

# QUARTERLY FINANCIAL REPORT

## September 30, 2016

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**  
**QUARTERLY FINANCIAL REPORT - September 30, 2016**

**Table of Contents**

	<i>Page Number</i>
<b>Summary, Discussion and Commentary</b>	<i>i</i>
<b><i>THE ISO</i></b>	
Statement of Operations	1
Balance Sheet	2
Capital Projects Report	3
<b><i>Summary Financial Data</i></b>	
Cumulative Operating Revenues	4
Monthly GMC Revenues	5
Monthly Operating and Maintenance Expenses	6
Cumulative Capital Expenditures	7
ISO Market Costs by Month - October 2014 through September 2016	8
ISO Market Costs by Quarter - 4th Quarter 2012 through 3rd Quarter 2016	9
Collateral and Estimated Aggregate Liability	10
Unsecured Collateral	11
Secured Collateral	12

# **CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY**

For the quarter ended September 30, 2016

## **Results of Operations**

### ***Revenues***

Through the third quarter ending September 30, 2016, operating revenues were higher by \$1.8 million compared to the budgeted amounts. The overall increase in revenues was primarily due to higher other revenues (specifically EIM and forecasting fees), partially offset by lower GMC revenues.

### ***Expenses***

Operating expenses are \$2.9 million under budget through the third quarter of the year, largely due to timing of expense and to the effect of cost savings efforts.

Interest income and other are higher than budget through the third quarter due to unrealized gains on investments.

## **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 period.

## **Capital Projects**

Through the end of the third quarter of 2016, \$14.3 million in projects were approved by the Corporate Management Committee. These projects will enhance the current systems' performance and effectiveness in meeting future challenges and FERC mandates.

## **Collateral Held Report**

As of October 11, 2016, the ISO maintained \$1.9 billion in collateral from market participants to support \$157.4 million in aggregate liabilities due in the market. Approximately \$1.4 billion of the collateral is from unsecured sources (i.e., unsecured credit limits and parent guarantees) with investment grade or equivalent ratings, and \$473.9 million is from secured forms (i.e., cash and letters of credit). This collateral is predominantly invested in AAA-rated money market funds or backed by A rated or better financial institutions.

# CALIFORNIA ISO

## Statement of Operations

For the quarter ended September 30, 2016  
(dollars in thousands)

	Quarter		Year to Date		Year to Date Budget
	Actual	Prior Year	Actual	Prior Year	
<u>Operating revenues:</u>					
Grid management charge	\$ 55,538	\$ 57,107	\$ 147,240	\$ 149,319	\$ 147,851
Other revenues	2,577	2,697	8,970	9,110	6,600
Total operating revenues	58,115	59,804	156,210	158,429	154,451
<u>Operating expenses:</u>					
Salaries and benefits	27,291	26,722	87,778	84,870	87,492
Building, leases and facility	805	776	2,298	2,137	2,505
Insurance	310	944	1,028	1,663	1,915
Third party vendor contracts	3,401	3,083	11,191	10,419	11,359
Consulting and contracting services	3,511	3,633	12,399	10,341	12,193
Legal and audit	758	923	1,916	1,933	2,891
Training, travel and professional dues	1,055	828	2,558	2,656	3,703
Other	655	424	1,439	1,220	1,467
Total operating expenses	37,786	37,333	120,607	115,239	123,525
Operating income before depreciation and amortization	20,329	22,471	35,603	43,190	30,926
<u>Depreciation and amortization</u>	5,643	6,230	16,955	18,532	15,074
Net operating income (loss)	14,686	16,241	18,648	24,658	15,852
<u>Other income (expenses)</u>					
Interest income & other	587	(119)	2,721	906	1,500
Interest expense	(2,258)	(2,282)	(6,760)	(6,867)	(6,787)
Total other income (expenses)	(1,671)	(2,401)	(4,039)	(5,961)	(5,287)
Excess (deficiency) of revenues over expenses	\$ 13,015	\$ 13,840	\$ 14,609	\$ 18,697	\$ 10,565
<b>Number of full-time employees</b>			588	577	593

