

QUARTERLY FINANCIAL REPORT

September 30, 2018

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
QUARTERLY FINANCIAL REPORT - September 30, 2018

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CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY

For the quarter ended September 30, 2018

Results of Operations

Revenues

Through the third quarter ending September 30, 2018, operating revenues were higher by \$5.3 million compared to the budgeted amounts. The overall increase in revenues was primarily due to higher other revenues related to EIM implementation and administrative fees. 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. Due to the under recovery of certain GMC rate components, the rates were adjusted upward effective August 01, 2018.

Expenses

Operating expenses are \$6.3 million under budget through the third quarter of the year, largely due to timing of expenses.

Interest income and other are lower than budget through the third quarter due to unrecognized losses on the value of investments, as a result of rising 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 through the third quarter.

Capital Projects

Through the end of the third quarter of 2018, \$14.8 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 2, 2018, the ISO maintained \$2.1 billion in collateral from market participants to support \$309.9 million in aggregate liabilities due in the market. Approximately \$1.6 billion of the collateral is from unsecured sources (i.e., unsecured credit limits and parent guarantees) with investment grade or equivalent ratings, and \$0.6 billion 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, 2018
(dollars in thousands)

	Quarter		Year to Date		Year to Date Budget
	Actual	Prior Year	Actual	Prior Year	
<u>Operating revenues:</u>					
Grid management charge	\$ 59,809	\$ 58,079	\$ 150,621	\$ 151,364	\$ 149,966
Other revenues	5,042	4,264	14,835	11,927	10,178
Total operating revenues	64,851	62,343	165,456	163,291	160,144
<u>Operating expenses:</u>					
Salaries and benefits	33,827	28,319	97,509	89,009	98,148
Building, leases and facility	552	588	1,528	1,610	1,816
Insurance	953	311	1,632	1,018	1,831
Third party vendor contracts	3,144	3,171	10,288	10,369	10,919
Consulting and contracting services	3,156	2,918	9,292	9,233	12,236
Legal and audit	737	609	1,990	1,383	2,408
Training, travel and professional dues	761	575	1,984	1,557	3,057
Other	555	705	1,618	1,481	1,723
Total operating expenses	43,685	37,196	125,841	115,660	132,138
Operating income before depreciation and amortization	21,166	25,147	39,615	47,631	28,006
<u>Depreciation and amortization</u>	9,634	7,043	25,904	20,379	21,000
Net operating income (loss)	11,532	18,104	13,711	27,252	7,006
<u>Other income (expenses)</u>					
Interest income & other	1,029	838	1,496	2,676	1,875
Interest expense	(2,186)	(2,234)	(6,565)	(6,705)	(6,463)
Total other income (expenses)	(1,157)	(1,396)	(5,069)	(4,029)	(4,588)
Excess (deficiency) of revenues over expenses	\$ 10,375	\$ 16,708	\$ 8,642	\$ 23,223	\$ 2,418
Number of full-time employees			627	595	600

CALIFORNIA ISO

Balance Sheet

As of September 30, 2018

(dollars in thousands)

	Current Quarter 09/30/2018	Prior Year 12/31/2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, including restricted amounts	308,265	\$ 332,767
Accounts receivable	37,426	16,404
Short-term Investments, including restricted amounts	58,896	49,050
Other current assets	7,397	5,708
Total current Assets	<u>411,984</u>	<u>403,929</u>
NONCURRENT ASSETS		
Long-term investments, including restricted amounts	150,090	143,281
Fixed assets, net	169,281	178,898
Other assets	12,237	14,579
Total noncurrent assets	<u>331,608</u>	<u>336,758</u>
TOTAL ASSETS	<u>\$ 743,592</u>	<u>\$ 740,687</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	5,875	10,186
Accrued salaries and compensated absences	29,750	32,700
Current portion of long-term debt	4,970	4,765
Due to market participants	334,946	330,381
Generator noncompliance fines refund obligation	2,269	2,167
Total current liabilities	<u>377,810</u>	<u>380,199</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	175,941	181,372
Employee retirement plan obligations	19,215	17,218
Total noncurrent liabilities	<u>195,156</u>	<u>198,590</u>
TOTAL LIABILITIES	<u>572,966</u>	<u>578,789</u>
TOTAL NET ASSETS	<u>170,626</u>	<u>161,898</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 743,592</u>	<u>\$ 740,687</u>

