

Exhibit 7



CALIFORNIA ISO

PROPOSED

FY2002 GRID MANAGEMENT CHARGE

Posting Date September 27, 2001

(Preliminary: Subject to Change)

Table of Contents

| | |
|----|---|
| 2 | OVERVIEW..... |
| 3 | EXECUTIVE SUMMARY..... |
| 7 | FY2002 BUDGET TIMELINE..... |
| 8 | FY2001/ FY2002 OPERATING & MAINTENANCE BUDGET COMPARISONS..... |
| 9 | ANALYSIS OF THE PROPOSED 2002 OPERATING & MAINTENANCE BUDGET..... |
| 10 | PROPOSED FY2002 OPERATING & MAINTENANCE BUDGET- COMMENTS BY DIVISION..... |
| 11 | STAFFING CHANGES IN THE FY2002 O&M BUDGET..... |
| 12 | FY2001/ FY2002 FINANCING AND CASH FUNDED CAPEX BUDGET COMPARISONS..... |
| 13 | FY2001/ FY2002 EXPENSE RECOVERY BUDGET COMPARISONS..... |
| 14 | FY2001/ FY2002 REVENUE CREDIT/RESERVE DEFICIENCY CALCULATION..... |
| 15 | FY2001/FY2002 REVENUE REQUIREMENT COMPARISONS..... |
| 17 | FY2001/FY2002 CAPITAL EXPENDITURE BUDGET COMPARISONS..... |
| 18 | FY2002 CAPITAL EXPENDITURE BUDGET FUNDING AND OTHER ISSUES..... |
| 19 | APPENDIX A: FY2001/FY2002 ISO DEPARTMENTAL O&M BUDGETS & EXPENSE TYPE OVERVIEW..... |
| 26 | APPENDIX B: GMC RATE CALCULATION..... |

OVERVIEW

- This Proposed FY2002⁽¹⁾ Budget Report is posted in accordance with Section 8 of the ISO tariff.
- The Proposed FY2002 Budget will be presented at an ISO Budget Workshop open to all stakeholders on October 4, 2001. At that meeting, members of the ISO Management team will discuss the draft budget with stakeholders and answer questions.
- Comments from stakeholders on the proposed FY2002 Budget are to be submitted by October 15, 2001 for inclusion in a summary of comments on the Budget. The comments from Stakeholders will be discussed at the October Board meeting, where the budget will be presented for approval by the Board of Governors.
- Proposed total budgeted spending by the ISO **decreases** from 2001 to 2002, as measured by the combined O&M and capital budgets:

| | | |
|----------------|-----------------|-----------------|
| | 2001 | 2002 |
| O&M Budget | \$171,798 | \$177,465 |
| Capital Budget | <u>\$37,774</u> | <u>\$22,000</u> |
| Total Spending | \$209,572 | \$199,465 |

- The proposed increase in rates is due primarily to a significant decrease in volumes used to calculate the rates for 2002, and in underrecoveries due to volume decreases in 2001 (which affect the Operating Reserve for each unbundled category). Additionally, while the capital budget for 2002 has been significantly reduced, this did not translate to a reduction in the revenue requirement due to the funding method of the capital budget (the ISO credit rating downgrade does not permit a bond issuance at this time). Changes in cost allocations for the unbundled G/MC categories also have a minor impact.

(1) The CAISO fiscal year (FY) is the calendar year.
 (2) '000 Omitted except for \$/MWh.

EXECUTIVE SUMMARY

Budget Process and Operating & Maintenance Budget

- On September 6, 2001, Management presented the proposed FY2002 Budget and GMC to the Finance Committee of the Board of Governors.
 - ⇒ Management developed a base budget which represented a continuation of service at the level budgeted for FY2001, and a recommended budget which included various programs added in 2001, but not in the original budget, and additional requirements for 2002.
 - ⇒ Management discussed the impact on levels of service, personnel, and contract negotiating strategies related to the base budget and the recommended budget.
- It was the sense of the Finance Committee that Management proceed with the Recommended O&M Budget, that provides for the recommended service enhancements as well as funding for the support of the Recommended Capital Budget for FY2002.
 - On September 20, Management presented the proposed FY2002 Budget and GMC to the Board of Governors, and it was the sense of the Board that the ISO should proceed with posting the proposed budget.
 - The proposed FY2002 Operating & Maintenance Budget of \$177,465 represents an increase of \$5,667 or 3% from the FY2001 Operating & Maintenance Budget of \$171,798 .

