

QUARTERLY FINANCIAL REPORT

June 30, 2017

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

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CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY

For the quarter ended June 30, 2017

Results of Operations

Revenues

Through the second quarter ending June 30, 2017, operating revenues were higher by \$1.9 million compared to the budgeted amounts. The overall increase in revenues was primarily due to higher other revenues of \$1.7 million, due to higher than planned EIM administrative charges and forecasting fees. Additionally, GMC revenues were slightly higher by \$0.2 million. The Company monitors changes in GMC revenues and will adjust rates, if necessary, to align actual GMC revenues closer to budget, as required by the Tariff.

Expenses

Operating expenses are \$6.6 million under budget through the second quarter of the year, largely due to timing of expenses.

Interest income and other are higher than budget through the second quarter due to higher interest rates.

Material Changes to Assets and Liabilities

Debt service, market collateral transactions, incentive compensation payouts and annual 401k contributions were the primary contributors to the changes in company assets and liabilities during the the first half of the year.

Capital Projects

Through the end of the second quarter of 2017, \$11.4 million in projects were approved by the Corporate Management Committee. These projects will enhance the current systems' performance and effectiveness in meeting future challenges and FERC mandates.

Collateral Held Report

As of July 12, 2017, the ISO maintained \$1.7 billion in collateral from market participants to support \$263.1 million in aggregate liabilities due in the market. Approximately \$1.4 billion of the collateral is from unsecured sources (i.e., unsecured credit limits and parent guarantees) with investment grade or equivalent ratings, and \$393.4 million is from secured forms (i.e., cash and letters of credit). This collateral is predominantly invested in AAA-rated government money market funds or backed by A-rated or better financial institutions.

CALIFORNIA ISO
Statement of Operations

For the quarter ended June 30, 2017
(dollars in thousands)

	Quarter		Year to Date		Year to Date Budget
	Actual	Prior Year	Actual	Prior Year	
<u>Operating revenues:</u>					
Grid management charge	\$ 48,705	\$ 48,268	\$ 93,143	\$ 91,704	\$ 92,949
Other revenues	4,035	4,790	6,931	7,048	5,230
Total operating revenues	52,740	53,058	100,074	98,752	98,179
<u>Operating expenses:</u>					
Salaries and benefits	32,060	31,453	60,603	59,487	60,442
Building, leases and facility	801	872	1,147	1,493	1,561
Insurance	393	310	707	718	821
Third party vendor contracts	3,878	4,084	7,187	7,790	8,736
Consulting and contracting services	3,487	3,962	6,315	6,888	8,290
Legal and audit	624	873	774	1,158	1,900
Training, travel and professional dues	430	867	984	1,504	2,158
Other	418	376	776	784	1,159
Total operating expenses	42,091	42,797	78,493	79,822	85,067
Operating income before depreciation and amortization	10,649	10,261	21,581	18,930	13,112
<u>Depreciation and amortization</u>	5,386	5,569	11,676	11,311	12,000
Net operating income (loss)	5,263	4,692	9,905	7,619	1,112
<u>Other income (expenses)</u>					
Interest income & other	804	750	1,838	2,135	1,050
Interest expense	(2,199)	(2,257)	(4,439)	(4,502)	(4,409)
Total other income (expenses)	(1,395)	(1,507)	(2,601)	(2,367)	(3,359)
Excess (deficiency) of revenues over expenses	\$ 3,868	\$ 3,185	\$ 7,304	\$ 5,252	\$ (2,247)
Number of full-time employees			589	590	600

CALIFORNIA ISO

Balance Sheet

As of June 30, 2017

(dollars in thousands)

	Current Quarter 6/30/2017	Prior Year 12/31/2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, including restricted amounts	\$ 348,708	\$ 363,471
Accounts receivable	36,292	15,629
Short-term Investments, including restricted amounts	40,420	50,431
Other current assets	6,219	6,603
Total current Assets	<u>431,639</u>	<u>436,134</u>
NONCURRENT ASSETS		
Long-term investments, including restricted amounts	142,105	153,116
Fixed assets, net	184,632	187,171
Other assets	12,402	12,834
Total noncurrent assets	<u>339,139</u>	<u>353,121</u>
TOTAL ASSETS	<u><u>\$ 770,778</u></u>	<u><u>\$ 789,255</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	9,114	10,811
Accrued salaries and compensated absences	20,405	33,170
Current portion of long-term debt	4,765	4,625
Due to market participants	388,950	395,857
Generator noncompliance fines refund obligation	2,292	2,262
Total current liabilities	<u>425,526</u>	<u>446,725</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	181,687	186,767
Employee retirement plan obligations	22,348	21,260
Total noncurrent liabilities	<u>204,035</u>	<u>208,027</u>
TOTAL LIABILITIES	<u>629,561</u>	<u>654,752</u>
TOTAL NET ASSETS	<u>141,217</u>	<u>134,503</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 770,778</u></u>	<u><u>\$ 789,255</u></u>