Capital Projects Report

For the quarter ended September 30, 2018

(\$ in thousands)

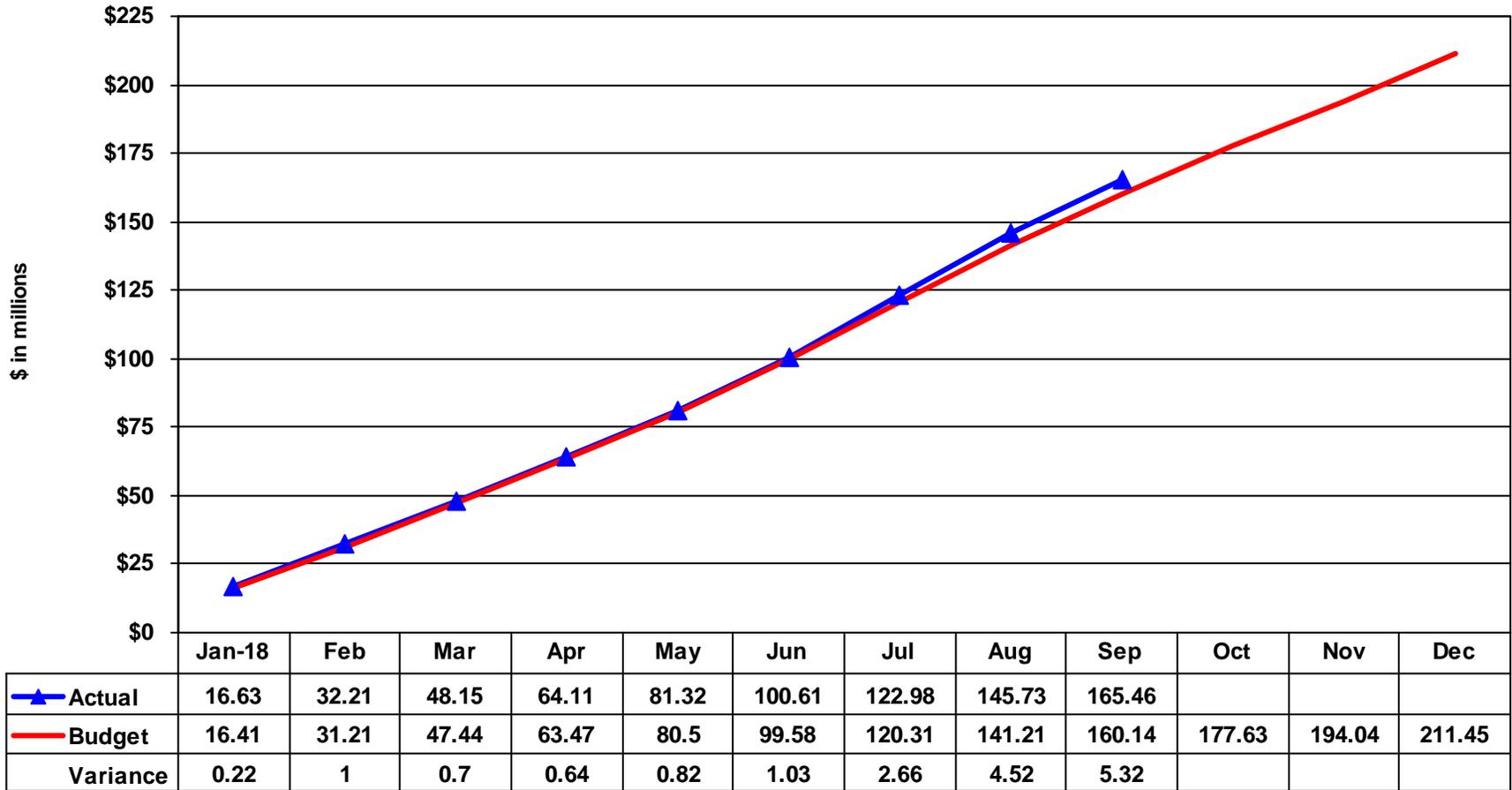
Project Classification	2018 Capital and Project Budget¹	Projects Approved YTD	Remaining Budget	Expenditures YTD
Market and Operational Excellence	\$ 10,050	\$ 11,137	\$ (1,087)	\$ 2,116
Enhance the Technology Foundation	6,050	3,017	3,033	1,214
Focus on Customer Service and Other Costs	1,150	650	500	-
Grid Evolution Readiness and Regional Innovation Opportunities	750	-	750	-
	\$ 18,000	\$ 14,804	\$ 3,196	\$ 3,330
			Expenditures on projects approved prior to 2018 ² :	10,348
				\$ 13,678

