

QUARTERLY FINANCIAL REPORT

September 30, 2015

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
QUARTERLY FINANCIAL REPORT - September 30, 2015

Table of Contents

	<i>Page</i> <u>Number</u>
Summary, Discussion and Commentary	<i>i</i>
<i>THE ISO</i>	
STATEMENT OF OPERATIONS	1
BALANCE SHEET	2
CAPITAL PROJECTS REPORT	3
<i>Summary Financial Data</i>	
Cumulative Operating Revenues	4
Monthly GMC Revenues	5
Monthly Operating and Maintenance Expenses	6
Cumulative Capital Expenditures	7
ISO Market Costs by Month - October 2013 through September 2015	8
ISO Market Costs by Quarter - 4th Quarter 2011 through 3rd Quarter 2015	9
Collateral and Estimated Aggregate Liability	10
Unsecured Collateral	11
Secured Collateral	12

CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY

For the quarter ended September 30, 2015

Results of Operations

Revenues

Through the third quarter ending September 30, 2015, operating revenues were higher by \$1.1 million compared to the budgeted amounts. The increase is primarily due to higher other revenues of \$2.1 million (specifically, EIM charges and forecasting fees), partially offset by lower GMC revenues of \$1.0 million. Unseasonably cool weather in May and July led to lower GMC revenues, although the deficit was partly reduced by warmer weather in August and September. The Company is monitoring 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 \$4.4 million under budget through the third quarter of the year. All expense categories, with the exception of 'other expenses', are running under budget year to date partly due to the timing of expenses and to the effect of cost savings efforts. Depreciation is lower compared to the same period last year as most of the market systems were fully depreciated as of April 2014.

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 three quarters.

Capital Projects

Through the quarter ending September 30, 2015, the Corporate Management Committee has approved \$15.2 million in projects against the annual budget of \$20.0 million. Year-to-date actual spending on these and prior years' projects total \$6.2 million and \$3.6 million, respectively.

On June 30, 2015, the Board approved a separate capital project budget of \$30.4 million related to the Lincoln Operations Center. The budget is for the construction of the new operations and data backup facility, which is scheduled for completion in 2017. Actual spending on this project is \$1.5 million

Collateral Held Report

As of October 7, 2015 the ISO maintained \$1.9 billion in collateral from market participants to support \$134.9 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 \$481.5 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 September 30, 2015

(dollars in thousands)

	Quarter		Year to Date		Year to Date Budget
	Actual	Prior Year	Actual	Prior Year	
<u>Operating revenues:</u>					
Grid management charge	\$ 57,231	\$ 56,948	\$ 149,457	\$ 149,971	\$ 150,422
Other revenues	2,258	2,048	7,610	5,491	5,550
Total operating revenues	59,489	58,996	157,067	155,462	155,972
<u>Operating expenses:</u>					
Salaries and benefits	26,787	26,051	84,942	82,310	86,332
Building, leases and facility	776	710	2,137	2,149	2,457
Insurance	944	298	1,663	1,005	1,769
Third party vendor contracts	3,083	3,027	10,439	10,783	11,097
Consulting and contracting services	4,054	5,267	11,651	12,652	12,143
Legal and audit	915	1,201	1,927	3,088	3,536
Training, travel and professional dues	849	397	2,709	2,004	3,445
Other	893	917	2,341	2,566	1,456
Total operating expenses	38,301	37,868	117,809	116,557	122,235
Operating income before depreciation and amortization	21,188	21,128	39,258	38,905	33,737
<u>Depreciation and amortization</u>	6,230	5,521	18,532	33,974	18,000
Net operating income (loss)	14,958	15,607	20,726	4,931	15,737
<u>Other income (expenses)</u>					
Interest income & other	(119)	(315)	946	672	1,500
Interest expense	(2,282)	(2,414)	(6,867)	(6,763)	(6,878)
Total other income (expenses)	(2,401)	(2,729)	(5,921)	(6,091)	(5,378)
Excess (deficiency) of revenues over expenses	\$ 12,557	\$ 12,878	\$ 14,805	\$ (1,160)	\$ 10,359
Number of full-time employees			577	582	593

**CALIFORNIA ISO
BALANCE SHEET**

As of September 30, 2015

(dollars in thousands)