**CALIFORNIA ISO****Balance Sheet**

As of September 30, 2016

*(dollars in thousands)*

	<u>Current Quarter 9/30/2016</u>	<u>Prior Year 12/31/2015</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents, including restricted amounts	\$ 270,830	\$ 326,879
Accounts receivable	38,335	17,266
Short-term Investments, including restricted amounts	57,068	52,072
Other current assets	3,993	6,428
Total current Assets	<u>370,226</u>	<u>402,645</u>
<b>NONCURRENT ASSETS</b>		
Long-term investments, including restricted amounts	156,308	138,302
Fixed assets, net	185,375	175,013
Other assets	17,881	13,808
Total noncurrent assets	<u>359,564</u>	<u>327,123</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 729,790</u></u>	<u><u>\$ 729,768</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	9,098	11,844
Accrued salaries and compensated absences	24,895	30,601
Current portion of long-term debt	4,625	4,500
Due to market participants	342,304	342,242
Generator noncompliance fines refund obligation	2,364	2,316
Total current liabilities	<u>383,286</u>	<u>391,503</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net of current portion	186,929	192,039
Employee retirement plan obligations	21,331	21,495
Total noncurrent liabilities	<u>208,260</u>	<u>213,534</u>
<b>TOTAL LIABILITIES</b>	<u>591,546</u>	<u>605,037</u>
<b>TOTAL NET ASSETS</b>	<u>138,244</u>	<u>124,731</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 729,790</u></u>	<u><u>\$ 729,768</u></u>

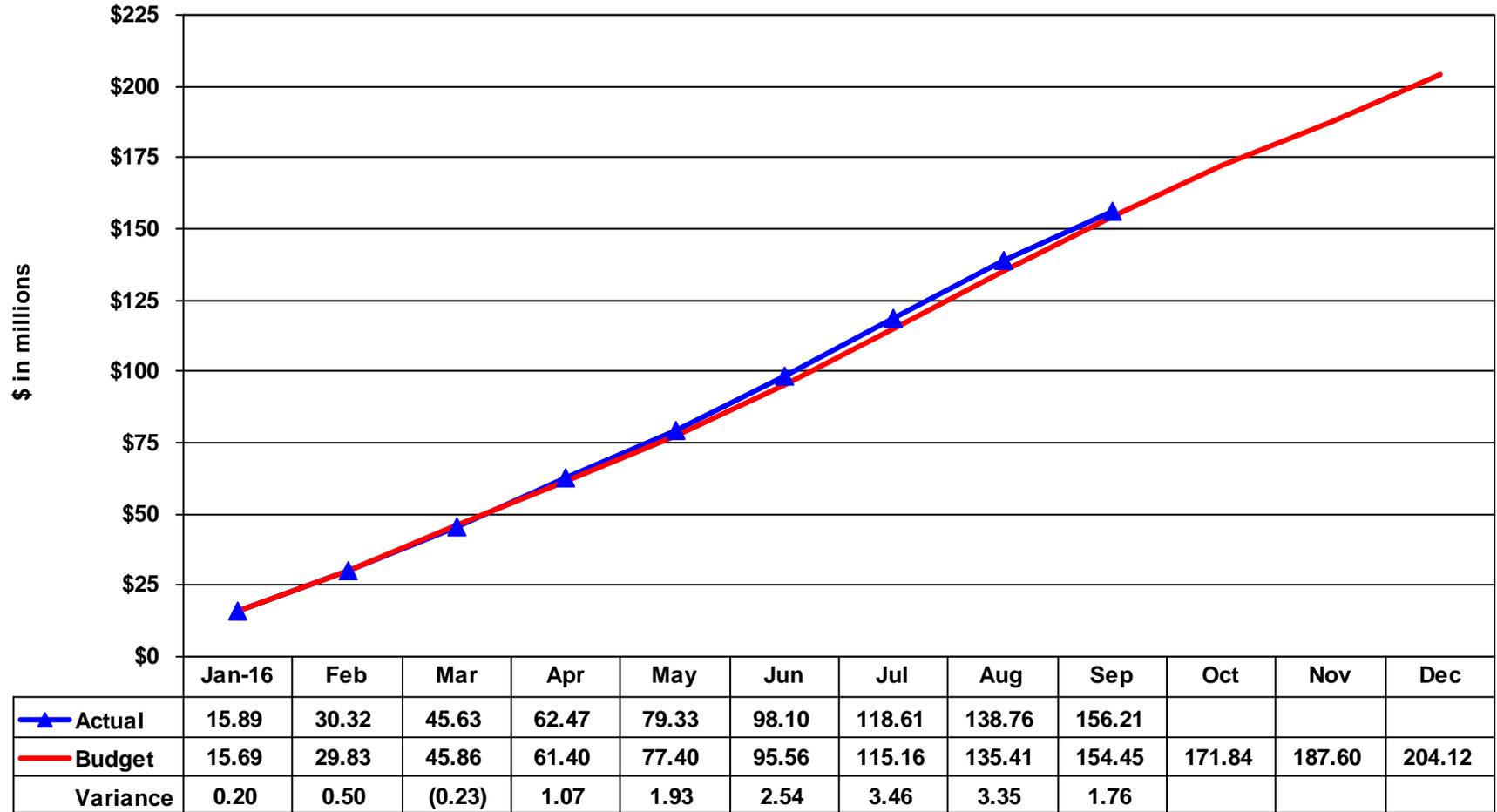
**CALIFORNIA ISO**  
**Capital Projects Report**