¹ The Board approved a maximum level of \$18.0 million in capital and project commitments for 2018 at their December 2017 meeting. The sub-amounts allocated to the project classifications will vary as actual projects are approved during the year by the Corporate Management Committee.

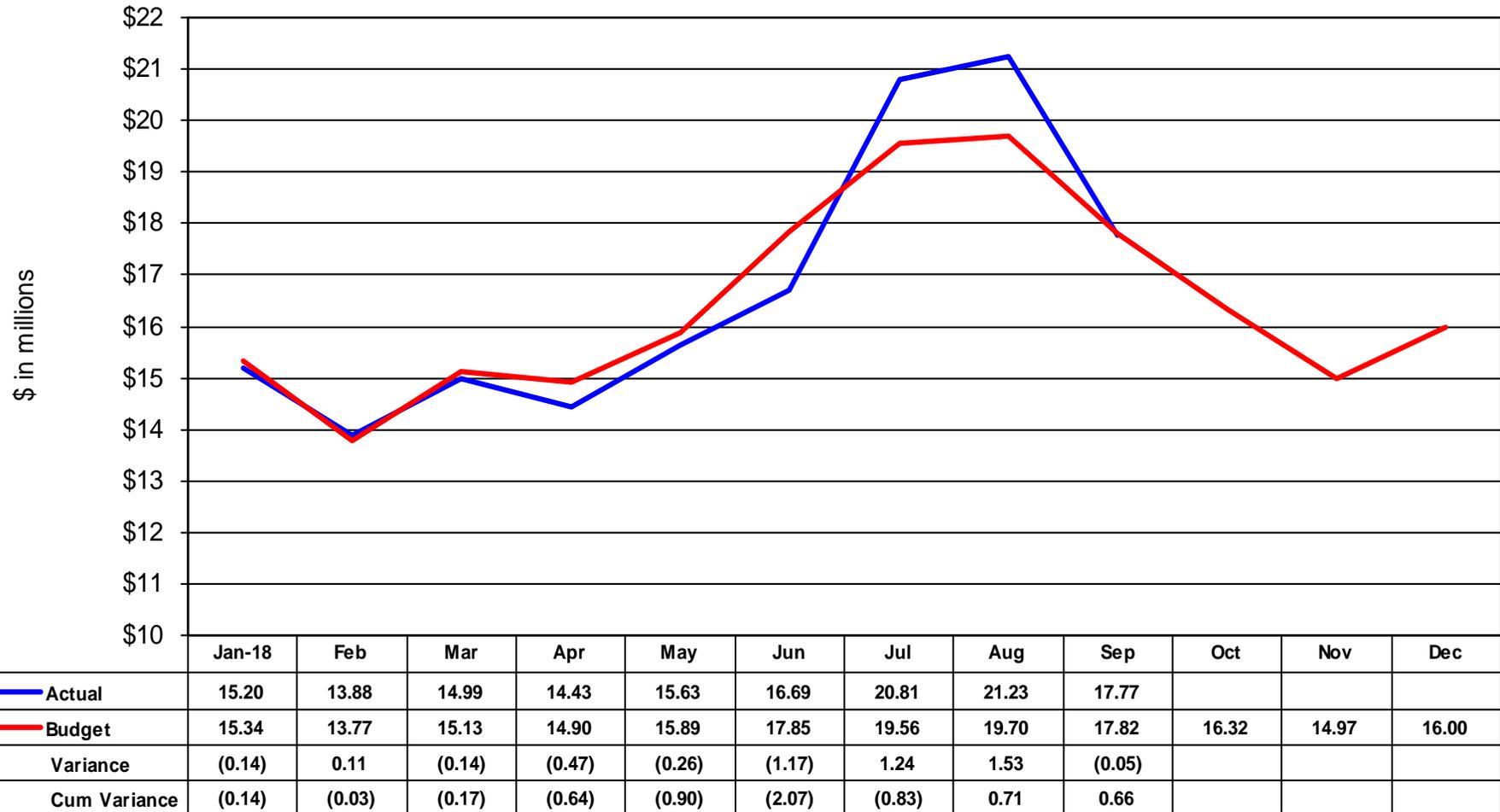
² Expenditures on projects approved in a prior budget year. Does not include EIM Implementation projects as those expenditures are reimbursed by the EIM entity.

