

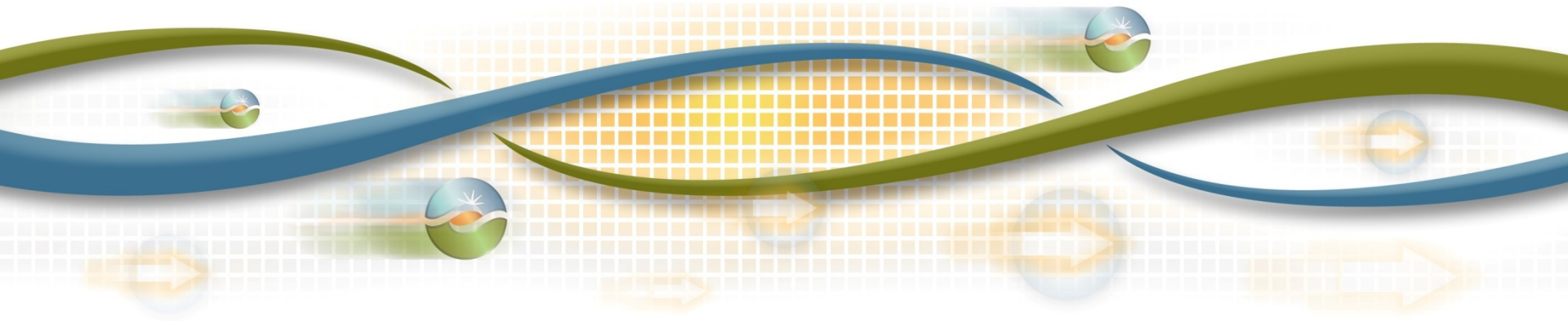


California ISO
Shaping a Renewed Future

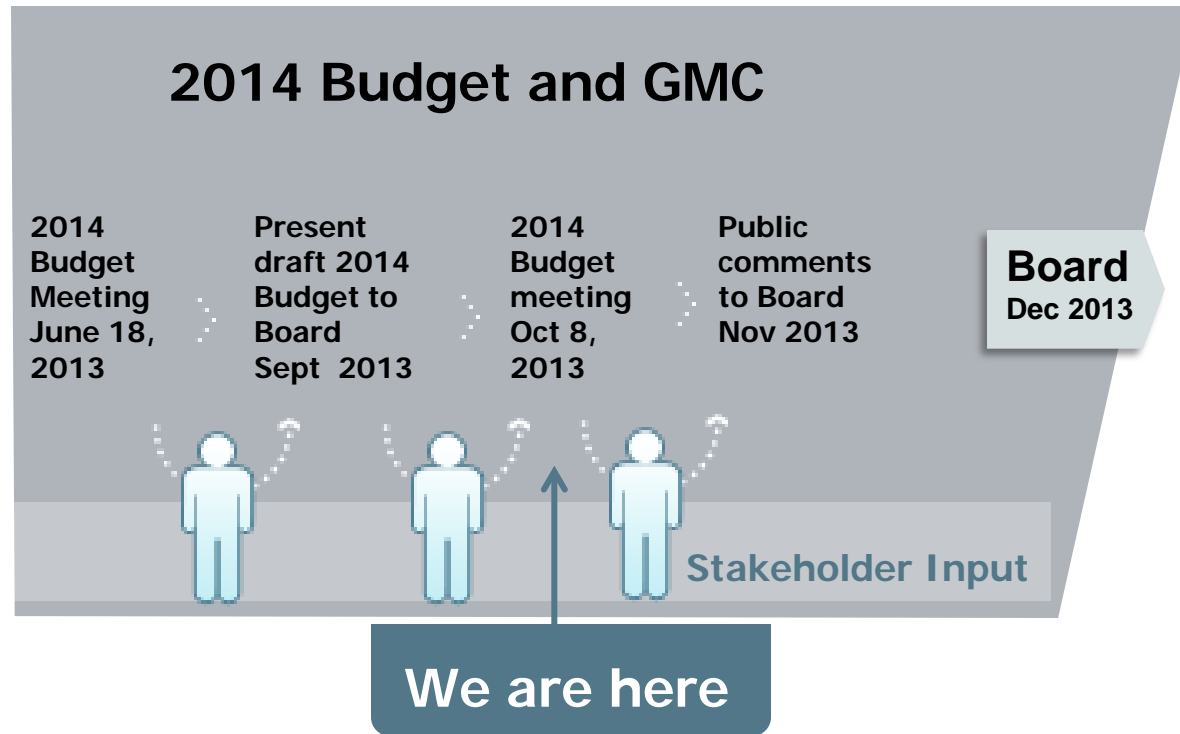
Briefing on Draft 2014 Budget

Ryan Seghesio
Chief Financial Officer and Treasurer

Stakeholder meeting
October 8, 2013



Timeline for 2014 budget and GMC rates

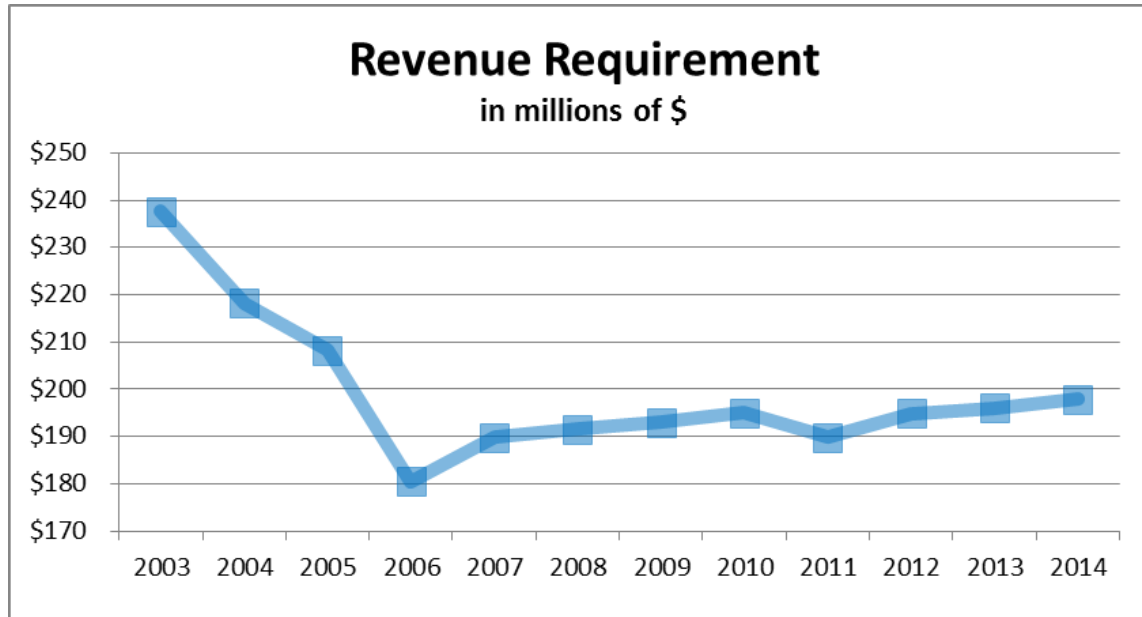


The budget development timeline extends from June through December.

Previous Events	Date
Introduction of budget process to stakeholders	June 2013
Internal budgeting process - primary	June – September

Upcoming Events	Date
Board review of preliminary budget (Executive Session)	September 2013
Preliminary budget posted to public website	September 2013
Internal budgeting process – secondary	Thru December
Stakeholder budget workshop	October 2013
Board decision on budget (General Session)	December 2013
Posting of grid management charge rates	December 2013

Management proposes the revenue requirement to increase to \$198.0 million.



- Nearly 17% lower than its peak in 2003
- Averaging only 0.5% annual increase since 2007
- \$1M under the \$199M FERC approved rate cap

The proposed revenue requirement is up modestly, although volumes have increased resulting in flat to lower GMC rates.

