

QUARTERLY FINANCIAL REPORT

September 30, 2017

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
QUARTERLY FINANCIAL REPORT - September 30, 2017

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CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY

For the quarter ended September 30, 2017

Results of Operations

Revenues

Through the third quarter ending September 30, 2017, operating revenues were higher by \$5.3 million compared to the budgeted amounts. The overall increase in revenues was primarily due to higher other revenues of \$3.7 million, due to higher than planned EIM administrative charges and forecasting fees. Additionally, GMC revenues were higher by \$1.6 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 \$6.2 million under budget through the third quarter of the year, largely due to timing of expenses and to the underlying company goal of reducing expenses.

Interest income and other are higher than budget through the third 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 three quarters ending September 30, 2017.

Capital Projects

Through the end of the third quarter of 2017, \$12.7 million in projects were approved by the Corporate Management Committee. These projects will enhance the current systems' performance and effectiveness in meeting future challenges and FERC mandates.

Collateral Held Report

As of October 3, 2017, the ISO maintained \$1.9 billion in collateral from market participants to support \$229.6 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 \$505.6 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

For the quarter ended September 30, 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 | \$ 57,963 | \$ 55,691 | \$ 151,068 | \$ 147,395 | \$ 149,477 |
| Other revenues | 4,253 | 2,649 | 11,656 | 9,698 | 7,921 |
| Total operating revenues | 62,216 | 58,340 | 162,724 | 157,093 | 157,398 |
| <u>Operating expenses:</u> | | | | | |
| Salaries and benefits | 28,198 | 27,291 | 88,939 | 86,778 | 89,174 |
| Building, leases and facility | 588 | 805 | 1,610 | 2,298 | 2,069 |
| Insurance | 311 | 310 | 1,018 | 1,028 | 1,986 |
| Third party vendor contracts | 3,171 | 3,497 | 10,369 | 11,287 | 11,531 |
| Consulting and contracting services | 3,241 | 3,498 | 10,203 | 10,386 | 12,278 |
| Legal and audit | 609 | 758 | 1,383 | 1,916 | 2,850 |
| Training, travel and professional dues | 579 | 1,070 | 1,569 | 2,574 | 3,097 |
| Other | 1,352 | 550 | 3,422 | 1,334 | 1,716 |
| Total operating expenses | 38,049 | 37,779 | 118,513 | 117,601 | 124,701 |
| Operating income before depreciation and amortization | 24,167 | 20,561 | 44,211 | 39,492 | 32,697 |
| <u>Depreciation and amortization</u> | 7,043 | 5,650 | 20,379 | 16,962 | 16,000 |
| Net operating income (loss) | 17,124 | 14,911 | 23,832 | 22,530 | 16,697 |
| <u>Other income (expenses)</u> | | | | | |
| Interest income & other | 838 | 587 | 2,676 | 2,721 | 1,575 |
| Interest expense | (2,234) | (2,258) | (6,705) | (6,760) | (6,608) |
| Total other income (expenses) | (1,396) | (1,671) | (4,029) | (4,039) | (5,033) |
| Excess (deficiency) of revenues over expenses | \$ 15,728 | \$ 13,240 | \$ 19,803 | \$ 18,491 | \$ 11,664 |
| Number of full-time employees | | | 595 | 588 | 600 |

CALIFORNIA ISO

Balance Sheet

As of September 30, 2017

(dollars in thousands)

| | Current Quarter 9/30/2017 | Prior Year 12/31/2016 |
|---|------------------------------|--------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents, including restricted amounts | \$ 292,319 | \$ 363,471 |
| Accounts receivable | 38,068 | 15,629 |
| Short-term Investments, including restricted amounts | 45,326 | 50,431 |
| Other current assets | 5,819 | 6,603 |
| Total current Assets | <u>381,532</u> | <u>436,134</u> |
| NONCURRENT ASSETS | | |
| Long-term investments, including restricted amounts | 147,843 | 153,116 |
| Fixed assets, net | 180,407 | 187,171 |
| Other assets | 12,306 | 12,834 |
| Total noncurrent assets | <u>340,556</u> | <u>353,121</u> |
| TOTAL ASSETS | <u><u>\$ 722,088</u></u> | <u><u>\$ 789,255</u></u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | 6,420 | 10,811 |
| Accrued salaries and compensated absences | 25,019 | 33,170 |
| Current portion of long-term debt | 4,765 | 4,625 |
| Due to market participants | 321,984 | 395,857 |
| Generator noncompliance fines refund obligation | 2,359 | 2,262 |
| Total current liabilities | <u>360,547</u> | <u>446,725</u> |
| NONCURRENT LIABILITIES | | |
| Long-term debt, net of current portion | 181,529 | 186,767 |
| Employee retirement plan obligations | 22,936 | 21,260 |
| Total noncurrent liabilities | <u>204,465</u> | <u>208,027</u> |
| TOTAL LIABILITIES | <u>565,012</u> | <u>654,752</u> |
| TOTAL NET ASSETS | <u>157,076</u> | <u>134,503</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 722,088</u></u> | <u><u>\$ 789,255</u></u> |