Capital Projects Report

Year-to-Date Through June 30, 2017

(\$ in thousands)

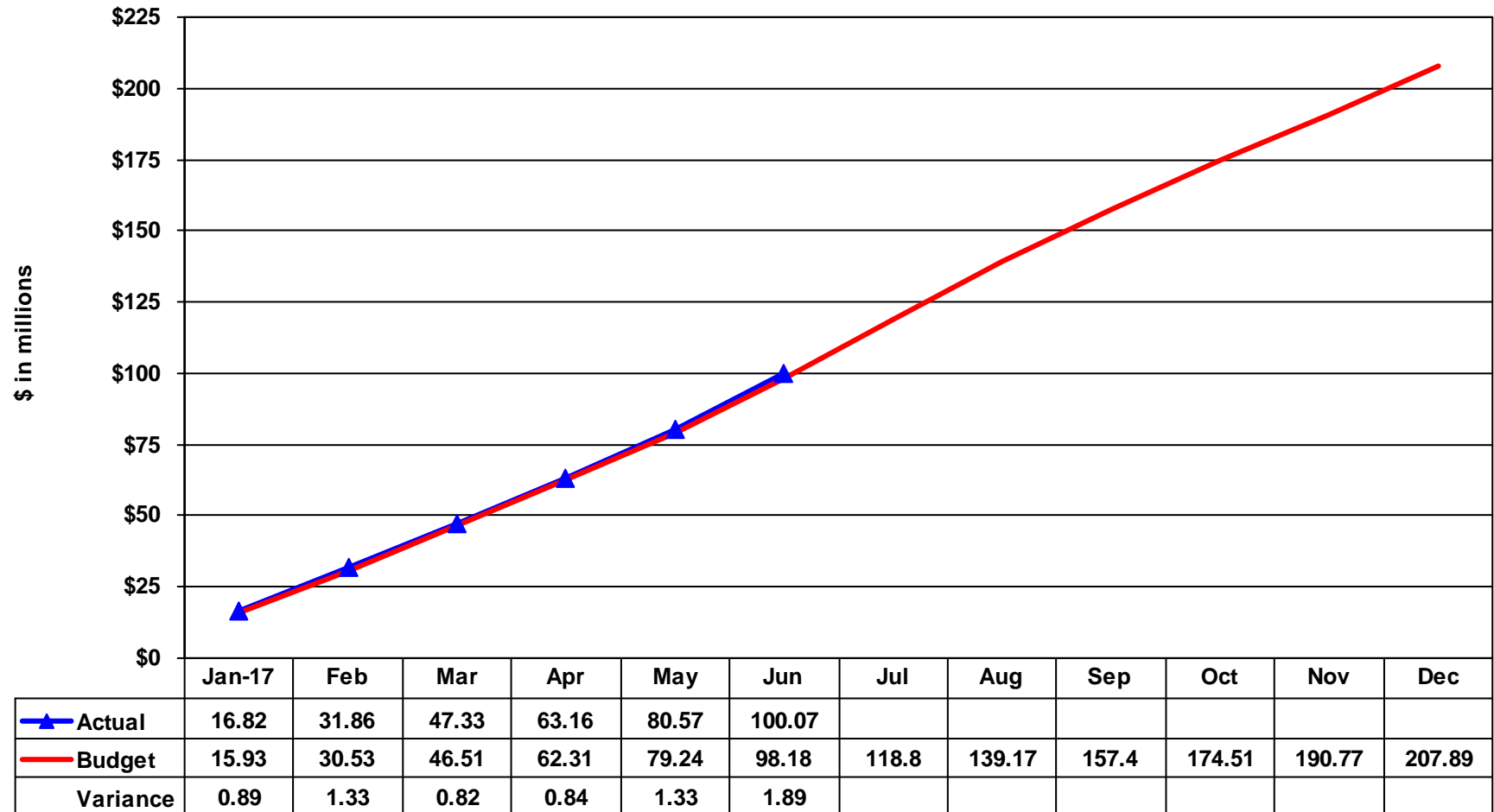
Project Classification	2017 Capital and Project Budget¹	Projects Approved YTD	Remaining Budget	Expenditures YTD
Market and Operational Excellence	\$ 12,200	\$ 6,112	\$ 6,088	\$ 1,352
Enhance the Technology Foundation	5,425	4,258	1,167	1,158
Focus on Customer Service and Other Costs	1,675	934	741	166
Grid Evolution Readiness and Regional Innovation Opportunities	700	90	610	45
	\$ 20,000	\$ 11,395	\$ 8,605	\$ 2,721
			Expenditures on projects approved prior to 2017 ²	6,310
				\$ 9,031