Revenue Requirement Component (\$ in millions)	2013 Budget	2014 Proposed Budget	Change
Operations and maintenance budget	\$162.9	\$163.5	\$0.6
Miscellaneous revenue	(7.9)	(7.3)	0.6
Debt service (including 25% reserve)	42.5	17.8	(24.7)
Cash funded capital	24.0	25.0	1.0
Reserve credit	(25.5)	(1.0)	24.5
Total Revenue Requirement	\$196.0	\$198.0	\$2.0
Transmission volume in TWh	244.8	247.2	2.4
Pro-forms bundled GMC rate in \$ per MWh	\$0.80	\$0.80	(NM)

The proposed O&M budget increases by \$585,000 to \$163.5 million.

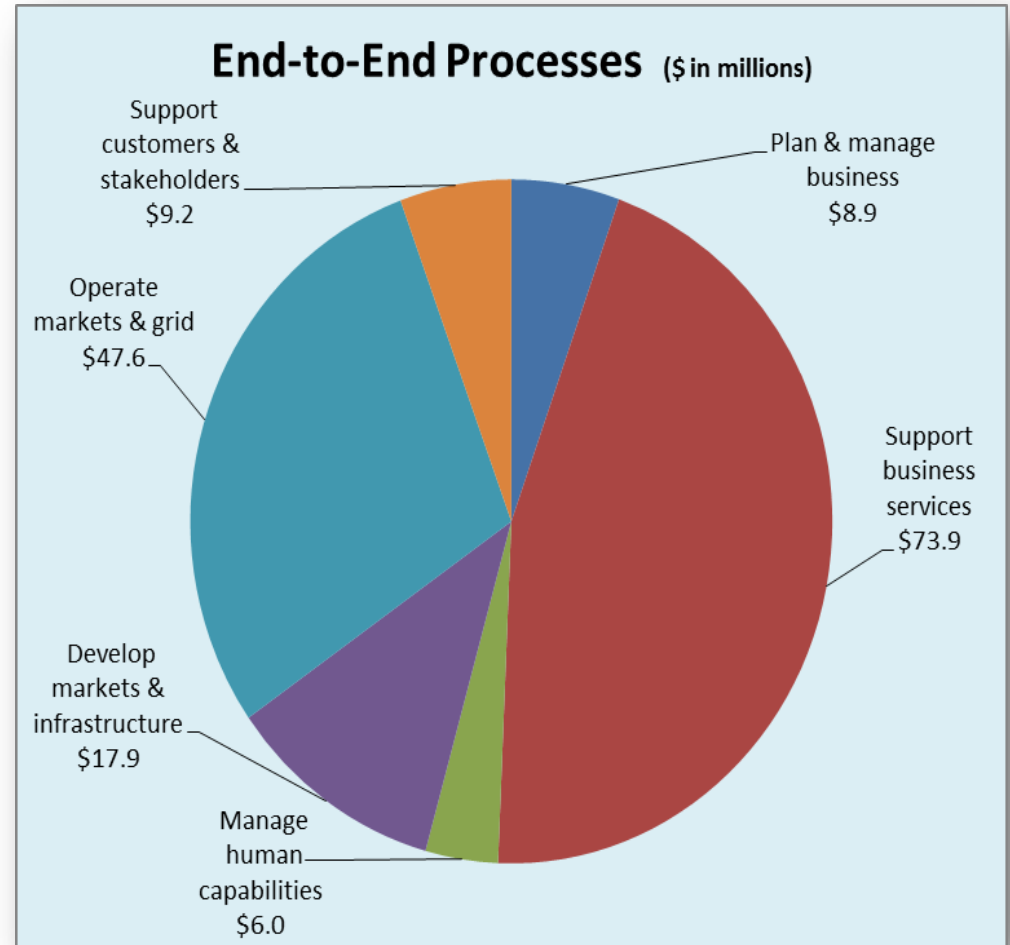
O&M Budget by Resource (\$ in millions)	2013 Budget	2014 Proposed Budget	Change
Salaries and benefits	\$113.9	\$114.3	\$0.4
Occupancy costs and equipment leases	3.8	3.5	(0.3)
Telecommunication and hardware and software maintenance costs	14.9	14.7	(0.2)
Consultants and contract staff	13.4	13.2	(0.2)
Outsourced contracts and professional fees	9.8	10.7	0.9
Training, travel and other costs	7.1	7.1	-
Totals	\$162.9	\$163.5	\$0.6

The divisional changes are largely driven by internal and external personnel costs.

