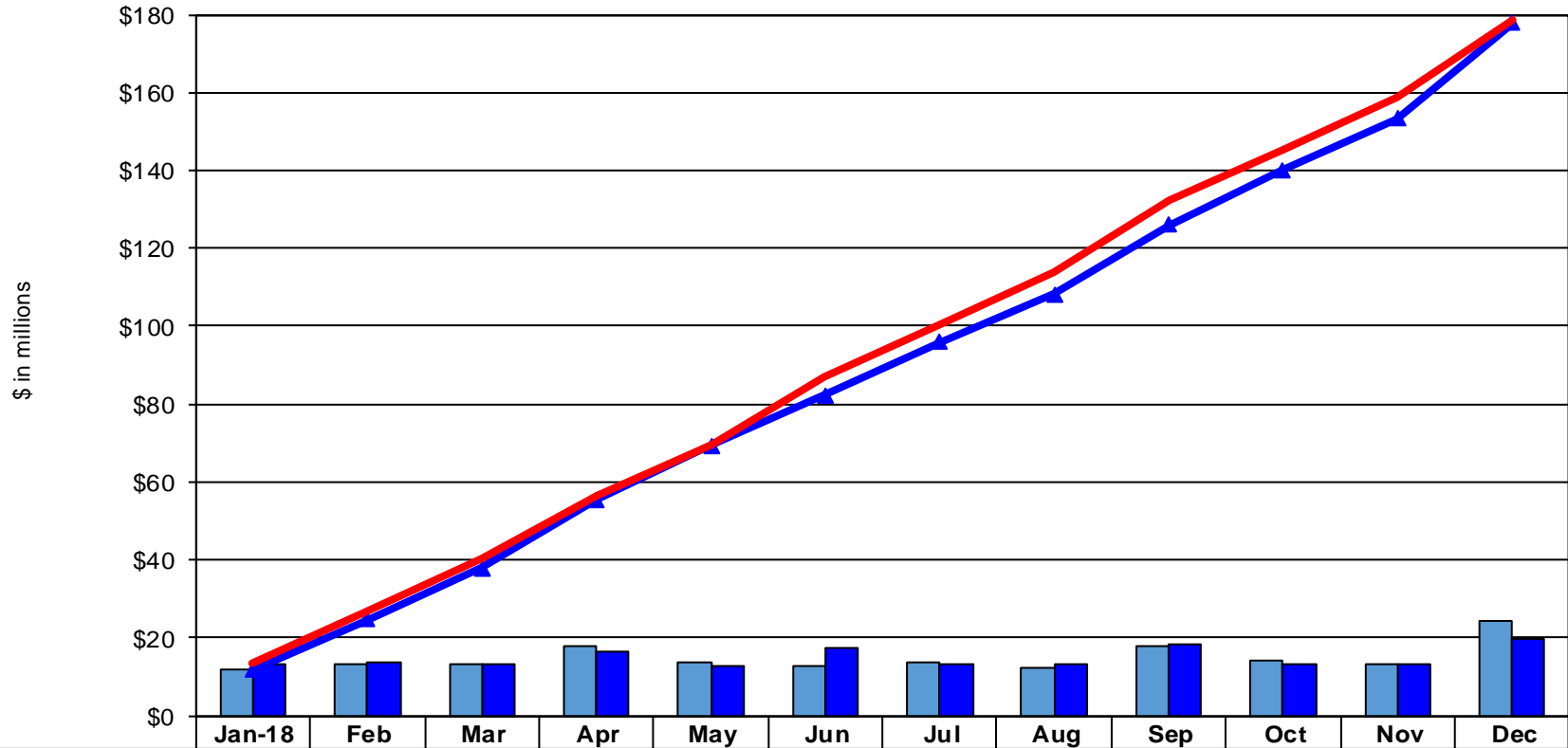
Monthly GMC Revenues

PRELIMINARY AND UNAUDITED



Operating and Maintenance Expenses (O&M)

