

QUARTERLY FINANCIAL REPORT

June 30, 2016

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

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CALIFORNIA ISO SUMMARY, DISCUSSION AND COMMENTARY

For the quarter ended June 30, 2016

Results of Operations

Revenues

Through the second quarter ending June 30, 2016, operating revenues were higher by \$2.0 million compared to the budgeted amounts. The overall increase in revenues was primarily due to higher other revenues (specifically EIM and forecasting fees) and slightly higher GMC revenues.

Expenses

Operating expenses are \$4.2 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 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 the first quarter.

Capital Projects

Through the end of the second quarter of 2016, \$13.5 million in projects were approved by the Corporate Management Committee. These projects will enhance the current systems' performance and effectiveness in meeting future challenges and FERC mandates.

Collateral Held Report

As of July 6, 2016, the ISO maintained \$1.8 billion in collateral from market participants to support \$257.9 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 \$408.0 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 June 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	\$ 48,183	\$ 48,106	\$ 91,617	\$ 92,212	\$ 91,158
Other revenues	3,780	2,509	5,975	6,413	4,400
Total operating revenues	51,963	50,615	97,592	98,625	95,558
<u>Operating expenses:</u>					
Salaries and benefits	31,600	30,784	59,634	58,148	59,464
Building, leases and facility	872	762	1,493	1,362	1,658
Insurance	310	311	718	719	755
Third party vendor contracts	4,084	4,023	7,790	7,337	8,509
Consulting and contracting services	3,957	3,598	6,882	6,708	8,343
Legal and audit	873	857	1,158	1,010	1,927
Training, travel and professional dues	873	1,137	1,510	1,828	2,555
Other	370	357	778	796	994
Total operating expenses	42,939	41,829	79,963	77,908	84,205
Operating income before depreciation and amortization	9,024	8,786	17,629	20,717	11,353
<u>Depreciation and amortization</u>	5,569	6,189	11,311	12,302	11,311
Net operating income (loss)	3,455	2,597	6,318	8,415	42
<u>Other income (expenses)</u>					
Interest income & other	750	83	2,135	1,025	1,000
Interest expense	(2,257)	(2,283)	(4,502)	(4,585)	(4,528)
Total other income (expenses)	(1,507)	(2,200)	(2,367)	(3,560)	(3,528)
Excess (deficiency) of revenues over expenses	\$ 1,948	\$ 397	\$ 3,951	\$ 4,855	\$ (3,486)
Number of full-time employees			590	582	593

CALIFORNIA ISO
Balance Sheet
As of June 30, 2016
(dollars in thousands)

	<u>Current Quarter</u> <u>6/30/2016</u>	<u>Prior Year</u> <u>12/31/2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, including restricted amounts	\$ 283,282	\$ 326,879
Accounts receivable	28,208	17,266
Short-term Investments, including restricted amounts	61,823	52,072
Other current assets	4,887	6,428
Total current Assets	<u>378,200</u>	<u>402,645</u>
NONCURRENT ASSETS		
Long-term investments, including restricted amounts	136,067	138,302
Fixed assets, net	180,734	175,013
Other assets	8,525	13,808
Total noncurrent assets	<u>325,326</u>	<u>327,123</u>
TOTAL ASSETS	<u>\$ 703,526</u>	<u>\$ 729,768</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	11,586	11,844
Accrued salaries and compensated absences	17,955	30,601
Current portion of long-term debt	4,625	4,500
Due to market participants	332,286	342,242
Generator noncompliance fines refund obligation	2,340	2,316
Total current liabilities	<u>368,792</u>	<u>391,503</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	187,090	192,039
Employee retirement plan obligations	21,214	21,495
Total noncurrent liabilities	<u>208,304</u>	<u>213,534</u>
TOTAL LIABILITIES	<u>577,096</u>	<u>605,037</u>
TOTAL NET ASSETS	<u>126,430</u>	<u>124,731</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 703,526</u>	<u>\$ 729,768</u>