Capital Projects Report

Year-to-Date Through September 30, 2017

(\$ in thousands)

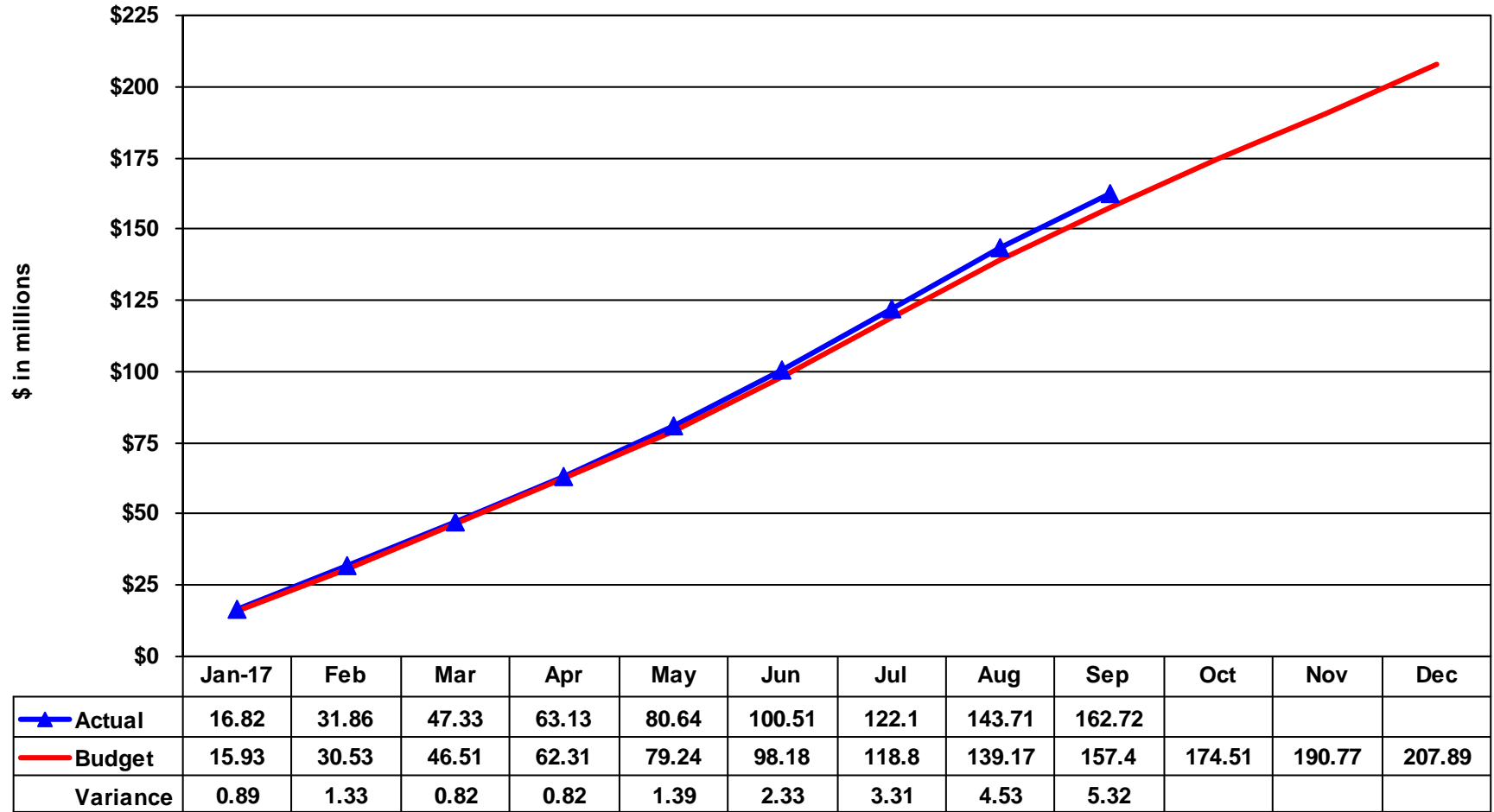
| Project Classification | 2017 Capital and Project Budget¹ | Projects Approved YTD | Remaining Budget | Expenditures YTD |
|--|--|--------------------------------------|--|-----------------------------|
| Market and Operational Excellence | \$ 12,200 | \$ 6,390 | \$ 5,810 | \$ 2,663 |
| Enhance the Technology Foundation | 5,425 | 5,250 | 175 | 3,321 |
| Focus on Customer Service and Other Costs | 1,675 | 934 | 741 | 246 |
| Grid Evolution Readiness and Regional Innovation Opportunities | 700 | 90 | 610 | 90 |
| | \$ 20,000 | \$ 12,664 | \$ 7,336 | \$ 6,321 |
| | | | Expenditures on projects approved prior to 2017 ² | 7,973 |
| | | | | \$ 14,294 |