	Q3-15 9/30/2015	Q2-15 6/30/2015	Q1-15 03/31/2015	Q4-14 12/31/2014
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents, including restricted amounts	\$ 361,060	\$ 338,461	\$ 329,951	\$ 429,324
Accounts receivable	35,023	36,004	36,013	31,415
Short-term investments, including restricted amounts	43,517	39,643	48,784	63,919
Other current assets	6,883	6,726	7,164	8,630
Total current Assets	446,483	420,834	421,912	533,288
NONCURRENT ASSETS				
Long-term investments, including restricted amounts	115,341	116,370	104,776	120,539
Fixed assets, net	172,953	174,204	177,936	180,296
Other assets	10,242	11,534	12,406	12,918
Total noncurrent assets	298,536	302,108	295,118	313,753
TOTAL ASSETS	\$ 745,019	\$ 722,942	\$ 717,030	\$ 847,041
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 9,349	\$ 10,237	\$ 6,884	\$ 11,924
Accrued salaries and compensated absences	22,232	18,174	11,535	29,909
Current portion of long-term debt	4,500	4,500	4,500	4,415
Due to market participants	364,288	359,876	361,775	468,085
Generator noncompliance fines refund obligation	2,046	2,029	2,010	1,981
Total current liabilities	402,415	394,816	386,704	516,314
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	192,205	192,370	192,535	197,202
Employee retirement plan obligations	22,385	22,434	22,038	22,073
Total noncurrent liabilities	214,590	214,804	214,573	219,275
TOTAL LIABILITIES	617,005	609,620	601,277	735,590
TOTAL NET ASSETS	128,014	113,322	115,753	111,452
TOTAL LIABILITIES AND NET ASSETS	\$ 745,019	\$ 722,942	\$ 717,030	\$ 847,041

**CALIFORNIA ISO
CAPITAL PROJECTS REPORT**

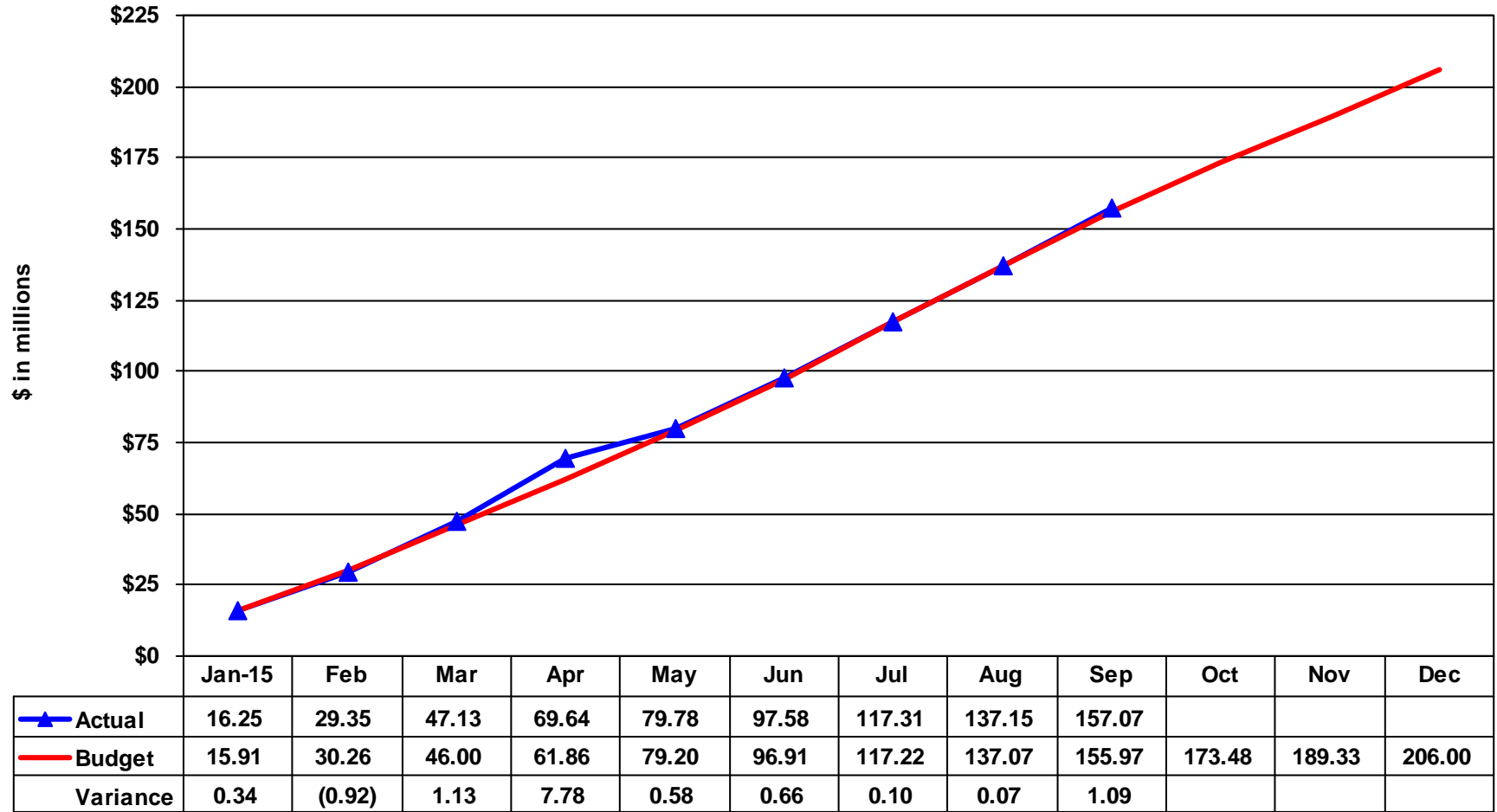
For the quarter ended September 30, 2015