'000 Omitted except for \$/MWh.

EXECUTIVE SUMMARY

Other Elements of the Overall Revenue Requirement

- The proposed FY2002 Financing Budget of \$70,501 represents an increase of \$7,360 or 12% over the FY2001 Financing Budget of \$63,141. The increase is primarily related to the collection of funds for cash-funded capital expenditures, until such time in 2002 as the ISO is able to execute a bond offering to fund the balance of the FY2002 capital budget.
- The proposed FY2002 Operations & Maintenance Expense Recovery Budget (non-GMC revenues) is \$2,610, an increase of \$208 or 9% from the FY2001 Operations & Maintenance Expense Recovery Budget of \$2,402. The increase is attributable to higher projected WSCC reimbursements for the security coordination function.
- The proposed FY2002 Capital Expenditure Budget is \$22,000 compared to \$37,774 in FY2001. Funding sources include a collection through the GMC revenue requirement of \$8,301 and an additional bond offering planned for FY2002 for \$20,000 (with remaining bond funds available for 2003). The bond offering planned for 2001 has not occurred due to the the financial challenges resulting from the uncertainty in the California energy markets.
- GMC Unbundling requires that any Revenue Credit (or under-recovery of prior year costs) be calculated separately by service category. For FY2002, two unbundled categories have an under-recovery, while the third has an available revenue credit. The sum of the three amounts is a shortfall of \$(5,190) compared with a revenue credit of \$7,230 in 2001. This results in additional collections in 2002 of \$12,420 above the 2001 Net Revenue Requirement.
- The FY2002 Net Revenue Requirement is \$250,545, an increase of \$25,239 from the FY2001 Net Revenue Requirement.

'000 Omitted except for \$/MWh.

EXECUTIVE SUMMARY

Unbundling and Rates

- Effective January 1, 2001, the Grid Management Charge was unbundled, and now consists of three separate charges:
 - ⇒ Control Area Services Billed per MWh of Gross Control Area Load
 - ⇒ Interzonal Scheduling Billed per MWh of Net Interzonal Scheduled Load
 - ⇒ Market Operations Billed per MWh of A/S & RT Energy (both users and suppliers)
- The rates for each service are by summing the costs associated with that service, and dividing by the billing determinant volume, as follows:
$$\text{O\&M Budget} + \text{Direct Funded Capital Budget} + \text{Finance Budget (Debt Service and Coverage Requirement)} + \text{Expense Recovery Budget} + \text{Operating Reserve Revenue Credit or Deficiency}$$

Billing Determinant Volume
- The unit charges for each service category vary due to (1) changes in anticipated billing determinant volumes (2) changes in cost allocation (the proportion of total ISO costs assigned to each category) and (3) changes in overall costs in 2002 (4) the effect of the Operating Reserve for each category, which is affected by 2001 and earlier results. The rates are shown later in this report, and have increased primarily due to the first factor.
- The rates for these charges are not directly comparable to the bundled GMC in effect from 1998 to 2000, as different billing determinants (denominators) are used in calculating the rates

'000 Omitted except for \$/MWh.