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.

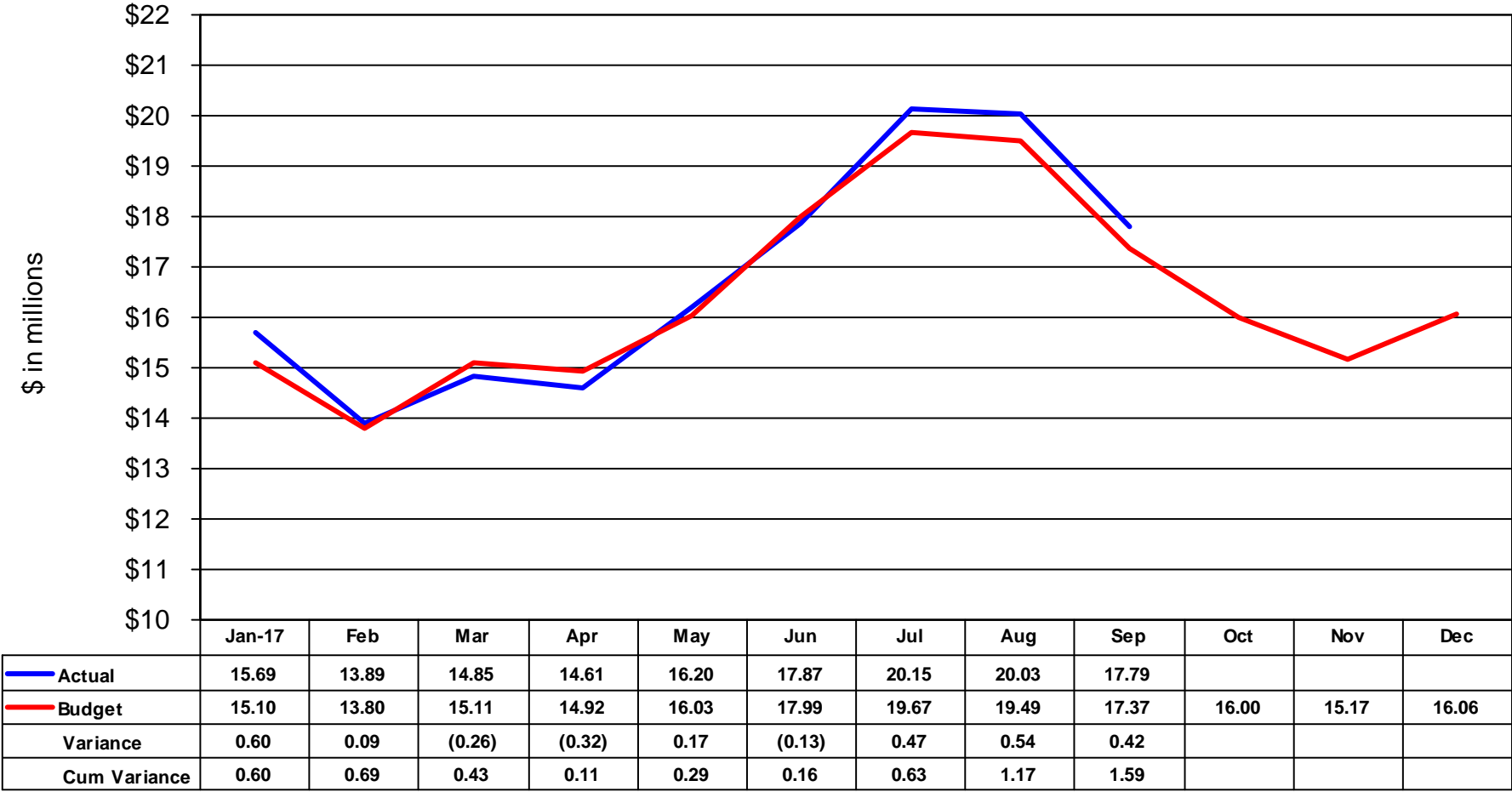
² Expenditures on projects approved in a prior budget year. Does not include EIM Implementation projects as those expenditures are reimbursed by the EIM entity.