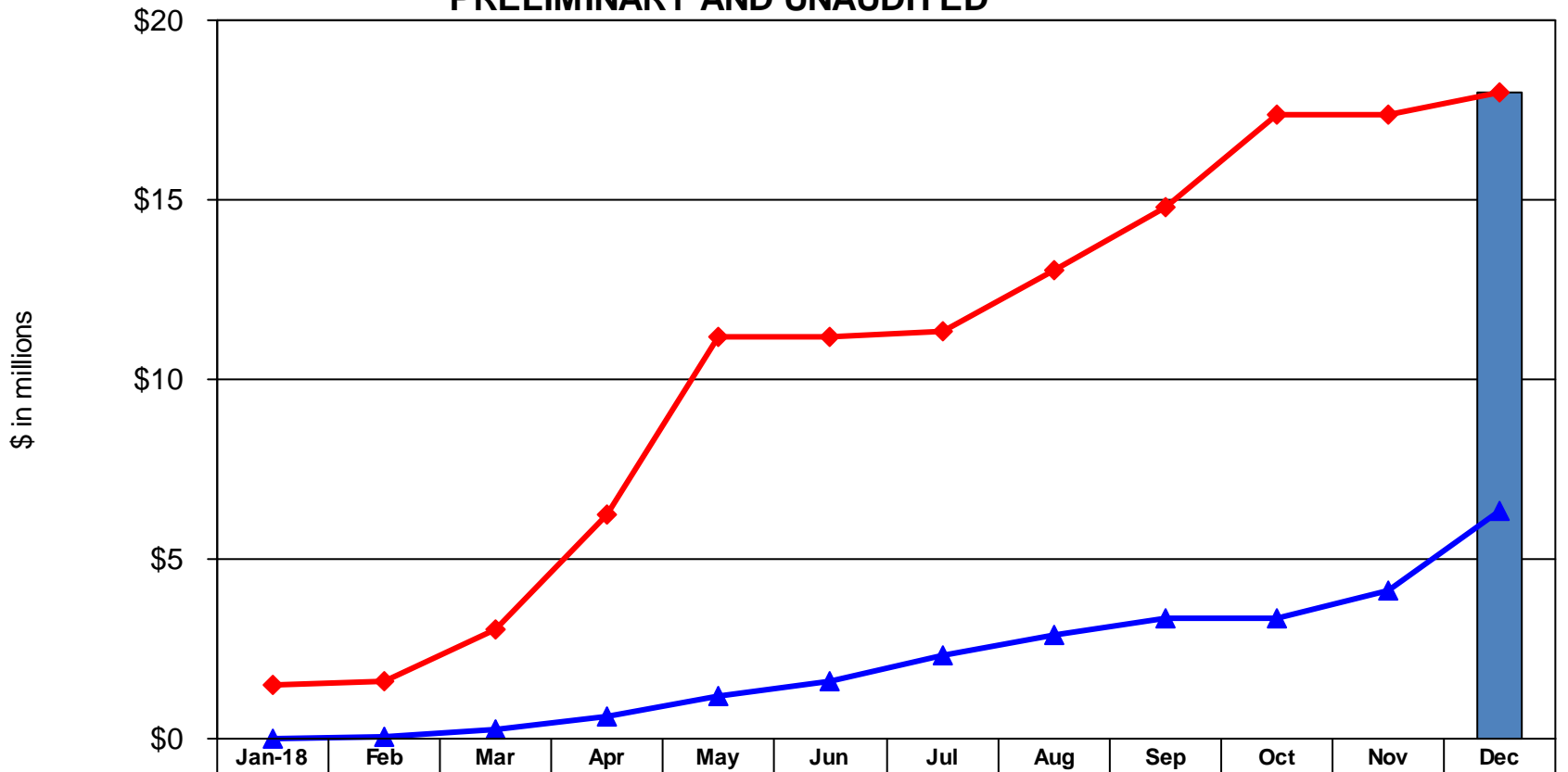
PRELIMINARY AND UNAUDITED



	Jan-18	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	11.64	13.07	13.18	17.59	13.83	12.90	13.80	12.09	17.80	14.16	13.25	24.45
Monthly Budget	13.37	13.49	13.20	16.64	12.83	17.46	13.36	13.35	18.46	13.24	13.24	19.89
Cum Actual	11.64	24.70	37.88	55.48	69.30	82.21	96.00	108.09	125.89	140.05	153.30	177.75
Cum Budget	13.37	26.86	40.06	56.69	69.52	86.98	100.34	113.69	132.15	145.38	158.62	178.51
Cum Variance	1.73	2.16	2.18	1.22	0.22	4.77	4.33	5.60	6.25	5.34	5.32	0.76