EXECUTIVE SUMMARY

Recent Events and Changes

- Throughout the budget development process, a primary goal was to develop a budget proposal that would result in a flat net revenue requirement (and accordingly, a flat GMC rate on a bundled basis) from 2001 to 2002. The rate proposal did in fact meet this goal until mid-September, when it was noted that billing determinant volumes in 2001 had dropped significantly, particularly for the Market Operations component of the GMC. This resulted in a significant drop in the revenue credit available to apply towards 2002 costs, and for two of the services, resulted in a deficiency in recovery of 2001 costs that would need to be collected in 2002. Accordingly, the goal of maintaining a flat net revenue requirement was no longer possible. The net revenue requirement increased from \$225,307 to \$250,545.
- Any revenue credit (or deficiency in recovery of 2001 costs), is subject to significant variability, and is dependent on 2001 operations. As the year is not yet complete, changes in the forecast for 2001 operating results affect the operating reserve calculation for each service. The credit depends on (1) actual costs incurred by each service category during the year (2) revenue under or over-collections for each service category during the year and (3) other revenues such as ISO fines, (4) use of the operating reserve to fund capital expenditures in 2001, and (5) reserve balances for each service at the beginning of the current year.
- To mitigate the increases in rates for 2002 as a result of the above factors, the ISO:
 - ⇒ May increase rates for the Control Area Services category and Interzonal Scheduling category of the GMC to approximately \$.57/MWh and \$.47MWh respectively, effective November 1, 2001 (under the quarterly GMC adjustment provisions of the tariff). This would reduce the net revenue requirement for 2002 by \$10,000 to approximately \$240,000.
 - ⇒ Is evaluating further possible cost savings measures and will consider suggestions from stakeholders as well.

'000 Omitted except for \$/MWh.

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PROPOSED FY2002 BUDGET

Page

6

FY2002 BUDGET TIMELINE

1. Budget Process Rollout to CAISO departments
11-Jul-01
2. Presentation of Preliminary Budget to Finance Committee
06-Sep-01
3. Initial Board review of preliminary Budget posting
20-Sep-01
4. Budget Posting on Website
27-Sep-01
5. Public Budget Workshop
04-Oct-01
6. Budget Overview to Market Issues Forum
11-Oct-01
7. Public Comments on Budget Due
15-Oct-01
8. Board Approval of Budget
25-Oct-01
9. Budget Filing with FERC
01-Nov-01
10. New 2002 Rates Effective
01-Jan-02

FY2001/ FY2002 OPERATING & MAINTENANCE BUDGET COMPARISONS

| | FY2001 Operating Budget | FY2002 Proposed Budget | Amount Change | % Change |
|------------------------------------|-------------------------------|------------------------------|------------------|-----------|
| Salaries and Benefits | \$ 73,121 | \$ 78,814 | \$ 5,693 | 8% |
| Bldg, Lease & Facility Costs | 15,775 | 14,444 | (1,331) | -8% |
| Insurance | 971 | 1,024 | 53 | 5% |
| Third Party Vendor Contracts | 47,796 | 45,767 | (2,029) | -4% |
| Professional & Consulting Services | 9,152 | 12,063 | 2,911 | 32% |
| Audit, Legal & Regulatory | 10,385 | 12,496 | 2,111 | 20% |
| Training and Travel | 7,774 | 6,330 | (1,444) | -19% |
| Miscellaneous | 6,824 | 5,543 | (1,281) | -19% |
| Other | - | 985 | 985 | N/A |
| Total O&M Budget | \$ 171,798 | \$ 177,465 | \$5,667 | 3% |

'000 Omitted except for \$/MWh.

ANALYSIS OF THE PROPOSED 2002 OPERATING & MAINTENANCE BUDGET

| | Maintaining FY2001 Budgeted Service Level | Additional Requirements & Recom- mendations, Net of Cost Savings | Total FY2002 O&M Budget |
|------------------------------------|--|--|----------------------------|
| Salaries and Benefits | \$ 73,587 | \$ 5,228 | \$ 78,814 |
| Bldg, Lease & Facility Costs | \$ 13,954 | 489 | 14,444 |
| Insurance | \$ 1,024 | - | 1,024 |
| Third Party Vendor Contracts | \$ 47,561 | (1,794) | 45,767 |
| Professional & Consulting Services | \$ 11,521 | 542 | 12,063 |
| Audit, Legal & Regulatory | \$ 10,061 | 2,435 | 12,496 |
| Training and Travel | \$ 5,848 | 483 | 6,330 |
| Miscellaneous | \$ 5,613 | (70) | 5,543 |
| Other | \$ 3 | 982 | 985 |
| Total O&M Budget | \$ 169,171 | \$ 8,295 | \$ 177,465 |

Notes:
 O&M Budget was developed to distinguish the costs of continuing the activities which were contemplated in the 2001 budget (prepared in the summer of 2000) vs. those activities which are new for 2002 (including the activities performed in 2001 which were not contemplated in the 2001 budget).