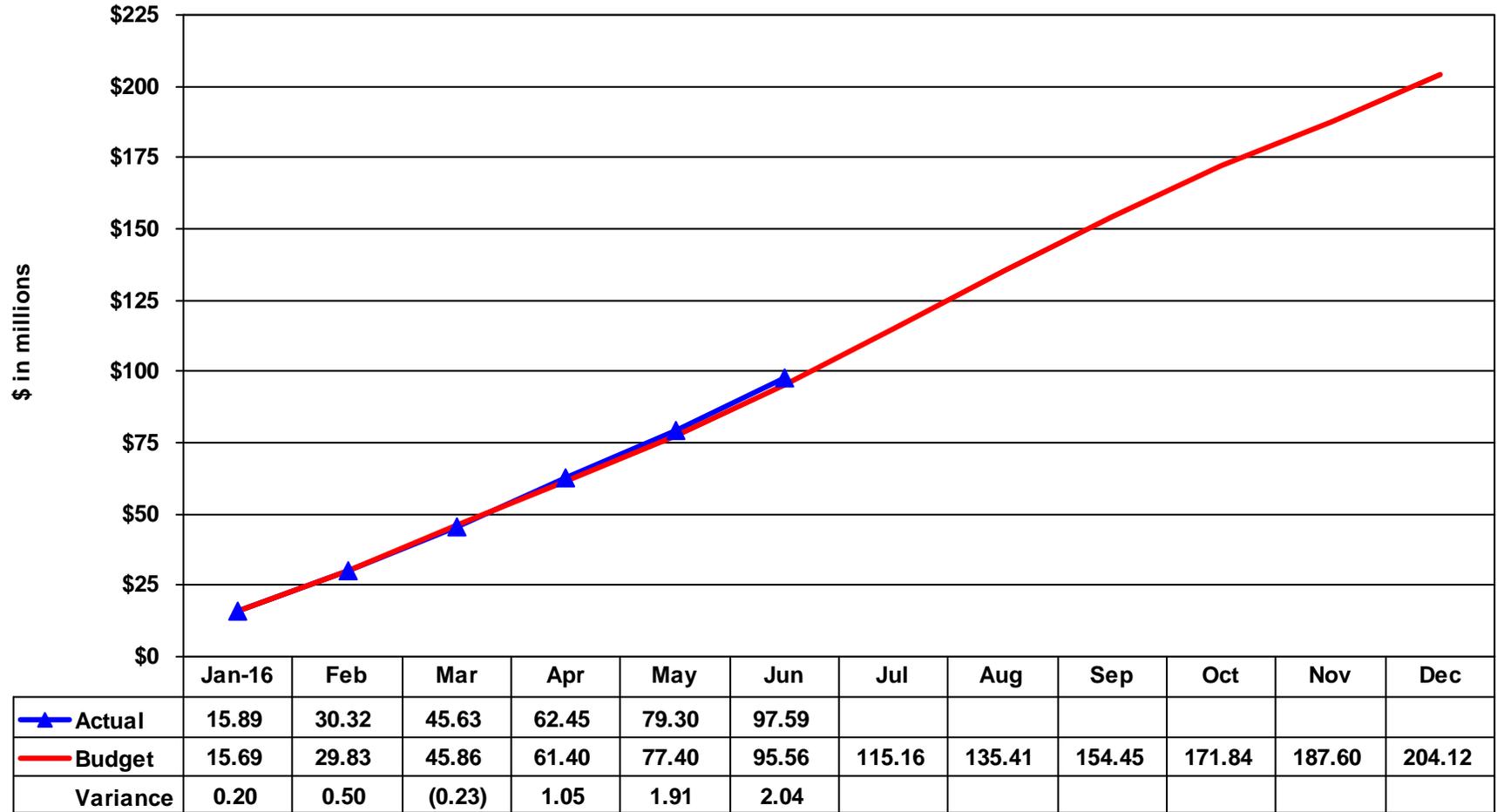
CALIFORNIA ISO
Capital Projects Report

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

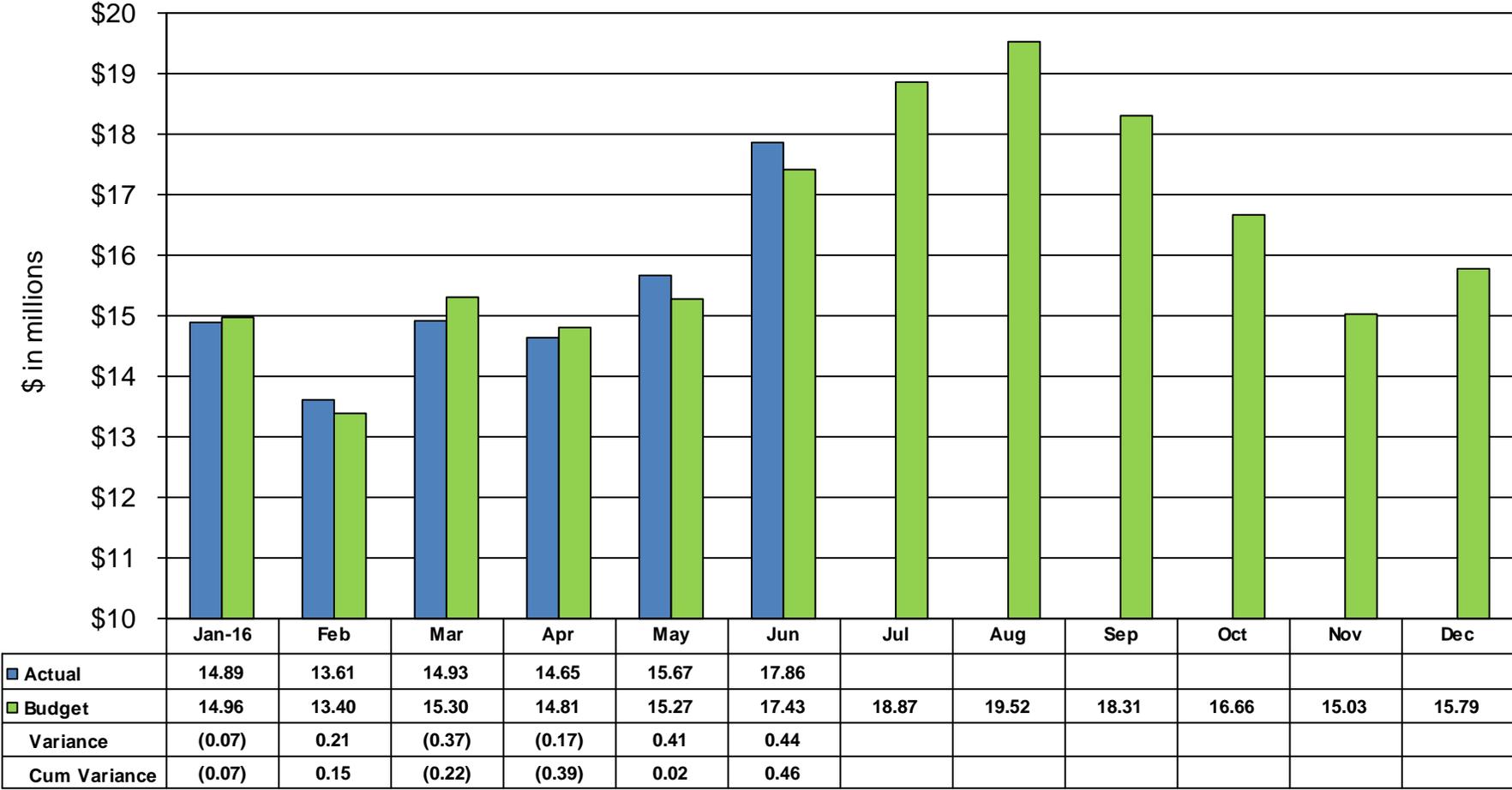
	Approved Projects				
	Q2 Actual	YTD Actual	2016 Approved Projects	Projected Costs for Approved Projects	Original/ Current Budget
Market & Operational Excellence	\$ 913	\$ 1,280	\$ 7,733	\$ 7,733	\$ 10,905
Focus on Customer Service /Compliance	1,361	2,285	3,510	3,510	1,425
Enhance the Technology Foundation	388	430	2,223	2,223	4,170
Total 2016 Capital Spending	2,662	3,995	13,466	13,466	16,500
Energy Management System	1,038	1,087		13,500	13,500
Lincoln Operations Center	6,639	10,216		26,109	30,400
Energy Imbalance Market Projects	376	501		1,694	2,109
Prior Year Capital Projects	967	3,473		9,350	-
Total Capital	\$ 11,682	\$ 19,272	\$ 13,466	\$ 64,119	\$ 62,509