Cumulative Operating Revenues

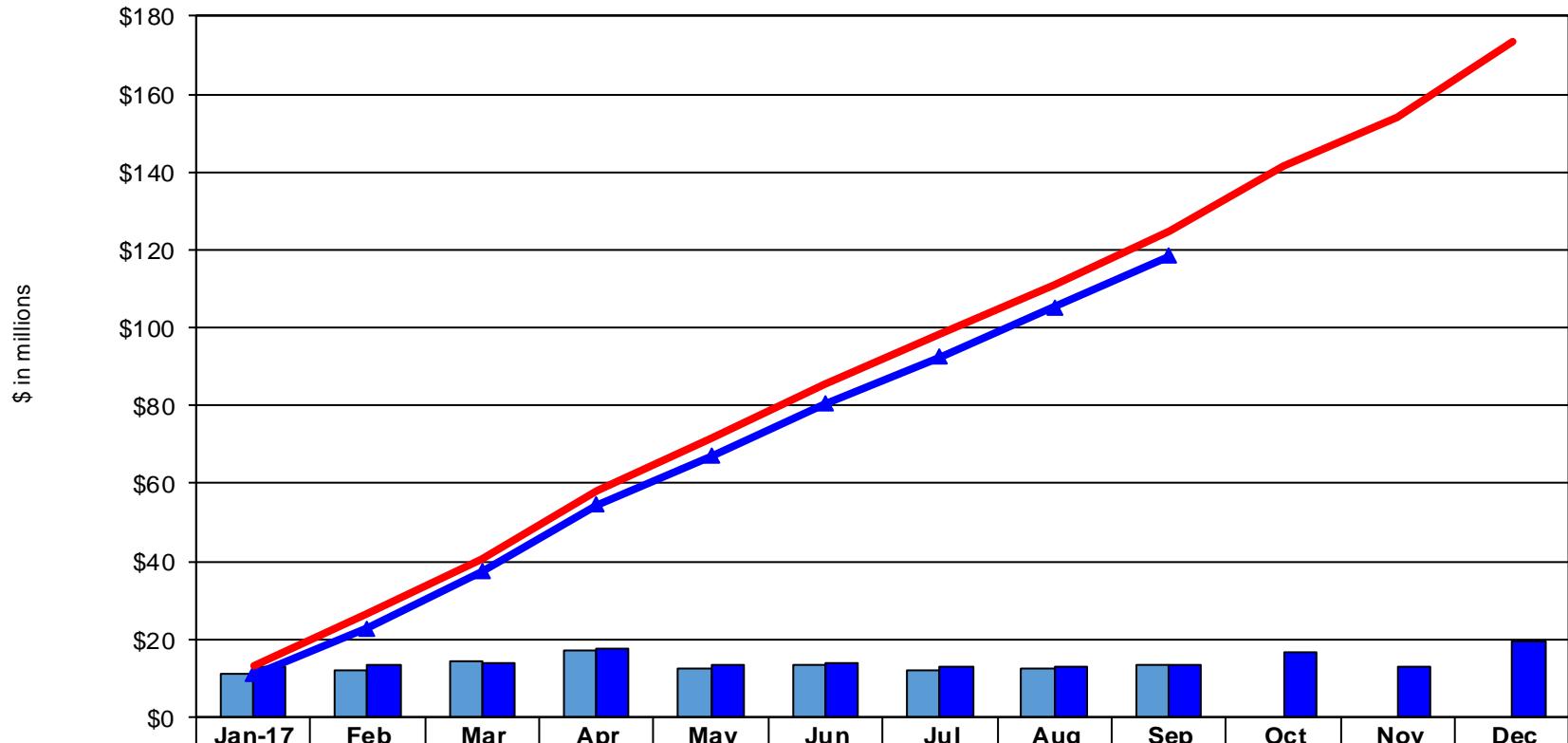
Revenues = GMC & Other Revenues