Division (\$ in millions)	2013 Budget	2014 Proposed Budget	Change
Chief Executive Officer	\$4.7	\$4.4	\$(0.3)
Market and Infrastructure Development	13.8	14.2	0.5
Technology	57.6	58.9	1.3
Operations	43.6	41.5	(2.1)
Market Quality and Renewable Integration	5.0	6.2	1.1
General Counsel and Administrative Services	28.4	28.5	0.1
Policy and Client Services	9.8	9.8	-
Total	\$162.9	\$163.5	\$0.6

We are leveraging an activity based costing structure for further transparency.

- Activity based costing (ABC) fully implemented
- Six summary activities were identified at the first level
- Tracking time by Level II activities fully functional in 2012
- ABC utilized to restructure GMC in 2012
- ABC will provide further insight into resource utilization



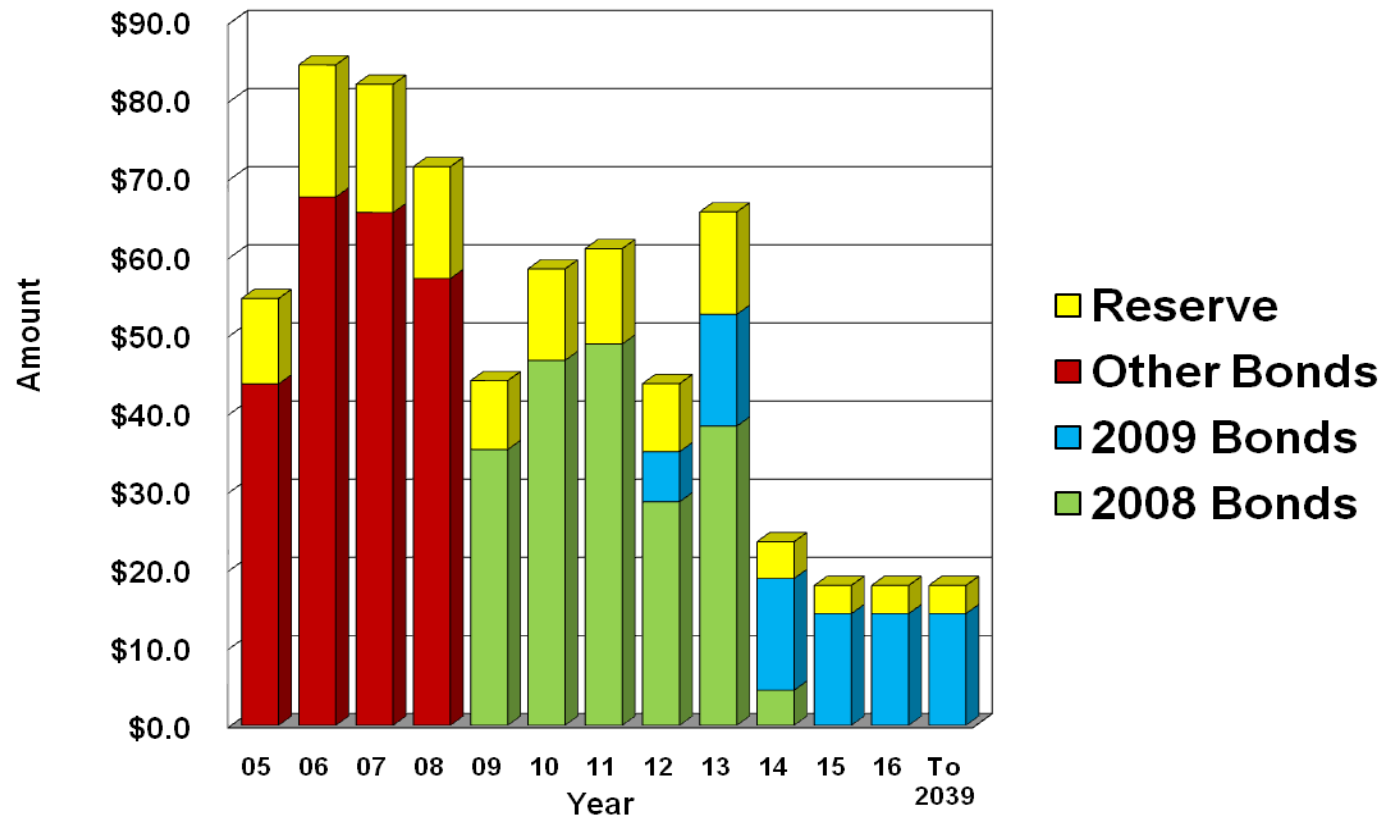
Cost of Service analysis for 2013 shows little change

