

QUARTERLY FINANCIAL REPORT

December 31, 2016

Preliminary and Unaudited

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
QUARTERLY FINANCIAL REPORT - December 31, 2016 (Preliminary and Unaudited)

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CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY (Preliminary and Unaudited)

For the quarter ended December 31, 2016

Results of Operations

Revenues

Through the fourth quarter ending December 31, 2016, operating revenues were higher by \$1.7 million compared to the budgeted amounts. The overall increase in revenues was due to higher other revenues (i.e., energy imbalance market revenues and variable energy resource fees). This was partially offset by lower GMC revenues.

Expenses

Operating expenses are \$0.4 million under budget through the fourth quarter of the year, largely due to the effect of cost savings efforts. Salaries and wages, legal and audit and travel and training were lower during the year but were offset by higher consulting and third party vendor contracts due to expenses related to certain Company strategic initiatives.

Through the fourth quarter, interest income and other are on budget but interest expense is higher by \$0.1 million due to interest associated with generator fines.

Material Changes to Assets and Liabilities

The year over year changes in the cash and investment balances are generally due to the changes in the balances held on behalf of market participants. For the quarter ending December 31, 2016, the “due to market participants” liability increased by \$73.3 million compared to the previous year. This caused cash and cash equivalents to increase by \$34.6 million and long-term investments by \$14.8 million. The increased cash and investment balances were partially offset by the expenditures associated with the Lincoln Operations Center project.

Capital Projects

Through the end of the fourth quarter of 2016, \$16.5 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.

In November 2016, construction of the Lincoln Operations Center was completed and is now fully operational. The project was completed on time and the cost is expected be below budget

Collateral Held Report

As of October 11, 2016, the ISO maintained \$1.9 billion in collateral from market participants to support \$243.4 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 \$535.2 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 (Preliminary and Unaudited)

For the quarter ended December 31, 2016

(dollars in thousands)

	Quarter		Year to Date		Year to Date Budget
	Actual	Prior Year	Actual	Prior Year	
<u>Operating revenues:</u>					
Grid management charge	\$ 45,810	\$ 47,406	\$ 193,208	\$ 196,725	\$ 195,322
Other revenues	2,747	500	12,604	9,610	8,800
Total operating revenues	48,557	47,906	205,812	206,335	204,122
<u>Operating expenses:</u>					
Salaries and benefits	33,540	30,678	119,658	115,549	121,328
Building, leases and facility	936	836	3,234	2,973	3,334
Insurance	949	313	1,977	1,976	2,231
Third party vendor contracts	3,976	3,301	15,263	13,721	14,209
Consulting and contracting services	4,631	5,163	19,487	15,504	17,073
Legal and audit	905	1,353	2,821	3,286	4,254
Training, travel and professional dues	921	1,651	3,495	4,306	4,907
Other	670	1,108	3,050	2,328	2,006
Total operating expenses	46,528	44,403	168,985	159,643	169,342
Operating income before depreciation and amortization	2,029	3,503	36,827	46,692	34,780
<u>Depreciation and amortization</u>	4,316	5,796	21,278	24,328	21,278
Net operating income (loss)	(2,287)	(2,293)	15,549	22,364	13,502
<u>Other income (expenses)</u>					
Interest income & other	(728)	7	1,993	913	2,000
Interest expense	(2,133)	(2,332)	(8,893)	(9,199)	(8,947)
Total other income (expenses)	(2,861)	(2,325)	(6,900)	(8,286)	(6,947)
Excess (deficiency) of revenues over expenses	\$ (5,148)	\$ (4,618)	\$ 8,649	\$ 14,078	\$ 6,555
Number of full-time employees			596	588	593

CALIFORNIA ISO
Balance Sheet (Preliminary and Unaudited)
As of December 31, 2016
(dollars in thousands)