Monthly GMC Revenues

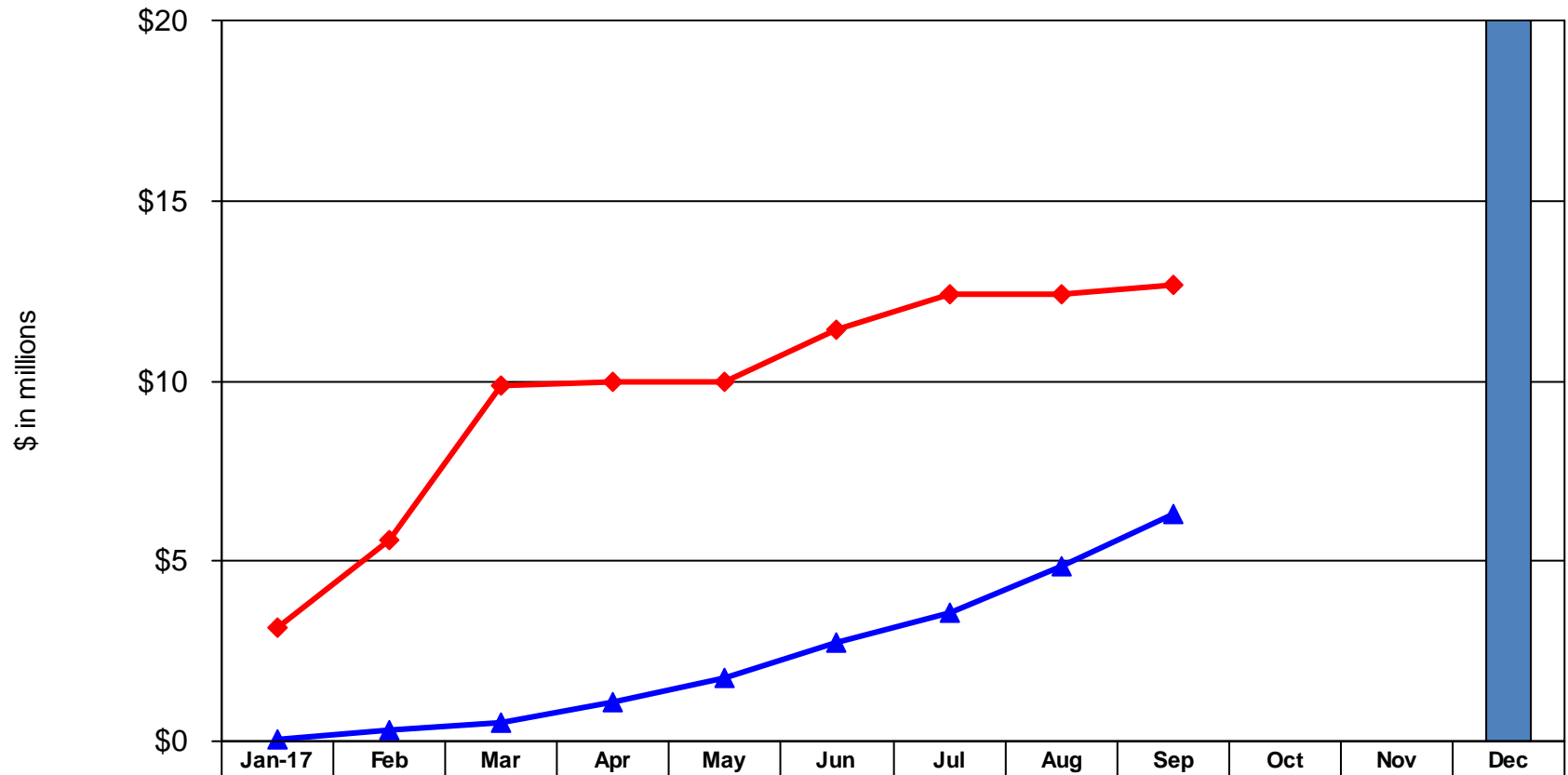


Operating and Maintenance Expenses (O&M)