'000 Omitted except for \$/MWh.

PROPOSED FY2002 OPERATING & MAINTENANCE BUDGET- COMMENTS BY DIVISION

See Appendix A for Proposed O&M Budgets by Division:

| DIVISION | DIVISION# | COMMENTS |
|--------------------------------------|-----------|---|
| VP GRID OPERATIONS | 1500 | Budget of \$34,243 for 2002 is \$650 lower than 2001. Provides funding for new generator maintenance standards and inspection programs, eliminates budget for WSCC fines. |
| CHIEF INFORMATION OFFICER | 1400 | Budget essentially flat. Conversion of contract resources to ISO full time employees for cost savings. Savings also generated from change in equipment leasing source. |
| GENERAL COUNSEL | 1600 | Budget increases from \$18,564 to \$19,986, providing resources for investigations, market analysis, compliance, refund litigation and bankruptcy response. |
| VP MARKET SERVICES | 1700 | Budget essentially flat at \$18,430. Additional resources including RMR validation, market quality, were funded by various cost savings. |
| VP CORPORATE & STRATEGIC DEVELOPMENT | 1800 | Budget increases from \$7,194 in 2001 to \$8,168 in 2002, to fund new resources for strategic policy development, and to appropriately respond to market design issues. |
| CHIEF FINANCIAL OFFICER | 1300 | Budget essentially flat. Contains funds for additional leased space, new resources for GMC rate work, market cash clearing, offset by savings in property taxes, office expenses. |
| CEO | 1100 | CEO budget decreased from \$3,503 in 2001 to \$1,080. 2002 budget contains CEO and support salaries, and \$250 for unforeseen organizational needs. |
| OTHER | | Salary changes for all ISO staff are budgeted separately from the Divisional figures noted above to allow for comparability of costs from year to year. See following page. |

'000 Omitted except for \$/MWh.

STAFFING CHANGES IN THE FY2002 O&M BUDGET

| CAISO Division | FY2001 Operating Budget | Transfers during FY2001 | FY2001 Approved Staffing | FY2002 Base Budget | FY2002 New Rqmts. (Inc. Programs) | FY2002 Contractor Conversions | FY2002 Proposed Budget |
|---------------------|-------------------------------|-------------------------------|--------------------------------|--------------------------|---|-------------------------------------|------------------------------|
| CEO | 30.5 | (28.5) | 2.0 | 2.0 | - | - | 2.0 |
| CFO | 55.0 | (23.5) | 31.5 | 31.5 | 2.0 | 2.0 | 35.5 |
| CIO | 121.5 | - | 121.5 | 121.5 | 2.0 | 16.0 | 139.5 |
| VP Grid Ops | 251.0 | (52.0) | 199.0 | 199.0 | 7.0 | - | 206.0 |
| General Counsel | 35.0 | 9.0 | 44.0 | 44.0 | 7.0 | 2.0 | 53.0 |
| Market Services | 44.0 | 76.0 | 120.0 | 120.0 | 4.0 | 2.0 | 126.0 |
| VP Corp & Strat Dev | 7.5 | 19.0 | 26.5 | 26.5 | 1.0 | 1.0 | 28.5 |
| Total FTE | 544.5 | - | 544.5 | 544.5 | 23.0 | 23.0 | 590.5 |

Transfers reflect the 2001 reorganization. VP Grid Operations was previously "Chief Operations Officer", Market Services was previously "Client Services", VP Corporate & Strategic Development was previously "Strategic Development and Communications"

Notes:

- Salaries & Benefits cost increase for FY2002 for all staff is shown in Appendix A in the Other column, in the Salaries & Benefits line item. This cost is isolated to allow for comparison of staff costs by Division exclusive of salary & benefit rate changes for FY2002. The total change of \$3,801 provides for a 5% funding pool for staff salary adjustments, and other adjustments.