Cumulative Operating Revenues

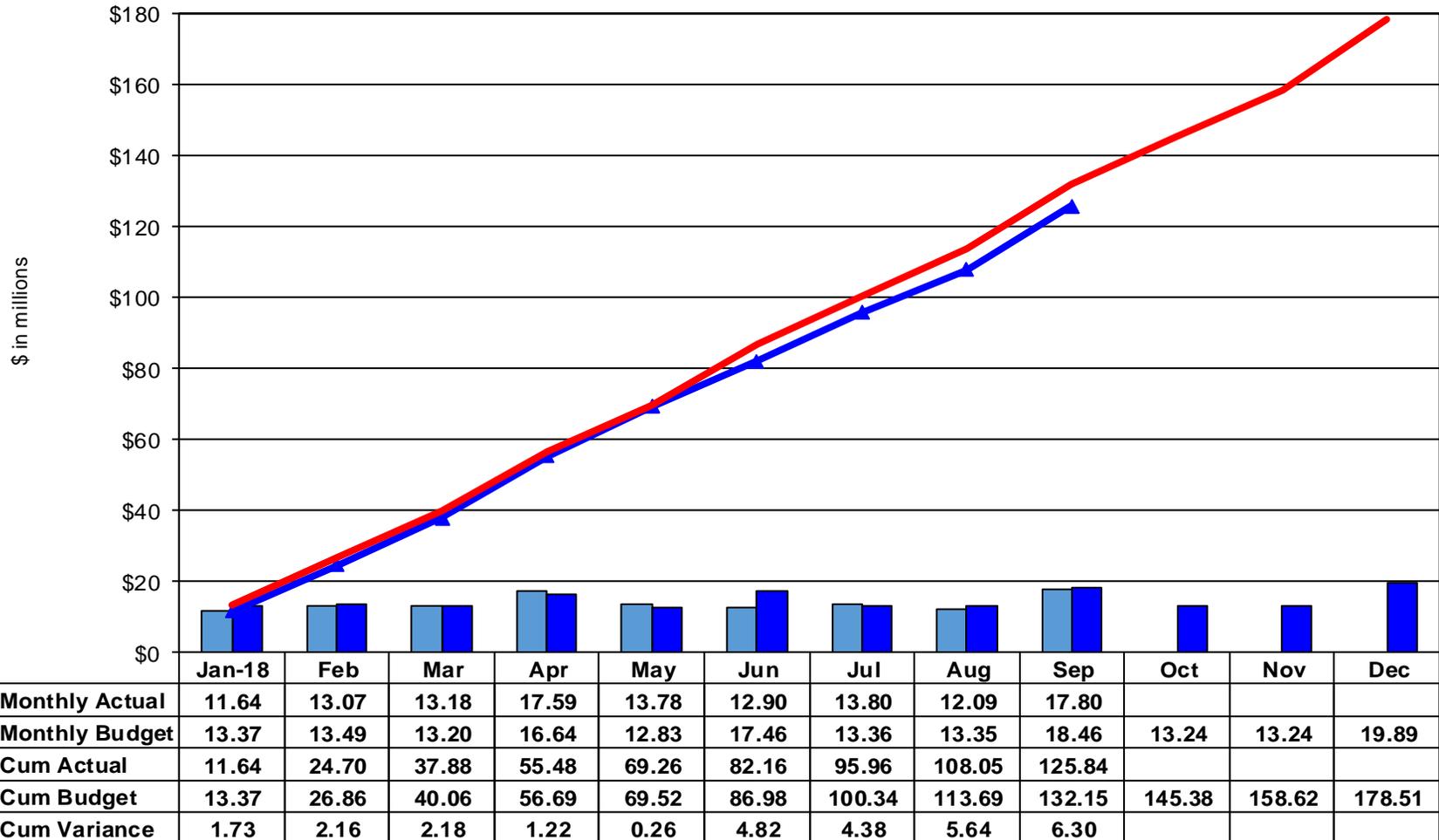
Revenues = GMC & Other Revenues



