

**California Independent System  
Operator Corporation**  
Financial Statements  
December 31, 2020 and 2019



**California Independent System Operator Corporation**

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**December 31, 2020 and 2019**

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## **Report of Independent Auditors**

To the Board of Governors and Management of the California Independent System Operator Corporation:

We have audited the accompanying financial statements of the California Independent System Operator Corporation, which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California Independent System Operator Corporation as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matter**

### **Required Supplementary Information**

The accompanying management's discussion and analysis on pages 3 through 11 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*PricewaterhouseCoopers LLP*

April 16, 2021

# California Independent System Operator Corporation

## Management's Discussion and Analysis (Unaudited)

### December 31, 2020 and 2019

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The following discussion and analysis of the California Independent System Operator Corporation (the "Company") provides an overview of the Company's financial activities for the years ended December 31, 2020 and 2019. This discussion and analysis should be read in conjunction with the Company's financial statements and accompanying notes, which follow this section.

#### **Background**

The Company, a nonprofit public benefit corporation, is responsible for ensuring the reliable and efficient use of the transmission grid in most of California and a part of Nevada. The Company operates this grid, which is one of the largest and most modern power grids in the world, as a balancing authority within the Western Electricity Coordinating Council. The Company conducts comprehensive planning for the future development of this grid.

In addition, the Company administers a competitive energy market that matches supply with demand, procures operating reserves and allocates space on transmission lines for delivering electricity efficiently, all of which ultimately benefits consumers. This market provides open and nondiscriminatory access to the transmission grid for more than 200 market participants. The Company also administers the Western Energy Imbalance Market. This extension of the Company's real-time energy market facilitates transactions with and among several balancing authority areas in the western interconnection that are not a part of the grid the Company operates.

The Company's markets and its grid operations are regulated by the Federal Energy Regulatory Commission, and comply with standards set by the North American Electric Reliability Corporation and the Western Electricity Coordinating Council. A five-member Board of Governors (the "Board") appointed by the Governor of California and confirmed by the California State Senate governs the Company.

#### **Financial Reporting**

The Company's accounting records are maintained in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board ("GASB") and where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board ("FASB").

Cash held by the Company on behalf of market participants is recorded in a restricted asset account with a corresponding liability due to market participants in the Statements of Net Position. Except for the retention of restricted assets noted above, the financial statements reflect a net reporting of market activities wherein the financial statements do not include the revenues and expenses, cash flows, or assets and liabilities associated with the market transactions the Company facilitates.

#### **Revenue**

The Company charges a Grid Management Charge ("GMC") to market participants to recover the Company's operating costs, capital expenditures, debt service costs, and to provide for an operating reserve. The GMC is comprised of the following three service categories: market services, system operations, and congestion revenue rights services.

The Company receives other revenues outside of its GMC charges including, but not limited to: fees paid for participation in the Western Energy Imbalance Market ("EIM"), Reliability Coordinator services, generator interconnection studies, and for operation of the California-Oregon Intertie Path.

After accounting for other revenues, the Company establishes its annual net revenue requirement, which is allocated to the three GMC service categories based on percentages established in the tariff. Category costs are then divided by forecasted volumes to establish the annual rates.

# California Independent System Operator Corporation

## Management's Discussion and Analysis (Unaudited)

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#### **Liquidity**

The Company's tariff allows for the GMC rates to be adjusted during the year to ensure collection of the revenue requirement. During a year, if forecasted revenues from any of the three GMC service categories is materially different, as defined in the tariff, from budgeted revenues, the

Company may adjust the rate for the affected category to realign the forecast revenue with the budgeted revenue.

Per the tariff, the revenue requirement includes an operating reserve, which is 15% of the current year's operating and maintenance budget, and a debt service reserve, which is 25% of the debt service to be paid during the year. The Company's operating and debt service reserves were fully funded in 2020 and 2019. Furthermore, the Company maintains capital reserves in its unrestricted funds, which consist of funds collected through the revenue requirement for future capital expenditures.

#### **The Market and Reliability Coordinator Service**

The Company's wholesale energy market is the vehicle for providing open-access transmission service to users of the transmission grid. It includes a day-ahead market for all twenty-four hours of the next operating day, and a real-time market that schedules resources in 15 minute intervals and dispatches them in 5 minute intervals. The day-ahead market clears supply and demand offers for short-term energy purchases and sales. The real-time market clears supply offers and the Company's forecast of demand. Together, these enable the economic scheduling and dispatch of generating resources to maintain continuous balance of supply and demand and management of congestion on the grid. The market also procures reserve capacity or ancillary services to maintain reliable operation under unexpected changes in grid conditions. In addition, the Company performs a settlement and clearing function by charging and collecting payments from users of these services and paying providers of such services.

The Company continues to develop market enhancements to increase reliability, efficiency and the accuracy of market results. The market prices energy at the points it enters and leaves the grid, which increases transparency by sending signals for competitive investments in transmission and generation. The market operates on an advanced and flexible platform helping to integrate renewable resources as well as demand response. These enhancements increase the functionality and flexibility of the market system to meet the on-going needs of market participants.

The Company also operates the Western Energy Imbalance Market (the "EIM"). This extension of the Company's real-time energy market facilitates transactions with and among several balancing authority areas in the western interconnection that are not a part of the grid the Company operates. The EIM provides reliability, efficiency and renewable integration benefits to the West while also providing economic benefits to participants. The broader footprint for the real-time market provides more opportunities to integrate cleaner sources of energy, such as wind and solar, that may be produced in one area but needed in another. In addition to the Company, ten other balancing authorities are participating in the EIM as of the end of 2020 and several others have committed to participate in the future.

In 2019, the Company became the Reliability Coordinator for entities within its footprint and for most of the balancing authorities and transmission operators in the West. As the Reliability Coordinator (a business unit known externally as "RC West"), the Company has the highest level of authority and responsibility for the reliable operation of the power grid, and has a wide-area view of the bulk electricity system. It is required to comply with federal and regional grid standards, and can authorize measures to prevent or mitigate system emergencies in day-ahead or real-time operations. The Company is currently the Reliability Coordinator of record for forty-two balancing authorities and transmission operators in the West.

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**Management's Discussion and Analysis (Unaudited)**  
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**Financial Highlights**

***Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position***

The financial statements provide both short-term and long-term information about the Company's financial status. The *Statements of Net Position* include all of the Company's assets and liabilities, using the accrual method of accounting, and identify any assets, which are restricted as a result of bond covenants or external commitments. These Statements also provide information about the nature and amount of resources and obligations at specific points in time.

The *Statements of Revenues, Expenses and Changes in Net Position* report all of the Company's revenues and expenses during the year.

The *Statements of Cash Flows* report the cash provided and used during the year by operating activities, as well as other cash sources such as investment income and debt financing, and other cash used such as payments for bond principal and capital additions.

**Condensed Statements of Net Position (in millions)**

|   | 2020            | 2019            | 2018            |
|---|-----------------|-----------------|-----------------|
| <b>Assets and Deferred Outflows</b>                     |                 |                 |                 |
| Current assets  | \$ 559.4        | \$ 470.6        | \$ 423.6        |
| Fixed assets, net                                       | 165.7           | 170.9           | 167.1           |
| Other noncurrent assets                                 | 220.0           | 200.1           | 164.6           |
| Deferred outflows                                       | 6.4             | 7.1             | 7.7             |
| Total assets and deferred outflows                      | <u>\$ 951.5</u> | <u>\$ 848.7</u> | <u>\$ 763.0</u> |
| <b>Liabilities and Net Position</b>                     |                 |                 |                 |
| Current liabilities                                     | \$ 553.0        | \$ 473.3        | \$ 398.9        |
| Long-term debt, net of current portion                  | 164.0           | 170.0           | 175.8           |
| Other noncurrent liabilities                            | 8.9             | 10.7            | 19.1            |
| Deferred inflows  | 9.6             | 8.2             | 2.9             |
| Net position  | <u>216.0</u>    | <u>186.5</u>    | <u>166.3</u>    |
| Total liabilities, deferred inflows<br>and net position | <u>\$ 951.5</u> | <u>\$ 848.7</u> | <u>\$ 763.0</u> |

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**Assets**

**Current Assets (in millions)**

|                                      | 2020            | 2019            | 2018            |
|--------------------------------------|-----------------|-----------------|-----------------|
| Cash and cash equivalents            | \$ 471.0        | \$ 366.4        | \$ 324.9        |
| Short-term investments               | 68.1            | 72.5            | 69.9            |
| Accounts receivable and other assets | <u>20.3</u>     | <u>31.7</u>     | <u>28.8</u>     |
| Total current assets                 | <u>\$ 559.4</u> | <u>\$ 470.6</u> | <u>\$ 423.6</u> |

*2020 Compared to 2019*

As of December 31, 2020, current assets increased by \$88.8 million during the year. This net increase is largely due to increases in collateral funds, generator interconnection project study deposits and other market accounts held for market participants, partially offset by lower accounts receivable as a result of the timing of the settlement of market invoices at year end.

*2019 Compared to 2018*

As of December 31, 2019, current assets increased by \$47.0 million during the year. This net increase is largely due to increases in collateral funds and other market accounts held for market participants, and to higher accounts receivable as a result of higher generator interconnection project studies activity.

**Fixed Assets, Net (in millions)**

|                         | 2020            | 2019            | 2018            |
|-------------------------|-----------------|-----------------|-----------------|
| Net assets in service   | \$ 155.5        | \$ 163.9        | \$ 150.2        |
| Work-in-progress        | <u>10.2</u>     | <u>6.9</u>      | <u>16.9</u>     |
| Total fixed assets, net | <u>\$ 165.7</u> | <u>\$ 170.8</u> | <u>\$ 167.1</u> |

*2020 Compared to 2019*

Total fixed assets, net of accumulated depreciation, decreased in 2020 by \$5.1 million compared to 2019. The decrease is primarily due to lower net assets in service of \$8.4 million, as a result of the current year depreciation expense of \$26.2 million, partially offset by new net assets placed-in-service of \$17.8 million. Work in-progress increased by \$3.3 million compared to 2019 due to an increase in new projects during the year.

*2019 Compared to 2018*

Total fixed assets, net of accumulated depreciation, increased in 2019 by \$3.7 million compared to 2018. The increase is primarily due to higher net assets in service of \$13.7 million, as a result of new assets placed-in-service of \$40.3 million, partially offset by the current year depreciation expense of \$26.6 million. Work in-progress decreased by \$10.0 million compared to 2018 due to the completion of capital projects during the year.

**Other Noncurrent Assets (in millions)**

|                               | 2020            | 2019            | 2018            |
|-------------------------------|-----------------|-----------------|-----------------|
| Long-term investments         | \$ 212.1        | \$ 193.2        | \$ 159.0        |
| Other assets                  | <u>7.9</u>      | <u>7.0</u>      | <u>5.6</u>      |
| Total other noncurrent assets | <u>\$ 220.0</u> | <u>\$ 200.2</u> | <u>\$ 164.6</u> |

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*2020 Compared to 2019*

Other noncurrent assets increased by \$19.8 million in 2020. This change is largely attributable to increased long-term investments amounting to \$18.9 million during the year due to higher corporate reserves and continued investing in fixed income mutual funds which are considered to be long-term assets. In addition, other assets increased by \$0.9 million as a result of higher prepayments and higher executive benefit plans trust account balances.

*2019 Compared to 2018*

Other noncurrent assets increased by \$35.6 million in 2019. This change is largely attributable to increased long-term investments amounting to \$34.2 million during the year due to higher corporate reserves and continued investing in fixed income mutual funds, which are considered to be long-term assets.

**Deferred Outflows (in millions)**

|  | 2020          | 2019          | 2018          |
|--|---------------|---------------|---------------|
| Unamortized loss on refunding of bonds | \$ 6.4        | \$ 7.1        | \$ 7.7        |
| Total deferred outflows                | <u>\$ 6.4</u> | <u>\$ 7.1</u> | <u>\$ 7.7</u> |

*2020 Compared to 2019*

The decrease in the deferred outflows balance of \$0.7 million is due to the current year amortization of the unamortized loss on refunding of bonds.