¹ The Board approved a maximum level of \$20 million in capital and project commitments for 2017 at their December 2016 meeting. The sub-amounts allocated to the project classifications will vary as actual projects are approved during the year by the Corporate Management Committee.

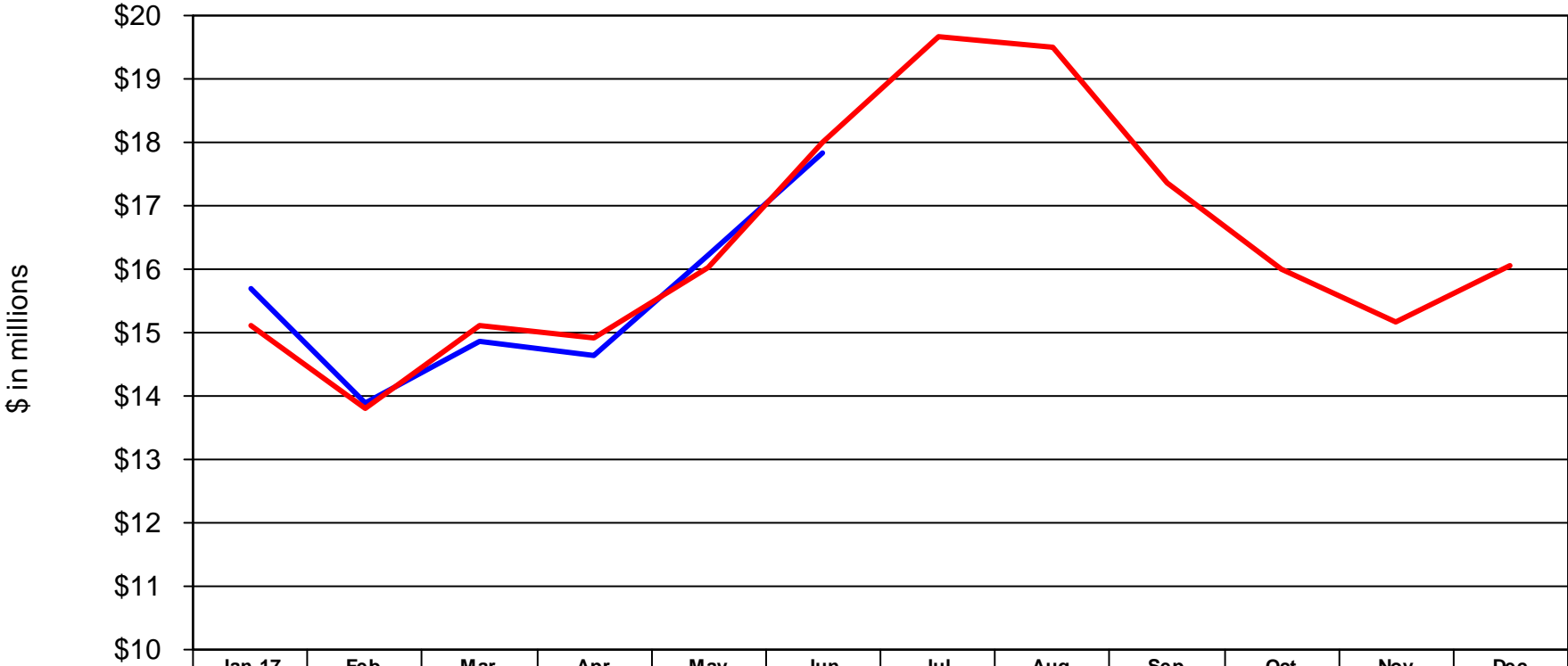
² Expenditures on projects approved in a prior budget year. Does not include EIM Implementation projects as those expenditures are reimbursed by the EIM entity.