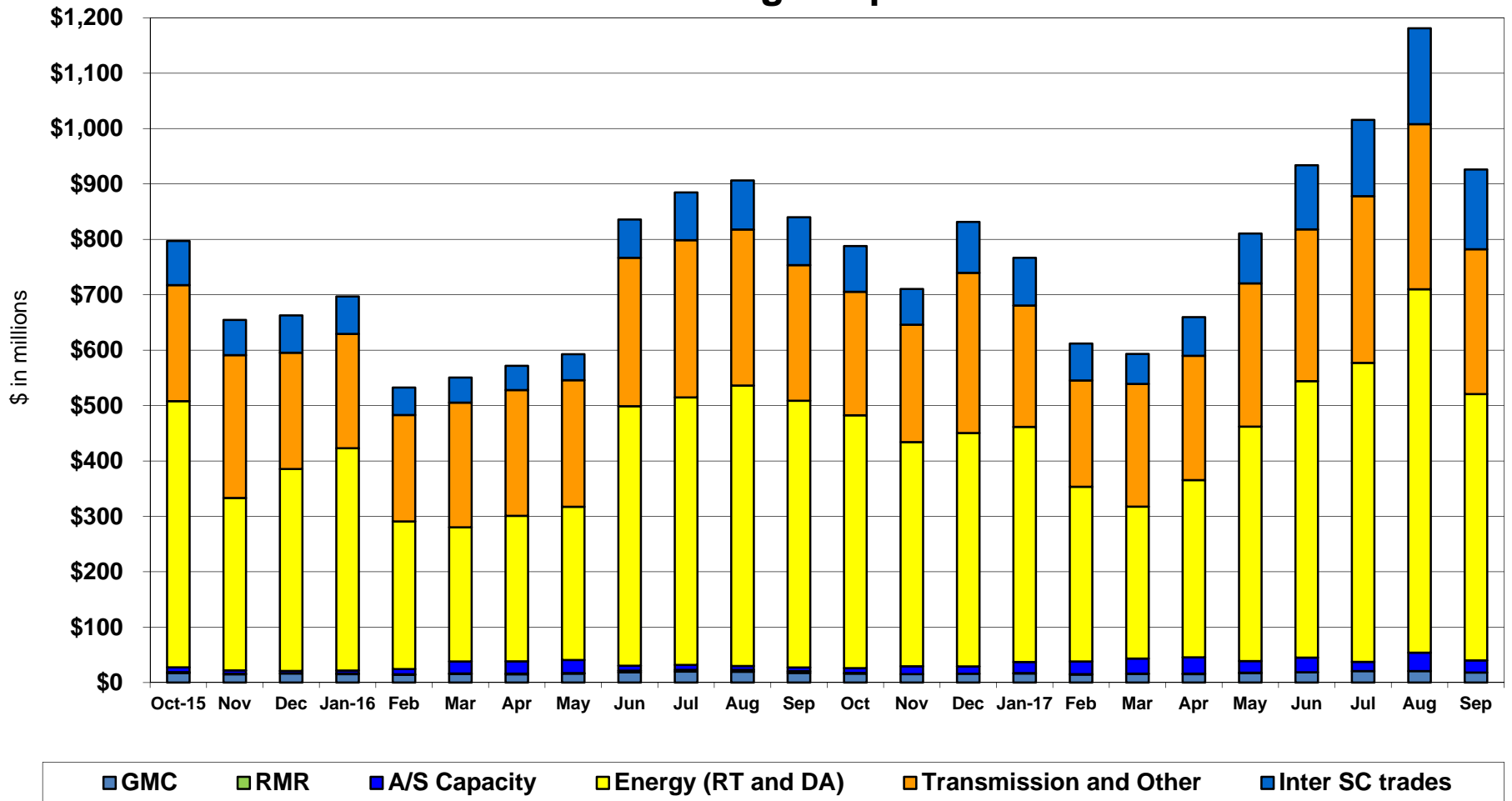
| | Jan-17 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|----------------|--------|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|--------|
| Monthly Actual | 10.92 | 11.94 | 14.54 | 17.02 | 12.52 | 13.52 | 12.15 | 12.61 | 13.29 | | | |
| Monthly Budget | 13.09 | 13.52 | 13.90 | 17.50 | 13.53 | 13.87 | 12.85 | 12.85 | 13.59 | 16.68 | 12.74 | 19.52 |
| Cum Actual | 10.92 | 22.86 | 37.40 | 54.42 | 66.94 | 80.46 | 92.61 | 105.23 | 118.51 | | | |
| Cum Budget | 13.09 | 26.61 | 40.51 | 58.01 | 71.53 | 85.40 | 98.26 | 111.11 | 124.70 | 141.38 | 154.13 | 173.64 |
| Cum Variance | 2.16 | 3.75 | 3.11 | 3.58 | 4.59 | 4.94 | 5.64 | 5.89 | 6.19 | | | |