*2019 Compared to 2018*

The decrease in the deferred outflows balance of \$0.6 million is due to the current year amortization of the unamortized loss on refunding of bonds. There was no unamortized other post-employment benefit costs in 2019 due to net actuarial gains.

**Liabilities**

**Current Liabilities (in millions)**

|   | 2020            | 2019            | 2018            |
|---|-----------------|-----------------|-----------------|
| Accounts payable and accrued expenses           | \$ 11.8         | \$ 13.9         | \$ 12.1         |
| Accrued salaries and compensated absences       | 43.4            | 37.9            | 34.8            |
| Current portion of long-term debt               | 5.4             | 5.2             | 5.0             |
| Due to market participants                      | 492.4           | 414.8           | 345.2           |
| Generator noncompliance fines refund obligation | -               | 1.4             | 1.8             |
| Total current liabilities                       | <u>\$ 553.0</u> | <u>\$ 473.2</u> | <u>\$ 398.9</u> |

*2020 Compared to 2019*

Current liabilities at December 31, 2020 increased by \$79.8 million during the year. This increase is primarily due to higher amounts due to market participants of \$77.6 million, as a result of increases in the balances of collateral accounts of \$89.5 million, interconnection study deposits of \$16.5 million, and pass-thru fees of \$0.9 million. These were partially offset by a decrease in market funds of \$29.2 million and in nonrefundable deposits pending distribution of \$0.1 million. Collateral funds were higher due to increased number of participants and increased market activity. Interconnection study deposits are higher due to more projects that currently are in queue to be completed. Market funds were lower due to the timing of the market clearing at the

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end of the year. Additionally, there were increases in the year-end balance for accrued salaries and compensated absences of \$5.5 million, but decreases in accounts payable and accrued expenses of \$2.1 million.

**2019 Compared to 2018**

Current liabilities at December 31, 2019 increased by \$74.3 million during the year. This increase is primarily due to higher amounts due to market participants as a result of increases in the balances of collateral accounts of \$27.5 million, market funds of \$26.6 million and interconnection study deposits of \$17.2 million, partially offset by a decrease in nonrefundable deposits pending distribution of \$1.7 million. Collateral funds were higher due to increased number of participants and increased market activity. Market funds are higher due to pass-through funds pending settlement at the end of the year. Interconnection study deposits are higher due to more projects that currently are in queue to be completed. Additionally, there were increases in the year-end balances for both accounts payable and accrued expenses of \$1.8 million and accrued salaries and compensated absences of \$3.1 million.

**Long-Term Debt (in millions)**

Summarized activity of long-term debt for the year ended December 31, 2020, is as follows:

|  | Beginning<br>of Year | Issuances<br>(Payments/<br>Amortization) | End of Year |
|--|----------------------|--|-------------|
| CIEDB Revenue Bonds, Series 2013             | \$ 168.5             | \$ (5.1)                                 | \$ 163.4    |
| Unamortized net premium                      |                      |  |             |
| Series 2013 bonds                            | 6.6                  | (.5)                                     | 6.1         |
| Total long-term debt                         | 175.1                | (5.6)                                    | 169.5       |
| Less: Current portion                        | 5.1                  | 0.3                                      | 5.4         |
| Total long-term debt, net of current portion | \$ 170.0             | \$ (5.9)                                 | \$ 164.1    |

Summarized activity of long-term debt for the year ended December 31, 2019, is as follows:

|  | Beginning<br>of Year | Issuances<br>(Payments/<br>Amortization) | End of Year |
|--|----------------------|--|-------------|
| CIEDB Revenue Bonds, Series 2013             | \$ 173.5             | \$ (5.0)                                 | \$ 168.5    |
| Unamortized net premium                      |                      |  |             |
| Series 2013 bonds                            | 7.3                  | (.7)                                     | 6.6         |
| Total long-term debt                         | 180.8                | (5.7)                                    | 175.1       |
| Less: Current portion                        | 5.0                  | 0.1                                      | 5.1         |
| Total long-term debt, net of current portion | \$ 175.8             | \$ (5.8)                                 | \$ 170.0    |

As of December 31, 2020, the Company had an underlying rating of A+ from S&P, A1 by Moody's and A+ by Fitch. Fitch rates the Company's outstanding Series 2013 bonds at AA- due to the additional support of the pledged deed of trust on the Company's primary building.

In January 2021, the CIEDB Revenue Bonds, Series 2013 was refunded and defeased by the issuance of the California Statewide Communities Development Authority (CSCDA) 2021 Series bonds, as explained in Note 13.

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**2020 Compared to 2019**

At December 31, 2020, the Company had \$163.4 million of outstanding bonds issued through the California Infrastructure and Economic Development Bank (“CIEDB”). The decrease in long-term debt is primarily attributable to scheduled debt payments on the Series 2013 bonds in the amount of \$5.1 million in 2020.

**2019 Compared to 2018**

At December 31, 2019, the Company had \$168.5 million of outstanding bonds issued through the California Infrastructure and Economic Development Bank (“CIEDB”). The decrease in long-term debt is primarily attributable to scheduled debt payments on the Series 2013 bonds in the amount of \$5.0 million in 2019.

**Other Noncurrent Liabilities (in millions)**

|                                      | 2020          | 2019           | 2018           |
|--------------------------------------|---------------|----------------|----------------|
| Employee retirement plan obligations | \$ 8.9        | \$ 10.7        | \$ 19.1        |
| Total other noncurrent liabilities   | <u>\$ 8.9</u> | <u>\$ 10.7</u> | <u>\$ 19.1</u> |

**2020 Compared to 2019**

Other noncurrent liabilities at December 31, 2020 were lower by \$1.8 million. The decrease is primarily due to the reduction in liability associated the post-retirement liability of \$2.4 million due to changes in actuarial assumptions, partially offset by the increase in executive benefit plans of \$0.6 million.

**2019 Compared to 2018**

Other noncurrent liabilities at December 31, 2019 were lower by \$8.4 million. The decrease is primarily due to the reduction in liability associated the post-retirement liability of \$9.5 million due to changes in actuarial assumptions, partially offset by the increase in executive benefit plans of \$1.1 million.

**Net Position (in millions)**

|                                  | 2020            | 2019            | 2018            |
|----------------------------------|-----------------|-----------------|-----------------|
| Net investment in capital assets | \$ 17.0         | \$ 16.8         | \$ 11.7         |
| Unrestricted                     | <u>199.0</u>    | <u>169.7</u>    | <u>154.6</u>    |
| Total net position               | <u>\$ 216.0</u> | <u>\$ 186.5</u> | <u>\$ 166.3</u> |

**2020 Compared to 2019**

Net investment in capital assets at December 31, 2020 slightly increased by \$0.2 million during the year. This increase is primarily attributable to increased commitment of funds for capital projects, partially offset by normal depreciation during the year. The unrestricted component of the net position at December 31, 2020 increased by \$29.3 million during the year primarily as a result of net cash flows from operations.

**2019 Compared to 2018**

Net investment in capital assets at December 31, 2019 increased by \$5.1 million during the year. This increase is primarily attributable to increased commitment of funds for capital projects, partially offset by normal depreciation during the year. The unrestricted component of the net position at December 31, 2019 increased by \$15.1 million during the year primarily as a result of net cash flows from operations.

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**Changes in Net Position**

**Condensed Statements of Revenues, Expenses and Changes in Net Position (in millions)**

|                              | 2020           | 2019           | 2018          |
|------------------------------|----------------|----------------|---------------|
| Operating revenues           | \$ 240.5       | \$ 222.7       | \$ 223.8      |
| Operating expenses           | <u>216.1</u>   | <u>205.6</u>   | <u>213.7</u>  |
| Operating income             | 24.4           | 17.1           | 10.1          |
| Other income/(expenses), net | <u>5.2</u>     | <u>3.0</u>     | <u>(5.1)</u>  |
| Change in net position       | <u>\$ 29.6</u> | <u>\$ 20.1</u> | <u>\$ 5.0</u> |

**Operating Revenues**

**2020 Compared to 2019**

Total operating revenues increased during the year by \$17.8 million. This is primarily due to increases in other revenues of \$18.7 million primarily due to the increases in reliability coordinator services of \$14.2 million, EIM revenues of \$1.6 million and generator interconnection study revenues of \$1.6 million, EIM administration charges of \$0.9 million, partially offset by a decrease in GMC revenues of \$1.3 million due to a lower revenue requirement.

**2019 Compared to 2018**

Total operating revenues slightly decreased during the year by \$1.1 million. This is primarily due to a decrease in GMC revenues of \$6.7 million due to a lower revenue requirement partially offset by increases in other revenues of \$5.6 million primarily due to charges related to the new reliability coordinator services.

**Operating Expenses and Percentages (in millions)**

|   | 2020            | 2019            | 2018            |
|---|-----------------|-----------------|-----------------|
| Salaries and related benefits                     | \$ 138.0        | \$ 128.7        | \$ 127.7        |
| Communication and technology costs                | 20.7            | 19.6            | 19.3            |
| Legal and consulting costs                        | 20.1            | 18.4            | 18.9            |
| Leases, facilities and other administrative costs | 11.1            | 12.3            | 12.5            |
| Depreciation and amortization                     | <u>26.2</u>     | <u>26.6</u>     | <u>35.3</u>     |
| Total operating expenses                          | <u>\$ 216.1</u> | <u>\$ 205.6</u> | <u>\$ 213.7</u> |
| Salaries and related benefits                     | 64 %            | 63 %            | 60 %            |
| Communication and technology costs                | 10              | 9               | 9               |
| Legal and consulting costs                        | 9               | 9               | 9               |
| Leases, facilities and other administrative costs | 5               | 6               | 6               |
| Depreciation and amortization                     | <u>12</u>       | <u>13</u>       | <u>16</u>       |
| Total operating expenses (%)                      | <u>100 %</u>    | <u>100 %</u>    | <u>100 %</u>    |

**2020 Compared to 2019**

Operating expenses were \$10.5 million higher for the year ended December 31, 2020, compared to the year ended December 31, 2019. The increase is primarily due to higher salaries and related benefits of \$9.3 million, as a result of a higher number of employees and cost of living increases. Additionally, legal and consulting costs is higher by \$1.7 million due to costs related to the COVID-19 and communication and technology costs is higher by \$1.1 million due to increased contract

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staff costs. These increases were offset by lower leases, facilities and other administrative costs of \$1.2 million due primarily to reduced transportation and travel costs and the decrease in depreciation of \$0.4 million. Depreciation was lower in 2020 due to a lower depreciation base due to the full depreciation of certain assets.

**2019 Compared to 2018**

Operating expenses were \$8.1 million lower for the year ended December 31, 2019, compared to the year ended December 31, 2018. This is primarily due to lower depreciation expense of \$8.7 million, partially offset by slight increases in other expenses categories. Depreciation was lower in 2019 due to a lower depreciation base due to the full depreciation of certain assets.

**Other Income (Expense), Net (in millions)**

|                                   | 2020          | 2019          | 2018            |
|-----------------------------------|---------------|---------------|-----------------|
| Interest income                   | \$ 12.0       | \$ 11.0       | \$ 2.5          |
| Generator fines settlement        | 1.4           | -             | -               |
| Interest expense                  | <u>(8.2)</u>  | <u>(8.0)</u>  | <u>(8.2)</u>    |
| Total other income/(expense), net | <u>\$ 5.2</u> | <u>\$ 3.0</u> | <u>\$ (5.7)</u> |

**2020 Compared to 2019**

Total other income increased by \$2.2 million for the year ended December 31, 2020 compared to the year ended December 31, 2019. This increase is attributable to \$1.0 million of higher interest income and to the recognition of a gain of \$1.4 million, as a result of the de-recognition of the liability associated with the generator fines, as explained in Note 5. The increases are partially offset by a slightly higher interest expense of \$0.2 million. The increase in interest income is primarily due to higher unrealized gains of \$1.4 million on the market value of investments and to higher miscellaneous income of \$0.2 million, partially offset by lower capitalized interest of \$0.6 million in 2020. The slight increase in interest expense is primarily due to the net effect of an interest adjustment in 2019.