(dollars in thousands)

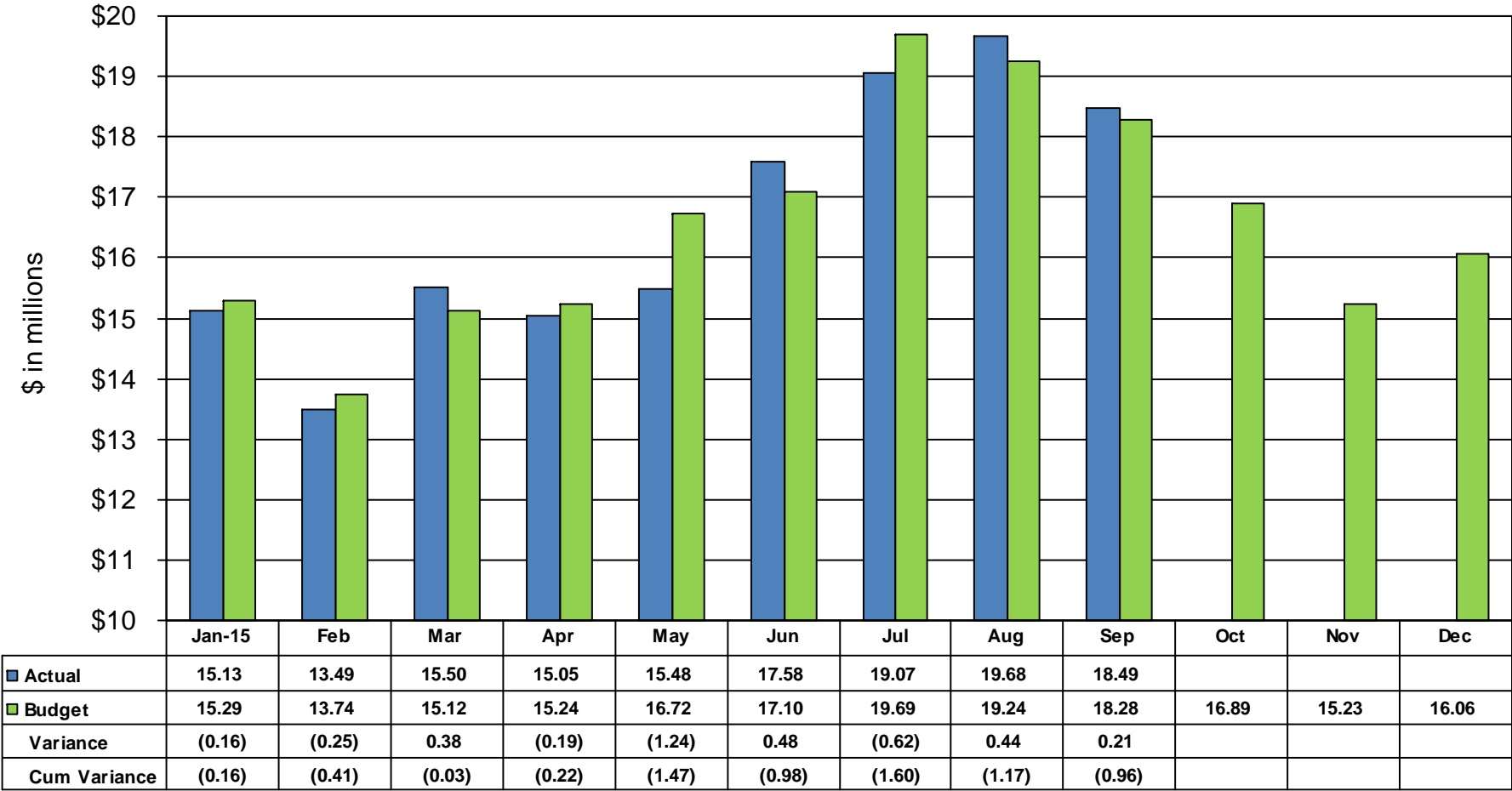
	Approved Projects				
	Q3 Actual	YTD Actual	2015 Approved Projects	Projected Costs for Approved Projects	Original/ Current Budget
Implement Systems, Tools and Forecasting	\$ 826	\$ 1,280	\$ 5,538	\$ 5,509	\$ 6,625
Enhance Markets & Performance	1,879	3,191	7,089	7,088	8,875
Compliance Culture	-	-	-	-	-
Infrastructure Improvements	620	1,714	2,584	2,584	4,500
Total 2015 Capital Spending	3,325	6,185	15,211	15,181	20,000
Lincoln Operations Center	1,540	1,540	30,400	30,400	-
Prior Year Capital Projects	1,556	3,611	-	7,204	-
Total Capital	\$ 6,421	\$ 11,336	\$ 45,611	\$ 52,785	\$ 20,000

