

Calculation of Financial & Capital Operating Reserve Credit for 2007

\$ in '000

Factors affecting the reserve credit for 2007 are calculated in two parts:

- Part 3

 Items affecting the reserve balance as of 12/31/2005. The analysis shows the reserve balance at 12/31/2005 based on the assumptions used in our last GMC filing (for 2006), updates to those assumptions based on actual experience, and also incorporates new items affecting the reserve as of that date.
 Appendix A-Part 3
- Part 2

 2006 events affecting the reserve, including 2006 revenues, expenses and other reserve uses and credits.
 Appendix A-Part 2

	(Left-most columns on Part 2)	(Right-most columns on Part 2)	
<b>SUMMARY OF RESERVE CREDIT</b>	<b>What would be expected with no changes from last year's plan</b>	<b>Revised: Forecast/Actual</b>	<b>Difference from Plan</b>
Part 3, Line 15 Available as credit for 2006	30,296	35,567	5,271
Part 2 2006 Events			
Reserve Balance at 1/2006	50,386	55,657	5,271
Net Changes for 2006	(13,889)	(8,838)	5,051
Ending Reserve Balance	36,497	46,819	10,322
Calculation of Available 2007 Credit:			
2006/2007 O&M Budget	133,936	143,805	
Less: Reserve Requirement= 15% of O&M Budget	(20,090)	(21,571)	
2007 Credit (See Line 15 of Part 2)	16,407	<b>25,248</b>	8,841

Notes:  
 "Plan" : Assumes 2006 expenses and revenues were equal to budgeted amounts, and that no other factors affected the reserve balance.  
 "Revised" reflects the updated reserve balance as of 12/31/2005, and the items that affected the reserve in 2006.

<b>SUMMARY OF RESERVE (Alternative Reconciliation)</b>			
	Available as credit for 2007 based on 25% of debt service in 2006		16,407
Part 3	Items that Affected Prior Years (Positive = more funds for Operating Reserve)		
	Updated 2005 Revenue and Expenses (previous estimate was prior to close of the 2005 year)	(958)	
	Adjust matters affecting 2005 Operating Reserve Balance (Legal and billing matters)	6,229	
	Subtotal		5,271
Part 2	Items Affecting Reserve Balance from Year 2006		
	Revenue and Other Reimbursements: Difference from Budget	10,462	
	Expenses: Difference from Budget	(1,817)	
	Subtotal		8,645
	Other Reserve Uses Including reserves for Legal, Billing & Other matters (Interest on Amend. 33 Fines, 2001 GMC billir		(3,594)
	Higher O&M Budget for 2007 results in a higher 15% reserve requirement		(1,480)
	Grand Total: Available Credit		25,248