**2019 Compared to 2018**

Total other expense decreased by \$8.7 million for the year ended December 31, 2019 compared to the year ended December 31, 2018. This decrease is attributable to \$8.5 million of higher interest income and \$0.2 million of lower interest expense. The increase in interest income is primarily due to higher earned interest of \$1.4 million and unrealized gains of \$6.5 million on the market value of investments as compared to unrealized losses and to higher capitalized interest of \$0.6 million in 2019. The slight decrease in interest expense is primarily due to lower outstanding debt because of bond repayments.

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**Statements of Net Position**  
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|   | 2020                  | 2019              |
|---|-----------------------|-------------------|
|   | <i>(in thousands)</i> |                   |
| <b>Assets and deferred outflows</b>                     |                       |                   |
| Current assets  |                       |                   |
| Cash and cash equivalents, including restricted amounts | \$ 471,005            | \$ 366,395        |
| Accounts receivable                                     | 13,997                | 25,635            |
| Short-term investments, including restricted amounts    | 68,132                | 72,476            |
| Other current assets                                    | 6,286                 | 6,067             |
| Total current assets                                    | <u>559,420</u>        | <u>470,573</u>    |
| Noncurrent assets                                       |                       |                   |
| Long-term investments, including restricted amounts     | 212,148               | 193,263           |
| Fixed assets, net                                       | 165,669               | 170,858           |
| Other assets  | 7,892                 | 6,952             |
| Total noncurrent assets                                 | <u>385,709</u>        | <u>371,073</u>    |
| Total assets  | <u>945,129</u>        | <u>841,646</u>    |
| <b>Deferred outflows</b>                                |                       |                   |
| Unamortized loss on refunding of bonds                  | <u>6,453</u>          | <u>7,068</u>      |
| Total deferred outflows                                 | <u>6,453</u>          | <u>7,068</u>      |
| Total assets and deferred outflows                      | <u>\$ 951,582</u>     | <u>\$ 848,714</u> |
| <b>Liabilities, deferred inflows and net position</b>   |                       |                   |
| Current liabilities                                     |                       |                   |
| Accounts payable and accrued expenses                   | \$ 11,754             | \$ 13,954         |
| Accrued salaries and compensated absences               | 43,448                | 37,916            |
| Current portion of long-term debt                       | 5,395                 | 5,165             |
| Due to market participants                              | 492,419               | 414,785           |
| Generator noncompliance fines refund obligation         | -                     | 1,426             |
| Total current liabilities                               | <u>553,016</u>        | <u>473,246</u>    |
| Noncurrent liabilities                                  |                       |                   |
| Long-term debt, net of current portion                  | 164,054               | 170,027           |
| Employee retirement plan obligations                    | 8,876                 | 10,733            |
| Total noncurrent liabilities                            | <u>172,930</u>        | <u>180,760</u>    |
| Total liabilities                                       | <u>725,946</u>        | <u>654,006</u>    |
| <b>Deferred inflows</b>                                 |                       |                   |
| Unamortized other post employment benefit costs         | <u>9,596</u>          | <u>8,247</u>      |
| Total deferred inflows                                  | <u>9,596</u>          | <u>8,247</u>      |
| <b>Commitments and Contingencies (See Notes 10-12)</b>  |                       |                   |
| <b>Net position</b>                                     |                       |                   |
| Net investment in capital assets                        | 17,077                | 16,743            |
| Unrestricted  | 198,963               | 169,717           |
| Total net position                                      | <u>216,040</u>        | <u>186,460</u>    |
| Total liabilities, deferred inflows and net position    | <u>\$ 951,582</u>     | <u>\$ 848,713</u> |

The accompanying notes are an integral part of these financial statements.

**California Independent System Operator Corporation**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2020 and 2019**

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|   | <b>2020</b>           | <b>2019</b>       |
|---|-----------------------|-------------------|
|   | <i>(in thousands)</i> |                   |
| <b>Operating revenues</b>                                   |                       |                   |
| GMC revenue   | \$ 191,751            | \$ 192,669        |
| Other revenues  | 48,726                | 30,017            |
| Total operating revenues                                    | <u>240,477</u>        | <u>222,686</u>    |
| <b>Operating expenses</b>                                   |                       |                   |
| Salaries and related benefits                               | 137,955               | 128,726           |
| Equipment leases and facility costs                         | 2,266                 | 2,149             |
| Communications, technology and temporary staffing contracts | 20,730                | 19,521            |
| Legal and consulting services                               | 20,084                | 18,422            |
| Training, travel and professional dues                      | 1,109                 | 2,534             |
| Insurance, administrative and other expenses                | 7,726                 | 7,622             |
| Depreciation and amortization                               | 26,226                | 26,605            |
| Total operating expenses                                    | <u>216,096</u>        | <u>205,579</u>    |
| Operating income from operations                            | <u>24,381</u>         | <u>17,107</u>     |
| Other income (expense)                                      |                       |                   |
| Interest income   | 11,965                | 11,079            |
| Generator fines settlement (Note 5)                         | 1,418                 | -                 |
| Interest expense  | <u>(8,184)</u>        | <u>(8,033)</u>    |
| Total other income, net                                     | <u>5,199</u>          | <u>3,046</u>      |
| Change in net position                                      | 29,580                | 20,153            |
| <b>Net position</b>   |                       |                   |
| Beginning of year   | <u>186,460</u>        | <u>166,307</u>    |
| End of year   | <u>\$ 216,040</u>     | <u>\$ 186,460</u> |

The accompanying notes are an integral part of these financial statements.

**California Independent System Operator Corporation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2020 and 2019**

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|   | <b>2020</b>           | <b>2019</b>       |
|---|-----------------------|-------------------|
|   | <i>(in thousands)</i> |                   |
| <b>Cash flows from operating activities</b>                               |                       |                   |
| Receipts from scheduling coordinators for GMC                             | \$ 199,174            | \$ 188,014        |
| Other receipts  | 52,942                | 31,420            |
| Payments to employees and to others for related benefits                  | (133,569)             | (129,777)         |
| Payments to vendors/others  | (54,948)              | (48,463)          |
| Receipts from market participants   | 524,243               | 519,094           |
| Payments to market participants   | <u>(446,609)</u>      | <u>(449,490)</u>  |
| Net cash provided by operating activities                                 | <u>141,233</u>        | <u>110,798</u>    |
| <b>Cash flows from capital and related financing activities</b>           |                       |                   |
| Repayment of bonds  | (5,165)               | (4,970)           |
| Purchases and development of fixed assets                                 | (22,104)              | (29,697)          |
| Interest on debt  | <u>(8,242)</u>        | <u>(8,457)</u>    |
| Net cash used in capital financing activities                             | <u>(35,511)</u>       | <u>(43,124)</u>   |
| <b>Cash flows from investing activities</b>                               |                       |                   |
| Purchases of investments  | (93,230)              | (99,432)          |
| Sales and maturities of investments                                       | 78,689                | 62,632            |
| Interest received   | <u>13,429</u>         | <u>10,620</u>     |
| Net cash used in investing activities                                     | <u>(1,112)</u>        | <u>(26,180)</u>   |
| Net increase in cash and cash equivalents,<br>restricted and unrestricted | 104,610               | 41,494            |
| <b>Cash and cash equivalents, restricted and unrestricted</b>             |                       |                   |
| Beginning of year   | <u>366,395</u>        | <u>324,901</u>    |
| End of year   | <u>\$ 471,005</u>     | <u>\$ 366,395</u> |

The accompanying notes are an integral part of these financial statements.

**California Independent System Operator Corporation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2020 and 2019**

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|  | <b>2020</b>           | <b>2019</b>       |
|--|-----------------------|-------------------|
|  | <i>(in thousands)</i> |                   |
| <b>Supplemental information</b>  |                       |                   |
| Cash paid for interest for bonds   | \$ 8,242              | \$ 8,457          |
| <b>Reconciliation of income from operations to net cash provided by/(used in) operating activities</b> |                       |                   |
| Operating income from operations   | \$ 24,381             | \$ 17,107         |
| Adjustments to reconcile income from operations to net cash provided by operating activities           |                       |                   |
| Depreciation and amortization  | 26,226                | 26,605            |
| Changes in operating assets, deferred outflows and liabilities   |                       |                   |
| Accounts receivable and other assets   | 10,155                | (4,580)           |
| Deferred inflows/outflows  | 1,349                 | 5,332             |
| Accounts payable and other accrued expenses  | 1,488                 | (3,269)           |
| Due to market participants   | 77,634                | 69,603            |
| Net cash provided by/(used in) operating activities  | <u>\$ 141,233</u>     | <u>\$ 110,798</u> |
| <b>Supplemental disclosure of noncash financing and investing activities</b>                           |                       |                   |
| Amortization of bond premium   | \$ 578                | \$ 596            |
| Amortization of loss on refunding  | (615)                 | (634)             |
| Generator fines interest included in interest expense  | -                     | 379               |
| Change in purchases and development of fixed assets included in accounts payable and accrued expenses  | 1,344                 | 99                |

The accompanying notes are an integral part of these financial statements.

# California Independent System Operator Corporation

## Notes to Financial Statements

### December 31, 2020 and 2019

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#### 1. Organization and Operations

The Company, a nonprofit public benefit corporation, is responsible for ensuring the reliable and efficient use of the transmission grid in most of California and a part of Nevada. The Company operates this grid, which is one of the largest and most modern power grids in the world, as a balancing authority within the Western Electricity Coordinating Council. The Company conducts comprehensive planning for the future development of this grid.

The Company is regulated by the Federal Energy Regulatory Commission and complies with standards set by the North American Electric Reliability Corporation and the Western Electricity Coordinating Council. A five-member Board of Governors (the “Board”) appointed by the Governor of California and confirmed by the California State Senate governs the Company.

The Company’s wholesale energy market is the vehicle for providing open-access transmission service to users of the transmission grid. It includes a day-ahead market for all twenty-four hours of the next operating day, and a real-time market that schedules resources in 15-minute intervals and dispatches them in 5-minute intervals. The day-ahead market clears supply and demand offers for short-term energy purchases and sales. The real-time market clears supply offers and the Company’s forecast of demand. Together, these enable the economic scheduling and dispatch of generating resources to maintain continuous balance of supply and demand and management of congestion on the grid. The market also procures reserve capacity or ancillary services to maintain reliable operation under unexpected changes in grid conditions.

The Company continues to develop enhancements to increase reliability, efficiency and the accuracy of market results. The market prices energy at the points it enters and leaves the grid, which increases transparency by sending signals for competitive investments in transmission and generation. The market operates on an advanced flexible platform that helps to integrate renewable resources as well as demand response. These on-going enhancements increase the functionality and flexibility of the market system to meet the needs of market participants.

The Company also operates the Western Energy Imbalance Market (the “EIM”). This extension of the Company’s real-time energy market facilitates transactions with and among several balancing authority areas in the western interconnection that are not a part of the grid the Company operates. The EIM provides reliability, efficiency and renewable integration benefits to the West while also providing economic benefits to participants. The broader footprint for the real-time market provides more opportunities to integrate cleaner sources of energy, such as wind and solar, that may be produced in one area but needed in another. In addition to the Company, ten other balancing authorities are participating as of the end of 2020 and several others have committed to participate in the future.

In 2019, the ISO became the Reliability Coordinator for entities within its footprint and for most of the balancing authorities and transmission operators in the West. As the Reliability Coordinator (a business unit known externally as “RC West”), the ISO has the highest level of authority and responsibility for the reliable operation of the power grid, and has a wide-area view of the bulk electricity system. It is required to comply with federal and regional grid standards, and can authorize measures to prevent or mitigate system emergencies in day-ahead or real-time operations. The ISO is currently the Reliability Coordinator of record for forty-two balancing authorities and transmission operators in the West.