000 Omitted except for \$/MWh.

FY2001/ FY2002 FINANCING AND CASH FUNDED CAPEX BUDGET COMPARISONS

| | FY2001 | FY2002 | Amount | % Change |
|--|-----------|-----------------|----------|----------|
| | Budget | Proposed Budget | Change | |
| Principal Reserve Funding-Current Debt | \$ 30,233 | \$ 33,800 | \$ 3,567 | 12% |
| Interest Reserve Funding-Current Debt | 11,785 | 11,212 | (574) | -5% |
| Operating Reserve Funding-Current Debt (1) | 10,505 | 11,253 | 748 | 7% |
| Total Debt Service: New Debt | 8,494 | 4,748 | (3,746) | -44% |
| Operating Reserve Funding-New Debt | 2,123 | 1,187 | (936) | -44% |
| Cash Funded Capital Expenditures (2) | | 8,301 | 8,301 | N/A |
| Total Financing & Cash Funded CapEx Budget | \$63,141 | \$70,501 | \$7,360 | 12% |

Notes:

(1) Operating Reserve funding is at 25% of scheduled debt service payments.

(2) Cash Funded Capital Expenditures: collections for necessary capital expenditures, prior to the ISO's anticipated ability to issue bonds in mid-2002. The need for this provision for cash funded capital expenditures is the primary reason for the increase in the ISO's total revenue requirement.

'000 Omitted except for \$/MWh.

FY2001/ FY2002 EXPENSE RECOVERY BUDGET COMPARISONS

| | FY2001 | FY2002 | Amount | % Change |
|--|----------------|-----------------|--------------|-----------|
| | Budget | Proposed Budget | Change | |
| Interest Earned on Operating Funds (1) | \$ 1,350 | \$ 1,350 | \$ 0 | 0% |
| SC Application & Training Fees | - | 15 | 15 | NA |
| WSCC Security Coordinator Fees | 1,052 | 1,245 | 193 | 18% |
| Total O&M Expense Recovery Budget | \$2,402 | \$2,610 | \$208 | 9% |

Notes:
 (1) Based on a 3.5% return on operating reserve.

'000 Omitted except for \$/MWh.
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PROPOSED FY2002 BUDGET

FY2001 / FY2002 REVENUE CREDIT/RESERVE DEFICIENCY CALCULATION

| | FY2001 Budget | FY2002 Proposed Budget |
|--|------------------|------------------------------|
| Forecast Operating Reserve Balance, end of year 2000 or 2001 (See Note) | \$ 33,000 | \$ 21,430 |
| Operating Reserve Requirement (15% of Operating Budget) | 25,770 | Varies by Category |
| Revenue Credit or (Deficiency from prior year) | \$7,230 | \$ (5,190) |

Notes:

- From the inception of the ISO's operations, funds collected above and beyond those needed to cover budgeted operating expenses have been used to fund the operating reserve. These funds are collected every year at the rate of 25% of budgeted debt service (consisting of principal and interest payments.) The operating reserve is targeted to build to a level equal to 15% of overall budgeted operating expenses (excluding debt service).
- The Operating Reserve is calculated separately by unbundled service category. At December 31, 2001, it is anticipated that for Control Area Services and Interzonal Scheduling, a reserve deficiency of \$5 million and \$2 million will exist. For Market Operations, a revenue credit of \$2 million will be available. The amount of the credit or deficiency depends on (1) actual costs incurred by each service category during the year (2) revenue under or over-collections for each service category during the year and (3) other revenues such as ISO fines, (4) use of the operating reserve to fund capital expenditures in 2001, and (5) reserve balances for each service at the beginning of the current year.
- The ISO is considering a rate adjustment to be effective November 1, 2001 for the Control Area Services and Interzonal Scheduling categories of the GMC. The rate increase would restore 2001 revenues to the budgeted level. If enacted, this would restore the Operating Reserve to a level sufficient to provide a revenue credit for 2002.