Calculation of Available  
Financial & Capital Operating Reserve Credit for 2007

		Budget							Actual/Forecast for Year 2006, as of 12/2006							Difference:	
		CRS	ETS:	Forward Scheduling	Congestion Management	Market Usage	Settlements, Metering, Customer Service	Total	CRS	ETS:	Forward Scheduling	Congestion Management	Market Usage	Settlements, Metering, Customer Service	Total	Plan vs. Forecast	General Notes
1	<b>BEGINNING RESERVE BALANCE, 1/1/2006</b>	\$ 12,821	\$ 3,307	\$ 9,433	\$ 2,016	\$ 9,408	\$ 13,401	\$ 50,386	\$ 9,608	\$ 9,480	\$ 9,501	\$ 4,148	\$ 7,891	\$ 15,029	\$ 55,657	5,271	
<b>CALCULATION OF CONTRIBUTION TO RESERVE FROM OPERATIONS</b>																	
<b>Revenue:</b>																	
2a	GMC Rates: 2006 Calendar Year Revenue (as settled)	44,478	82,693	7,690	15,814	27,371	625	178,671	46,726	84,127	8,038	17,883	29,734	680	187,187	8,516	Updated revenues through Sept. Includes actuals through August and estimates for Sept. through Dec.
	Other Settlement revenues	874	862	51	5	65	-	1,857	1,119	1,232	51	4	65	5	2,477	620	SWPL LOC and MID fixed payment revenues. Actual revenues include \$900 from MID, \$600 more than forecast.
2b	Reassignments of SMCR	24,420	(56,708)	6,038	(6,532)	(9,837)	42,619	-	25,260	(57,879)	7,682	(7,386)	(10,686)	43,009	-	-	Reversal of Settlement reassignments necessary to calculate revenues by filed rate categories
2c	GMC Rates: 2006 Calendar Year Revenue (as filed) = Sum of 2a+2b	69,772	26,847	13,779	9,286	17,599	43,245	180,528	73,105	27,480	15,771	10,501	19,114	43,694	189,664	9,136	Totals includes SWPL LOC and MID fixed payment amounts as well as forecast revenues. Includes effect of rate adjustment in fourth quarter.
3	Other (Interest Income, WECC reimbursement, COI Path Operator fee)	3,554	767	151	72	172	434	5,150	4,469	965	189	90	216	546	6,476	1,326	Based on midyear 2006 forecast (through June 2006). Excludes SWPL revenues, which are recorded in Line 2a above. Includes interest earnings on Amendment 33 fines funds. The offset to this is shown on Line 8, which is the interest that accrues at the FERC rate on the Amendment 33 fines.
<b>Expenses:</b>																	
4	O&M	(55,646)	(22,713)	(7,879)	(5,400)	(13,085)	(29,213)	(133,936)	(55,438)	(22,628)	(7,850)	(5,380)	(13,036)	(29,104)	(133,436)	500	Forecast of spending for year is projected to be about at budget. Capitalized labor that would be subtracted from this line is offset by incremental O&M from the MRTU budget.
4a	Differential btw capitalized labor and O&M backfill for MRTU	-	-	-	-	-	-	-	(623)	(254)	(88)	(60)	(147)	(327)	(1,500)	(1,500)	Capitalized labor for MRTU will exceed incremental O&M related to the project by a projected \$1,500. Accordingly, it is necessary to set cash to cover this differential.
5a	Debt Service: Principal	(15,625)	(3,450)	(10,095)	(3,659)	(8,610)	(16,729)	(58,167)	(15,625)	(3,450)	(10,095)	(3,659)	(8,610)	(16,729)	(58,167)	(0)	Budgeted Debt Service: Principal of \$58,167
5b	Debt Service: Interest	(2,005)	(443)	(1,295)	(469)	(1,105)	(2,147)	(7,464)	(2,225)	(491)	(1,437)	(521)	(1,226)	(2,382)	(8,281)	(817)	Budgeted interest of \$7,464. Forecast variance of \$817K for 2006.
6	Cash Funded CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	None for 2006
7	Contribution to Operating Reserve (Sum lines 2-7)	50	1,010	(5,340)	(170)	(5,028)	(4,410)	(13,889)	3,663	1,622	(3,510)	971	(3,688)	(4,302)	(5,244)	8,645	
<b>OTHER RESERVE USES</b>																	
8	Interest on Excess Collections of Amendment 33 Fines								(690)	(576)	(221)	(143)	(615)	(1,189)	(3,434)	(3,434)	Interest on Amend 33 fines likely to be returned. Includes estimated interest of \$2,854 for full year of 2006 at FERC rate, and additional amount of \$580 representing adjusted 2005 interest (updating 2005 estimate)
9	Interest on 2001 GMC Case: Incentive Comp.								(50)	(34)	(7)	(9)	(20)	(41)	(160)	(160)	Calculated using FERC interest rates on 2001 GMC overassessment of \$1.8 million. Interest is for year 2006.
10	<b>Redacted Items: Matters Pending Dispute Resolution, Litigation or Appeal Including Interest on potential awards or judgment</b>								-	-	-	-	-	-	-	-	Reserve for pending legal matters and other issues that affect the operating reserve.
11	<b>Net Increase in Operating Reserve</b>	<b>50</b>	<b>1,010</b>	<b>(5,340)</b>	<b>(170)</b>	<b>(5,028)</b>	<b>(4,410)</b>	<b>(13,889)</b>	<b>2,922</b>	<b>1,012</b>	<b>(3,737)</b>	<b>820</b>	<b>(4,323)</b>	<b>(5,532)</b>	<b>(8,838)</b>	5,051	
12	<b>Ending Reserve Balance</b>	12,871	4,317	4,093	1,846	4,380	8,991	36,497	12,530	10,492	5,763	4,968	3,568	9,497	46,819	10,322	
13	Less: Reserve Requirement (15% of subsequent year Budg	8,463	3,344	1,246	814	1,951	4,272	20,090	8,936	3,663	1,237	858	2,210	4,667	21,571	1,480	
14	FY 2006 and FY2007 Operating Budget	56,421	22,294	8,307	5,426	13,007	28,480	133,936	59,577	24,417	8,245	5,721	14,734	31,111	143,805	9,870	
15	Equals: Revenue Credit Available								\$ 16,407	\$ 3,594	\$ 6,830	\$ 4,526	\$ 4,110	\$ 1,358	\$ 4,830	\$ 25,248	8,841
																	25% of 2006 Debt Service