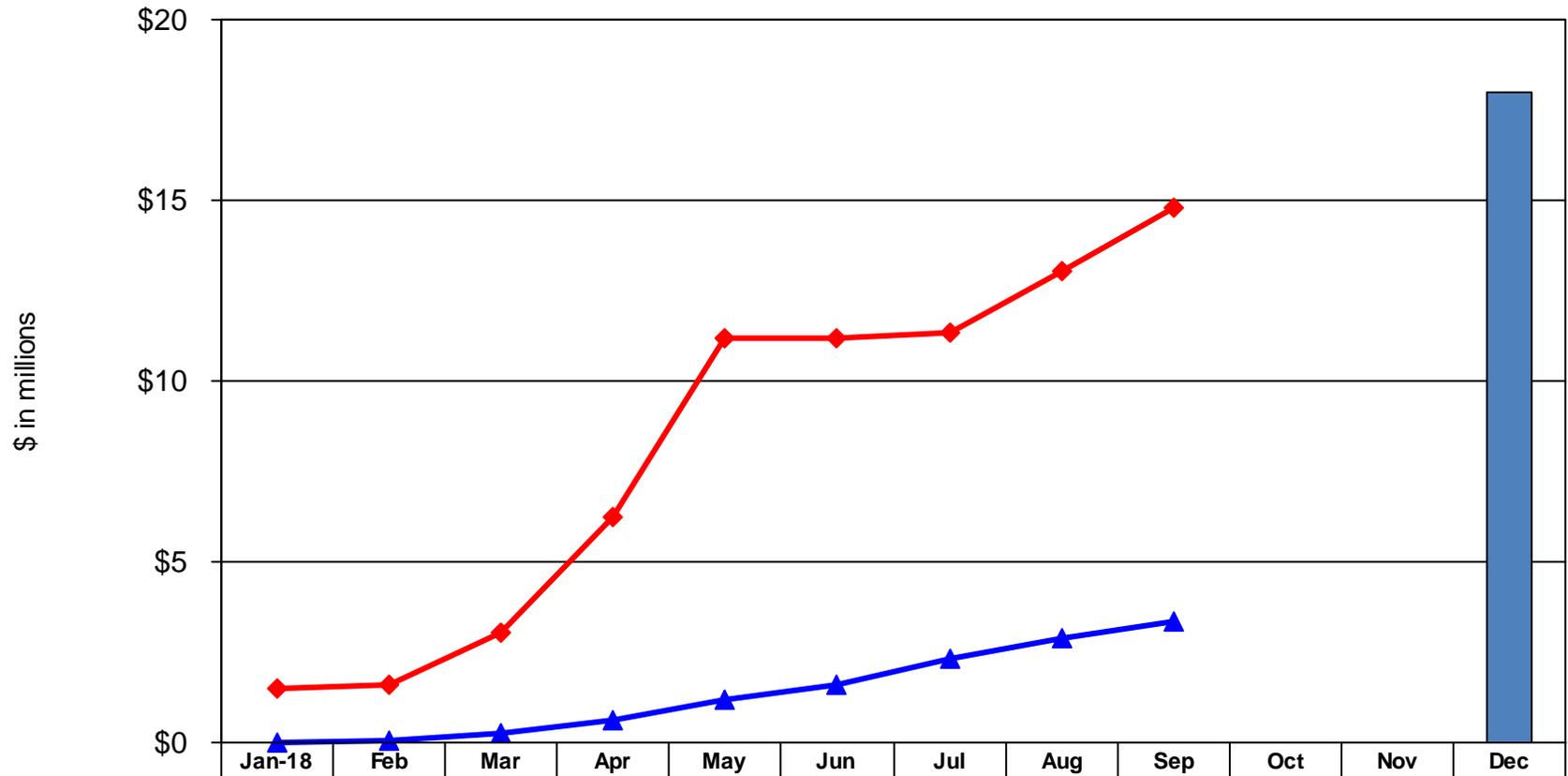
Monthly GMC Revenues



Operating and Maintenance Expenses (O&M)