Service Category	Market Services	System Operations	CRR Services
% allocation per tariff from 2010 cost of service analysis	27%	69%	4%
% allocation of 2013 budget cost of service analysis using actual time from January to June 2013	27%	71%	2%
Increase (decrease)	-	2%	(2)%

- This is the likely percentage changes for the 2015 GMC extension
- This analysis will be the basis for the EIM fee to be discussed in the Spring of 2014

Debt service decreases by \$24.7 million in 2014 due to retirement of the 2008 bonds

Net Debt Service with 25% Reserve (\$ in millions)



Note: Collections for 2013 debt service were split between 2012 and 2013 revenue requirement

The planned 2014 capital will be mostly financed through GMC.

- Proposed revenue requirement contains a \$25 million cash funded capital component
- Total project approvals are targeted at \$24M for further market enhancements and regular capital
- Detailed draft of capital project list contained within the budget book
- Capital budgeting process continues through November; \$36M of proposed projects to be prioritized down to \$24M.

The operating reserve credit will be \$1 million in 2014.

Reserve Credit from Prior Year (\$ in millions)	2013 Budget	2014 Budget	Change
(Decrease) in 15% operating reserve for O&M budget	\$ -	\$(0.1)	\$(0.1)
25% debt service collection from prior year	9.2	8.5	(0.7)
Collection of additional two weeks of GMC revenues from implementation of weekly market clearing	9.8	-	(9.8)
Reverse credit taken in prior years (2010 to 2013) for amortization of bond premium	-	(7.1)	(7.1)
Accrual of interest expense on generator fine refund liability	-	(2.2)	(2.2)
True-up of actual to forecast revenues and expenses	6.5	1.9	(4.6)
Total	\$25.5	\$1.0	\$(24.5)

The proposed grid management charge rates will decrease due to higher forecasted volumes.

Charge / Fee name	2013 rate	2014 rate (1)	change	Billing Units
Market Services	\$0.0931	\$0.0867	\$(0.0064)	MWh
System Operations (2)	\$0.2872	\$0.2849	\$(0.0023)	MWh
CRR Services	\$0.0135	\$0.0114	\$(0.0021)	MWh
Bid segment fee	\$0.005	\$0.005	-	Bid segment
Inter-SC trade fee	\$1.00	\$1.00	-	Inter-SC trade
CRR auction bid fee	\$1.00	\$1.00	-	Awarded CRR
TOR charges fee	\$0.27	\$0.27	-	MWh on TORs
Monthly SCID fee	\$1,000	\$1,000	-	Per month

(1) The 2014 rates are preliminary and will be finalized for the December board meeting.

(2) System Operations volumes excludes specified grandfathered contracts.

Key calendar dates and next steps

- Written Stakeholder comments due to ISO Oct 15
 - Send to GMC@caiso.com
- Board of Governors meeting Nov 7-8
 - Public comments to board on 2014 budget
- Board of Governors meeting - approval of 2014 budget Dec 18-19
- Post rates and budget documentation to ISO website Dec 26