Calculation of Available  
Financial & Capital Operating Reserve Credit for 2006

Per 12/2005 Rate Calculation (Used in Setting 2006 Rates)

Actual (updated 12/2006)

	Per 12/2005 Rate Calculation (Used in Setting 2006 Rates)							Actual (updated 12/2006)							Difference: Plan vs. Forecast	General Notes	
	CRS	ETS	Forward Scheduling	Congestion Management	Market Usage	Settlements, Metering, Customer Service	Total	CRS	ETS	Forward Scheduling	Congestion Management	Market Usage	Settlements, Metering, Customer Service	Total			
1	<b>BEGINNING RESERVE BALANCE, 1/1/2005</b>	\$ 19,236	\$ 10,230	\$ 6,921	\$ 2,861	\$ 10,456	\$ 15,943	\$ 65,647	\$ 19,236	\$ 10,230	\$ 6,921	\$ 2,861	\$ 10,456	\$ 15,943	\$ 65,647	-	
<b>CALCULATION OF CONTRIBUTION TO RESERVE FROM OPERATIONS</b>																	
2a	Revenue: GMC Rates: 2005 Calendar Year Revenue (as settled)	48,422	86,083	13,290	20,137	37,661	630	206,223	42,843	91,145	13,019	22,026	35,570	620	205,222	(1,001)	For amount as of 12/2005, revenues were estimated actuals for January - August, and forecast through December. For 12/2006 estimate, amount is per CAISO 12/31/2005 Trial Balance: \$208,722 less: \$3,500 WAPA reversal, already recognized in Op. Reserve. Calculation. Misc. charges such as MID assigned to CRS.
2b	Reversal of reassignments per Settlement	26,129	(62,824)	11,208	(10,439)	(13,626)	49,552	-	26,129	(62,824)	11,208	(10,439)	(13,626)	49,552	-	-	Reversal of Settlement reassignments necessary to calculate revenues by filed rate categories
2c	GMC Rates: 2005 Calendar Year Revenue (as filed) = Sum of 2a+2b	74,551	23,258	24,499	9,698	24,035	50,182	206,223	68,972	28,320	24,228	11,587	21,944	50,172	205,223	(1,000)	For 12/2005 calculation, revenues were estimated actuals for January - August, and forecast through December. Actual billing using the Settled rates started in June 2005.
3	Other (Interest Income, WECC reimbursement, COI Path Operator fee)	4,604	1,023	165	75	179	546	6,593	4,015	892	144	65	156	476	5,749	(844)	Per 12/31/2005 Accounting Trial Balance
4	Expenses: O&M	(62,288)	(24,602)	(9,163)	(5,987)	(14,352)	(31,411)	(147,803)	(60,858)	(24,037)	(8,952)	(5,850)	(14,022)	(30,690)	(144,409)	3,394	Per 12/31/2005 Trial Balance. Excludes capitalized labor for ISO staff on capital projects, which is included in the capital spending amount below (Line 6).
