

# Memorandum

**To:** ISO Finance Committee

**From:** Ben Arikawa, Senior Financial Analyst  
Phil Leiber, Treasurer and Director of Financial Planning  
Bill Regan, Chief Financial Officer

**Cc:** ISO Officers

**Date:** June 7, 2006

**Re:** *2007 Budget Calendar*

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***This memorandum does not require Board action.***

Each year prior to the initiation of the ISO's annual budget process, ISO management has developed a calendar with budget-related milestone dates that will lead to the establishment of the subsequent year's budget and new Grid Management Charge (GMC) rates.

Attached to this memorandum is a table containing the proposed timeline for the 2007 budget process. The dates are in accordance with the requirements of the Tariff, and the 2004-2006 GMC Settlement Agreement ("Settlement"), in which the ISO agreed to provide increased opportunities for stakeholder discussion on O&M and capital expenditures and on ISO priorities for the coming year. The Settlement also extended the filing deadline to mid-December from late October to allow for extended consideration of the budget after its initial release in draft form in September. While the Settlement expires on December 31, 2006, the same process will be used for the development of the 2007 budget. Further, the ISO is currently working with stakeholders to extend the primary terms of the Settlement through October 31, 2007 and will provide the Board a status report of such efforts at this Board meeting.

## **Internal Budget Development Process**

The ISO is for the first time starting the budget process with a clear roadmap for the future—the 2006-2008 Strategic Business Plan will provide the foundation for the 2007 budget. The ISO has set aggressive service and performance goals, while aiming to tightly manage costs. These constraints include an existing 2006 goal that provides for GMC rate targets for 2007 of between \$0.72 and \$.078 cents per MWh on a bundled basis (stretch and threshold goals, respectively). The ISO's long-term financial plan targets a stable revenue requirement until 2010, when costs will drop due to the retirement of the ISO's startup and year 2004 bonds. The pending agreement to extend the 2004-2006 GMC Settlement agreement would provide for a revenue requirement cap of \$195 million if

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the ISO is to avoid a rate filing to justify its costs at FERC. Accordingly, we will be aiming to “hold the line” on costs in 2007.

ISO departments will prepare preliminary budget proposals during July, for presentation to the Officer team in August. ISO Officers will review and prioritize proposed programs and funding levels to compile a “management recommended budget,” which will be presented to the Finance Committee in an executive session briefing in late August.

### **External Budget Review Process**

The ISO will host three budget meetings for stakeholders to discuss and review the budget. The first opportunity for stakeholder consultation will be at the June 27, 2006 meeting for which stakeholders have been invited to offer their comments, suggestions and recommendations for the coming year's O&M and capital expenditures and ISO priorities. The discussion at this meeting will inform ISO Management as we prepare our recommended budget in July and August. After this initial meeting, the ISO will continue to engage stakeholders. In mid-September, the ISO will offer a “Budget 101” teleconference to educate stakeholders about the ISO's budget process in preparation for the stakeholder budget workshop scheduled for September 14<sup>th</sup> to discuss the details of the ISO's 2007 budget and to receive additional comments.

### **Board Budget Review Process**

The Board will have several opportunities to review the proposed budget and to consider comments from stakeholders on the Budget. The Finance Committee will receive management's proposed budget in late August (meeting date yet to be determined) in executive session. With any changes directed by the Finance Committee, the budget will be presented to the Board on September 7 in open session.

After presentation of the budget to the stakeholders on September 7 and at a workshop on September 14, stakeholders will have the opportunity to submit comments to the Finance Committee for discussion on October 18<sup>th</sup>. Finally, the full Board will vote on the budget on December 14.

### **Posting of GMC Rates**

The ISO intends to file this summer, with stakeholder support, a continuation of the existing rate structure through October 31, 2007. If approved by FERC, and the ISO's revenue requirement for 2007 is below the \$195 million threshold, the ISO will not be required to file proposed 2007 revenue requirement and rates with FERC but instead will post such rates and all supporting documentation on the ISO website by December 15, 2006.

**California ISO  
2007 Budget Calendar**

Event	Proposed Date For 2007 Budget Process	Date for 2006 Budget Process
<b>1</b> Budget Process Timeline presented to Finance Committee	June 13, 2006	June 14, 2005
<b>2</b> Meeting with GMC Stakeholders on priorities, cost control ideas, and proposed capital projects	June 27, 2006	June 17, 2005
<b>3</b> Budget Process Rollout to Departments	June 29, 2006	August 1, 2005
<b>4</b> Internal Budget Development Process	July – August	August 1-15,2005
<b>5</b> Board/Finance Committee Review of Preliminary Budget (Executive Session)	TBD	August 30, 2005
<b>6</b> Board discussion and review of preliminary Budget posting (Open session)	September 7, 2006	September 8, 2005
<b>7</b> "Budget 101" teleconference for interested parties	TBD	September 13, 2005
<b>8</b> Stakeholder Budget Day	September 14, 2006	September 15, 2005
<b>9</b> Written Comments on Budget Due	October 5, 2006	October 7, 2005
<b>10</b> Finance Committee meeting: receive public comments on budget	October 18, 2006	October 18, 2005
<b>11</b> Finance Committee meeting: receive additional public comments on Budget and develop recommendation to Board **	December 13, 2006	Early December
<b>12</b> Board Approval of Budget	December 14, 2006	December 9, 2005
<b>13</b> Posting of Rates / Informational Filing with FERC	December 15, 2006	December 15, 2005
Required time period between FERC filing and effective date of new rate	15 days	15 days
<b>15</b> New Rate effective	January 1, 2007	January 1, 2006