Cumulative Capital Expenditures

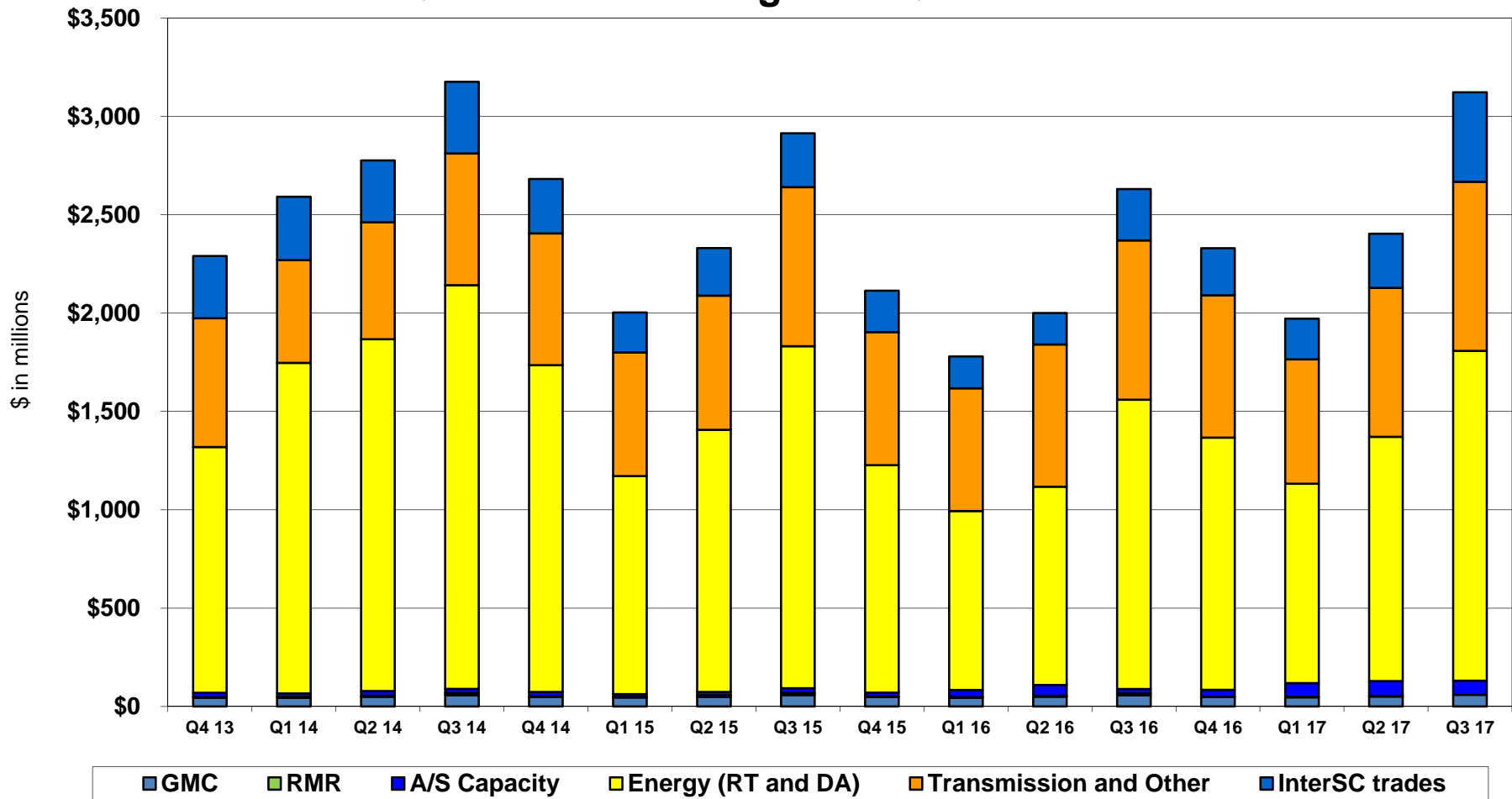


| | Jan-17 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|--------------------------------|--------|------|------|------|------|-------|-------|-------|-------|-----|-----|-------|
| Budgeted capital | | | | | | | | | | | | 20.00 |
| Cumulative Expenditures | 0.06 | 0.33 | 0.52 | 1.08 | 1.76 | 2.72 | 3.57 | 4.84 | 6.32 | | | |
| Approved projects | 3.17 | 5.60 | 9.88 | 9.96 | 9.96 | 11.40 | 12.41 | 12.41 | 12.67 | | | |