Cumulative Operating Revenues

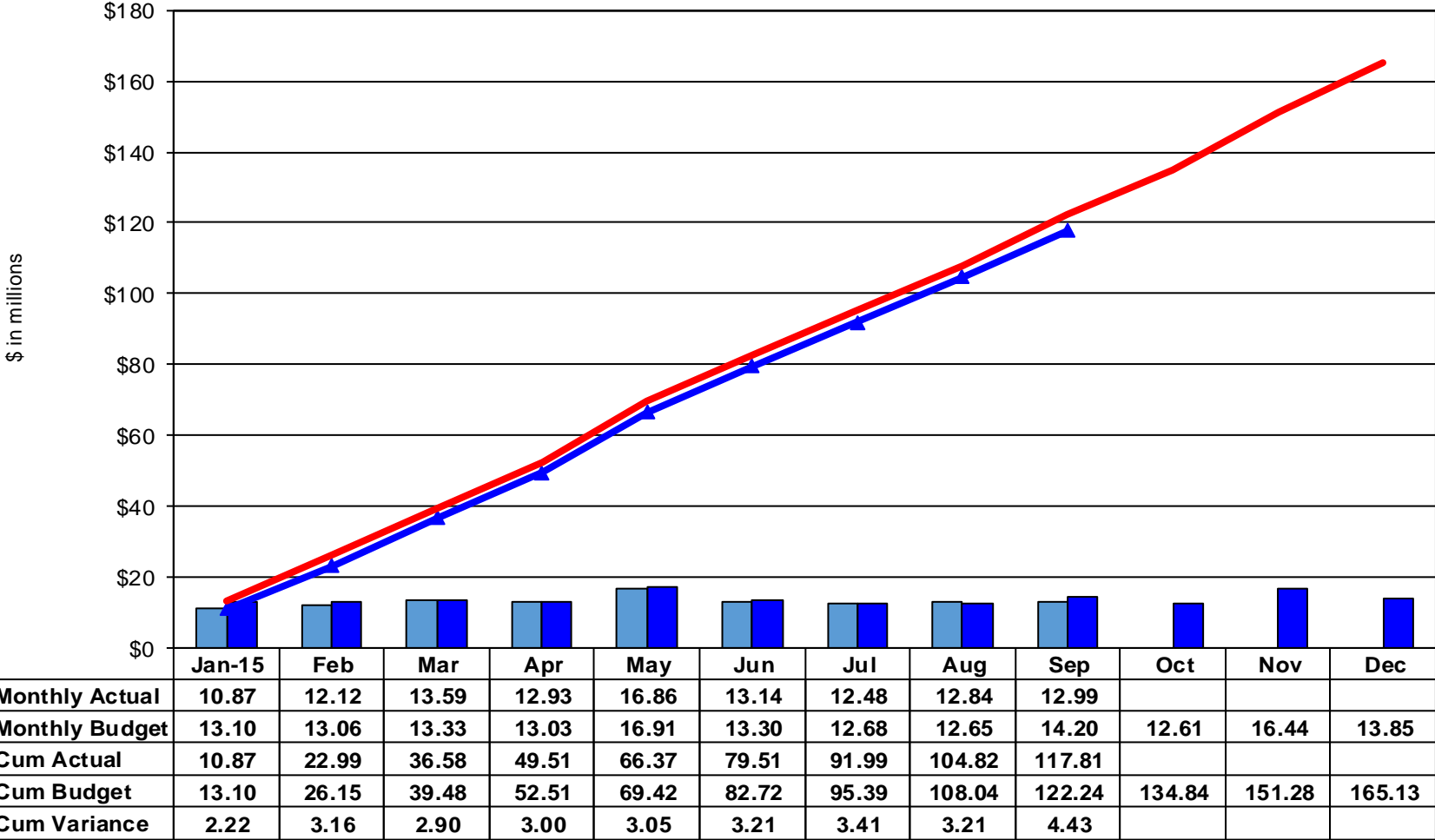
Revenues = GMC & Other Revenues