Cumulative Operating Revenues

Revenues = GMC & Other Revenues

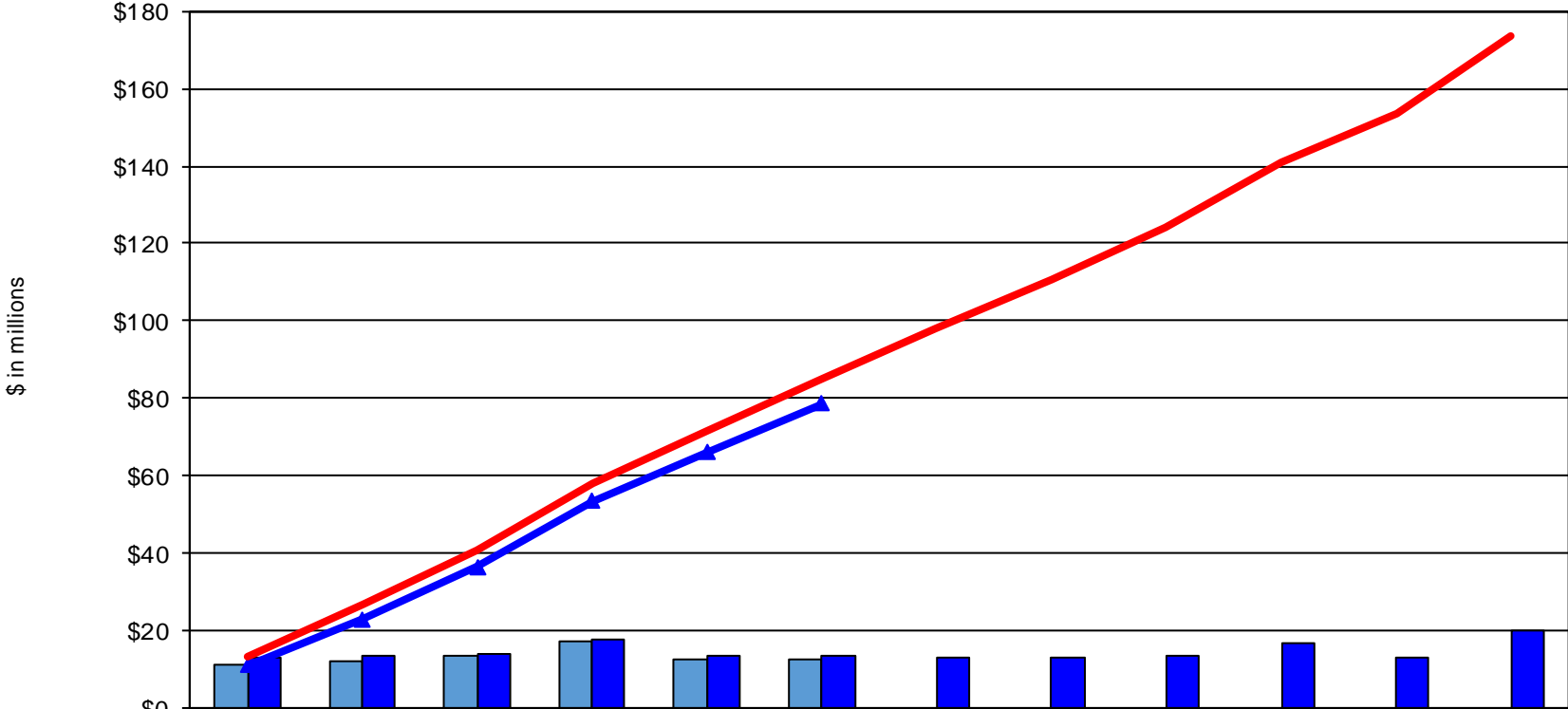


Monthly GMC Revenues



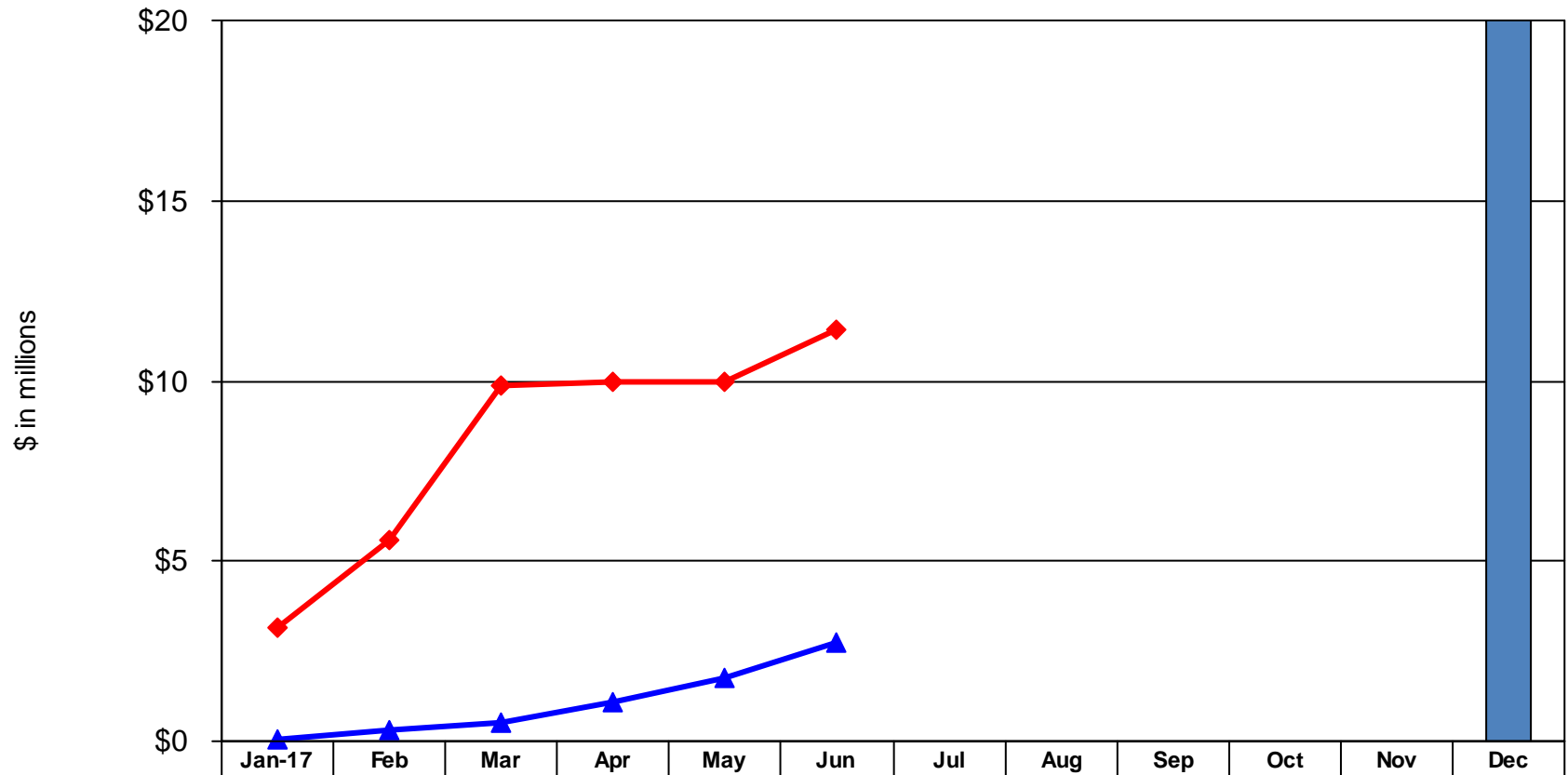
	Jan-17	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Actual	15.69	13.89	14.85	14.64	16.23	17.83						
Budget	15.10	13.80	15.11	14.92	16.03	17.99	19.67	19.49	17.37	16.00	15.17	16.06
Variance	0.60	0.09	(0.26)	(0.28)	0.20	(0.16)						
Cum Variance	0.60	0.69	0.43	0.15	0.35	0.19						

Operating and Maintenance Expenses (O&M)