For the quarter ended September 30, 2016  
*(dollars in thousands)*

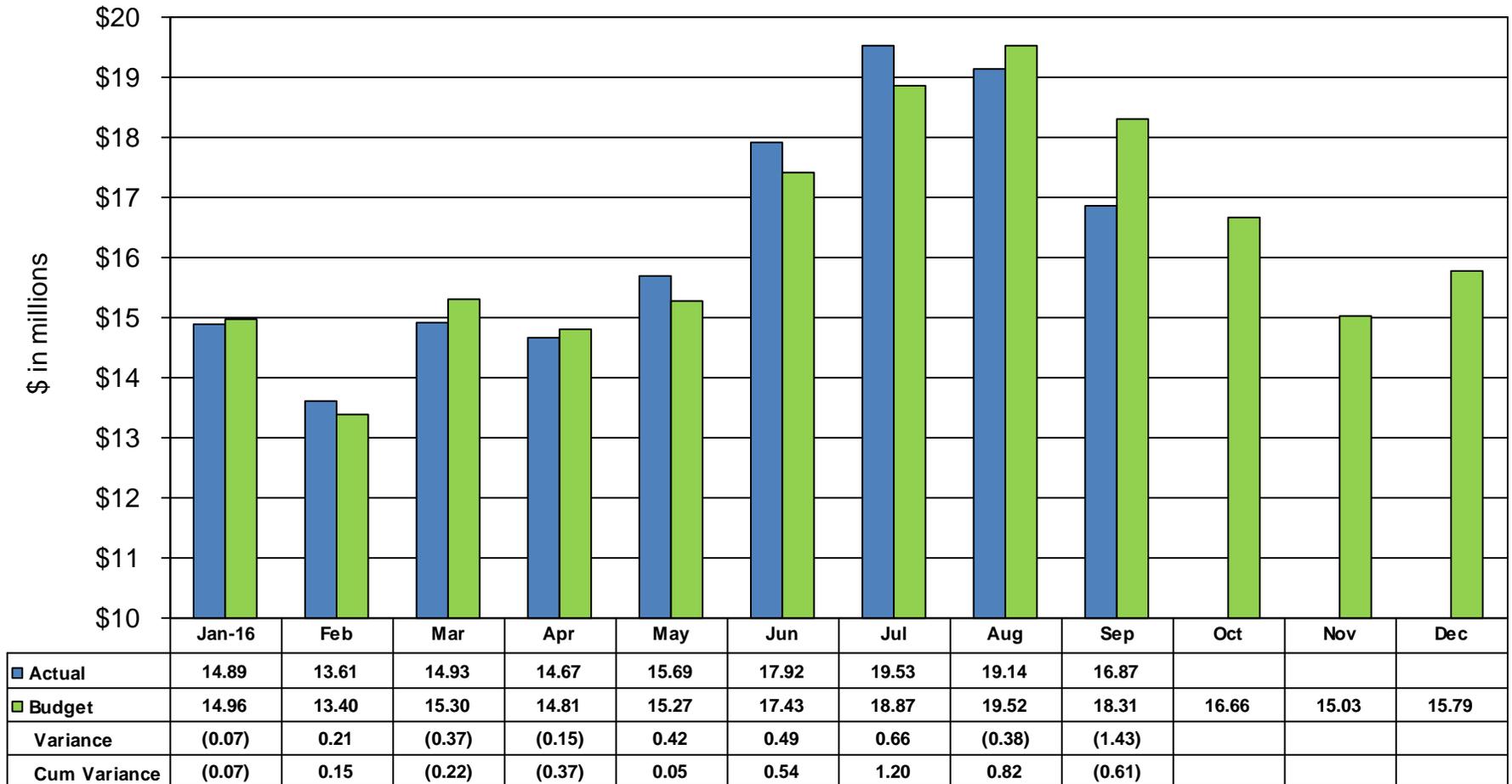
	<b>Approved Projects</b>				
	Q3 Actual	YTD Actual	2016 Approved Projects	Projected Costs for Approved Projects	Original/ Current Budget
Market & Operational Excellence	\$ 1,724	\$ 3,004	\$ 8,552	\$ 8,552	\$ 10,905
Focus on Customer Service /Compliance	787	3,072	3,510	3,510	1,425
Enhance the Technology Foundation	762	1,192	2,223	2,223	4,170
<b>Total 2016 Capital Spending</b>	<b>3,273</b>	<b>7,268</b>	<b>14,286</b>	<b>14,286</b>	<b>16,500</b>
Energy Management System	528	1,615		13,500	13,500
Lincoln Operations Center	3,411	13,627		26,109	30,400
Energy Imbalance Market Projects	785	1,286		1,694	2,109
Prior Year Capital Projects	1,019	4,492		9,350	-
<b>Total Capital</b>	<b>\$ 9,016</b>	<b>\$ 28,288</b>	<b>\$ 14,286</b>	<b>\$ 64,938</b>	<b>\$ 62,509</b>