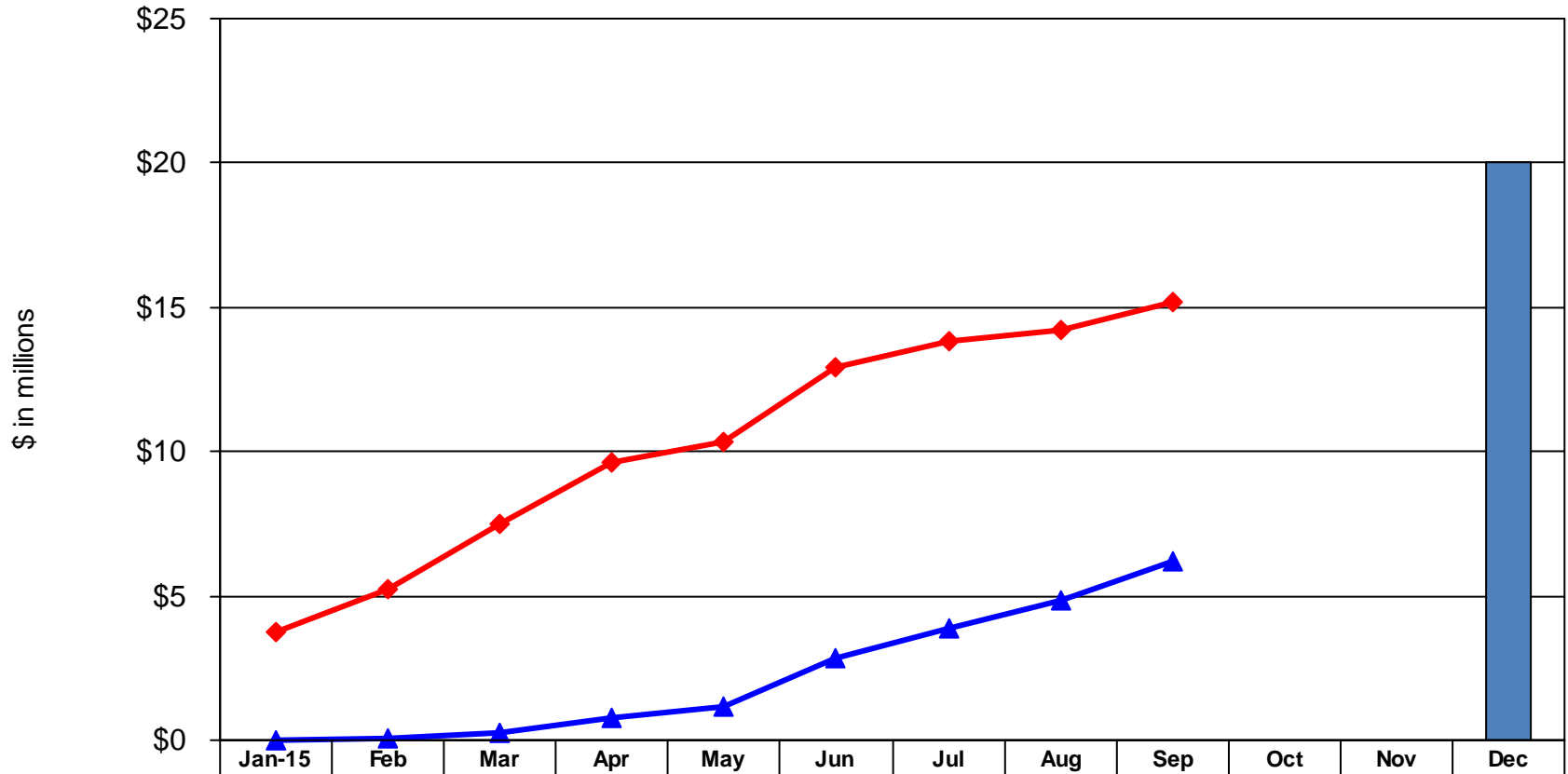
Monthly GMC Revenues



Operating and Maintenance Expenses (O&M)