4a	Differential btw capitalized labor and O&M backfill for MRTU	-	-	-	-	-	-	-	(991)	(391)	(146)	(95)	(228)	(500)	(2,351)	(2,351)	Capitalized labor for MRTU exceeded incremental O&M related to the project by a projected \$2,350. Accordingly, it is necessary to set cash to cover this differential.
5	Debt Service	(17,413)	(3,713)	(12,555)	(4,266)	(10,113)	(19,590)	(67,651)	(17,453)	(3,722)	(12,584)	(4,276)	(10,137)	(19,636)	(67,807)	(156)	Principal: payments to trustee in 2005 and budgeted interest: \$58,300 and \$9,351. Actual: \$58,300 and \$9,507
6	Cash Funded CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	None for 2005
7	Contribution to Operating Reserve (Sum lines 2-7)	(545)	(4,034)	2,946	(480)	(251)	(274)	(2,638)	(6,315)	1,062	2,690	1,432	(2,288)	(177)	(3,596)	(958)	
<b>OTHER RESERVE USES</b>																	
8	Interest on Excess Collections of Amendment 33 Fines	(14)	(12)	(5)	(3)	(13)	(25)	(72)	(14)	(12)	(5)	(3)	(13)	(25)	(72)	-	Interest for year 2005 on Amend 33 fines likely to be returned.
9	Interest on 2001 GMC Case: Incentive Comp.	(34)	(23)	(5)	(6)	(14)	(28)	(109)	(36)	(24)	(5)	(6)	(14)	(29)	(115)	(6)	Calculated using FERC interest rates on 2001 GMC overassessment of \$1.8 million. Interest is for year 2005.
10	Redacted Items: Matters Pending Dispute Resolution, Litigation or Appeal including interest on potential awards or judgment.	(5,822)	(2,854)	(424)	(357)	(770)	(2,215)	(12,442)	(3,263)	(1,776)	(100)	(135)	(250)	(683)	(6,208)	6,234	Amounts adjusted include: SWPL refund, GMC rebilling from a previous year for Enron. Amounts eliminated include: reserve for CAISO 2005 Organizational Alignment, and a GMC billing matter for SC.
11	<b>Net Increase in Operating Reserve</b>	<b>(6,416)</b>	<b>(6,923)</b>	<b>2,513</b>	<b>(845)</b>	<b>(1,048)</b>	<b>(2,541)</b>	<b>(15,261)</b>	<b>(9,628)</b>	<b>(750)</b>	<b>2,580</b>	<b>1,287</b>	<b>(2,565)</b>	<b>(914)</b>	<b>(9,990)</b>	5,271	
12	<b>Ending Reserve Balance</b>	12,821	3,307	9,433	2,016	9,408	13,401	50,386	9,608	9,480	9,501	4,148	7,891	15,029	55,657	5,271	
13	Less: Reserve Requirement (15% of subsequent year Budget)	8,463	3,344	1,246	814	1,951	4,272	20,090	8,463	3,344	1,246	814	1,951	4,272	20,090		
14	FY2006 Operating Budget	56,421	22,294	8,307	5,426	13,007	28,480	133,936	56,421	22,294	8,307	5,426	13,007	28,480	133,936		
15	Equals: Revenue Credit Available	\$ 4,357	\$ (37)	\$ 8,187	\$ 1,202	\$ 7,457	\$ 9,129	\$ 30,296	\$ 1,145	\$ 6,136	\$ 8,254	\$ 3,334	\$ 5,940	\$ 10,757	\$ 35,567	5,271	Net difference is carried forward to Appendix A-Part 2, Line 1.