	<u>Current Quarter</u> 12/31/2016	<u>Prior Year</u> 12/31/2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, including restricted amounts	\$ 361,475	\$ 326,879
Accounts receivable	36,084	17,266
Short-term Investments, including restricted amounts	52,431	52,072
Other current assets	5,525	6,428
Total current Assets	<u>455,515</u>	<u>402,645</u>
NONCURRENT ASSETS		
Long-term investments, including restricted amounts	153,116	138,302
Fixed assets, net	188,057	175,013
Other assets	8,922	13,808
Total noncurrent assets	<u>350,095</u>	<u>327,123</u>
TOTAL ASSETS	<u><u>\$ 805,610</u></u>	<u><u>\$ 729,768</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	14,016	11,844
Accrued salaries and compensated absences	30,724	30,601
Current portion of long-term debt	4,625	4,500
Due to market participants	415,554	342,242
Generator noncompliance fines refund obligation	2,262	2,316
Total current liabilities	<u>467,181</u>	<u>391,503</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	186,768	192,039
Employee retirement plan obligations	21,225	21,495
Total noncurrent liabilities	<u>207,993</u>	<u>213,534</u>
TOTAL LIABILITIES	<u>675,174</u>	<u>605,037</u>
TOTAL NET ASSETS	<u>130,436</u>	<u>124,731</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 805,610</u></u>	<u><u>\$ 729,768</u></u>

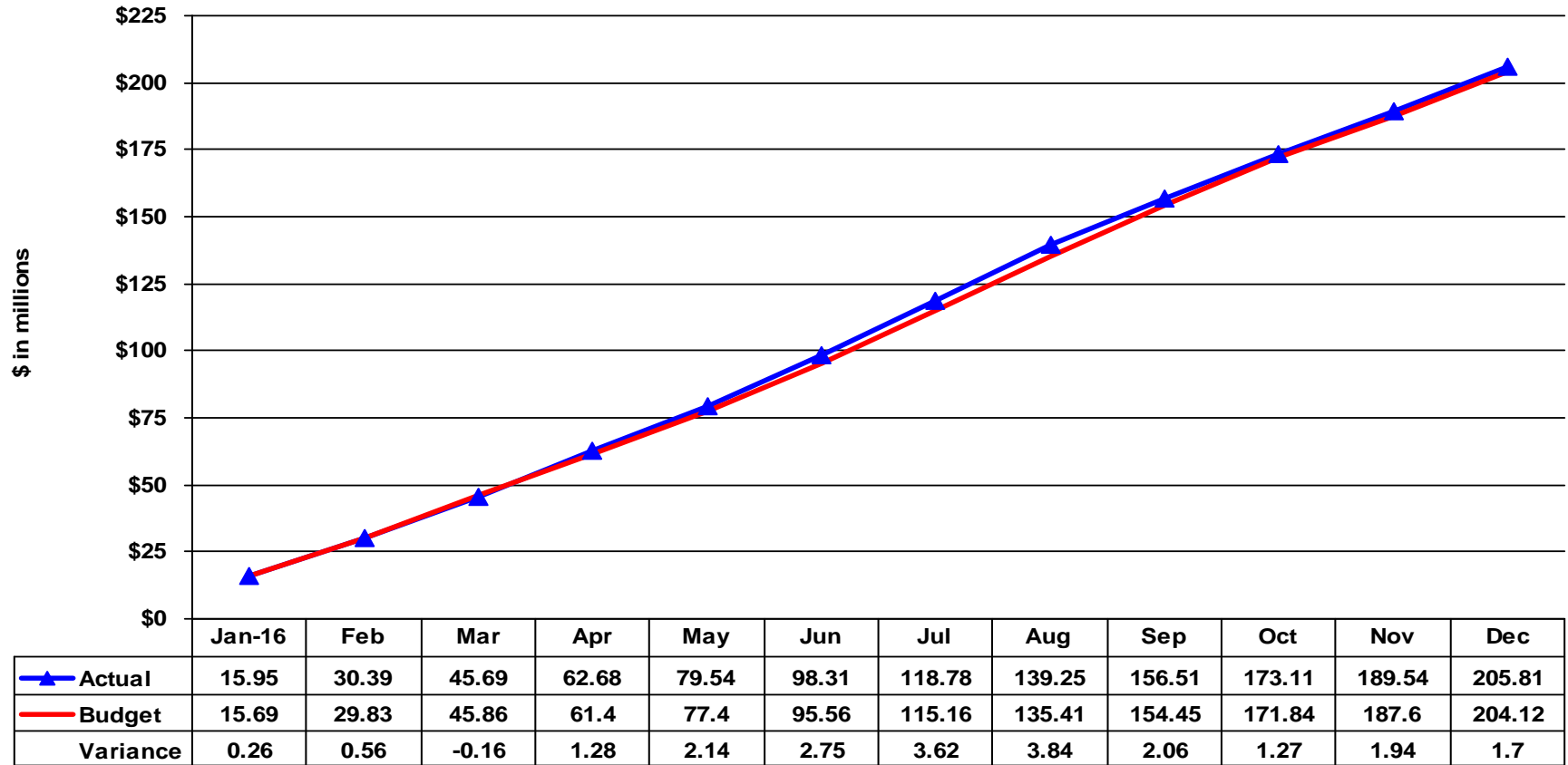
CALIFORNIA ISO
Capital Projects Report (Preliminary and Unaudited)