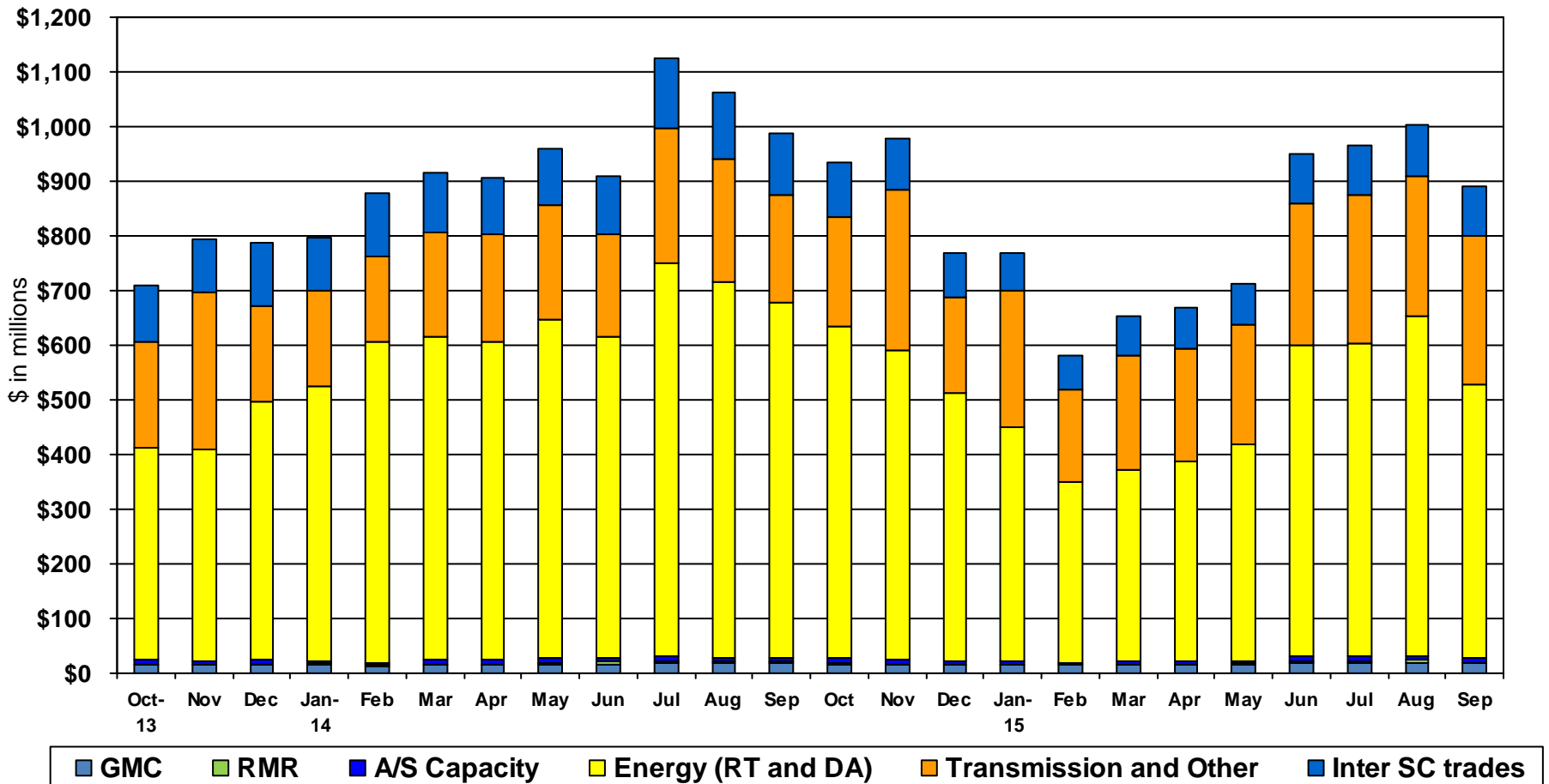
Cumulative Capital Expenditures



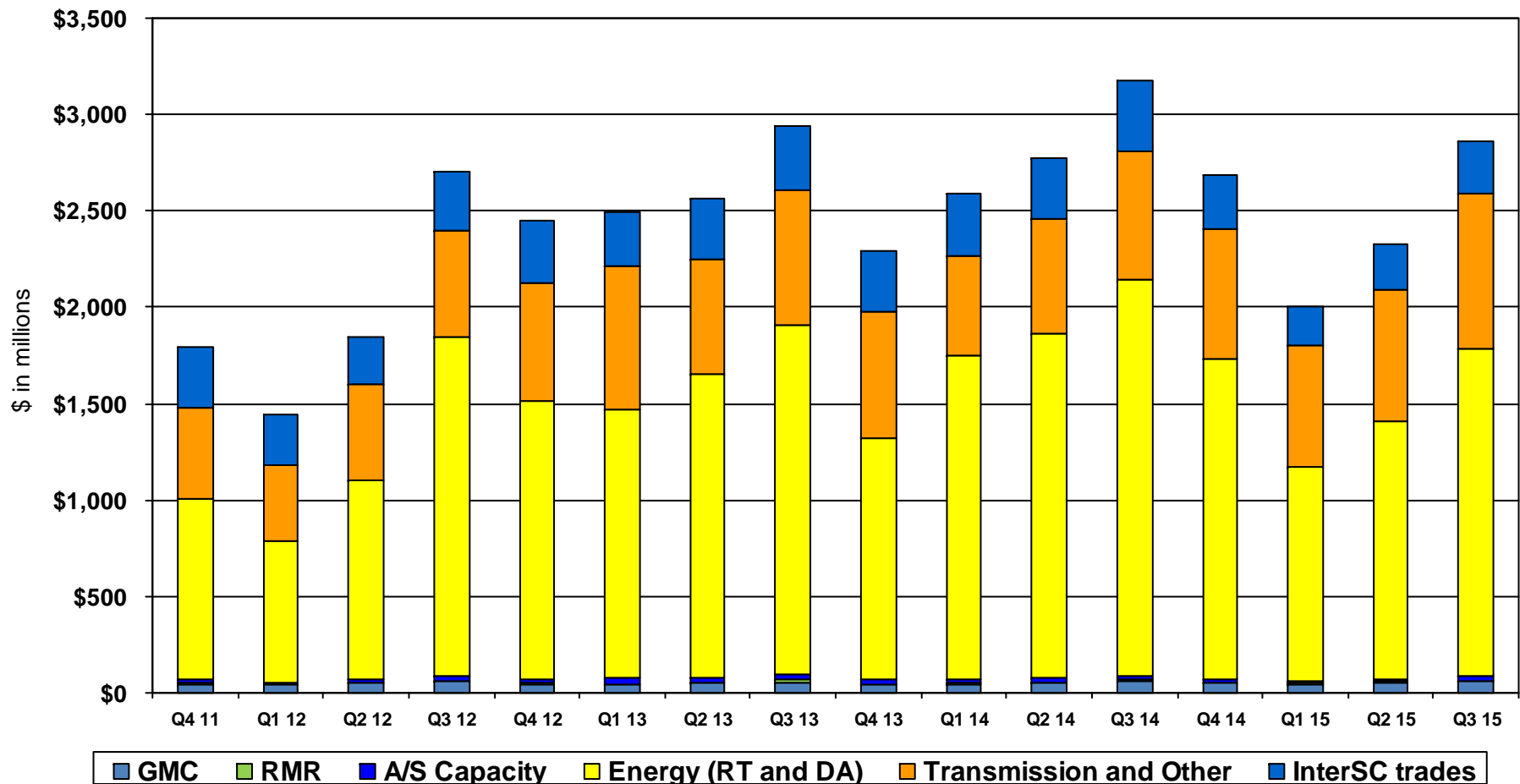
Budgeted capital												20.00
Cumulative Expenditures	0.01	0.07	0.27	0.80	1.18	2.86	3.85	4.84	6.19			
Approved projects	3.75	5.22	7.50	9.61	10.33	12.94	13.82	14.24	15.21			