OPERATING RESERVE CALCULATIONS ARE DEPENDENT ON FACTORS WHICH ARE HIGHLY SUBJECT TO CHANGE. ACCORDINGLY, FIGURES MAY CHANGE PRIOR TO THE FINAL BUDGET APPROVAL IN OCTOBER, AFFECTING THE GMC RATES.

'000 Omitted except for \$/MWh.

FY2001/FY2002 REVENUE REQUIREMENT COMPARISONS

| | FY2001 Budget | Proposed FY2002 Budget | Amount Change | % Change |
|--|------------------|------------------------------|------------------|----------|
| Total O&M Budget | \$ 171,798 | \$ 177,465 | 5,667 | 3% |
| Total Finance and Cash Funded CapEx Budget (See Note) | \$ 63,141 | \$ 70,501 | 7,360 | 12% |
| Total Expense Recovery Budget (See Note) | \$ (2,402) | \$ (2,610) | (208) | 9% |
| Available (Revenue Credit) or Deficiency | \$ (7,230) | \$ 5,190 | 12,420 | |
| Net Revenue Requirement | \$ 225,307 | \$ 250,545 | 25,239 | 11% |

Notes:

- The impact of the energy crisis on the ISO's credit-ratings makes it necessary to directly fund a portion of the 2002 capital budget from GIMC collections ("cash funded capital expenditures").

- As discussed on the previous page, the available revenue credit or deficiency is dependent on 2001 activities, and is highly subject to change. Accordingly, the net revenue requirement could change prior to the October approval of the rates. If a rate increase were enacted to restore 2001 revenues to the budgeted level for Control Area Services and Interzonal Scheduling, the \$5,190 deficiency noted above would be reversed, resulting in a net revenue requirement of approximately \$240 million.

'000 Omitted except for \$/MWh.

FY2001/FY2002 UNBUNDLED GRID MANAGEMENT CHARGE COMPARISONS

| | FY2001 Budget | Proposed FY2002 Budget | Amount Change | % Change |
|--|---------------|------------------------|---------------|----------|
| Gross Revenue Requirement | \$ 232,537 | \$ 245,356 | \$ 12,819 | 6% |
| Control Area Services ("CAS") | 111,916 | 123,754 | 11,838 | 11% |
| Interzonal Scheduling ("IZS") | 20,178 | 21,248 | 1,070 | 5% |
| Market Operations ("MO") | 100,443 | 100,355 | (88) | 0% |
| Net Revenue Requirement | \$ 225,307 | \$ 250,545 | \$ 25,238 | 11% |
| Control Area Services ("CAS") | 108,446 | 129,209 | 20,763 | 19% |
| Interzonal Scheduling ("IZS") | 19,527 | 23,012 | 3,485 | 18% |
| Market Operations ("MO") | 97,334 | 98,325 | 991 | 1% |
| Billing Determinant Forecast '000 MWh | | | | |
| Control Area Services ("CAS") | 267,289 | 251,260 | (16,029) | -6.0% |
| Interzonal Scheduling ("IZS") | 87,536 | 74,602 | (12,934) | -14.8% |
| Market Operations ("MO") | 102,394 | 61,272 | (41,122) | -40.2% |
| Rates | | | | |
| Control Area Services ("CAS") | \$ 0.406 | \$ 0.514 | \$ 0.109 | 27% |
| Interzonal Scheduling ("IZS") | \$ 0.223 | \$ 0.308 | \$ 0.085 | 38% |
| Market Operations ("MO") | \$ 0.951 | \$ 1.605 | \$ 0.654 | 69% |
| Allocation Factors (Gross): | | | | |
| Control Area Services ("CAS") | 48.1% | 50.4% | 2.34% | |
| Interzonal Scheduling ("IZS") | 8.7% | 8.7% | -0.04% | |
| Market Operations ("MO") | 43.2% | 40.9% | -2.30% | |

Notes:

- Supporting documentation for GMC unbundling will be released subsequently.
 - Billing determinants volumes may change as additional forecast data becomes available for 2001.
 - Rates reflected above assume no change in rates for 2001. If rate changes restored 2001 revenues to budgeted level, rates for CAS and IZS would fall to approximately \$.495 and \$.271.
 - The ISO is also considered changes to the billing determinant for the Market Operations charge, assessing this fee on some portion of self-provided A/S.
- '000 Omitted except for \$/MWh.