# California Independent System Operator Corporation

## Notes to Financial Statements

### December 31, 2020 and 2019

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In addition, the Company also performs a settlement and clearing function by charging and collecting payments from users of these services and paying providers of such services. Cash held by the Company on behalf of market participants is recorded in a restricted asset account with a corresponding liability due to market participants in the statements of net position. Except for the retention of restricted assets noted above, the Company's financial statements reflect a net reporting of market activities wherein the financial statements do not include the revenues and expenses, cash flows, or assets and liabilities associated with the market transactions it facilitates. GMC revenues have a priority claim against any market-related receipts. Any market defaults are allocated to market participants.

#### *COVID-19 Outbreak*

The State of California and local government, in collaboration with the Federal government, continue sustained efforts to minimize the spread and mitigate the effects of COVID-19. The situation continues to evolve.

In response to this crisis, the Company has taken proactive measures to protect the health and safety of its staff, and safeguard the critical infrastructure of the power grid and energy market. The impacts of the various COVID-19 restrictions and protocols did not materially impact the financial results for the period. It did, however, have varying impacts on electricity demand in the first half of 2020. The Company has the ability to respond to variances in volumes by raising or lower its grid management charge to ensure full cost recovery. The full extent to which the COVID-19 impacts the Company and results of operations going forward will depend on future developments, which are highly uncertain and cannot be predicted at this time.

## 2. Summary of Significant Accounting Policies

### **Method of Accounting**

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with accounting principles for proprietary funds as prescribed by the Government Accounting Standards Board ("GASB"), and where not in conflict with GASB pronouncements, accounting principles prescribed by the Financial Accounting Standards Board ("FASB"). The Company uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

### **Net Presentation of Market Activity**

The Company is a central counterparty to the market transactions that it financially settles, with certain limited exceptions. The Company is a buyer to every seller and a seller to every buyer, but market participants are responsible for supplying electricity and other services to their customers. The Company's market participants are the primary obligors with respect to those obligations. In the event of a market default, the defaulted amount is allocated among market participants, in accordance with the tariff. Market participants continue to bear the credit risk associated with any financial defaults by other market participants. Accordingly, the Company's financial statements continue to reflect a net reporting of market activities and exclude the revenues and expenses, cash flows and assets and liabilities associated with the market transactions the Company facilitates.

### **Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

# California Independent System Operator Corporation

## Notes to Financial Statements

### December 31, 2020 and 2019

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#### **Cash and Cash Equivalents**

Cash and cash equivalents, restricted and unrestricted, include cash in bank accounts, money market funds and other highly liquid investments with original maturities of three months or less. Cash and cash equivalents are unrestricted unless specifically restricted by bond indentures or the tariff.

#### **Accounts Receivable and Revenue Recognition**

The GMC is based on rates filed with the Federal Energy Regulatory Commission and is designed to recover the Company's operating costs, capital expenditures, debt service costs, and to provide for an operating reserve. The GMC billings are recognized as revenue. The initial billings are based on estimated meter data submitted by market participants and therefore may be subject to adjustment over time to reflect the difference between actual meter data and initial estimates.

The GMC is comprised of the following three service categories: market services, system operations and congestion revenue rights services.

The operating reserve is calculated separately for each GMC service category and accumulates until the reserve becomes fully funded (at 15% of budgeted annual operating costs for each rate service category). At December 31, 2020, the operating reserve for each service category was fully funded. In accordance with the tariff, any surplus operating reserve balance is applied as a reduction in revenue requirements in the following year. The tariff allows GMC rates to be adjusted not more than once per quarter. The rate for a service category is adjusted if the difference in actual versus projected volumes used to set the rate is equal or greater than 2%, or if the difference in actual versus estimated annual revenues for the service category is equal or greater than \$1.0 million. In June 2020 and August 2020, respectively, the rates for the system operations and market services were adjusted.

In addition, the Company bills the participants of the EIM an administrative charge based on gross imbalance EIM volumes and at a rate that is calculated annually to recover the ongoing costs of operating the EIM. The EIM administrative charge is included in other revenues of the Company.

The Company also bills the balancing authorities and transmission owners that use the services of RC West based on net energy loads and at a rate that is developed annually to recover the ongoing costs of the service. Participants with no load are charged a predetermined fixed amount. The Reliability Coordinator charge is included in other revenues of the Company.

#### **Generator Interconnection Studies**

The Company is responsible for conducting generator interconnection studies at the request of project sponsors who are developing generating plants that would become connected to the transmission grid operated by the Company. The project sponsors are required to make a deposit before any studies are performed. Sponsors may withdraw their projects from the studies at any time.

In accordance with the tariff, the Company charges the project sponsors the actual costs of the studies. Related study costs include both internal costs and external costs and are recorded, when incurred, as operating expenses. As costs are incurred, the Company recognizes revenue for the same amount, which is recorded as a component of other revenues. The Company applies the deposits against the related receivable as costs are incurred. Certain deposits related to projects abandoned by the project sponsors are retained by the Company and distributed in accordance with the tariff. These distributions do not result in revenues or expenses recognized by the Company.

# California Independent System Operator Corporation

## Notes to Financial Statements

### December 31, 2020 and 2019

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#### **Generator Noncompliance Fines**

From December 8, 2000 through June 30, 2001, the Company assessed noncompliance fines on participating generators that failed to fully comply with dispatch instructions when the Company was seeking to prevent an imminent or threatened system emergency. In accordance with the tariff, the Company retains these fines. The Company recorded the net realizable amount of such fines as revenue when the underlying noncompliance event occurred. Each year the Company adjusts such amounts in recognition of these on-going developments, which affect the ultimate recognition of the fines charged and payments of the liability.

In 2020 parties involved with these proceedings filed a final settlement of all participants' assets and liabilities with FERC. Estimates were obtained in 2020 from parties involved and the proportionate allocation of shortfalls to the Company was also estimated. As a result of these estimates at December 31, 2020, the Company believes there is no remaining liability related to generator noncompliance fines.

#### **Investments**

Investments, unrestricted or restricted, include instruments with original maturities of greater than three months or, instruments that have no stated maturity and the holding period is intended to be long-term in nature. These investments primarily consist of U.S. government securities, U.S. agency securities, corporate debt securities, and equity and fixed income mutual funds. Income on investments and the gain or loss on the fair value of investments is recorded as a component of interest income.

#### **Fixed Assets**

Fixed assets are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of assets. Most of the Company's investment in fixed assets consists of the headquarters building and the backup facility, both of which are being depreciated over twenty to thirty years, and information systems, which are being depreciated over three to seven years. The cost of improvements to or replacement of fixed assets is capitalized. When assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts and any resulting gain or loss is reflected in the Company's Statement of Changes in Revenues, Expenses and Changes in Net Position for the period. Repair and maintenance costs are expensed when incurred. The Company capitalizes direct costs of salaries and certain indirect costs to develop or obtain software for internal use. Costs related to software development during the preliminary stage of a project and training and maintenance costs are expensed as incurred. Costs related to abandoned projects are expensed when the decision to abandon is made.

#### **Other Assets**

Other assets include certain employee retirement plan trust accounts.

#### **Compensated Absences**

The Company accrues vacation leave when the employee becomes eligible for the benefit. The Company does not record sick leave or other leave as a liability since there are no cash payments for sick leave or other leave made when employees terminate or retire. At December 31, 2020 and 2019, the total accrued liability for vacation was \$12.6 million and \$10.2 million, respectively.

#### **Income Taxes**

The Company is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Service (IRS) Code and is exempt from California State franchise income taxes.

# California Independent System Operator Corporation

## Notes to Financial Statements

### December 31, 2020 and 2019

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#### Net Position

The Company classifies its net position into three components:

- **Net investment in capital assets** - This component consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances, net of unamortized debt expenses.
- **Restricted** - This component consists of net assets with constraints placed on their use. Constraints include those imposed by debt covenants (excluding amounts considered in net capital, above) and by the Company's tariff and agreements with external parties.
- **Unrestricted** - This component consists of net assets that do not meet the definition of "invested in capital, net of related debt" or "restricted".

The Company had no restricted component of the net position at December 31, 2020 or 2019.

#### Concentration of Credit Risk

Financial instruments that subject the Company to credit risk consist primarily of accounts receivable relating to GMC billings due from market participants and cash and cash equivalents and investments.

Most of the Company's receivables are due from entities in the energy industry, including utilities, generation owners and other electricity market participants. For the years ended December 31, 2020 and 2019, approximately 37% and 38% of modified revenues, respectively, were from two market participants. Modified revenues include all operating revenues except for incidental pass-thru fees paid by various parties.

GMC revenues have a priority claim against any market-related receipts, which means that even if a market participant defaults on an invoice containing a GMC charge, the Company receives the full GMC so long as sufficient funds were received on other market invoices to fund the GMC due to the Company.

The Company's concentration of credit risk related to cash and cash equivalents, and investments is described in Note 3.

#### New GASB Guidance

In January 2017, the Governmental Accounting Standard Board (GASB) issued GASB Statement No. 84 *Fiduciary Activities*, to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement was originally effective for reporting beginning after December 15, 2018 but was subsequently deferred until December 15, 2019.

In June 2020, GASB issued GASB Statement No. 97 *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, which clarified certain guidance components of previously issued statements relating to the reporting of fiduciary activities. The new statement amended GASB Statements No. 14 and No. 84, and superseded GASB Statement No. 32. The statement is effective for fiscal years beginning after June 15, 2021.

The Company evaluated the impact of the two related statements and concluded that implementation of these statements did not have a material impact to the Company's financial statements.

# California Independent System Operator Corporation

## Notes to Financial Statements

### December 31, 2020 and 2019

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In June of 2018, GASB issued GASB Statement No. 89 *Accounting for Interest Cost Incurred before the End of a Construction Period*. The statement is effective for reporting periods beginning after December 15, 2019. The Company had evaluated and concluded that the new guidance has no material impact on the Company's financial statements.

### 3. Cash and Cash Equivalents and Investments

#### Investment Policy

The Company maintains an investment policy approved by its Board of Governors, which provides investment guidelines of the majority of the Company's unrestricted funds. The policy's guidelines address permissible investment types, credit risk, concentration of credit risk, interest rate risk, custodial credit risk and other investment portfolio parameters.

Restricted funds, such as bond proceeds and amounts due to market participants, are invested according to the Company's bond indentures and tariff, respectively, both of which are more restrictive than the investment policy. A portion of the Company's unrestricted funds, \$6.4 million as of December 31, 2020, has been designated by the Company as assets related to the liabilities associated with the Company's Retiree Medical Plan. These assets are governed by a separate investment policy approved by the Board of Governors, which is aligned with the Company's long-term pension obligations to fund postretirement health benefits.

#### Credit Risk

To mitigate the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, the Company limits purchases of investments to those rated at the time of purchase by two of the following nationally recognized statistical rating organizations: Standard & Poor's, Moody's, and Fitch. The investment must have at least two ratings that meet a minimum rating of at least A-1 (or equivalent) for short-term obligations such as commercial paper and at least A- (or equivalent) for longer term obligations like corporate medium-term notes. In the event of split ratings, the lowest rating is considered the overall credit rating. This policy includes exceptions that allow the Company to invest in certificates of deposit issued by lower rated banks up to the FDIC insured limit and to hold investments that have been downgraded below the policy rating minimums if approved to do so by the Company's internal investment committee.

Money Market Fund rules require the use of a floating net asset (NAV) for institutional prime money market funds and provide boards with the ability to impose liquidity fees, as well as implement redemption gates, for all nongovernmental money market funds during periods of stress in the financial markets. Under normal circumstances, a floating NAV money market fund investment would continue to meet the definition of a cash equivalent. However, in the event credit or liquidity issues arise causing a meaningful decrease of the money market investments below \$1.0000 per share the classification of such investments as cash equivalents may not be appropriate. There were no credit or liquidity issues that resulted in meaningful decreases in the Company's money market investments in 2020. Therefore, amounts invested in money market funds remain classified as cash equivalents.