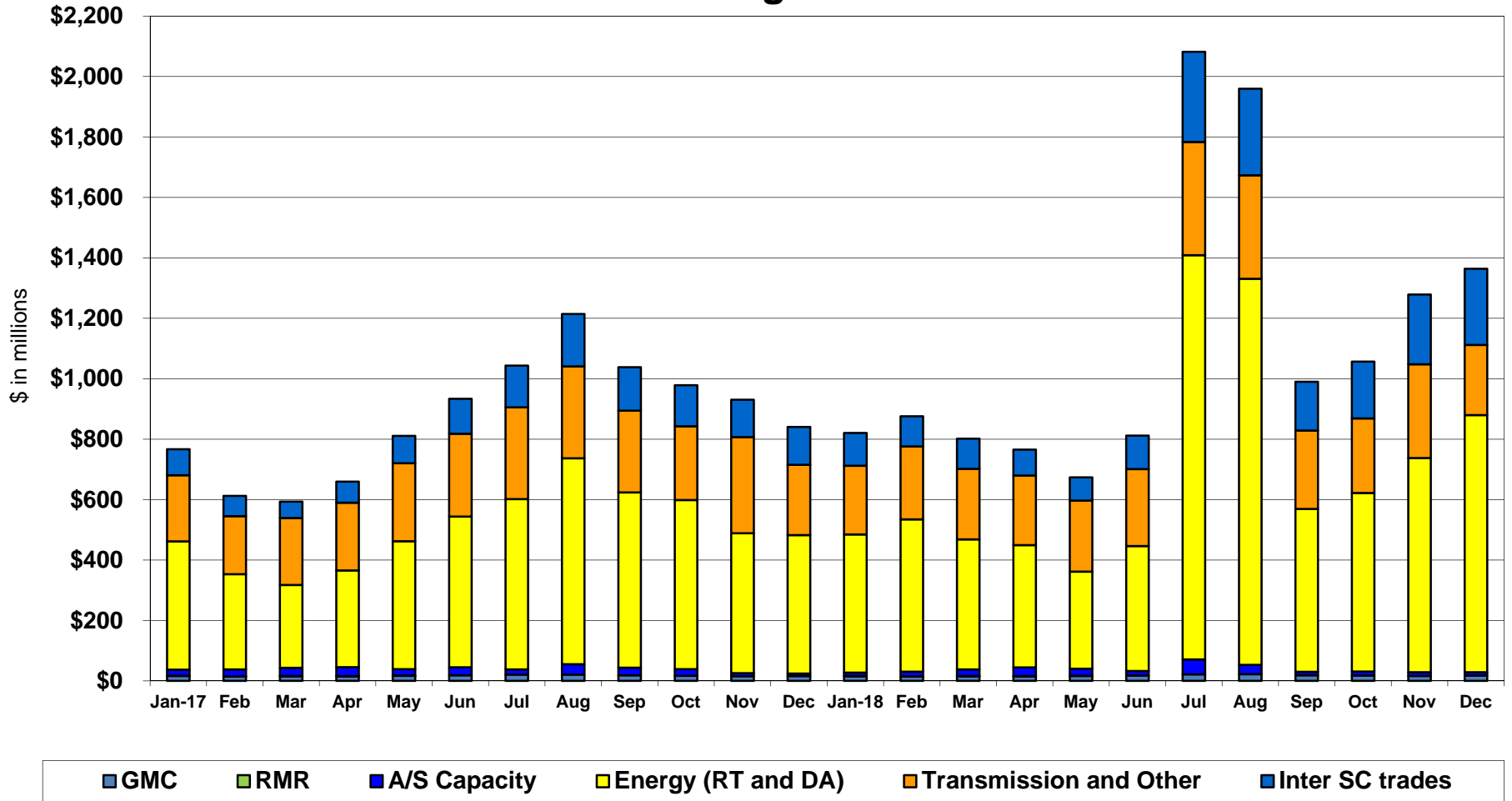
Cumulative Capital Expenditures

PRELIMINARY AND UNAUDITED

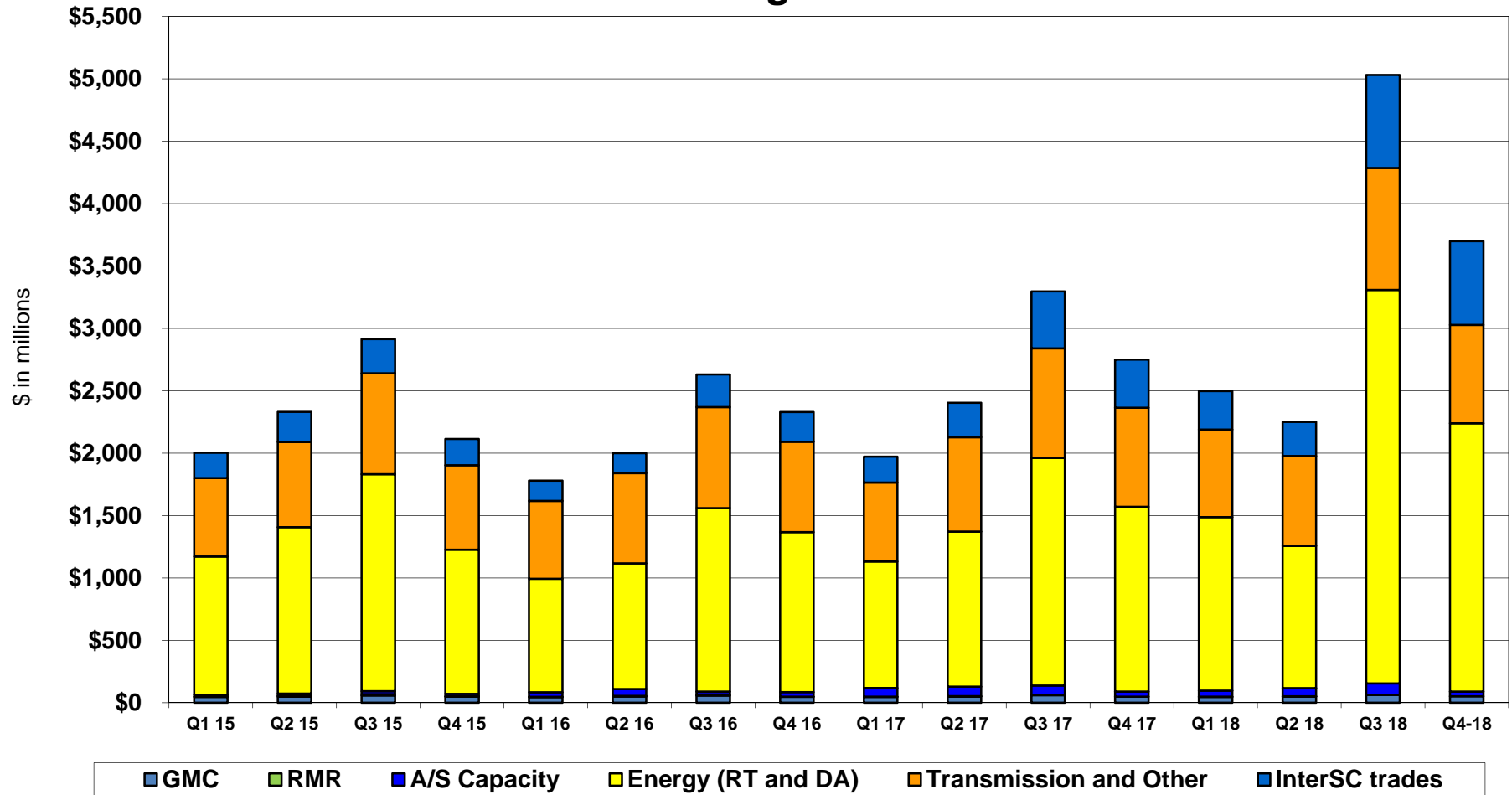


Budgeted capital												18.00
Cumulative Expenditures	0.00	0.03	0.28	0.61	1.18	1.60	2.33	2.88	3.33	3.37	4.11	6.34
Approved projects	1.48	1.59	3.03	6.25	11.17	11.17	11.33	13.03	14.80	17.35	17.35	17.99