For the quarter ended December 31, 2016
(dollars in thousands)

	Approved Projects				
	Q4 Actual	YTD Actual	2016 Approved Projects	Projected Costs for Approved Projects	Original/ Current Budget
Market & Operational Excellence	\$ 1,794	\$ 4,798	\$ 10,025	\$ 10,243	\$ 10,905
Focus on Customer Service /Compliance	207	3,279	3,510	3,379	1,425
Enhance the Technology Foundation	589	1,781	2,965	2,877	4,170
Total 2016 Capital Spending	2,590	9,858	16,500	16,500	16,500
Energy Management System	378	1,993		13,500	13,500
Lincoln Operations Center	4,873	18,500		26,109	30,400
Energy Imbalance Market Projects	293	1,579		1,694	2,109
Prior Year Capital Projects	1,460	5,952		8,972	-
Total Capital	\$ 9,594	\$ 37,882	\$ 16,500	\$ 66,774	\$ 62,509

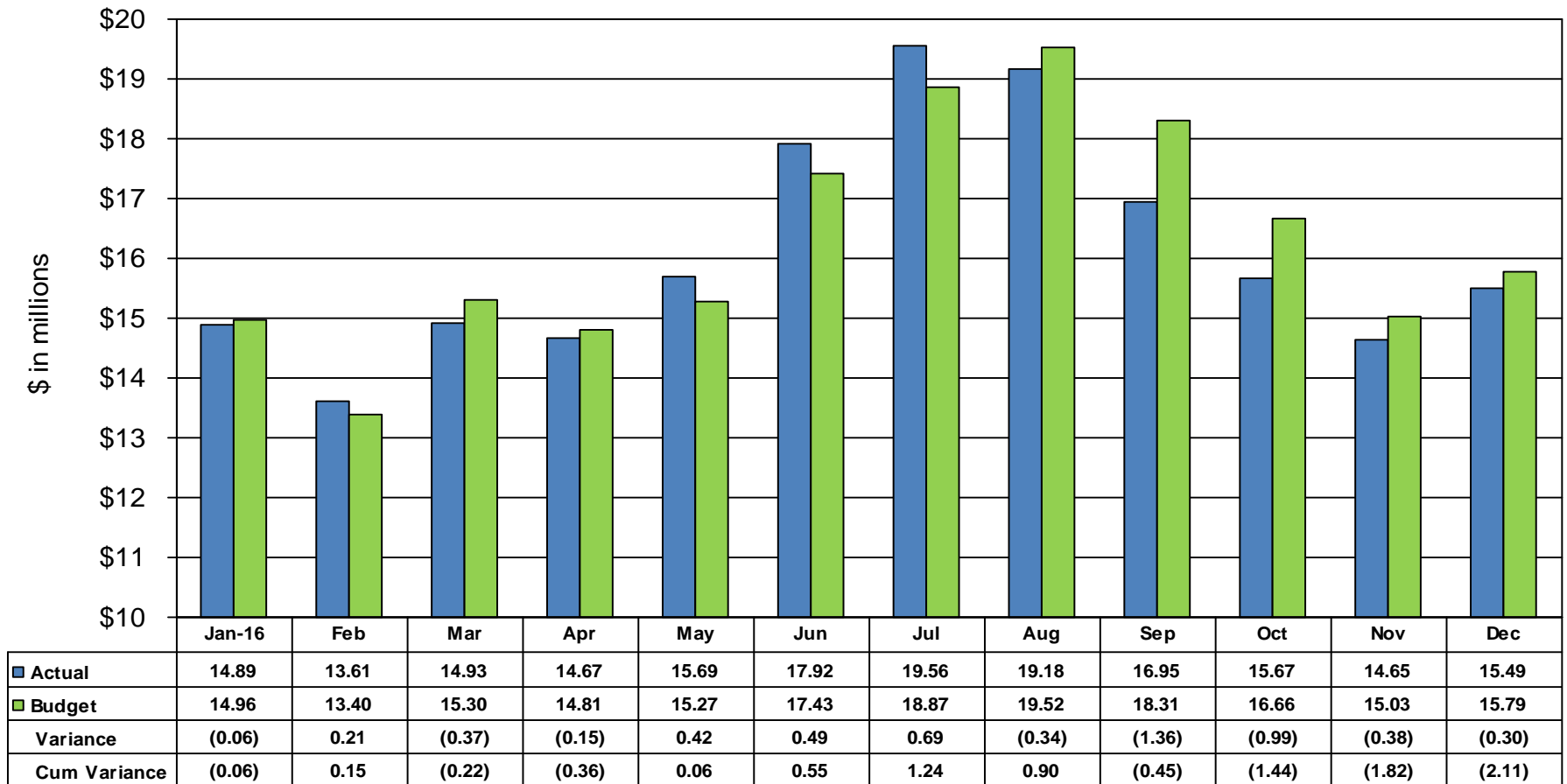
Cumulative Operating Revenues

Revenues = GMC & Other Revenues
PRELIMINARY AND UNAUDITED



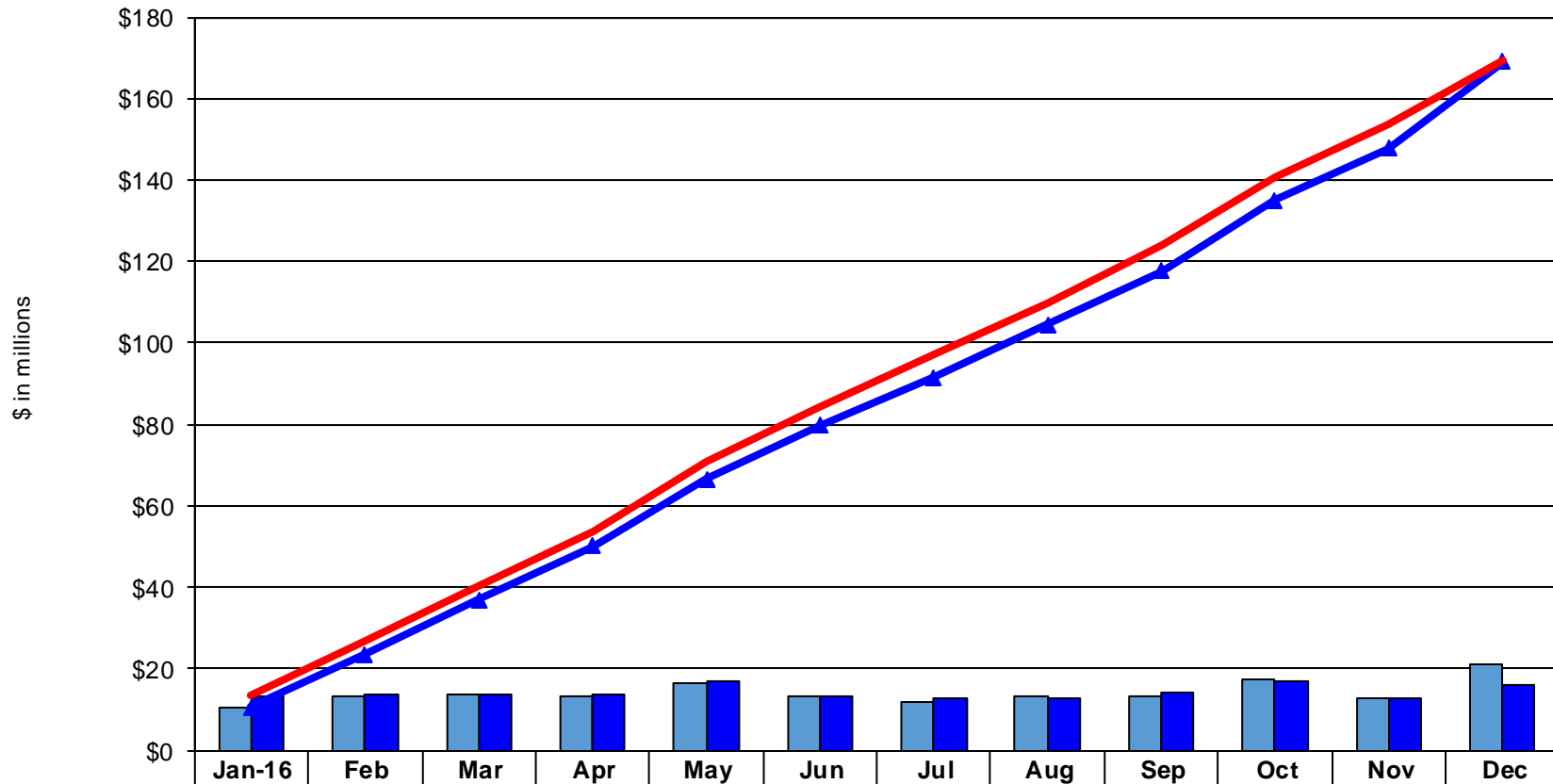
Monthly GMC Revenues

PRELIMINARY AND UNAUDITED



Operating and Maintenance Expenses (O&M)