# California Independent System Operator Corporation

## Notes to Financial Statements

### December 31, 2020 and 2019

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#### **Concentration of Credit Risk**

This is the risk of loss associated with the percentage of an entity's investment in a single issuer. The Company's investment policy limits investments in any single issuer to no more than 5% of the portfolio, with exceptions relating to obligations issued by or fully guaranteed as to principal and interest by the United States, federal agencies or United States government sponsored enterprises, pooled investments such as money market funds, and investments procured in connection with Company bond offerings. As of December 31, 2020, other than the security exceptions described above, the Company had no investments in any one issuer representing more than 5% of total cash and cash equivalents and investments.

#### **Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution or counterparty, the Company will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party.

The Company may maintain balances in bank accounts exceeding the FDIC insured level of \$250,000. In the event of a bank default, the Company's deposits may not be returned. The Company had unrestricted noninterest-bearing bank deposits in amounts of \$0.4 million and \$0.3 million at December 31, 2020 and 2019, respectively. Additionally, the Company had restricted noninterest-bearing bank deposits in amounts of \$3.1 million and \$47.4 million at December 31, 2020 and 2019, respectively. All other investments purchased by the Company, by policy, are held in custodial accounts by third-party custodians and are registered in the Company's name, thereby minimizing any custodial credit risk.

#### **Interest Rate Risk**

Changes in interest rates may adversely affect the fair value of the Company's investments and its cash flows. A sharp rise in market interest rates could have a material adverse impact on the fair value of our fixed income investment portfolio. Conversely, declines in interest rates, could have a material adverse impact on interest income for our investment portfolio. The Company's investment policy attempts to mitigate this risk by limiting the maximum maturity of any direct investment to five years with the exception of bond proceeds and the assets associated with the Retiree Medical Plan liabilities. The fixed income mutual funds that the Company invests in, also have similar duration targets.

**California Independent System Operator Corporation**  
**Notes to Financial Statements**  
**December 31, 2020 and 2019**

**Summary of Balances**

At December 31, 2020, the Company's cash, cash equivalents and investments consist of the following (in thousands):

| Description                                  | Credit Rating* | Remaining Maturities (in Years) |                   |              | Total             |
|--|----------------|---------------------------------|-------------------|--------------|-------------------|
|  |                | Less than 1                     | 1 - 5             | More than 5  |                   |
| Cash and cash equivalents - unrestricted     |                |                                 |                   |              |                   |
| Deposits                                     |                | \$ 220                          | \$ -              | \$ -         | \$ 220            |
| Money Market Funds                           | AAAm           | 23,109                          |                   |              | 23,109            |
|  |                | <u>23,329</u>                   | <u>-</u>          | <u>-</u>     | <u>23,329</u>     |
| Cash and cash equivalents - restricted       |                |                                 |                   |              |                   |
| Deposits                                     |                | 762                             |                   |              | 762               |
| Money Market Funds                           | AAAm           | 446,914                         |                   |              | 446,914           |
|  |                | <u>447,676</u>                  | <u>-</u>          | <u>-</u>     | <u>447,676</u>    |
| Total cash and cash equivalents              |                | <u>471,005</u>                  | <u>-</u>          | <u>-</u>     | <u>471,005</u>    |
| Short term investments - unrestricted        |                |                                 |                   |              |                   |
| Mutual Funds                                 | Unrated        | 15,338                          |                   |              | 15,338            |
| Certificate of Deposits                      | FDIC Insured   | 3,267                           |                   |              | 3,267             |
| Government-sponsored Enterprises             | AA+            | 5,024                           |                   |              | 5,024             |
| U.S Treasury                                 | AA+            | 12,108                          |                   |              | 12,108            |
| Corporate Notes                              | AA-            | 2,024                           |                   |              | 2,024             |
| Corporate Notes                              | A+             | 1,010                           |                   |              | 1,010             |
| Corporate Notes                              | A              | 1,012                           |                   |              | 1,012             |
| Corporate Notes                              | A-             | 900                             |                   |              | 900               |
| Corporate Notes                              | BBB+           | 1,509                           |                   |              | 1,509             |
| Corporate Notes                              | BBB            | 1,155                           |                   |              | 1,155             |
|  |                | <u>43,347</u>                   | <u>-</u>          | <u>-</u>     | <u>43,347</u>     |
| Short term investments - restricted          |                |                                 |                   |              |                   |
| Certificate of Deposits                      | FDIC Insured   | 24,785                          |                   |              | 24,785            |
|  |                | <u>24,785</u>                   | <u>-</u>          | <u>-</u>     | <u>24,785</u>     |
| Total short-term investments                 |                | <u>68,132</u>                   | <u>-</u>          | <u>-</u>     | <u>68,132</u>     |
| Long-term investments - unrestricted         |                |                                 |                   |              |                   |
| Affinity Insurance Ltd.                      | Unrated        |                                 |                   | 37           | 37                |
| Certificate of Deposits                      | FDIC Insured   |                                 | 343               |              | 343               |
| Mutual Funds                                 | Unrated        |                                 | 173,373           |              | 173,373           |
| U.S. Treasury                                | AA+            |                                 | 9,225             |              | 9,225             |
| Government-sponsored enterprises             | AA+            |                                 | 2,038             |              | 2,038             |
| Corporate Notes                              | AAA            |                                 | -                 |              | -                 |
| Corporate Notes                              | AA+            |                                 | 1,026             |              | 1,026             |
| Corporate Notes                              | AA-            |                                 | -                 |              | -                 |
| Corporate Notes                              | A+             |                                 | 1,571             |              | 1,571             |
| Corporate Notes                              | A              |                                 | 4,827             |              | 4,827             |
| Corporate Notes                              | A-             |                                 | -                 |              | -                 |
| Corporate Notes                              | BBB+           |                                 | -                 |              | -                 |
|  |                | <u>-</u>                        | <u>192,403</u>    | <u>37</u>    | <u>192,440</u>    |
| Long-term investments - restricted           |                |                                 |                   |              |                   |
| Certificate of Deposits                      | FDIC Insured   |                                 | 19,708            |              | 19,708            |
| Total long-term investments                  |                | <u>-</u>                        | <u>212,111</u>    | <u>37</u>    | <u>212,148</u>    |
| Total cash, cash equivalents and investments |                | <u>\$ 539,137</u>               | <u>\$ 212,111</u> | <u>\$ 37</u> | <u>\$ 751,285</u> |

\*Represents S&P rating.

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At December 31, 2019, the Company's cash, cash equivalents and investments consist of the following (in thousands):

| Description                                  | Credit Rating* | Remaining Maturities (in Years) |            |             | Total          |
|--|----------------|---------------------------------|------------|-------------|----------------|
|  |                | Less than 1                     | 1 - 5      | More than 5 |                |
| Cash and cash equivalents - unrestricted     |                |                                 |            |             |                |
| Deposits                                     |                | \$ 65                           | \$ -       | \$ -        | \$ 65          |
| Money Market Funds                           | AAAm           | 5,806                           |            |             | 5,806          |
|  |                | <u>5,871</u>                    | <u>-</u>   | <u>-</u>    | <u>5,871</u>   |
| Cash and cash equivalents - restricted       |                |                                 |            |             |                |
| Deposits                                     |                | 56,843                          | -          | -           | 56,843         |
| Money Market Funds                           | AAAm           | 303,681                         |            |             | 303,681        |
|  |                | <u>360,524</u>                  | <u>-</u>   | <u>-</u>    | <u>360,524</u> |
| Total cash and cash equivalents              |                | <u>366,395</u>                  | <u>-</u>   | <u>-</u>    | <u>366,395</u> |
| Short term investments - unrestricted        |                |                                 |            |             |                |
| Mutual Funds                                 | Unrated        | 10,537                          |            |             | 10,537         |
| Certificate of Deposits                      | FDIC Insured   | 4,839                           |            |             | 4,839          |
| Government-sponsored Enterprises             | AA+            | 11,606                          |            |             | 11,606         |
| U.S Treasury                                 | AA+            | 19,031                          |            |             | 19,031         |
| Corporate Notes                              | AAA            | 1,002                           |            |             | 1,002          |
| Corporate Notes                              | AA-            | 1,000                           |            |             | 1,000          |
| Corporate Notes                              | A+             | 502                             |            |             | 502            |
|  |                | <u>48,517</u>                   | <u>-</u>   | <u>-</u>    | <u>48,517</u>  |
| Short term investments - restricted          |                |                                 |            |             |                |
| Certificate of Deposits                      | FDIC Insured   | 23,959                          |            |             | 23,959         |
|  |                | <u>23,959</u>                   | <u>-</u>   | <u>-</u>    | <u>23,959</u>  |
| Total short-term investments                 |                | <u>72,476</u>                   | <u>-</u>   | <u>-</u>    | <u>72,476</u>  |
| Long-term investments - unrestricted         |                |                                 |            |             |                |
| Affinity Insurance Ltd.                      | Unrated        |                                 |            | 37          | 37             |
| Certificate of Deposits                      | FDIC Insured   |                                 | 3,232      |             | 3,232          |
| Mutual Funds                                 | Unrated        |                                 | 116,348    |             | 116,348        |
| U.S. Treasury                                | AA+            |                                 | 21,214     |             | 21,214         |
| Government-sponsored enterprises             | AA+            |                                 | 9,004      |             | 9,004          |
| Corporate Notes                              | AAA            |                                 |            |             | -              |
| Corporate Notes                              | AA+            |                                 | 1,013      |             | 1,013          |
| Corporate Notes                              | AA-            |                                 | 1,998      |             | 1,998          |
| Corporate Notes                              | A+             |                                 | 3,553      |             | 3,553          |
| Corporate Notes                              | A              |                                 | 5,771      |             | 5,771          |
| Corporate Notes                              | A-             |                                 | 902        |             | 902            |
| Corporate Notes                              | BBB+           |                                 | 2,667      |             | 2,667          |
|  |                | -                               | 165,702    | 37          | 165,739        |
| Long-term investments - restricted           |                |                                 |            |             |                |
| Certificate of Deposits                      | FDIC Insured   |                                 | 27,524     |             | 27,524         |
| Total long-term investments                  |                | -                               | 193,226    | 37          | 193,263        |
| Total cash, cash equivalents and investments |                | \$ 438,871                      | \$ 193,226 | \$ 37       | \$ 632,134     |

\*Represents S&P rating.

**California Independent System Operator Corporation**  
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The Company's cash, cash equivalents and investments at December 31 consist of unrestricted and restricted funds as follows (in thousands):

|  | <b>2020</b>       | <b>2019</b>       |
|--|-------------------|-------------------|
| Unrestricted funds, operating account        | \$ 259,116        | \$ 220,127        |
| Restricted funds, market participants        | <u>492,169</u>    | <u>412,008</u>    |
| Total cash, cash equivalents and investments | <u>\$ 751,285</u> | <u>\$ 632,135</u> |

Cash, cash equivalents and investments restricted for market participants consist of the following at December 31 (in thousands):

|  | <b>2020</b>       | <b>2019</b>       |
|--|-------------------|-------------------|
| Security deposits                                | \$ 302,501        | \$ 213,038        |
| Market funds pending settlement                  | 71,763            | 101,009           |
| Pass-through fees due to others                  | 13,969            | 12,995            |
| Generator interconnection study deposits         | 94,964            | 75,904            |
| Non-refundable deposits pending distribution     | <u>8,972</u>      | <u>9,062</u>      |
| Total amounts restricted for market participants | <u>\$ 492,169</u> | <u>\$ 412,008</u> |

Cash, cash equivalents and investments restricted for market participants consist of amounts held by the Company to be remitted to market participants or others on their behalf. Security deposits are amounts received from market participants who are required to post collateral for their transactions in the Company's markets. Market funds pending settlement consist of amounts collected during the settlement and clearing function that will pass-through to market participants in subsequent periods. Pass-through fees due to others consist of amounts collected from market participants that will be paid to market participants for summer reliability, startup costs and emission costs. Generator interconnection study deposits are amounts collected for future studies. Nonrefundable deposits consist of interconnection amounts, which are nonrefundable to project sponsors in accordance with tariff requirements.