# Cumulative Operating Revenues

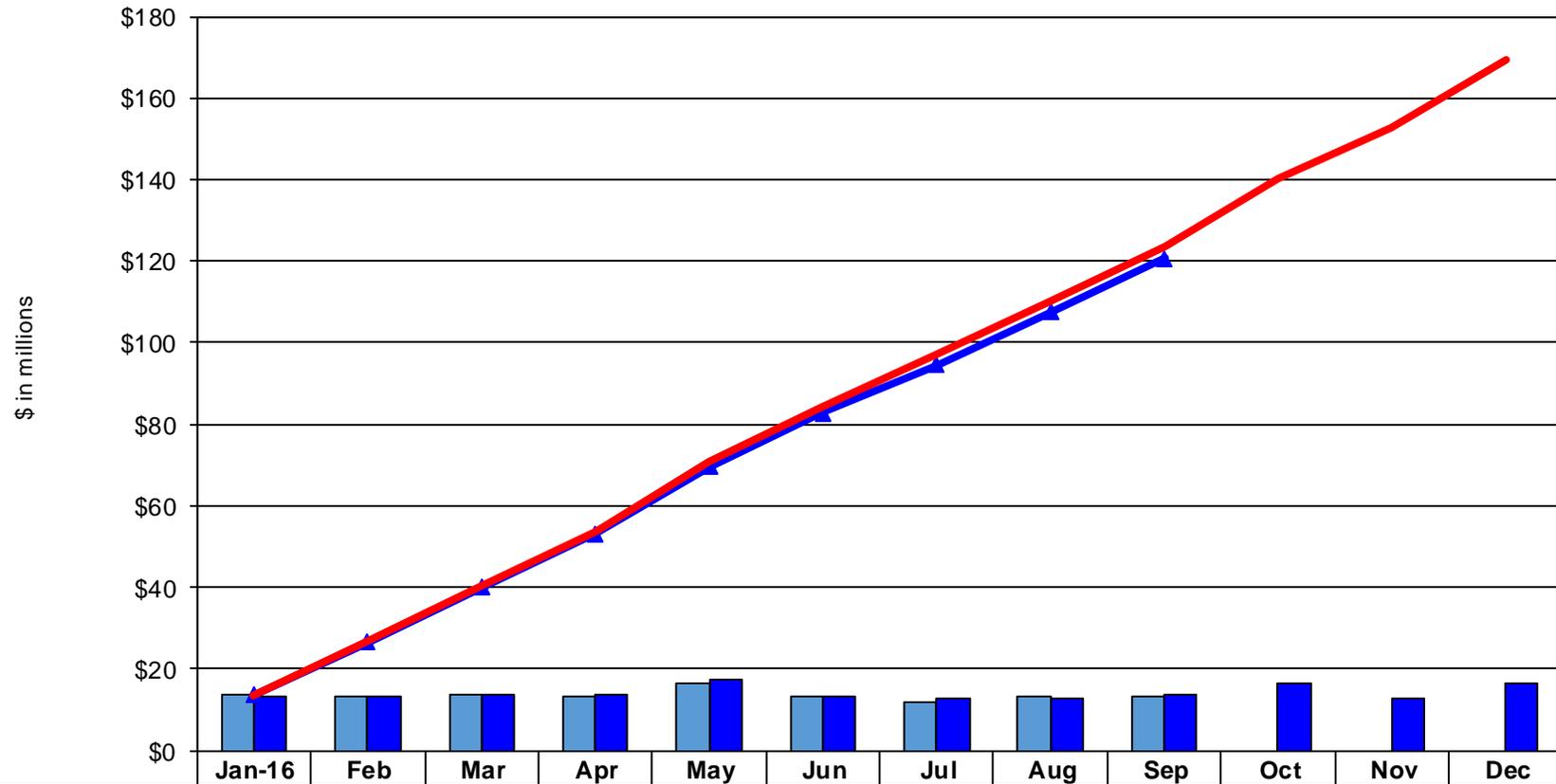
Revenues = GMC & Other Revenues



# Monthly GMC Revenues

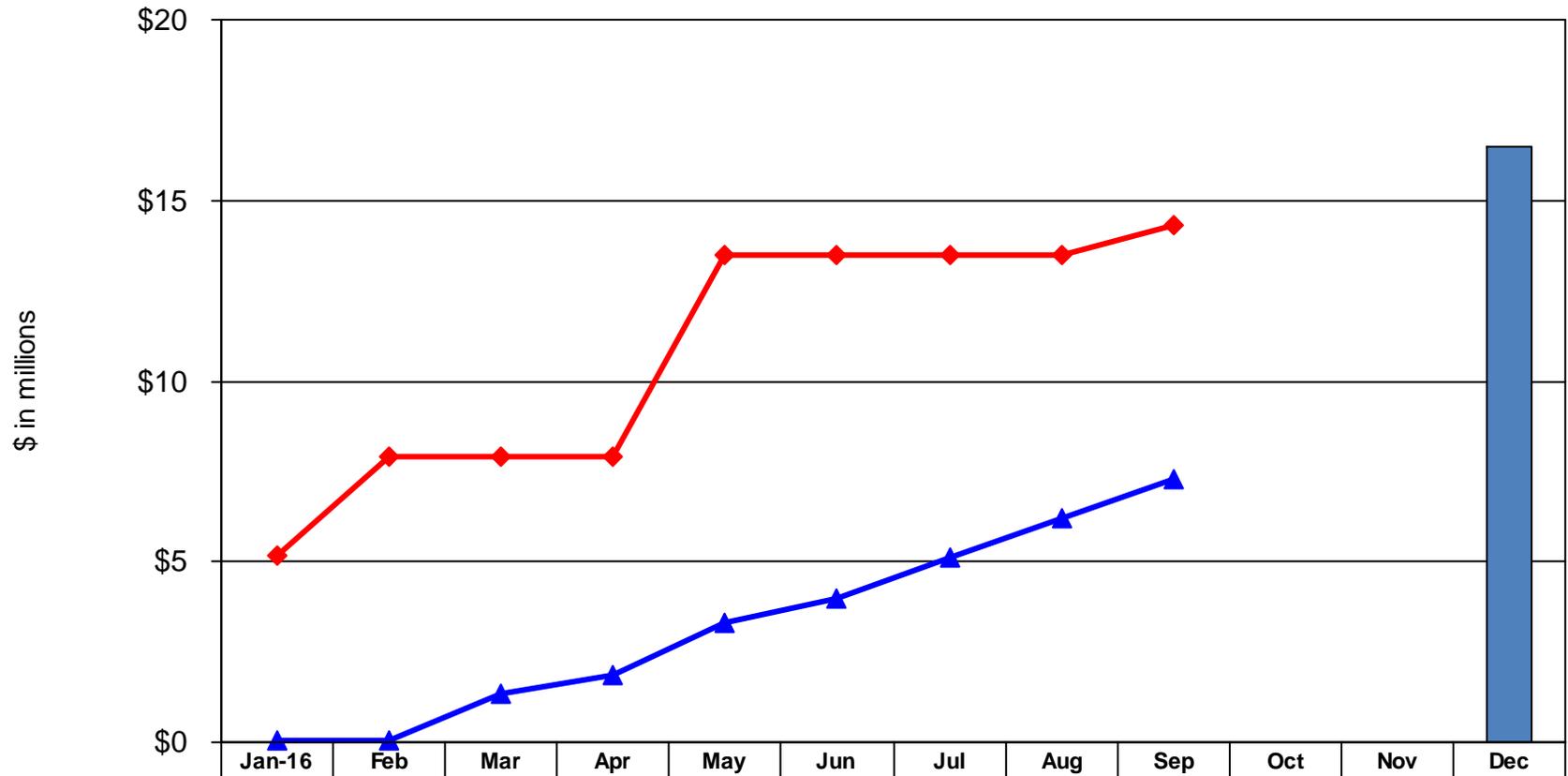


# Operating and Maintenance Expenses (O&M)



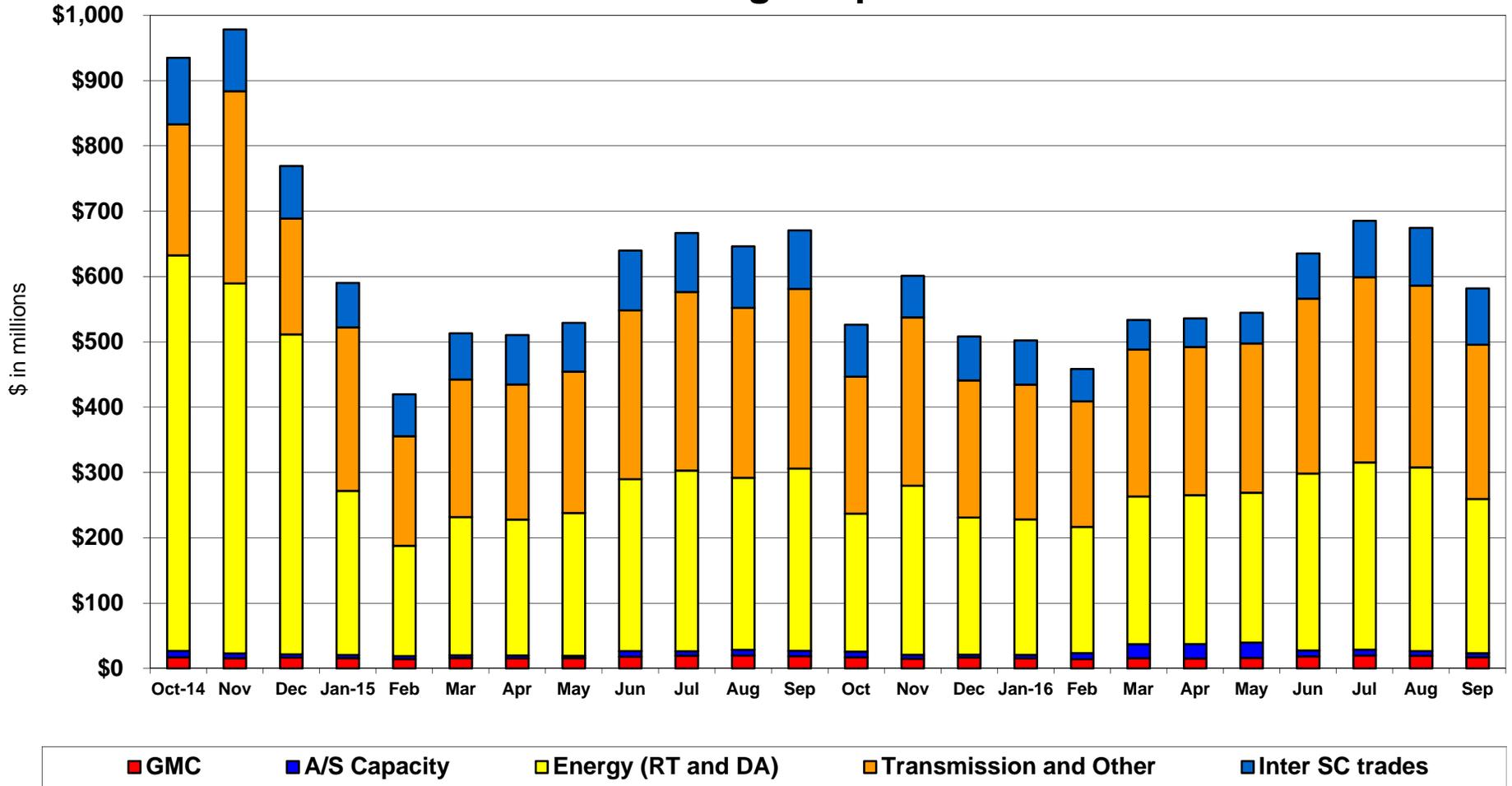
	Jan-16	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	13.52	12.98	13.53	12.99	16.46	13.35	11.62	13.16	13.01			
Monthly Budget	13.30	13.40	13.60	13.49	17.22	13.32	12.84	12.78	13.57	16.58	12.72	16.51
Cum Actual	13.52	26.50	40.02	53.01	69.47	82.82	94.44	107.59	120.60			
Cum Budget	13.30	26.70	40.30	53.79	71.01	84.33	97.17	109.95	123.52	140.10	152.82	169.33
Cum Variance	(0.22)	0.20	0.28	0.78	1.53	1.51	2.73	2.35	2.91			