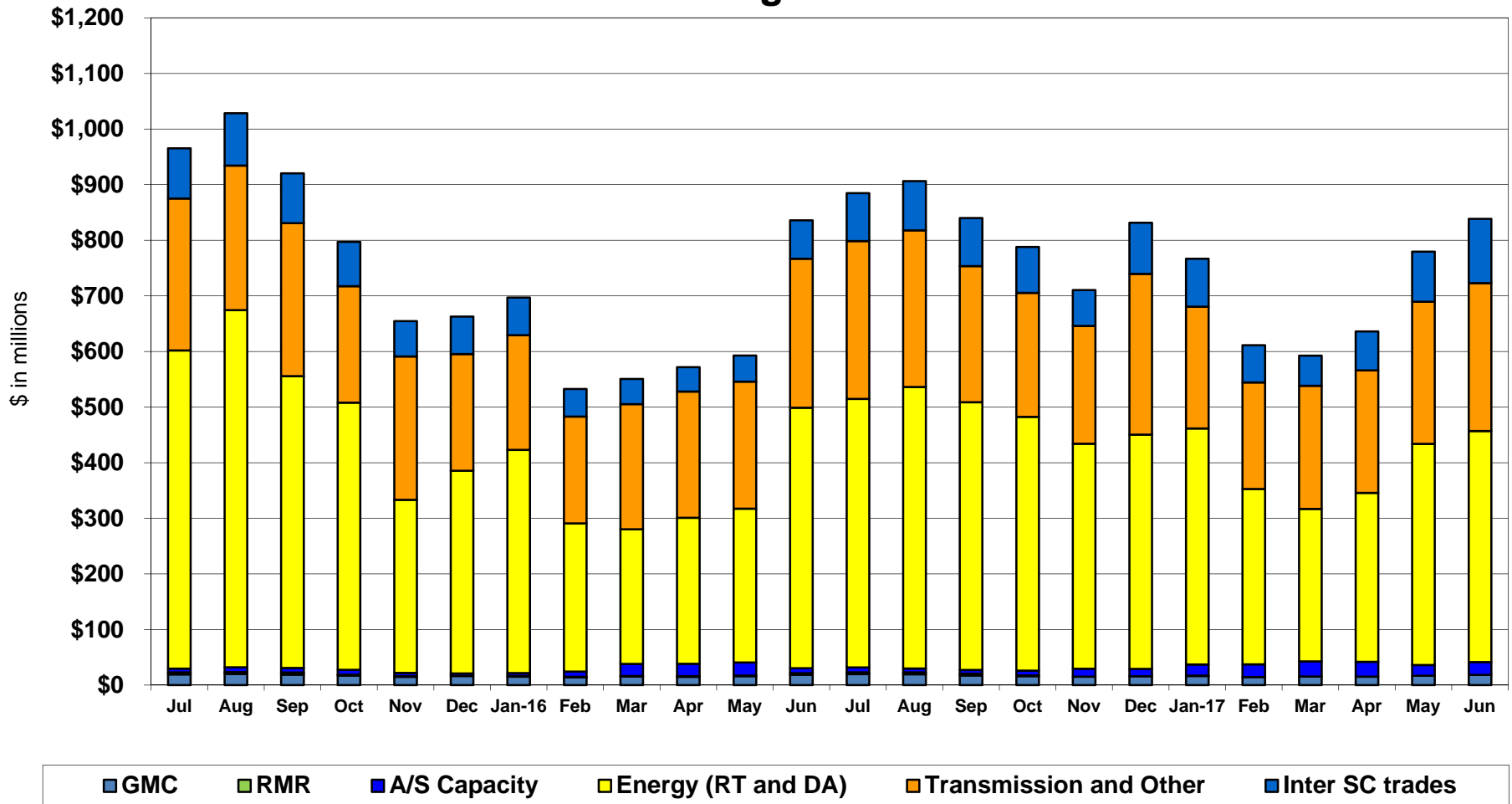
	Jan-17	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	10.92	11.94	13.54	16.97	12.52	12.60						
Monthly Budget	13.08	13.49	13.89	17.55	13.48	13.58	12.82	12.82	13.57	16.66	12.72	19.98
Cum Actual	10.92	22.86	36.40	53.38	65.90	78.49						
Cum Budget	13.08	26.57	40.47	58.01	71.49	85.07	97.89	110.71	124.28	140.94	153.66	173.64
Cum Variance	2.16	3.71	4.06	4.63	5.59	6.57						