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**4. Fixed Assets**

Changes in the Company's fixed assets for the year ended December 31, 2020, are as follows (in thousands):

|   | 2019              | Additions<br>and<br>Transfers<br>In | Disposals<br>and<br>Transfers<br>Out | 2020              |
|---|-------------------|-------------------------------------|--------------------------------------|-------------------|
| Nondepreciable fixed assets             |                   |                                     |                                      |                   |
| Land                                    | \$ 10,561         | \$ -                                | \$ -                                 | \$ 10,561         |
| Work-in-progress                        | 6,902             | 21,038                              | (17,703)                             | 10,237            |
|   | <u>17,463</u>     | <u>21,038</u>                       | <u>(17,703)</u>                      | <u>20,798</u>     |
| Depreciable fixed assets                |                   |                                     |                                      |                   |
| Regional transmission operator software | 443,831           | 11,526                              | (262)                                | 455,095           |
| Regional transmission operator hardware | 22,030            | 3,670                               | (4,199)                              | 21,501            |
| Communication equipment                 | 11,814            | 182                                 | (1,326)                              | 10,670            |
| ISO Facilities (HQ and Lincoln)         | 161,573           | 678                                 | -                                    | 162,251           |
| Furniture, fixtures and other           | 17,947            | 1,646                               | (34)                                 | 19,559            |
|   | <u>657,195</u>    | <u>17,702</u>                       | <u>(5,821)</u>                       | <u>669,076</u>    |
| Less: Accumulated depreciation          | <u>(503,800)</u>  | <u>(26,226)</u>                     | <u>5,821</u>                         | <u>(524,205)</u>  |
|   | <u>153,395</u>    | <u>(8,524)</u>                      | <u>-</u>                             | <u>144,871</u>    |
| Total fixed assets, net                 | <u>\$ 170,858</u> | <u>\$ 12,514</u>                    | <u>\$ (17,703)</u>                   | <u>\$ 165,669</u> |

Changes in the Company's fixed assets for the year ended December 31, 2019, are as follows (in thousands):

|   | 2018              | Additions<br>and<br>Transfers<br>In | Disposals<br>and<br>Transfers<br>Out | 2019              |
|---|-------------------|-------------------------------------|--------------------------------------|-------------------|
| Nondepreciable fixed assets             |                   |                                     |                                      |                   |
| Land                                    | \$ 10,561         | \$ -                                | \$ -                                 | \$ 10,561         |
| Work-in-progress                        | 16,852            | 30,383                              | (40,333)                             | 6,902             |
|   | <u>27,413</u>     | <u>30,383</u>                       | <u>(40,333)</u>                      | <u>17,463</u>     |
| Depreciable fixed assets                |                   |                                     |                                      |                   |
| Regional transmission operator software | 421,838           | 35,381                              | (13,388)                             | 443,831           |
| Regional transmission operator hardware | 20,754            | 1,715                               | (439)                                | 22,030            |
| Communication equipment                 | 10,833            | 1,007                               | (26)                                 | 11,814            |
| ISO Facilities (HQ and Lincoln)         | 161,517           | 56                                  | -                                    | 161,573           |
| Furniture, fixtures and other           | 15,899            | 2,174                               | (126)                                | 17,947            |
|   | <u>630,841</u>    | <u>40,333</u>                       | <u>(13,979)</u>                      | <u>657,195</u>    |
| Less: Accumulated depreciation          | <u>(491,174)</u>  | <u>(26,605)</u>                     | <u>13,979</u>                        | <u>(503,800)</u>  |
|   | <u>139,667</u>    | <u>13,728</u>                       | <u>-</u>                             | <u>153,395</u>    |
| Total fixed assets, net                 | <u>\$ 167,080</u> | <u>\$ 44,111</u>                    | <u>\$ (40,333)</u>                   | <u>\$ 170,858</u> |

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**5. Generator Noncompliance Fines**

In 2000 and 2001, the Company billed generator noncompliance fines to market participants, of which the Company collected \$60.7 million. Generally, these fines were assessed at a rate corresponding to twice the highest price paid in the Company's markets for energy during the interval when the generator failed to comply the dispatch instruction. Because the energy prices for this period are being adjusted as a result of the Federal Energy Regulatory Commission Refund Case, as described in Note 12, the amount of the fines to be retained by the Company is being reduced, with any surplus collections being refunded with interest to market participants. The Company accrues interest in accordance with rulings of the Federal Energy Regulatory Commission on the portion of fines collected in excess of the estimated realizable amount, which is to be refunded to market participants when the amounts are settled. The ultimate settlement of fines is expected after the conclusion of the proceedings in the Federal Energy Regulatory Commission Refund Case and the financial settlement of the California Power Exchange (Cal PX).

Each year, the Company adjusts its estimated refund liability based on updated information it obtains related to interest and other factors that will serve to change the estimated amount of generator fine proceeds the Company will ultimately retain, which consequently modifies the generator fine collections that will be returned to market participants.

In 2020 parties involved with these proceedings filed a final settlement of all participants' assets and liabilities with FERC. Estimates were obtained in 2020 from parties involved and the proportionate allocation of shortfalls to the Company was also estimated. As a result of these estimates at December 31, 2020, the Company believes there is no remaining liability related to generator noncompliance fines and \$1.4 million was recognized as Other income.

**6. Long-term Debt and Related Agreements**

Long-term debt consists of the following at December 31 (in thousands):

|  | 2020              | 2019              |
|--|-------------------|-------------------|
| CIEDB Revenue Bonds, Series 2013                                   |                   |                   |
| Fixed interest rates of 2.00% - 5.25% with maturities through 2039 | \$ 163,380        | \$ 168,545        |
| Unamortized net premium  |                   |                   |
| Series 2013 bonds  | <u>6,069</u>      | <u>6,647</u>      |
| Total long-term debt   | 169,449           | 175,192           |
| Less: Current portion  | <u>(5,395)</u>    | <u>(5,165)</u>    |
| Total long-term debt, net of current portion                       | <u>\$ 164,054</u> | <u>\$ 170,027</u> |

Summarized activity of long-term debt for the year ended December 31, 2020, is as follows (in thousands):

|                                  | Beginning of Year | Payments          | End of Year       |
|----------------------------------|-------------------|-------------------|-------------------|
| CIEDB Revenue Bonds, Series 2013 | <u>\$ 168,545</u> | <u>\$ (5,165)</u> | <u>\$ 163,380</u> |
| Total long-term debt             | <u>\$ 168,545</u> | <u>\$ (5,165)</u> | <u>\$ 163,380</u> |

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Summarized activity of long-term debt for the year ended December 31, 2019, is as follows (in thousands):

|                                  | <b>Beginning of<br/>Year</b> | <b>Payments</b>   | <b>End of Year</b> |
|----------------------------------|------------------------------|-------------------|--------------------|
| CIEDB Revenue Bonds, Series 2013 | \$ 173,515                   | \$ (4,970)        | \$ 168,545         |
| Total long-term debt             | <u>\$ 173,515</u>            | <u>\$ (4,970)</u> | <u>\$ 168,545</u>  |

Scheduled future debt service payments for these bonds as of December 31, 2020, are as follows (in thousands):

|                             | <b>Principal</b>  | <b>Interest</b>  | <b>Total</b>      |
|-----------------------------|-------------------|------------------|-------------------|
| 2021                        | \$ 5,395          | \$ 8,005         | \$ 13,400         |
| 2022                        | 5,640             | 7,760            | 13,400            |
| 2023                        | 5,885             | 7,489            | 13,374            |
| 2024                        | 6,180             | 7,187            | 13,367            |
| 2025 - 2029                 | 35,875            | 30,828           | 66,703            |
| 2030 - 2034                 | 45,870            | 20,591           | 66,461            |
| 2035 - 2039                 | <u>58,535</u>     | <u>7,602</u>     | <u>66,137</u>     |
| Total debt service payments | <u>\$ 163,380</u> | <u>\$ 89,462</u> | <u>\$ 252,842</u> |

The Series 2013 bonds are supported by a pledge of the Company's revenues and operating reserves. In addition, the bonds are supported by a deed of trust on the Company's headquarters building and land.

Interest expense recorded by the Company related to long-term debt includes interest paid on the bonds and amortization of the bond premium.

In January 2021, the outstanding bonds were refunded from the proceeds of the California Statewide Communities Development Authority (CSCDA) 2021 Series bonds (see Note 13).

**7. Supplemental Disclosure of Derivative Financial Instruments – Congestion Revenue Rights (“CRRs”)**

As described in Note 2, the Company is the central counterparty to market participant transactions, which include CRRs. CRRs are financial instruments that enable market participants to reduce their congestion-related price risk when delivering or selling energy on the grid. A CRR provides an economic hedging mechanism against congestion charges that can be transacted by market participants separately from transmission service. These instruments are considered derivative financial instruments for accounting purposes, which would require presentation at fair value if they were recognized as assets and liabilities of the Company.

Consistent with its role in facilitating other market transactions, the Company facilitates the allocation, auctioning and ultimate settlement of CRRs in its market, but does not have economic risks and rewards associated with these financial instruments. Any market defaults are allocated to market participants. As such, they are not recognized as assets and liabilities in the Company's Statements of Net Position. However, unlike other market transactions administered by the

**California Independent System Operator Corporation**  
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Company, CRRs can be outstanding for extended periods. At December 31, 2020, the average life of the Company's CRRs was 7.55 years and there were a total of 101 CRR holders, compared to 7.84 years and 99 CRR holders at December 31, 2019. The estimated net fair value of both the CRR assets and liabilities as of December 31, 2020 was \$1.1 billion related to a total of 649,918 megawatts, which vary in length from one month to several years. This is compared to \$841.4 million related to a total of 713,388 megawatts at December 31, 2019. The value of each megawatt of CRR is a function of numerous factors including the length of period the CRR covers.

While these amounts are not presented in the Statements of Net Position, their estimated net fair value is disclosed for informational purposes given their longer term nature. Their fair value was determined based on several factors including actual auction prices transacted in the most recent annual and monthly auction processes, the Company's models that calculate the estimated value of all transmission constraints, net present value discounting and other factors. In addition to the high level of uncertainty associated with these inputs to the valuation calculation model, changes to actual or anticipated flows and constraints on the transmission system managed by the Company or in the value of electricity flowing on the transmission system create volatility that can significantly affect CRR values. Changes in generation, load, weather, and transmission outages are other factors that can have immediate and significant impact on CRR values.

The following is a summary of CRR megawatts, by type, outstanding at December 31, 2020:

| <b>Type (in Megawatts)</b>               |                |
|--|----------------|
| Monthly (January 2021)                   | 31,631         |
| Annual (February - December 2021)        | 357,634        |
| Long Term (January 2021 - December 2030) | <u>260,653</u> |
| Total CRRs (Megawatts)                   | <u>649,918</u> |

The following is a summary of CRR megawatts, by type, outstanding at December 31, 2019:

| <b>Type (in Megawatts)</b>               |                |
|--|----------------|
| Monthly (January 2020)                   | 37,462         |
| Annual (February - December 2020)        | 374,754        |
| Long Term (January 2020 - December 2029) | <u>301,172</u> |
| Total CRRs (Megawatts)                   | <u>713,388</u> |

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**8. Fair Value of Financial Instruments**

Accounting guidance for fair value measurement requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard establishes a three-tier fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

- Level 1 Applies to assets or liabilities for which there are quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.
- Level 2 Applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs and significant value drivers are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3 Applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Financial assets and liabilities are classified in their entirety based on the level of input that is considered most significant to the fair value measurement.