# Cumulative Capital Expenditures

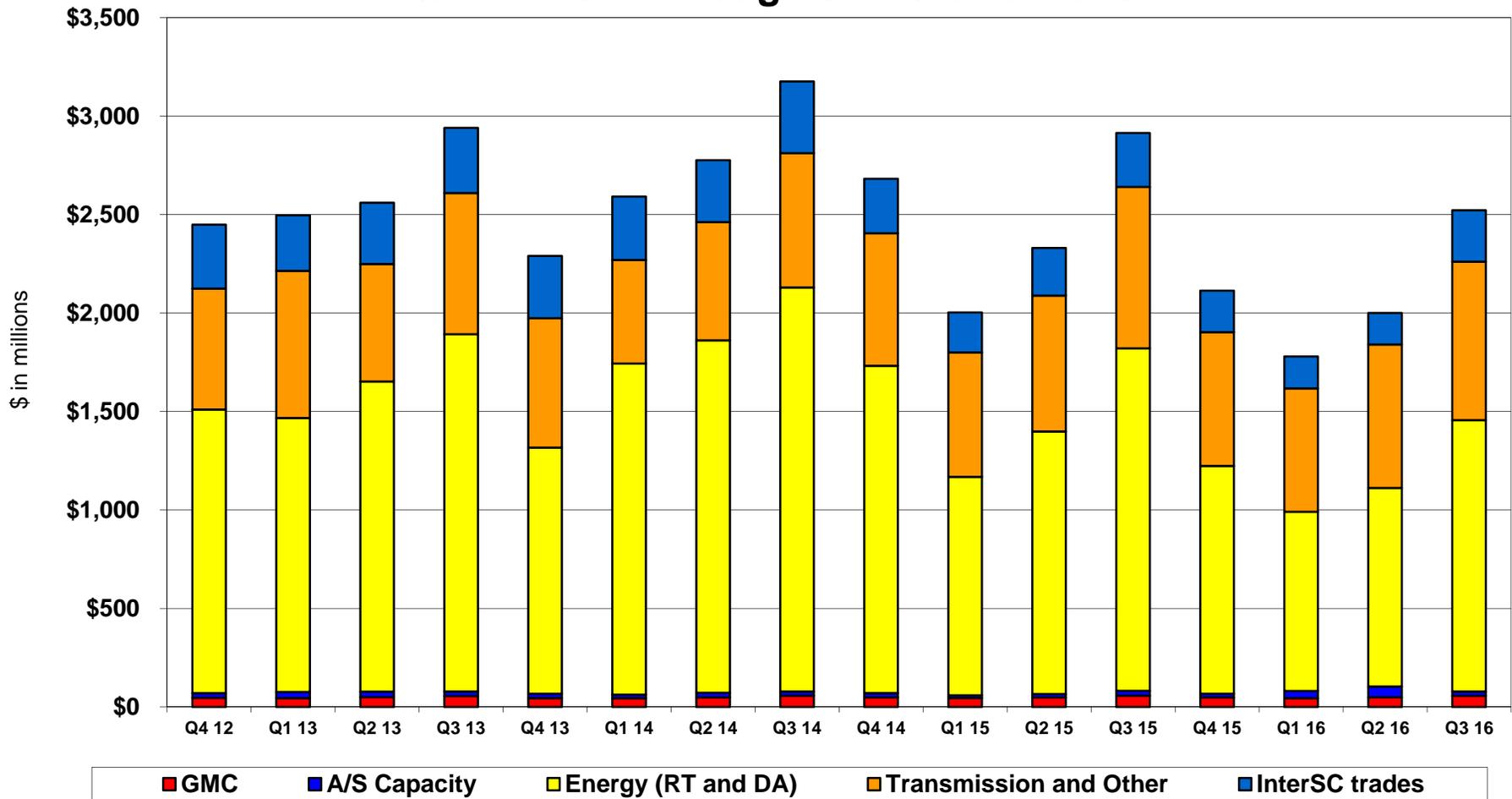


■ Budgeted capital												16.50
▲ Cumulative Expenditures	0.06	0.07	1.33	1.84	3.29	4.00	5.12	6.19	7.27			
◆ Approved projects	5.16	7.91	7.91	7.91	13.47	13.47	13.47	13.47	14.29			