FY2001/FY2002 CAPITAL EXPENDITURE BUDGET COMPARISONS

| Proposed FY2002 Budget (1) | FY2001 Budget | |
|----------------------------------|------------------|---|
| | | |
| \$ 5,000 | \$ 16,834 | Market/System Redesign/Planning |
| 2,700 | 500 | Network Communication, Systems Security, Systems Monitoring |
| 8,200 | 13,300 | EMS Replacement, SAS/BBS Enhancements |
| 4,600 | 6,395 | Other Corporate Systems and Applications |
| 1,500 | 745 | Furniture, Leaseholds, Office Equipment |
| \$ 22,000 | \$ 37,774 | Total Capital Budget |

Notes:

(1) Detail on allocation of costs of categories above has been masked to avoid releasing sensitive bid related data to potential vendors. Additional information on the composition of proposed projects under these categories will be released with GMC unbundling information.

FY2002 CAPITAL EXPENDITURE BUDGET FUNDING AND OTHER ISSUES

Funding Sources & Uses:

| | | |
|---|-----------------|-----------------|
| | | Sources: |
| Remaining Funds on Hand from FY2000 Bond Issuance | \$0 | |
| Collections from GMC: Cash Funded Capital | \$ 8,301 | |
| Expenditures | | |
| Proceeds from Anticipated Bond Issuance, 2002 | \$13,699 | |
| Total Sources: | \$22,000 | |
| Uses: | | |
| Capital Expenditures | \$22,000 | |

Notes:

- Individual projects over \$1 million will be initiated after each project has been reviewed and approved by the Board. The Board will be provided specific cost/benefit and GMC impact analyses, and funding plans on a project specific basis. Management will follow an identical internal process for smaller projects.
- We anticipate a debt issuance during mid-FY2002. A debt issuance of \$20,000 will provide funding for the 2002 capital budget, and funds toward the 2003 capital budget.

'000 Omitted except for \$/MWh.