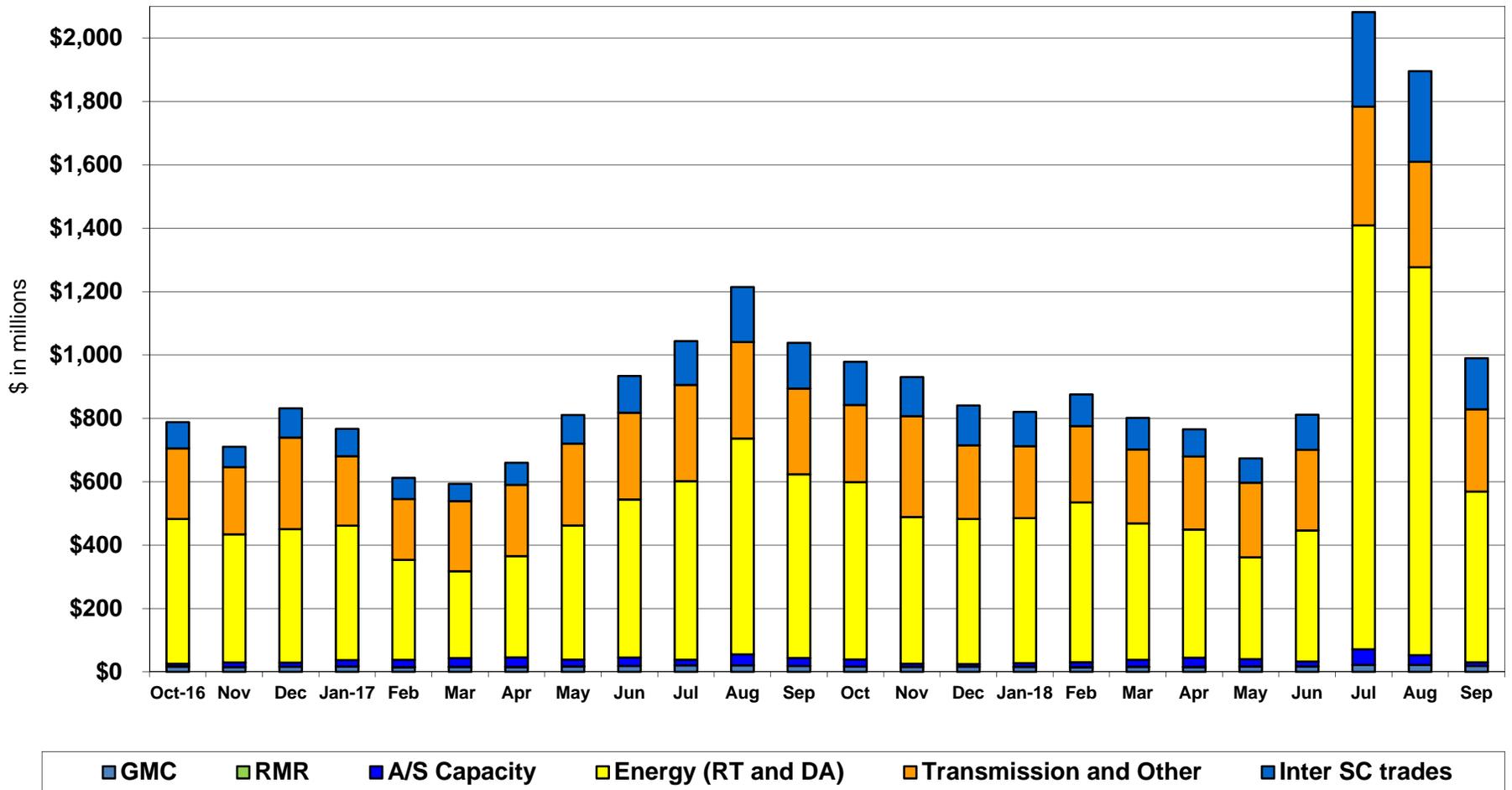


Cumulative Capital Expenditures

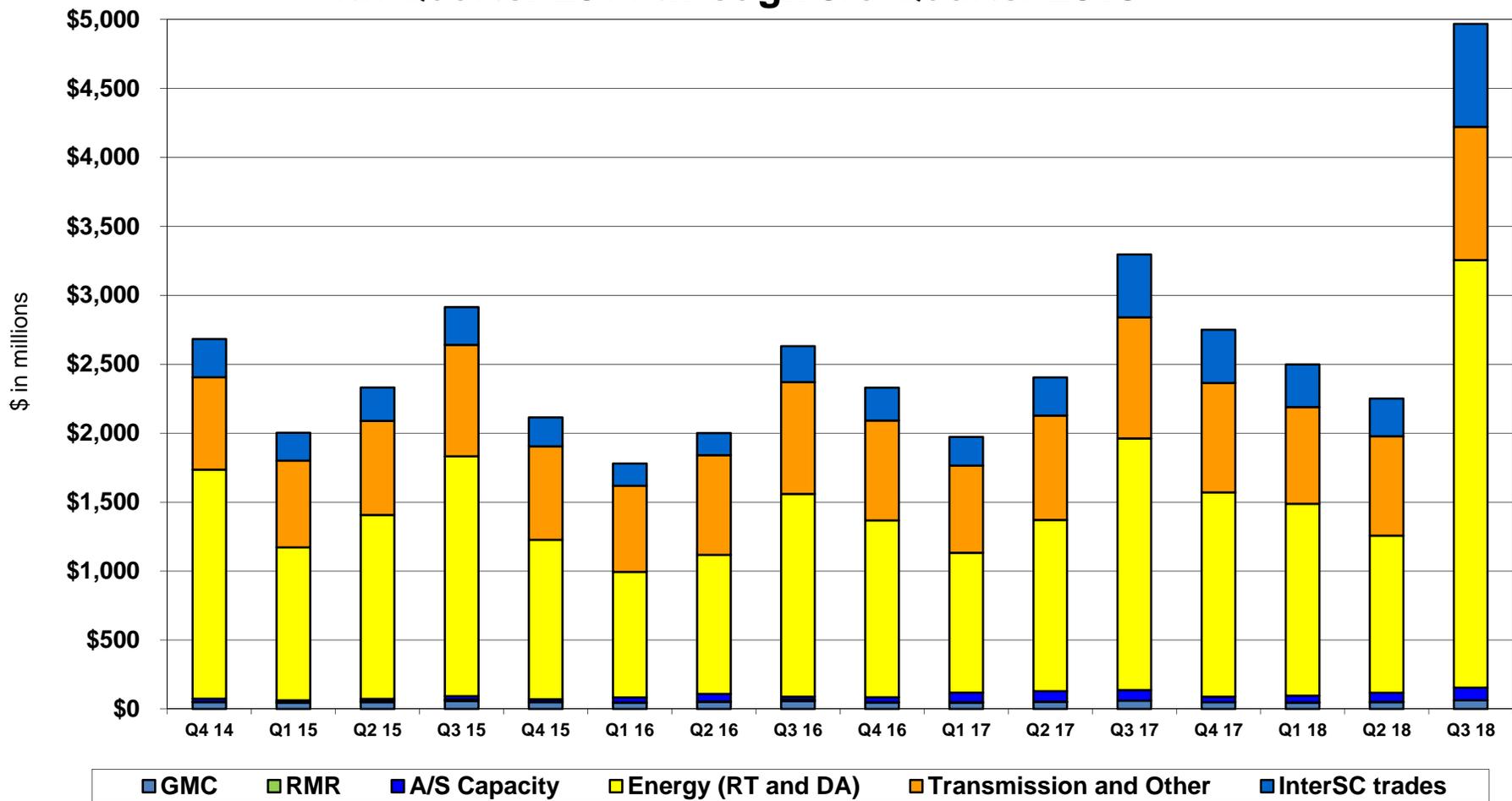


Budgeted capital												18.00
Cumulative Expenditures	0.00	0.03	0.28	0.61	1.18	1.60	2.33	2.88	3.33			
Approved projects	1.48	1.59	3.03	6.25	11.17	11.17	11.33	13.03	14.80			