ISO Market Revenues By Month Jan 2017 through Dec 2018



ISO Market Revenues By Quarter 1st Quarter 2015 through 4th Quarter 2018



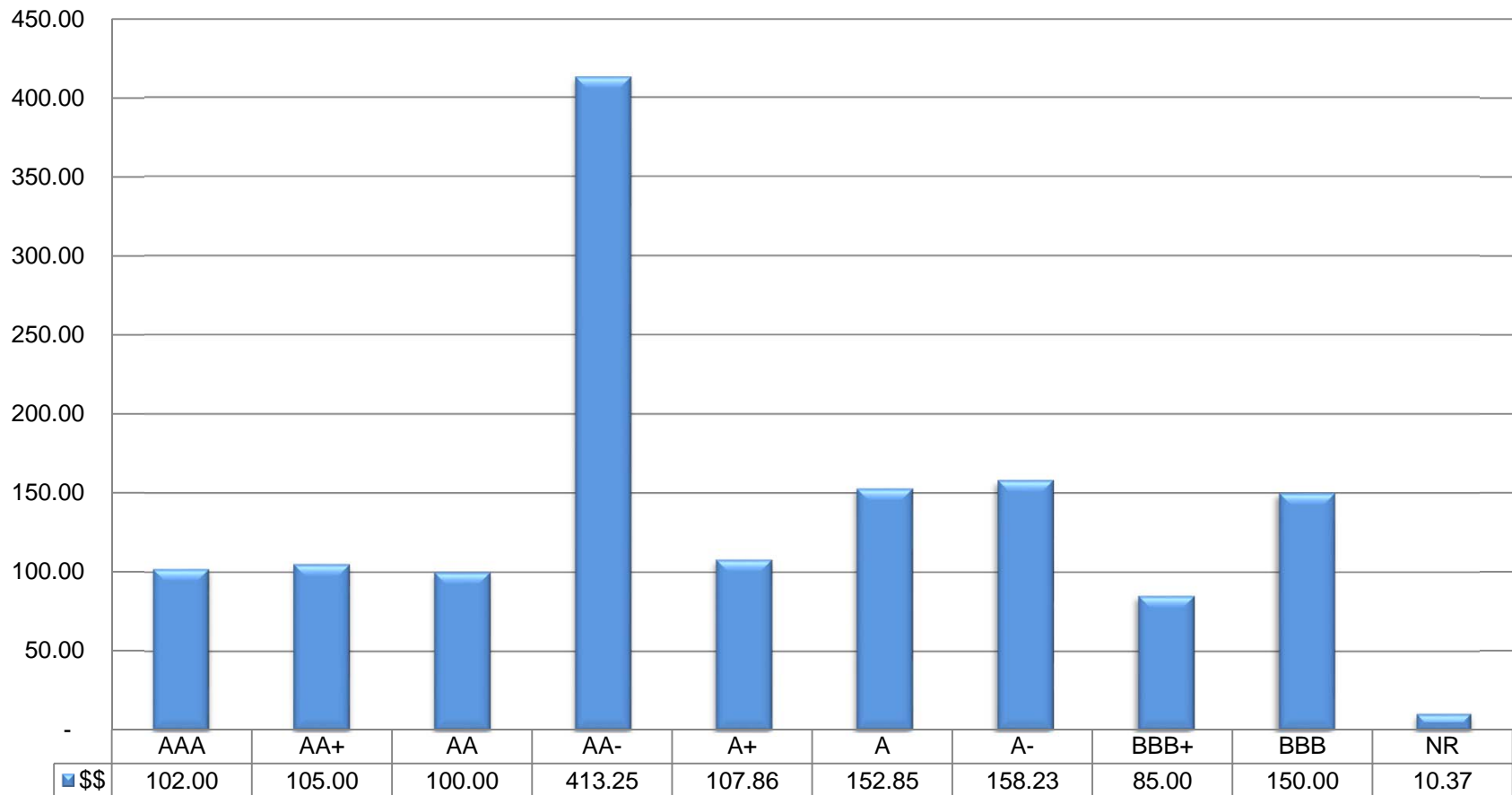
Collateral & Estimated Aggregate Liability (as of 01/07/19)

Collateral Types	Amount
Unsecured	\$1,384,550,954
Secured	\$450,804,827
Total	\$1,835,355,781

Estimate Aggregate Liability	Amount
Positive EAL	\$284,012,228

Unsecured Collateral (as of 01/07/19)

(in millions)



Secured Collateral (as of 01/07/19)

(in millions)