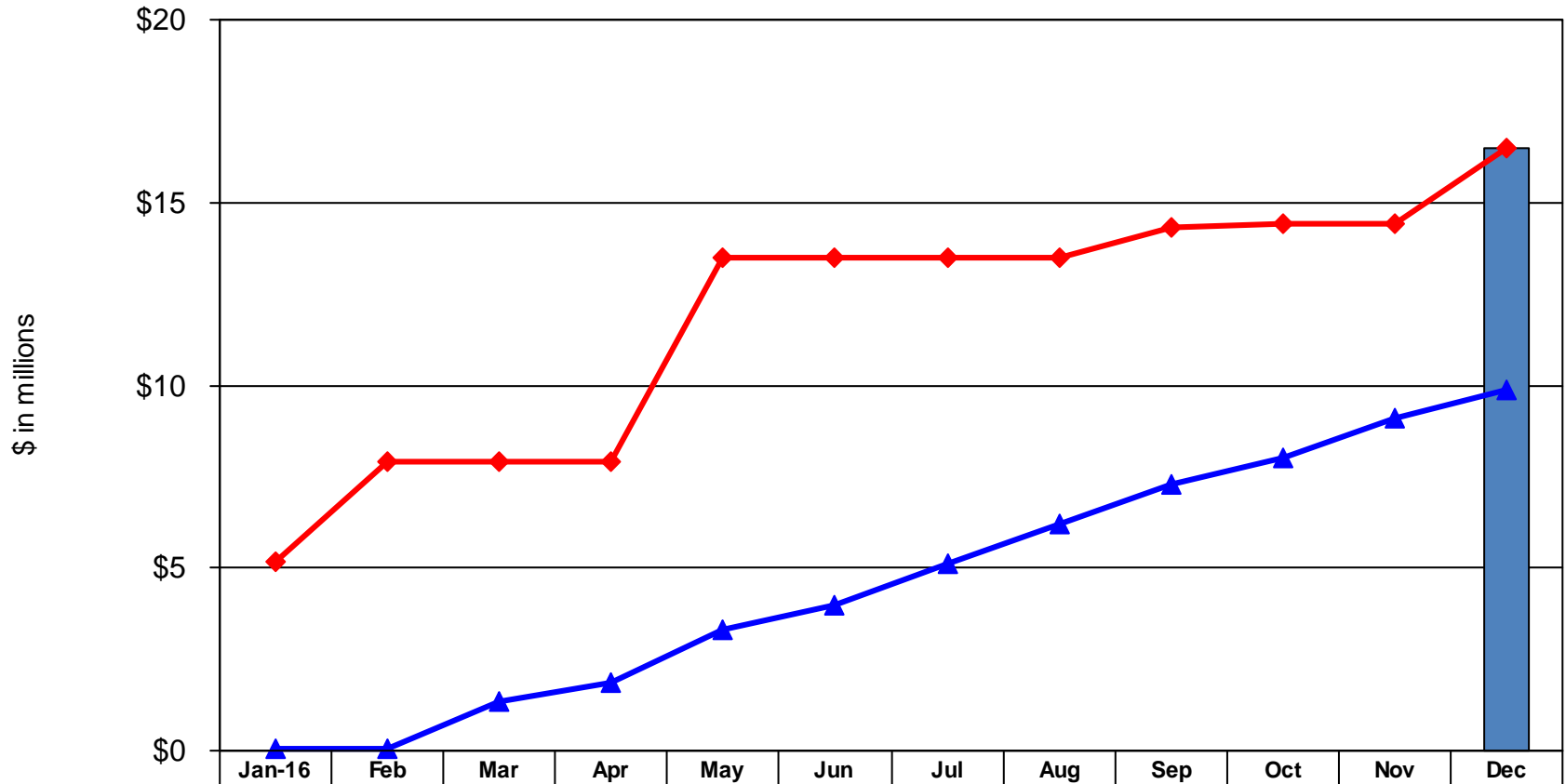
PRELIMINARY AND UNAUDITED



	Jan-16	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	10.52	12.98	13.53	12.99	16.46	13.35	11.62	13.16	13.00	17.34	12.93	21.11
Monthly Budget	13.32	13.48	13.60	13.46	17.12	13.31	12.80	12.79	14.06	16.68	12.82	15.90
Cum Actual	10.52	23.50	37.03	50.01	66.47	79.82	91.44	104.60	117.60	134.94	147.87	168.98
Cum Budget	13.32	26.79	40.40	53.86	70.98	84.29	97.09	109.88	123.94	140.61	153.44	169.33
Cum Variance	2.80	3.30	3.37	3.85	4.51	4.47	5.65	5.28	6.34	5.68	5.57	0.35