Cumulative Capital Expenditures

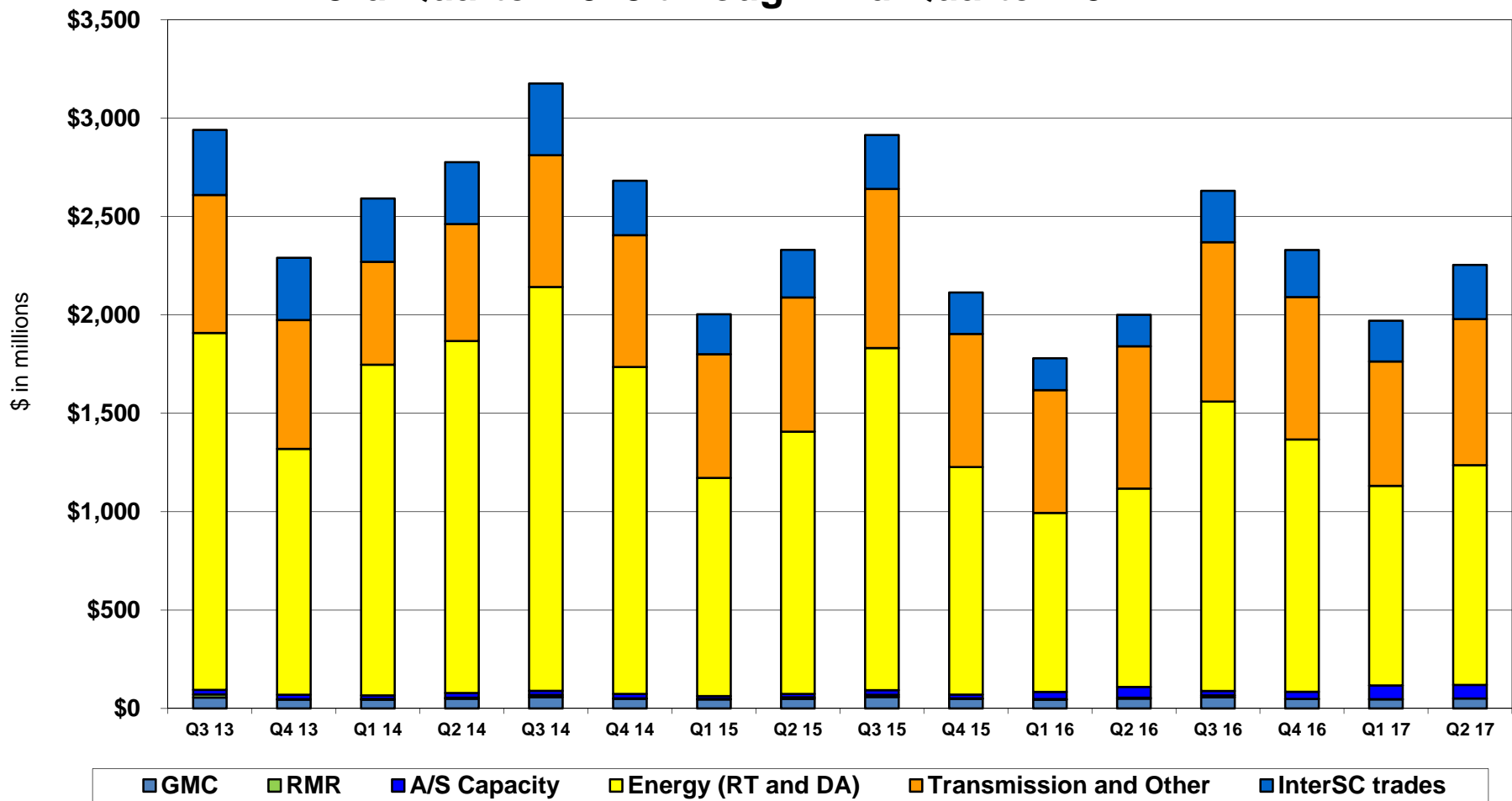


Budgeted capital												20.00
Cumulative Expenditures	0.06	0.33	0.52	1.08	1.76	2.72						
Approved projects	3.17	5.60	9.88	9.96	9.96	11.40						