ISO Market Revenues By Month Oct 2016 through Sep 2018



ISO Market Revenues By Quarter 4th Quarter 2014 through 3rd Quarter 2018



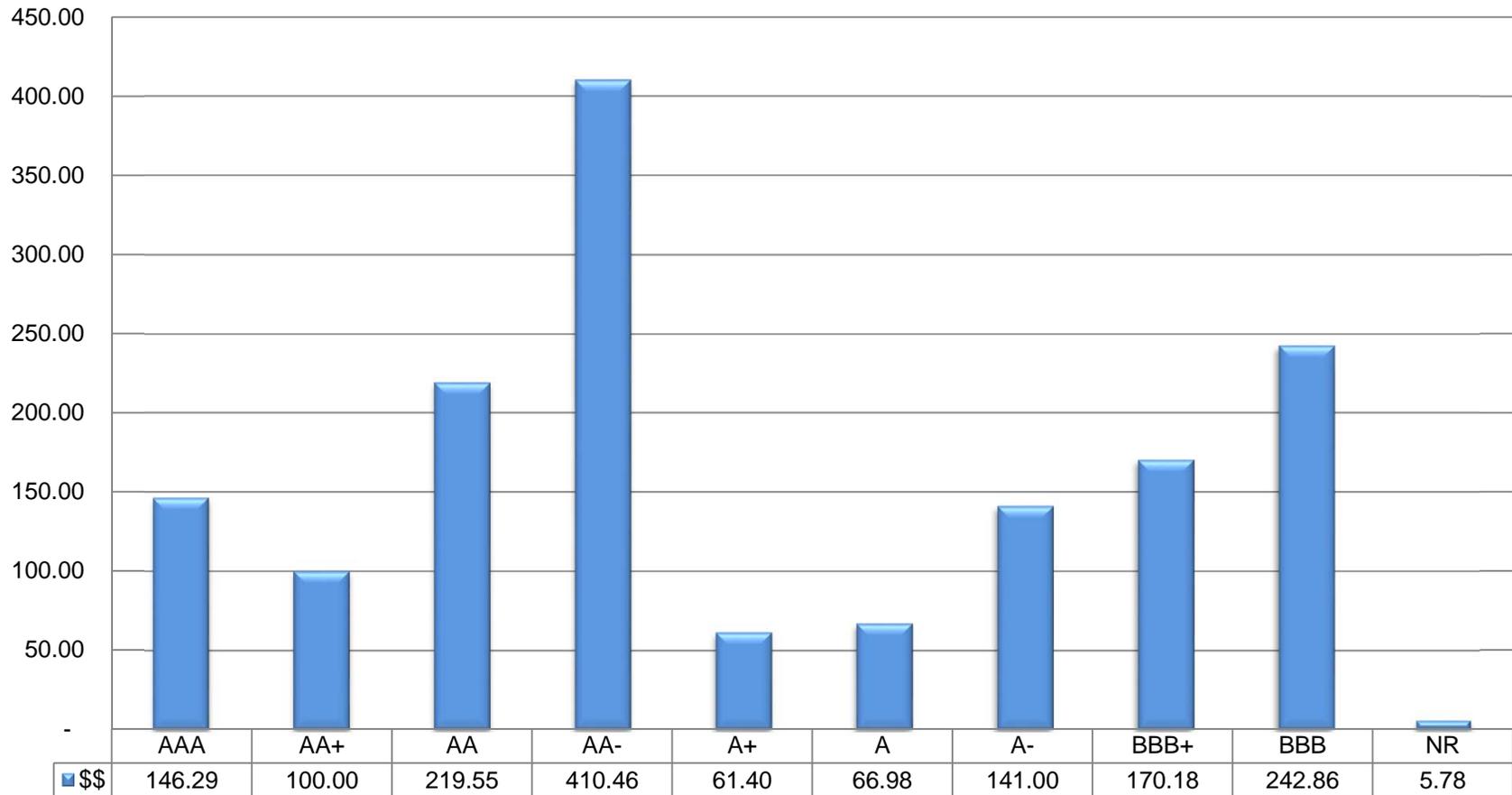
Collateral & Estimated Aggregate Liability (as of 10/03/18)

Collateral Types	Amount
Unsecured	\$1,564,499,143
Secured	\$563,492,020
Total	\$2,127,991,163

Estimate Aggregate Liability	Amount
Positive EAL	\$309,938,689

Unsecured Collateral (as of 10/03/18)

(in millions)



Secured Collateral (as of 010/03/18)

(in millions)