Cumulative Operating Revenues

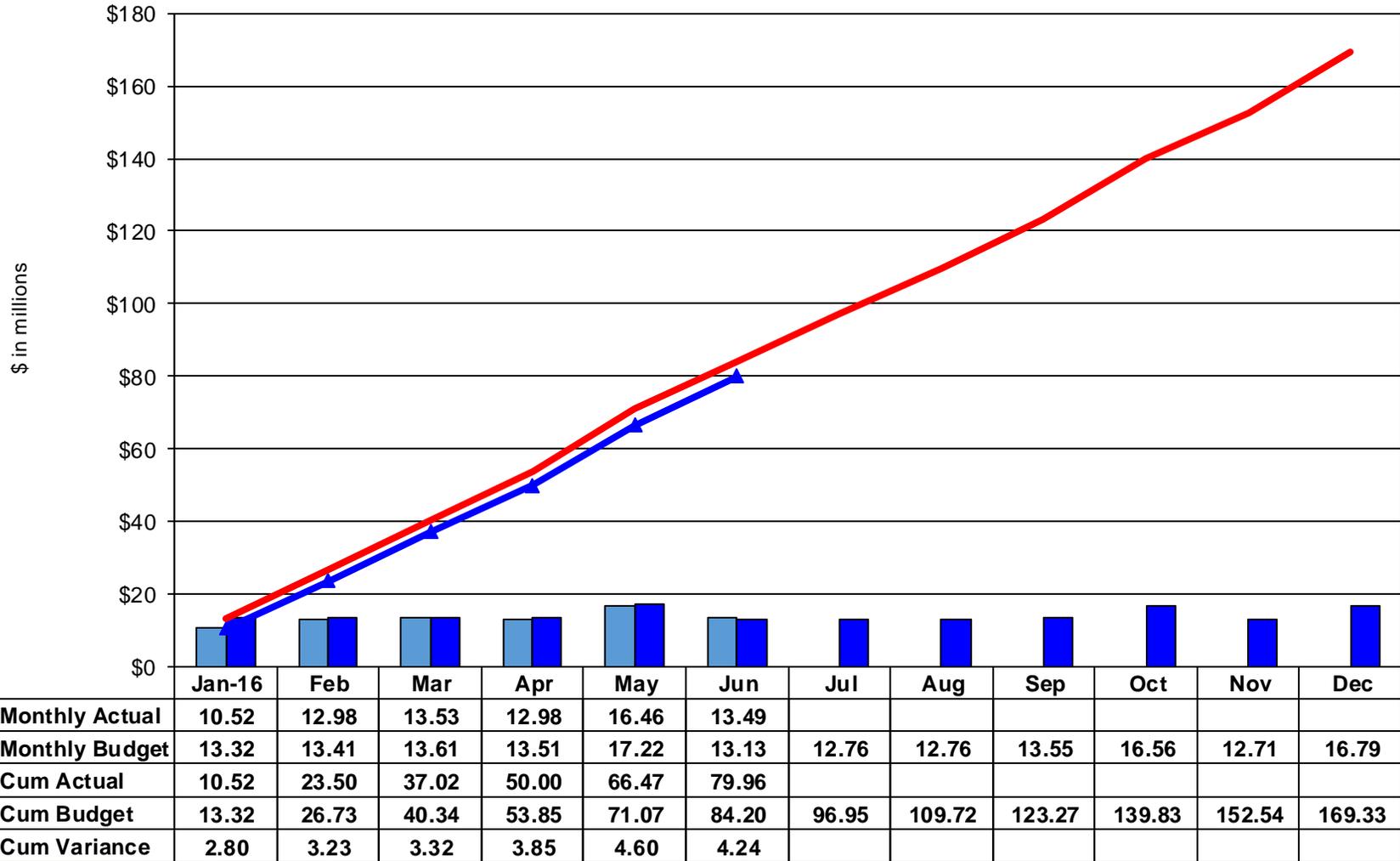
Revenues = GMC & Other Revenues