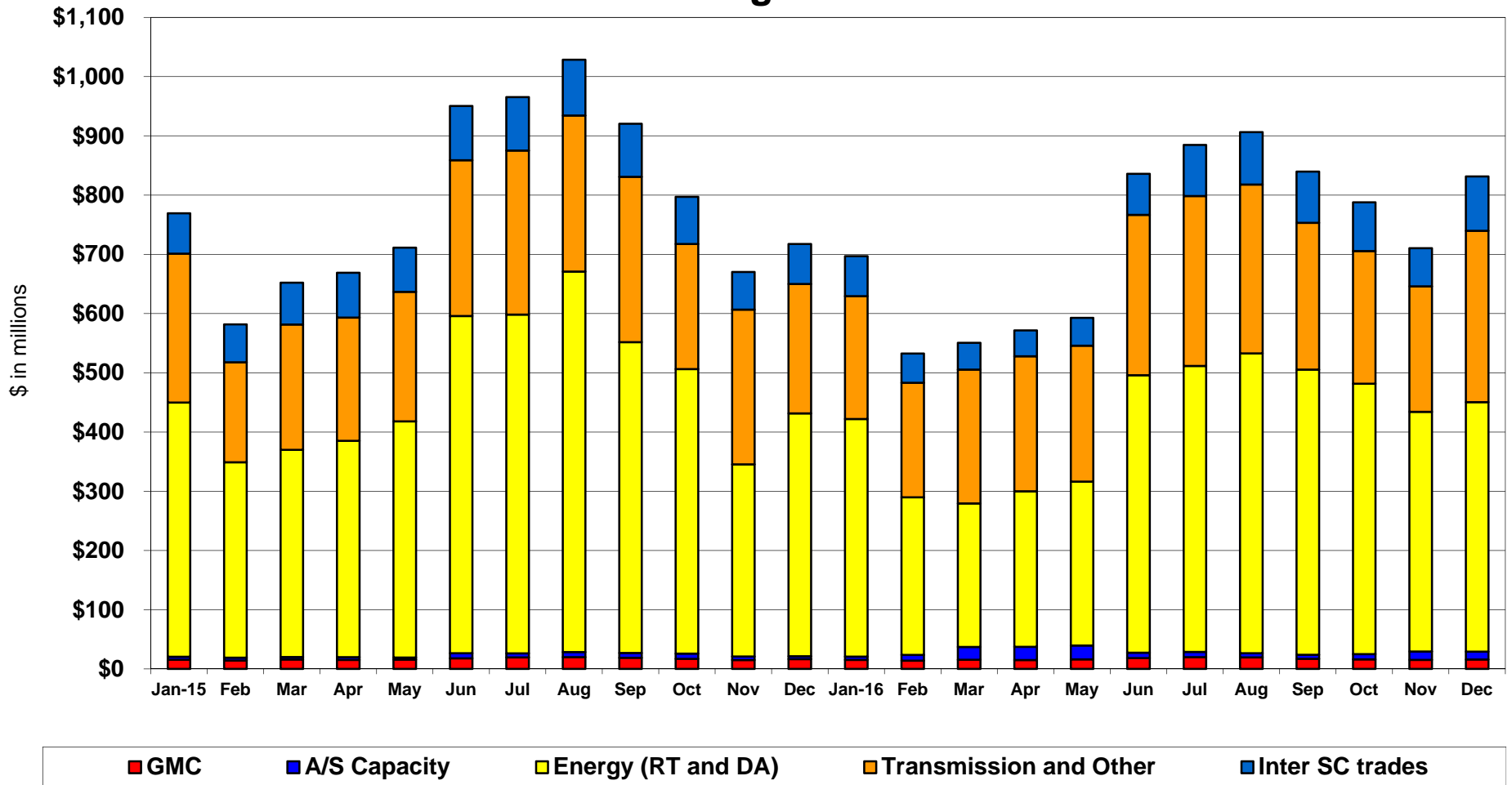
Cumulative Capital Expenditures

PRELIMINARY AND UNAUDITED

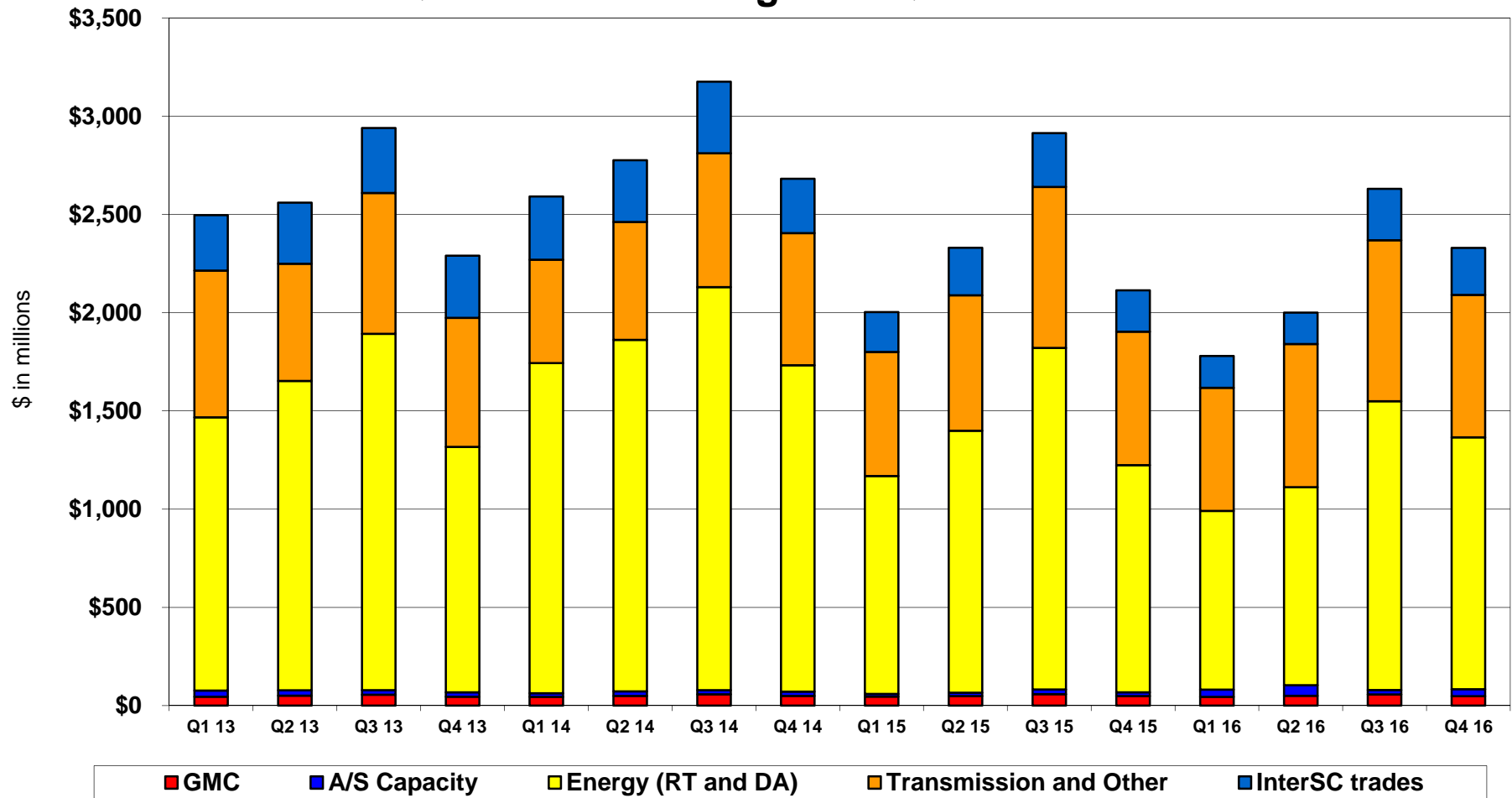


	Jan-16	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Budgeted capital												16.50
Cumulative Expenditures	0.06	0.07	1.33	1.84	3.29	4.00	5.12	6.19	7.27	8.03	9.10	9.86
Approved projects	5.16	7.91	7.91	7.91	13.47	13.47	13.47	13.47	14.29	14.43	14.43	16.50