ISO Market Revenues By Month Oct 2015 through Sep 2017



ISO Market Revenues By Quarter 4th Quarter 2013 through 3rd Quarter 2017



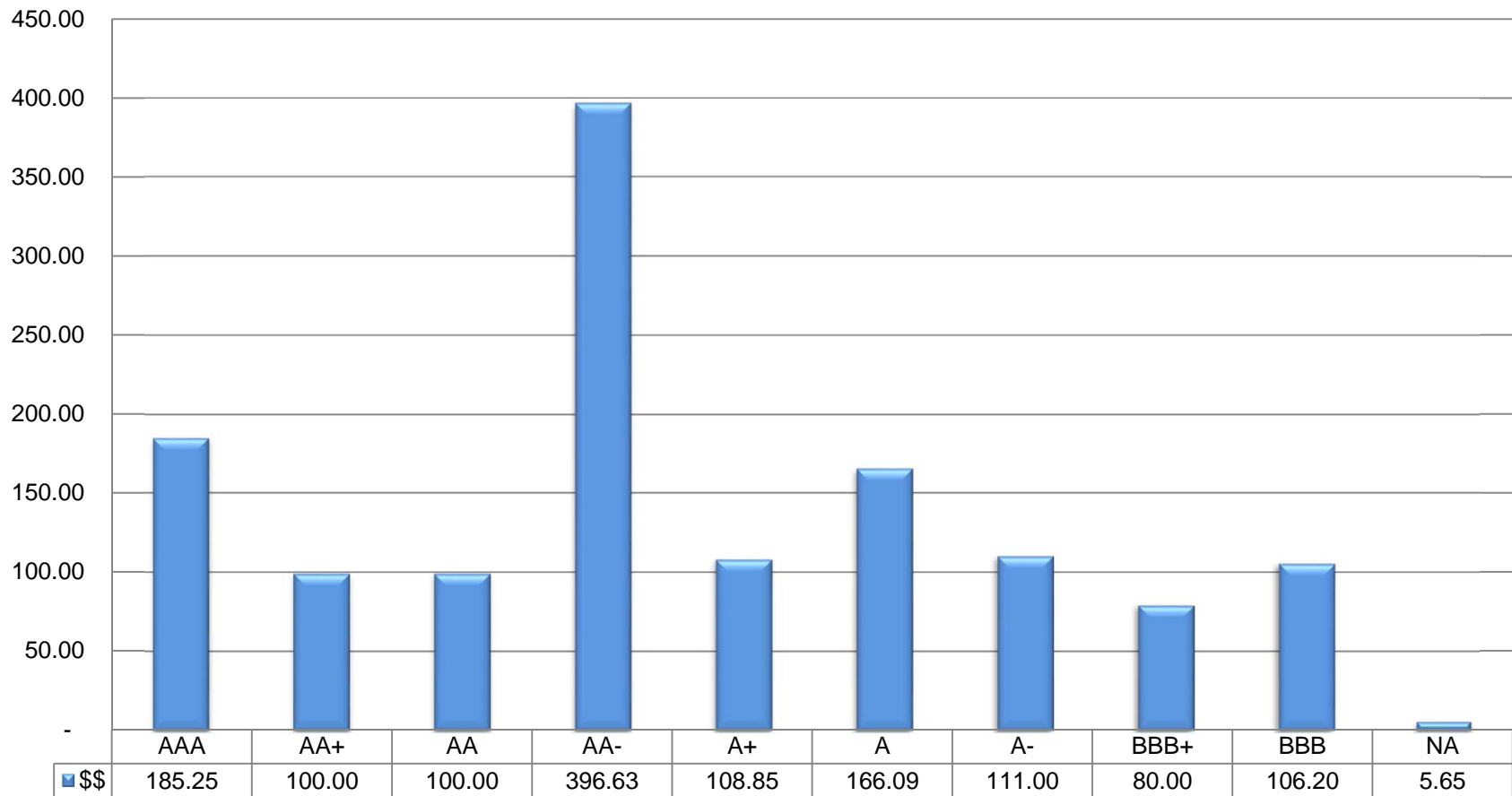
Collateral & Estimated Aggregate Liability (as of 10/03/17)

| Collateral Types | Amount |
|-------------------------|------------------------|
| Unsecured | \$1,359,661,673 |
| Secured | \$505,646,505 |
| Total | \$1,865,308,178 |

| Estimate Aggregate Liability | Amount |
|-------------------------------------|----------------------|
| Positive EAL | \$229,640,763 |

Unsecured Collateral (as of 10/03/17)

(in millions)



Secured Collateral (as of 10/03/17)

(in millions)