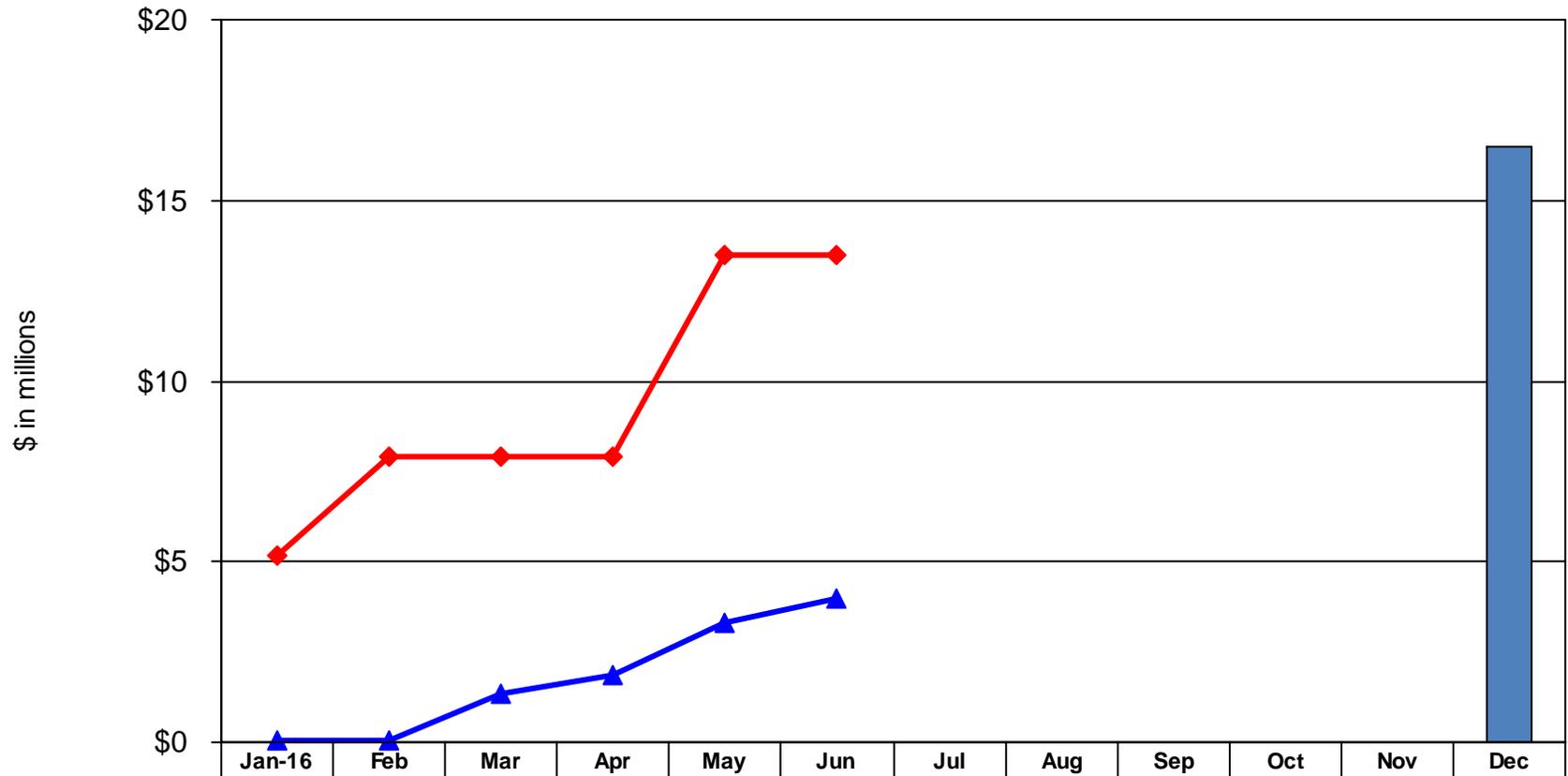
Monthly GMC Revenues



Operating and Maintenance Expenses (O&M)