ISO Market Revenues By Month Jan 2015 through Dec 2016



ISO Market Revenues By Quarter 1st Quarter 2013 through 4th Quarter 2016



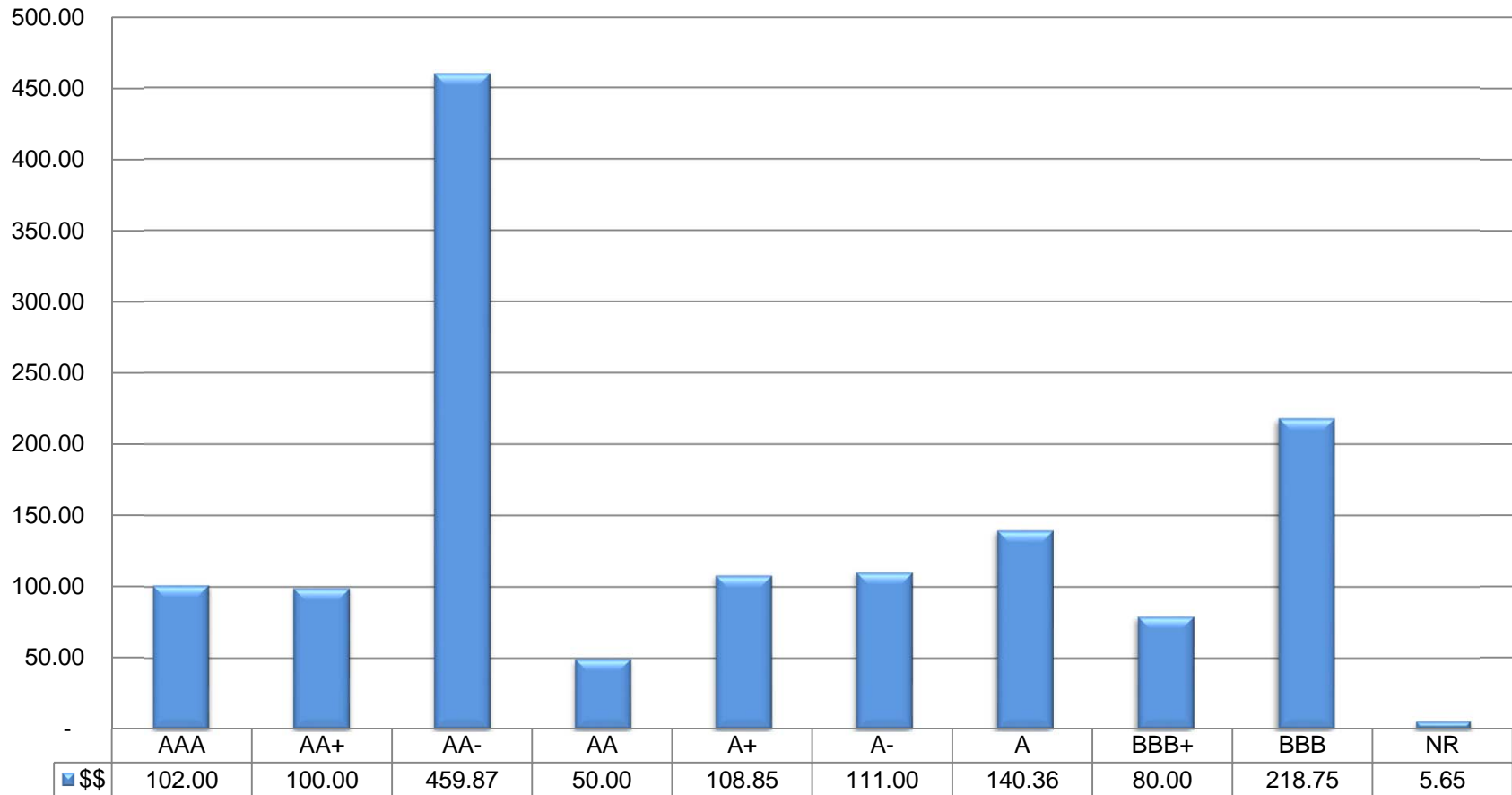
Collateral & Estimated Aggregate Liability (as of 01/10/17)

Collateral Types	Amount
Unsecured	\$1,376,477,038
Secured	\$535,203,154
Total	\$1,911,680,192

Estimate Aggregate Liability	Amount
Positive EAL	\$243,435,996

Unsecured Collateral (as of 01/10/17)

(in millions)



Secured Collateral (as of 01/10/17)

(in millions)