The Company's assets measured at fair value on a recurring basis at December 31, 2020, were as follows (in thousands):

|  | Total             | Level 1           | Level 2          | Level 3      |
|--|-------------------|-------------------|------------------|--------------|
| Cash:  | \$ 982            | \$ -              | \$ -             | \$ -         |
| Cash equivalents:                            |                   |                   |                  |              |
| Money market funds                           | 470,023           | 470,023           |                  |              |
| Short-term investments:                      |                   |                   |                  |              |
| Publicly traded mutual funds                 | 15,338            | 15,338            |                  |              |
| U.S. Treasury securities                     | 12,108            | 12,108            |                  |              |
| U.S. government agency securities            | 5,023             | 5,023             |                  |              |
| Negotiable certificates of deposit           | 28,052            |                   | 28,052           |              |
| Corporate debt securities                    | 7,610             |                   | 7,610            |              |
| Long-term investments:                       |                   |                   |                  |              |
| U.S. Treasury securities                     | 9,226             | 9,226             |                  |              |
| U.S. government agency securities            | 2,038             | 2,038             |                  |              |
| Negotiable certificates of deposit           | 20,051            |                   | 20,051           |              |
| Corporate debt securities                    | 7,424             |                   | 7,424            |              |
| Publicly traded mutual funds                 | 173,373           | 173,373           |                  |              |
| Captive insurance investment                 | 37                |                   |                  | 37           |
| Total cash, cash equivalents and investments | <u>\$ 751,285</u> | <u>\$ 687,129</u> | <u>\$ 63,137</u> | <u>\$ 37</u> |

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The Company's assets measured at fair value on a recurring basis at December 31, 2019, were as follows (in thousands):

|   | Total             | Level 1           | Level 2          | Level 3      |
|---|-------------------|-------------------|------------------|--------------|
| Cash:   | \$ 56,909         | \$ -              | \$ -             | \$ -         |
| Cash equivalents:                               |                   |                   |                  |              |
| Money market funds                              | 309,487           | 309,487           |                  |              |
| Short-term investments:                         |                   |                   |                  |              |
| Publicly traded mutual funds                    | 10,537            | 10,537            |                  |              |
| U.S. Treasury securities                        | 19,031            | 19,031            |                  |              |
| U.S. government agency securities               | 11,606            | 11,606            |                  |              |
| Negotiable certificates of deposit              | 28,799            |                   | 28,799           |              |
| Corporate debt securities                       | 2,503             |                   | 2,503            |              |
| Long-term investments:                          |                   |                   |                  |              |
| U.S. Treasury securities                        | 21,215            | 21,215            |                  |              |
| U.S. government agency securities               | 9,004             | 9,004             |                  |              |
| Negotiable certificates of deposit              | 30,756            |                   | 30,756           |              |
| Corporate debt securities                       | 15,902            |                   | 15,902           |              |
| Publicly traded mutual funds                    | 116,349           | 116,349           |                  |              |
| Captive insurance investment                    | 37                |                   |                  | 37           |
| Total cash, cash equivalents<br>and investments | <u>\$ 632,135</u> | <u>\$ 497,229</u> | <u>\$ 77,960</u> | <u>\$ 37</u> |

Level 1 money market funds and publicly traded mutual funds are determined by using quoted prices in active markets. Level 2 fixed income securities are priced using quoted market prices for similar instruments or nonbinding market prices that are corroborated by observable market data. Level 3 assets are nonnegotiable instruments that require the use of unobservable inputs in determining fair value.

The fair value of the employee retirement plan trust accounts at December 31, 2020 and 2019 was \$5.6 million and \$5.0 million, respectively. These accounts are invested in cash equivalents and publicly traded mutual funds and are classified as Level 1 assets.

The fair value of the Company's long-term debt as of December 31, 2020 and 2019 was \$176.8 million and \$185.9 million, respectively. The fair value of fixed rate long-term debt, which includes the short-term portion, is based on current market quotes that are classified as a Level 2 on the fair value hierarchy at both December 31, 2020 and 2019.

The carrying values reported in the balance sheet for current assets and liabilities, excluding amounts discussed above, approximate fair value.

Additionally, the Company had \$19.3 million and \$17.0 million at December 31, 2020 and 2019, respectively, in trust related to the post-employment medical benefit plan (Note 9). At December 31, 2020 and 2019, these trust assets consist primarily of mutual funds and are classified as Level 1 within the fair value hierarchy.

**California Independent System Operator Corporation**  
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**9. Employee Benefit Plans**

The Company maintains a number of employee benefit plans. A description of the Plans and key provisions is included below. Obligations included in the Company's Statements of Net Position related to these plans consist of the following at December 31 (in thousands):

|  | <b>2020</b>     | <b>2019</b>      |
|--|-----------------|------------------|
| Post-employment medical benefit plan       | \$ 3,233        | \$ 5,727         |
| Executive pension restoration plan         | 3,694           | 3,436            |
| Executive savings plan                     | 1,949           | 1,570            |
| Total employee retirement plan obligations | <u>\$ 8,876</u> | <u>\$ 10,733</u> |

**Post-Employment Medical Benefit Plan**

***Plan Description***

The Company sponsors the California ISO Retirees Medical Plan, a single employer defined benefit plan, to provide post-employment health care benefits to all eligible employees who retire from the Company and meet certain eligibility requirements. The Plan was amended in November 2018 effective January 1, 2019. As of January 1, 2019, the Plan is closed to new hires and rehires. Additionally, eligibility for retirement was changed to age 55 with at least 10 years of continuous service, whose combined age and years of continuous service equals or exceeds 70. For employees born after January 1, 1969, pre-65 spousal coverage ends on the participants' 75th birth date. Post-65 spousal coverage is unchanged; a spouse who is removed from pre-65 coverage may obtain coverage once they reach age 65.

Depending on years of service, the Company pays between 60% and 70% of the premiums on the coverage elections made by the beneficiaries not to exceed \$8,000 per year for individual retiree coverage and \$16,000 per year for retiree plus spouse and/or dependent. Plan benefits are available to eligible retirees and to their spouses, domestic partners and eligible dependents, as provided for under the terms of the Plan. Current plan coverage extends for the lifetime of the participants and their beneficiaries, except for dependents, which generally terminates at age 26.

The Plan provides a monthly amount per post-65 retiree and eligible post-65 dependents towards the cost of enrolling in any of the Medicare supplemental programs, and at the Company's discretion, may increase the allowance annually. Supplemental program costs in excess of the provided monthly amount are the responsibility of the retirees and or dependents.

There are 490 active employees of which, 118 are fully eligible to retire and 80 retirees eligible to receive benefits pursuant to the Plan as of December 31, 2020.

***Funding and Investment Policy***

The Company has established a trust for the purposes of funding the Plan. The trust was established as a tax-exempt voluntary employees' beneficiary association. All assets of the trust are to be used for the exclusive benefit of the participants and beneficiaries of the Plan. Although the Company has fiscal accountability for these assets and holds them in a fiduciary capacity, the assets are not considered assets of the Company and are therefore not included in the Statements of Net Position of the Company. As of December 31, 2020, and 2019, the trust assets were \$19.3 million and \$17.0 million, respectively. The Plan issues audited trust financial statements annually, which are available upon request.

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The Company's current funding policy is to annually contribute an amount such that the total amount in the trust approximates the actuarially determined liability attributable to retirees and their spouses and to active participants who are fully eligible to retire. Based on this current funding

policy, the trust was fully funded at December 31, 2020. The Company does not provide funding into the trust related to future obligations associated with employees who have not become eligible to retire, although, as part of its rate structure, the Company collects annual amounts associated with future other post-employment benefit ("OPEB") obligations for all employees. As a result, assets equivalent to the actuarially determined liability attributable to employees not yet eligible to retire are segregated in a separate custody account. The amounts are adjusted annually to match the current actuarially determined liability. These segregated assets are reported in the Company's Statements of Net Position.

The assets of both the trust and the Company's segregated funds are invested in accordance with the Board approved California ISO Retirees Medical Plan Investment Policy. In general, the assets are invested in a mix of equity and fixed income mutual funds.

The Company also currently funds disbursements for the employer portion of the premiums on the coverage elections made by the pre-65 beneficiaries, their respective spouses and, if any, dependents, and the monthly contributions to the post-65 retirees and their post-65 dependents from the segregated funds.

***Net OPEB Liability ("NOL")***

The Company's annual OPEB liabilities as of December 31, 2020 and 2019, respectively, was determined by an actuarial valuation as of those dates.

***Actuarial Methods and Assumptions***

The total OPEB liability in the December 31, 2020 and 2019 actuarial valuations were determined using actuarial assumptions, applied to all respective periods included in the measurement. The following significant actuarial methods and assumptions were used in the calculation.

|  | <b>2020</b> | <b>2019</b> |
|--|-------------|-------------|
| Discount Rate                                    | 5.40%       | 5.70%       |
| Expected Long-term Rate of Return on Plan Assets | 5.40%       | 5.70%       |
| Rate of Compensation Increase                    | 3.00%       | 3.00%       |
| Current Health Care Cost Trend Rate              | 6.50%       | 6.50%       |
| Ultimate Health Care Cost Trend Rate             | 5.00%       | 5.00%       |
| Year of Ultimate Trend Rate                      | 2027        | 2027        |

The mortality rates were based on the Pri-2012 mortality tables (Base mortality table year "2012", Table type "Total", Health type "Healthy", Table weighing "Benefit"), with Scale MP-2020 for mortality improvements to reflect the most recent mortality experience published by the Society of Actuaries. Separate rates, based on the "Employee" table, were developed for annuitants and non-annuitants. Same rates also were developed for retirees, contingent annuitants, and contingent survivors.

The expected long term return on assets assumption reflects the Company's estimate of future experience for the trust asset returns reflecting the Plan's current asset allocation and any expected changes during the current plan year, current market conditions and the Company's expectations for future market conditions. The long-term rate of return was determined using a building-block method in which best estimate ranges of expected investment rates of return over the next 20 years are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return

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by the current asset allocation percentage. The current asset allocation and best estimates of the rates of return for each major asset class are summarized in the following table.

| <b>Asset Class</b>     | <b>Asset Allocation</b> | <b>Long-Term Expected<br/>Rate of Return</b> |
|------------------------|-------------------------|--|
| International stocks   | 28.0 %                  | 7.25 %                                       |
| BarCap aggregate funds | 25.0                    | 2.29   |
| Large-cap stocks       | 19.0                    | 7.25   |
| 10-year TIPS           | 10.0                    | 2.32   |
| Cash equivalents       | 10.0                    | 2.10   |
| Small cap stocks       | 4.0                     | 6.85   |
| Mid-cap stocks         | 4.0                     | 7.25   |
| Total                  | 100 %                   |  |

The expected long-term return on assets is also used as the discount rate for all periods of projected benefit payments to determine the total OPEB liability since the Company's contributions to the Plan are made at rates equal to the actuarially determined contribution rates. Additionally, the Plan's fiduciary net position is projected to be available to make all projected OPEB payments for all current and future retirees.

The actuarial assumptions employed in the development of the OPEB liability and other financial reporting have been selected in accordance with the Actuarial Standards of Practice, which required that each significant assumption is appropriate for the purpose of the measurement; takes into account historical and current economic data that is relevant as of the measurement date; reflects expected future experience and has no significant bias (i.e., it is not significantly optimistic or pessimistic).