ISO Market Costs By Month

October 2013 through September 2015



ISO Market Costs By Quarter 4th Quarter 2011 through 3rd Quarter 2015



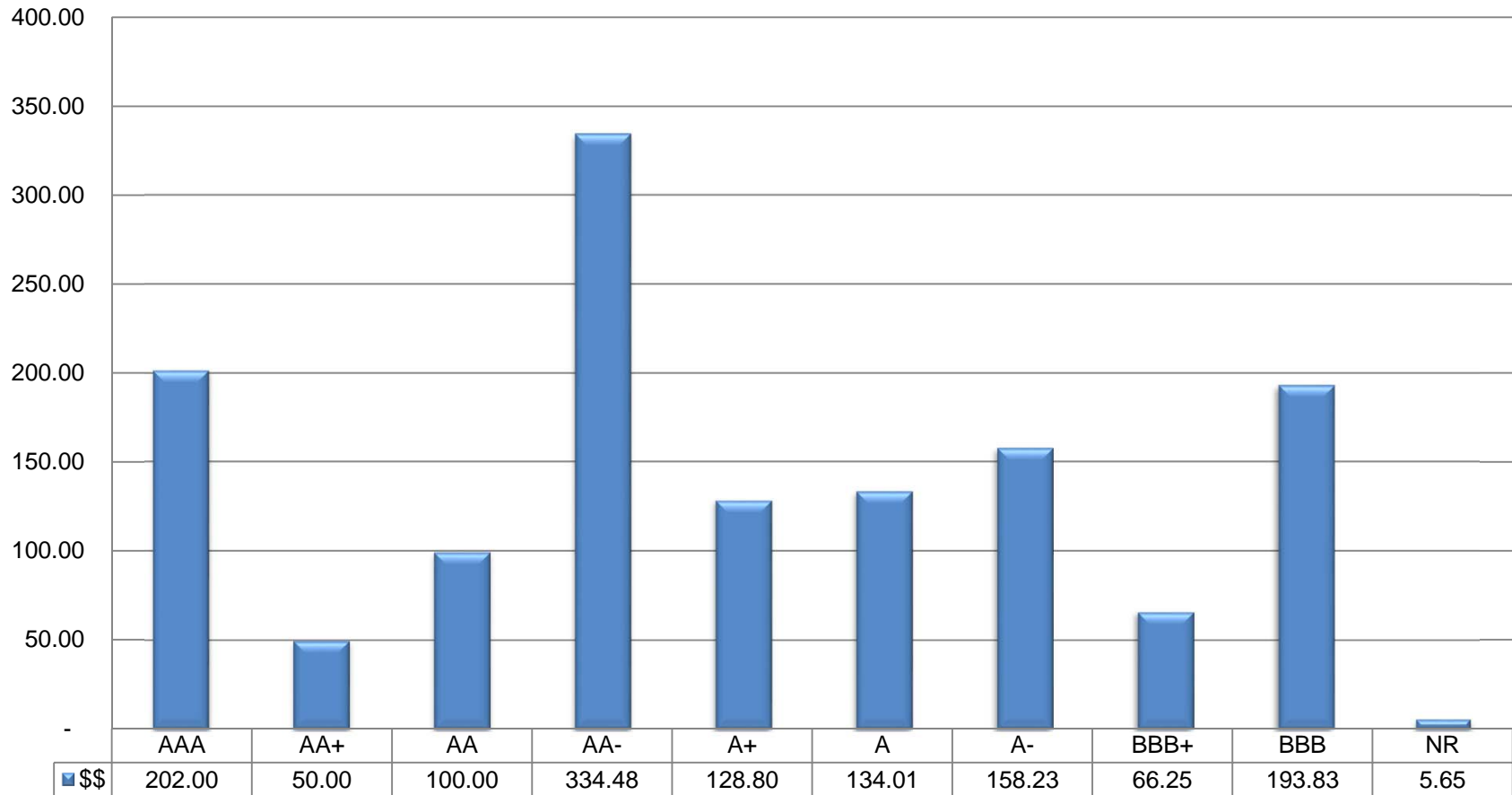
Collateral & Estimated Aggregate Liability (as of 10/07/15)

Collateral Types	Amount
Unsecured	\$1,373,239,333
Secured	\$481,468,646
Total	\$1,854,707,979

Estimate Aggregate Liability	Amount
Positive EAL	\$134,934,136

Unsecured Collateral (as of 10/07/15)

(in millions)



Secured Collateral (as of 07/07/15)

(in millions)