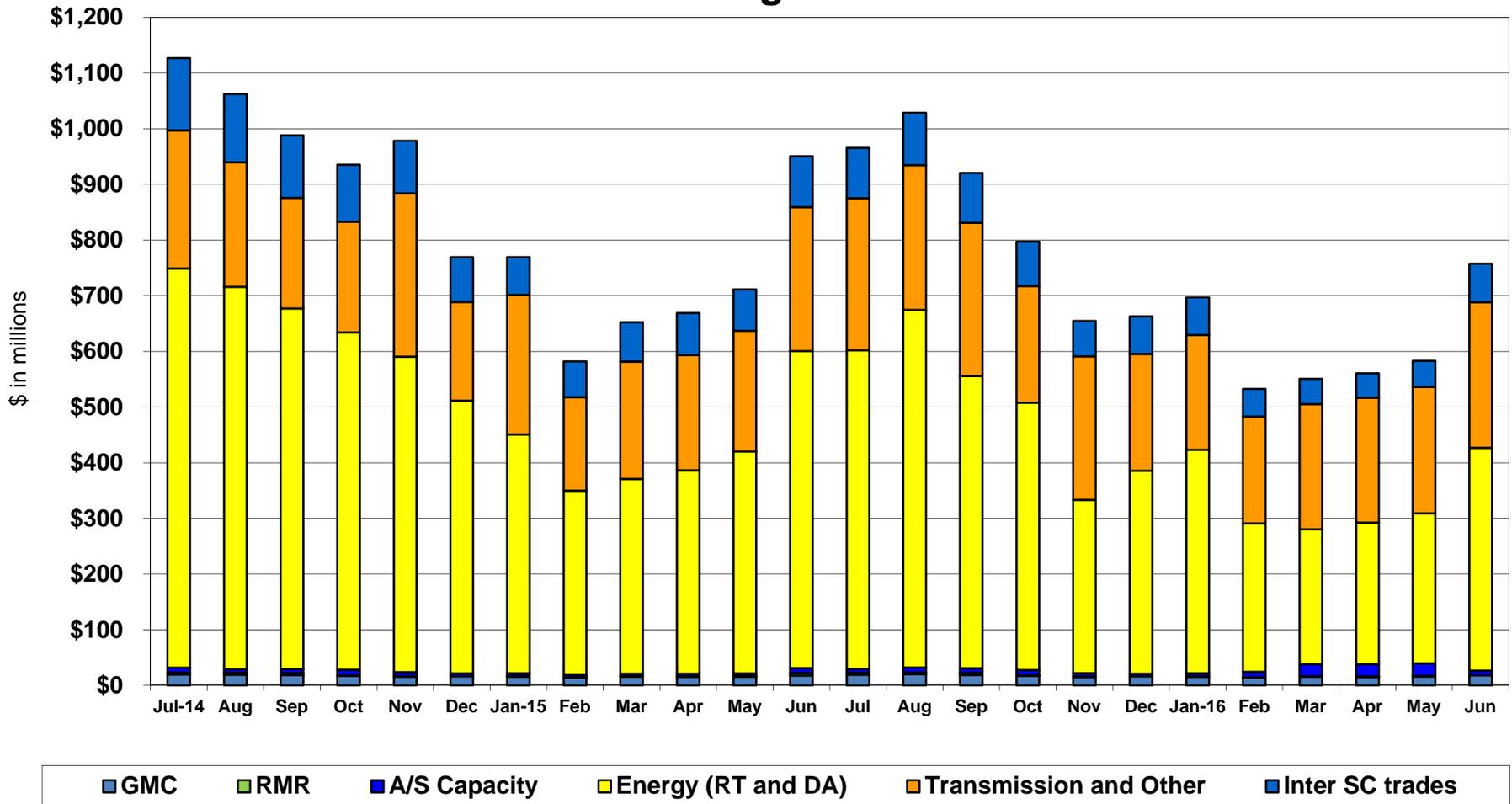


Cumulative Capital Expenditures

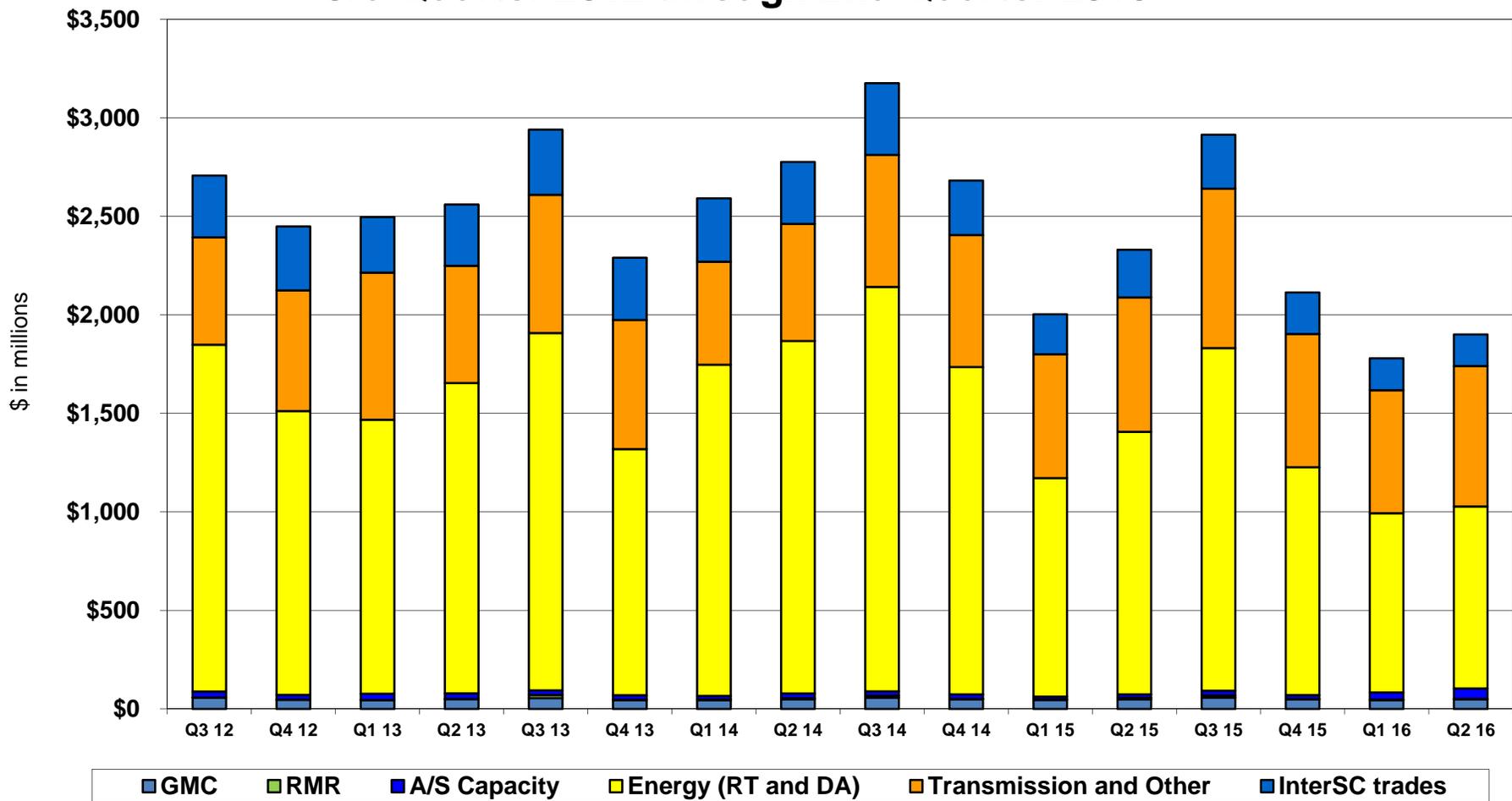


Budgeted capital												16.50
Cumulative Expenditures	0.06	0.07	1.33	1.84	3.29	4.00						
Approved projects	5.16	7.91	7.91	7.91	13.47	13.47						