ISO Market Revenues By Month Jul 2015 through Jun 2017



ISO Market Revenues By Quarter 3rd Quarter 2013 through 2nd Quarter 2017



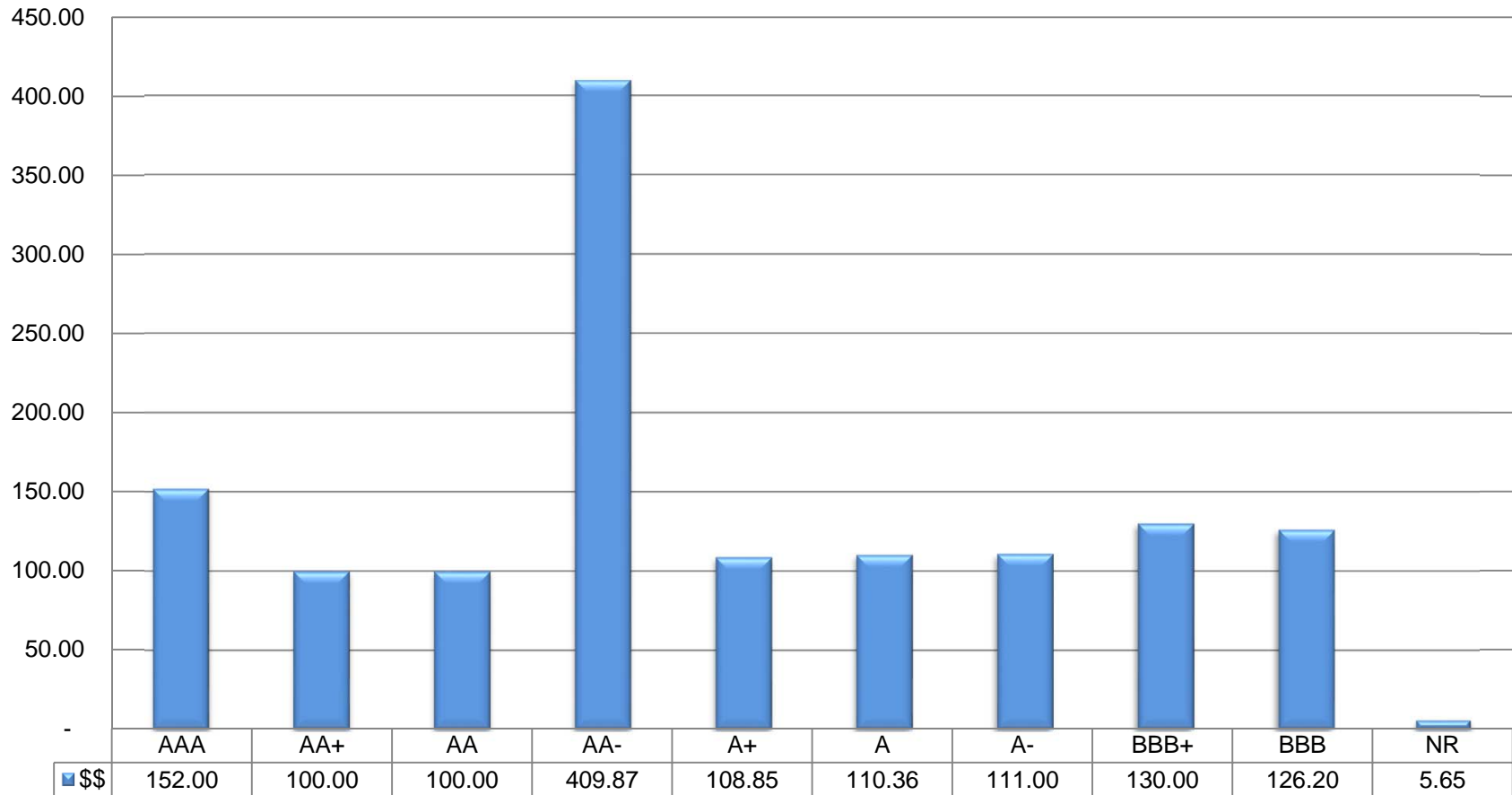
Collateral & Estimated Aggregate Liability (as of 07/12/17)

Collateral Types	Amount
Unsecured	\$1,353,927,038
Secured	\$393,419,390
Total	\$1,747,346,428

Estimate Aggregate Liability	Amount
Positive EAL	\$263,091,732

Unsecured Collateral (as of 07/12/17)

(in millions)



Secured Collateral (as of 07/12/17)

(in millions)