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

The Company's annual OPEB expenses at December 31, 2020 and 2019 are as follows (in thousands):

|  | <b>2020</b> | <b>2019</b> |
|--|-------------|-------------|
| OPEB Expense   |             |             |
| Service cost   | \$ 811      | \$ 1,101    |
| Interest cost  | 1,314       | 1,580       |
| Changes in benefit terms                                 | -           | -           |
| Differences between expected and actual experience       | (389)       | (137)       |
| Changes in assumptions                                   | (866)       | (878)       |
| Expected return on assets                                | (971)       | (755)       |
| Differences between expected and actual return on assets | (480)       | (222)       |
| Annual OPEB expense                                      | \$ (581)    | \$ 689      |

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For the year ended December 31, 2020, the Company reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

|  | <b>Outflows</b> | <b>Inflows</b> |
|--|-----------------|----------------|
| Differences between expected and actual experience                       | \$ 680          | \$ (3,331)     |
| Changes in assumptions   | 666             | (6,033)        |
| Net difference between projected and actual earnings on OPEB investments | N/A             | (1,579)        |

Amounts reported as of December 31, 2020 as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

|   | <b>Amount</b> |
|---|---------------|
| During fiscal year ending 12/31/2021                      | (\$1,735)     |
| During fiscal year ending 12/31/2022                      | (\$1,543)     |
| During fiscal year ending 12/31/2023                      | (\$1,808)     |
| During fiscal year ending 12/31/2024                      | (\$1,607)     |
| During fiscal year ending after 12/31/2025 and thereafter | (\$1,525)     |
| During fiscal year ending after 12/31/2026 and thereafter | (\$1,377)     |

The following table presents the sensitivity of the net OPEB liability to changes in the discount rate and health care cost trend rates if it was separately calculated using a 1% lower or 1% higher than the current discount rate or health care cost trend rate.

|   | <b>2020</b> | <b>2019</b> | <b>2018</b> |
|---|-------------|-------------|-------------|
| Change in NOL with 1.0% increase in discount rate           | (2,483)     | (2,481)     | (3,383)     |
| Change in NOL with 1.0% decrease in discount rate           | 3,000       | 2,999       | 4,232       |
| Change in NOL with 1.0% increase in health care trend rates | 245         | 336         | 301         |
| Change in NOL with 1.0% decrease in health care trend rates | (239)       | (318)       | (290)       |

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**Required Supplementary Information (Unaudited)**

*Schedule of Changes in the Net OPEB Liability and Related Ratios*

The schedule below presents the Company's total OPEB liability, the Plan fiduciary position, net OPEB liability and related ratios (dollars in thousands):

|  | 2020            | 2019            | 2018             |
|--|-----------------|-----------------|------------------|
| Total OPEB liability ("TOL")                       |                 |                 |                  |
| Service cost                                       | \$ 811          | \$ 1,101        | \$ 1,366         |
| Interest cost                                      | 1,314           | 1,580           | 1,525            |
| Changes in benefit terms                           | -               | -               | 3,634            |
| Differences between expected and actual experience | (1,883)         | (438)           | (1,326)          |
| Changes in assumptions                             | 89              | (4,657)         | (3,699)          |
| Benefit payments                                   | <u>(539)</u>    | <u>(606)</u>    | <u>(883)</u>     |
| Net change in TOL                                  | (208)           | (3,020)         | 617              |
| TOL - beginning                                    | <u>22,517</u>   | <u>25,537</u>   | <u>24,920</u>    |
| TOL - ending                                       | 22,309          | 22,517          | 25,537           |
| Plan fiduciary net position ("PFNP")               |                 |                 |                  |
| Employer contributions                             | 461             | 4,987           | 841              |
| Net investment income                              | 2,262           | 2,230           | (675)            |
| Benefit payment                                    | (539)           | (606)           | (883)            |
| Active subsidy                                     | <u>78</u>       | <u>56</u>       | <u>42</u>        |
| Net change in PFNP                                 | 2,262           | 6,667           | (675)            |
| PFNP - beginning                                   | <u>17,040</u>   | <u>10,373</u>   | <u>11,048</u>    |
| PFNP - ending                                      | 19,302          | 17,040          | 10,373           |
| Net OPEB liability                                 | <u>\$ 3,007</u> | <u>\$ 5,477</u> | <u>\$ 15,164</u> |
| PFNP as a percentage of TOL                        | 86.52%          | 75.67%          | 40.62%           |
| Covered-employee payroll                           | \$ 69,598       | \$ 71,588       | \$ 72,478        |
| NOL as a percentage of covered-employee payroll    | 4.32%           | 7.65%           | 20.92%           |

**Schedule of Employer Contributions to the OPEB Plan**

The schedule below reflects the Company's contributions relative to the actuarially determined contributions for the Plan (dollars in thousands):

|   | 2020            | 2019            | 2018            | 2017          |
|---|-----------------|-----------------|-----------------|---------------|
| Actuarially determined contribution                                 | \$ -            | \$ -            | \$ -            | \$ 619        |
| Contribution in relation to the actuarially determined contribution | <u>461</u>      | <u>550</u>      | <u>841</u>      | <u>384</u>    |
| Contribution deficiency (excess)                                    | <u>\$ (461)</u> | <u>\$ (550)</u> | <u>\$ (841)</u> | <u>\$ 235</u> |
| Covered-employee payroll  | \$ 69,598       | \$ 71,588       | \$ 72,478       | \$ 69,960     |
| Contribution as a percentage of covered-employee payroll            | 0.7%            | 0.8%            | 1.2%            | 0.5%          |

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#### Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of December 31

Methods and assumptions used to determine contribution rates:

|                                |  |
|--------------------------------|--|
| Actuarial cost method:         | Entry age normal   |
| Amortization period            | Average future service for all participants as of 1/1/2021, where inactive participants are assumed to have zero average future service. |
| Asset valuation method         | Investments in the trust fund are valued on the basis of their fair market value   |
| Inflation                      | 2.5%   |
| Salary increases               | 3.0%, average, including inflation   |
| Termination and retirement age | The termination and retirement rates have been updated to reflect current experience   |

#### Executive Pension Restoration Plan

The Company sponsors the Executive Pension Restoration Plan, a nonqualified defined contribution plan, which allows certain officers of the Company to make contributions and receive Company contributions in excess of the 401(k) contribution limits set forth by IRS regulations as described in the retirement savings benefits plan below.

The contributions and earnings thereon are held in a trust and the balances as of December 31, 2020 and 2019, were \$3.8 million and \$3.4 million, respectively, and are included in Other Assets with a corresponding liability in Employee Retirement Plan Obligations. In connection with this plan, the Company recognized expenses for contributions of \$191,589 and \$264,000 in 2020 and 2019, respectively.

#### Executive Savings Plan

The Company sponsors the Executive Savings Plan, a nonqualified defined contribution plan under section 457(b) of the IRS Code. The Company contributes a percentage of each officer's annual base compensation to the Plan. Officers may elect to make voluntary contributions, subject to statutory limitations. The contributions and earnings thereon are held in a trust and the balance as of December 31, 2020 and 2019 was \$1.9 million and \$1.6 million, respectively, and are included in Other Assets, with a corresponding liability in Employee Retirement Plan Obligations. In connection with this plan, the Company recognized expenses of \$152,903 and \$165,000 in 2020 and 2019, respectively.

#### Retirement Savings Benefits Plan

The Company sponsors a defined contribution retirement plan, the California ISO Retirement Savings Benefits Plan (the "Retirement Plan") that is subject to the provisions of the Employee Retirement Income Security Act of 1974 and covers substantially all employees. The Company administers the Retirement Plan with the assistance of a third party. The assets of the Plan are held separately from Company assets and are not combined with the assets in the Statements of Net Position.

Employees may elect to contribute up to fifty percent of their eligible compensation to the Retirement Plan, subject to statutory limitations. The Company matches contributions up to six percent of an employees' eligible compensation and an additional contribution equal to five percent of eligible compensation for employees with less than five years of service, or seven percent for

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employees who have at least five years but not more than ten years of service. An additional contribution of one percent of eligible compensation is also made by the Company for each five-year increment of service after an employees' ten-year anniversary.

Employee contributions to the Retirement Plan for 2020 and 2019 were \$9.4 million and \$8.6 million, respectively. The Company contributions to the Retirement Plan for 2020 and 2019 were \$10.6 million and \$10.2 million, respectively.

**10. Insurance Programs and Claims**

The Company is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; nonperformance of duty; injuries to employees; and natural disasters. The Company maintains various commercial and mutual insurance plans that provide coverage for most claims in excess of specific dollar thresholds. Primary insurance policies have coverage limits set based on the Company's assessment of reasonable exposure within that risk category, with consideration of insurance types and coverage limits for comparable entities. Additionally, the Company maintains excess liability coverage that provides umbrella coverage for certain exposures. Losses incurred below insurance deductibles are expensed as incurred. In the last three years, the Company did not incur any claims in excess of the coverage described above.

The Company is a participant in a group captive insurance company for workers compensation insurance coverage. The Company's annual net insurance costs for such coverage vary based on claims incurred at the Company, and to a lesser extent, claims activity of other members of the captive insurance company. The Company's annual insurance expense is limited through reinsurance and risk sharing arrangements of the captive to an additional percentage of the initial base premium paid.

**11. Lease Commitments**

The Company has long-term operating leases that expire at various times through 2030.

The following are the future minimum payments under these agreements as of December 31, 2020 (in thousands):

|                         |    |              |
|-------------------------|----|--------------|
| 2021                    | \$ | 199          |
| 2022                    |    | 203          |
| 2023                    |    | 208          |
| 2024                    |    | 212          |
| 2025 - 2030             |    | <u>1,376</u> |
| Total lease commitments | \$ | <u>2,198</u> |

**12. Contingencies**

**The Federal Energy Regulatory Commission Refund Case**

In 2000 and 2001, the California energy markets, including those managed by the Company, experienced high prices, shortages of energy and reserves, rolling blackouts and liquidity problems for many market participants. Some market participants, including the California Power Exchange (Cal PX), filed for bankruptcy. Purchasers of energy during this period sought refunds at the Federal Energy Regulatory Commission. In a proceeding that is still ongoing, the Federal Energy Regulatory Commission has issued a series of orders related to mitigating the clearing prices in markets administered by the Company and the Cal PX for the period from October 2, 2000 through June 20, 2001. Most of the Company's market participants have settled their liability arising from this case and

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related proceedings. Management believes the ultimate outcome of the proceeding will have no material financial impact on the Company as these refund amounts are funded and will ultimately be resettled among market participants.

#### **Market Billing Disputes in Good Faith Negotiations**

As part of the tariff and applicable contracts, the Company has dispute resolution processes for market participants to register disagreements regarding information reflected in the settlement statements or billing amounts for market activity.

Market disputes are addressed in the normal course of operations, some of which result in adjustments to previously issued settlement statements. When adjustments are made, the adjustment amounts are reallocated to market participants, with no net cost or credit being realized by the Company. With respect to pending market disputes at December 31, 2020, including those that have escalated to good faith negotiations, management believes that any settlements or market awards would be resettled against the market with no liability to the Company.

#### **Indemnifications**

The Company's bylaws require its annual financial statements to include disclosures about certain payments made by the Company related to indemnification of officers and Board members. There were no such payments in 2020 or 2019.

#### **Other Matters**

The Company, during the ordinary course of its operations, has been involved in various lawsuits and claims. In addition, the Company is subject to compliance with mandatory reliability standards promulgated by the North American Electric Reliability Corporation and approved by the Federal Energy Regulatory Commission, which if violated could result in penalties assessed to the Company.

There are currently some pending claims against the Company as well as matters related to alleged violations of the mandatory reliability standards. Management is of the opinion that none of these matters will have a material adverse impact on the financial position or results of the operations of the Company.

### **13. Subsequent Events**

The Company evaluates events or transactions that occur after December 31, 2020, but before financial statements are issued for potential recognition or disclosure in the financial statements. The Company has evaluated all subsequent events through April 16, 2021, the date the financial statements were issued, and provides the following disclosures related to the issuance of Taxable Refunding Revenue Bonds in January 2021.

#### *Taxable Refunding Revenue Bonds*

In January 2021, the Company issued \$174.5 million of fixed rate taxable refunding revenue bonds ("2021 bonds") through the California Statewide Communities Development Authority (CSCDA) at par, to refund \$163.4 million of outstanding 2013 bonds. The net proceeds of \$173.0 million (after payment of \$1.4 million in underwriting fees and other issuance costs) together with other funds of the Company were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2013 bonds. As a result, in 2021, the 2013 bonds are considered to have been defeased and will be removed from the Statements of Net Position in 2021. Issuing the new bonds in 2021 allowed the Company to reduce its debt service payments by just under \$1.8 million annually over the next 18 years and obtain an economic gain (difference between the present value of the old and new debt service payments) of \$26.0 million.