ISO Market Revenues By Month Jul 2014 through Jun 2016



ISO Market Revenues By Quarter 3rd Quarter 2012 through 2nd Quarter 2016



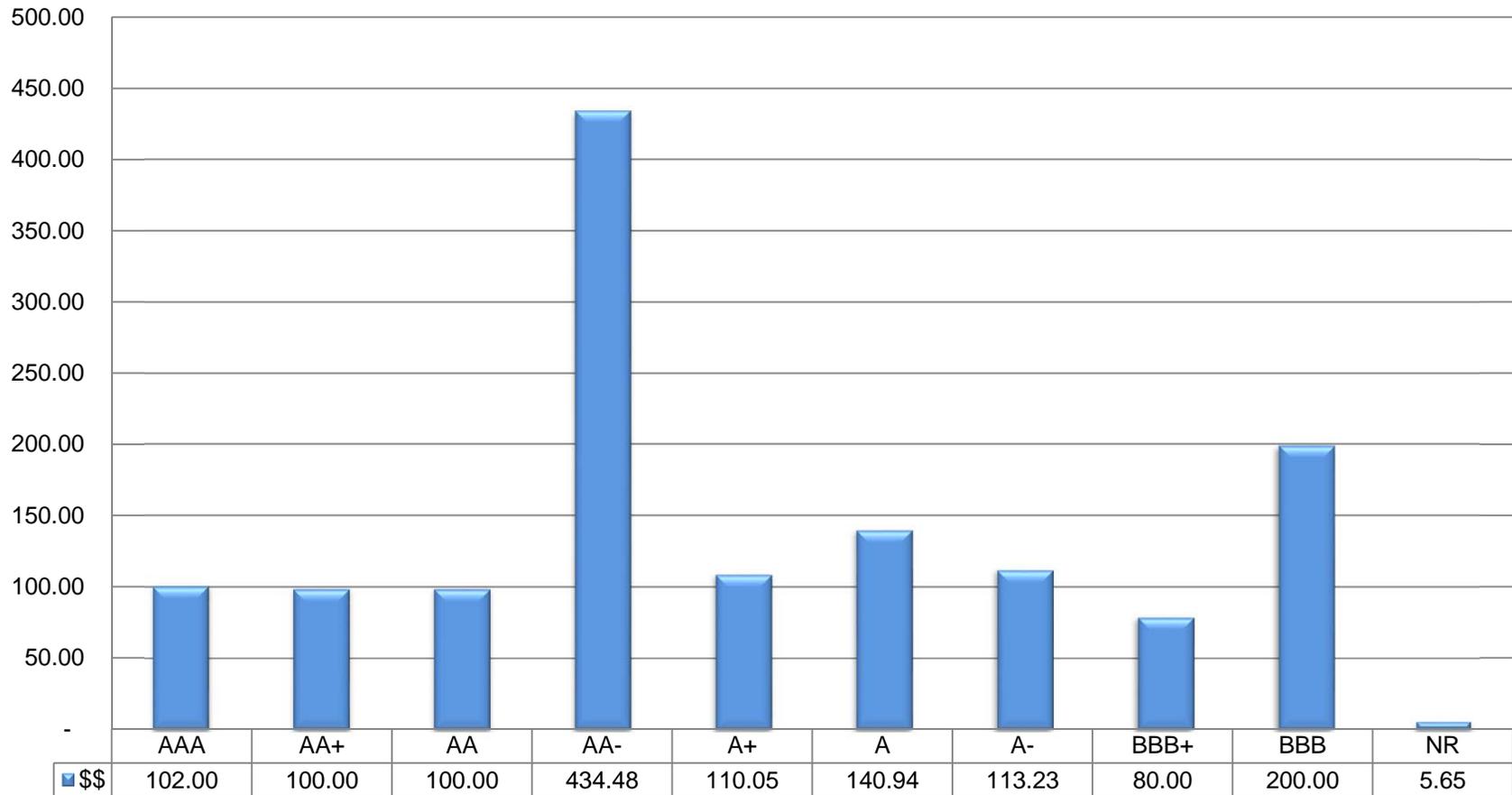
Collateral & Estimated Aggregate Liability (as of 07/06/16)

Collateral Types	Amount
Unsecured	\$1,386,347,258
Secured	\$408,020,668
Total	\$1,794,367,926

Estimate Aggregate Liability	Amount
Positive EAL	\$257,906,657

Unsecured Collateral (as of 07/06/16)

(in millions)



Secured Collateral (as of 07/06/16)

(in millions)