## ISO Market Revenues By Month Oct 2014 through Sep 2016



## ISO Market Revenues By Quarter 4th Quarter 2012 through 3rd Quarter 2016



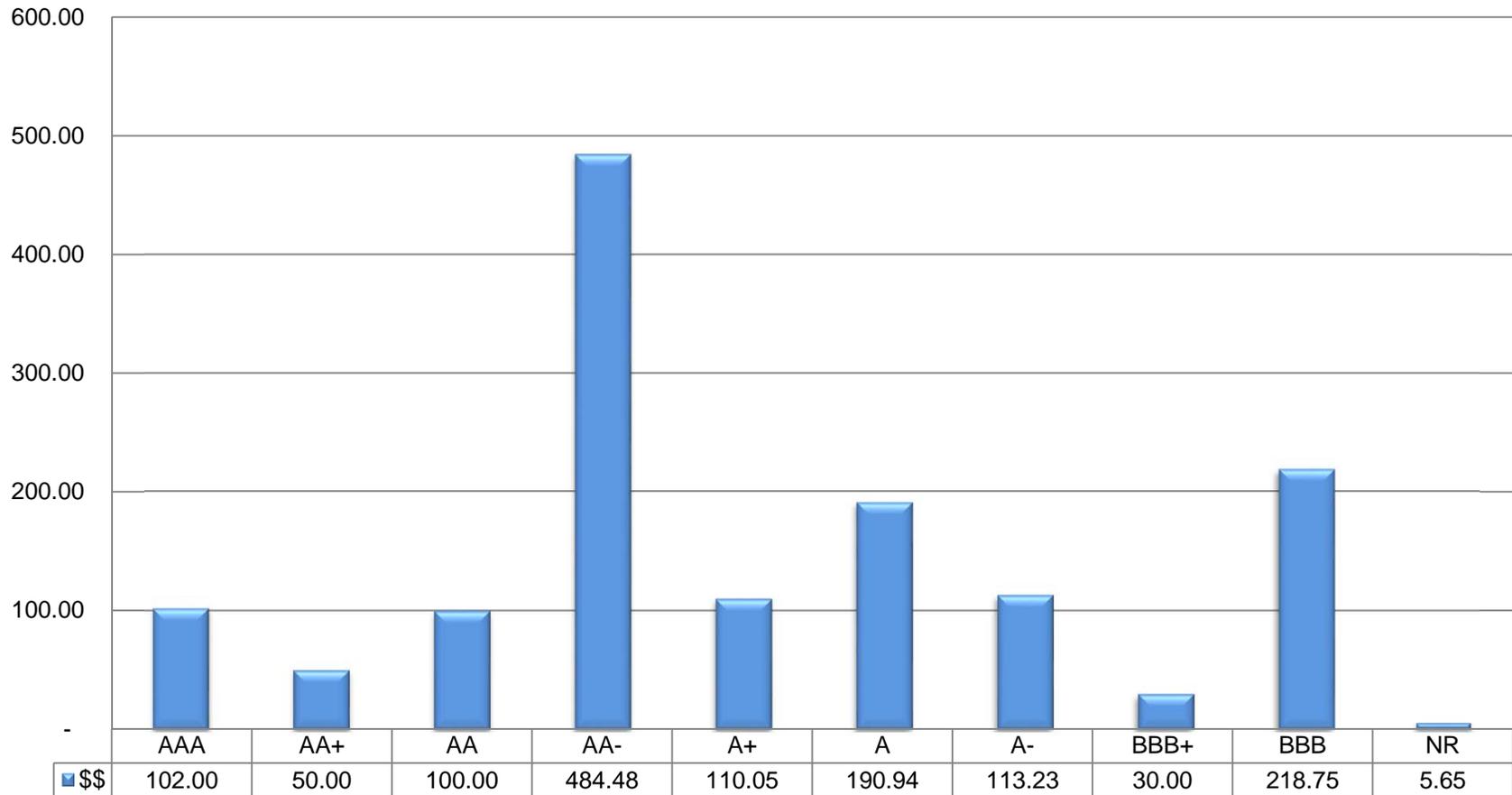
## Collateral & Estimated Aggregate Liability (as of 10/11/16)

<b>Collateral Types</b>	<b>Amount</b>
<b>Unsecured</b>	<b>\$1,405,098,778</b>
<b>Secured</b>	<b>\$473,848,564</b>
<b>Total</b>	<b>\$1,878,947,342</b>

<b>Estimate Aggregate Liability</b>	<b>Amount</b>
<b>Positive EAL</b>	<b>\$157,424,594</b>

# Unsecured Collateral (as of 10/11/16)

(in millions)



# Secured Collateral (as of 10/11/16)

(in millions)