**APPENDIX A: FY2001/FY2002 ISO DEPARTMENTAL O&M BUDGETS &
EXPENSE TYPE OVERVIEW**

FY2002 O&M Budget & Revenue Requirement \$ in 000's

| Headcount | Total | 1 Salaries and Benefits | 2 Bldg, Lease & Facility Costs | 3 Insurance | 4 Third Party Vendor Contracts | 5 Prof & Consulting Services | 6 Audit, Legal & Regulatory | 7 Training, Travel, Professional Dues | 8 Miscellaneous | 10 Other | Subtotal | Other Debt Service-Existing | Operating Reserve-Existing | Debt Service-2002 Debt | Operating Reserve-2002 Debt | Cash Funded Capital Expenditures | Expense Recovery | Revenue Credit from Operating Reserve | |
|-----------|------------|-------------------------|--------------------------------|-------------|--------------------------------|------------------------------|-----------------------------|---------------------------------------|-----------------|----------|----------|-----------------------------|----------------------------|------------------------|-----------------------------|----------------------------------|------------------|---------------------------------------|---------|
| 20 | \$ 1,079 | 69% | 27% | 41% | 5,140 | 41% | 1,024 | 8% | 0% | 0% | 740 | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 1,079 |
| 35 | \$ 12,591 | 100% | 27% | 41% | 3,381 | 27% | 5,140 | 41% | 9,304 | 12% | 16,956 | 22% | 77,402 | 100% | 77,402 | 100% | 1,000 | 1% | 12,591 |
| 139 | \$ 77,402 | 100% | 22% | 12% | 9,304 | 12% | 5,140 | 41% | 9,304 | 12% | 16,956 | 22% | 77,402 | 100% | 77,402 | 100% | 1,000 | 1% | 77,402 |
| 206 | \$ 34,244 | 100% | 80% | 12% | 27,317 | 80% | 2,737 | 8% | 3,699 | 11% | 34,244 | 100% | 34,244 | 100% | 34,244 | 100% | 290 | 1% | 34,244 |
| 53 | \$ 20,737 | 100% | 34% | 9% | 6,999 | 34% | 2,737 | 13% | 11,101 | 54% | 20,737 | 100% | 20,737 | 100% | 20,737 | 100% | 457 | 2% | 20,737 |
| 126 | \$ 18,431 | 100% | 78% | 9% | 14,357 | 78% | 1,093 | 6% | 734 | 4% | 18,431 | 100% | 18,431 | 100% | 18,431 | 100% | 56 | 0% | 18,431 |
| 28 | \$ 9,181 | 100% | 57% | 5% | 5,275 | 57% | 32 | 0% | 646 | 7% | 9,181 | 100% | 9,181 | 100% | 9,181 | 100% | 384 | 4% | 9,181 |
| 59 | \$ 76,881 | 100% | 5% | 0% | 3,801 | 5% | 45,012 | 59% | 11,253 | 15% | 76,881 | 100% | 76,881 | 100% | 76,881 | 100% | 5,190 | 7% | 76,881 |
| 590 | \$ 250,545 | 100% | 31% | 6% | 78,814 | 31% | 14,444 | 6% | 1,024 | 0% | 250,545 | 100% | 250,545 | 100% | 250,545 | 100% | 5,543 | 2% | 250,545 |

FY2002 Proposed Budget

| Headcount | Total | 1 Salaries and Benefits | 2 Bldg, Lease & Facility Costs | 3 Insurance | 4 Third Party Vendor Contracts | 5 Prof & Consulting Services | 6 Audit, Legal & Regulatory | 7 Training, Travel, Professional Dues | 8 Miscellaneous | 10 Other | Subtotal | Other Debt Service-Existing | Operating Reserve-Existing | Debt Service-2002 Debt | Operating Reserve-2002 Debt | Cash Funded Capital Expenditures | Expense Recovery | Revenue Credit from Operating Reserve | | |
|-----------|--------|-------------------------|--------------------------------|-------------|--------------------------------|------------------------------|-----------------------------|---------------------------------------|-----------------|----------|----------|-----------------------------|----------------------------|------------------------|-----------------------------|----------------------------------|------------------|---------------------------------------|--------|--------|
| 0% | 0.9% | 0.0% | 0.0% | 0.0% | 35.6% | 2.1% | 10.6% | 0.0% | 0.4% | 0.0% | 0.6% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| 6% | 4.3% | 0.0% | 100.0% | 0.0% | 0.3% | 2.8% | 10.6% | 0.0% | 0.4% | 0.0% | 7.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| 24% | 21.5% | 0.0% | 64.4% | 0.0% | 1.2% | 8.8% | 27.4% | 0.0% | 3.4% | 0.0% | 43.6% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| 35% | 34.7% | 8.9% | 0.0% | 0.0% | 0.3% | 14.6% | 7.2% | 88.8% | 5.2% | 0.0% | 19.3% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| 9% | 8.9% | 8.9% | 0.0% | 0.0% | 0.3% | 14.6% | 7.2% | 88.8% | 5.2% | 0.0% | 11.7% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| 21% | 18.2% | 18.2% | 0.0% | 0.0% | 2.4% | 18.2% | 11.6% | 0.0% | 1.0% | 0.0% | 10.4% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| 5% | 5.2% | 5.2% | 0.0% | 0.0% | 0.6% | 10.2% | 10.2% | 0.0% | 6.9% | 0.0% | 5.2% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| 100% | 4.8% | 4.8% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 2.1% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| 100% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

For Each Line Item, What Percentage Does Each Division Contribute to the Total for that Line Item?

FY2002 Proposed Budget

PROPOSED FY2002 BUDGET



FY2002 vs. FY2001 O&M Budget and Revenue Requirement Comparison
 \$ In 000's

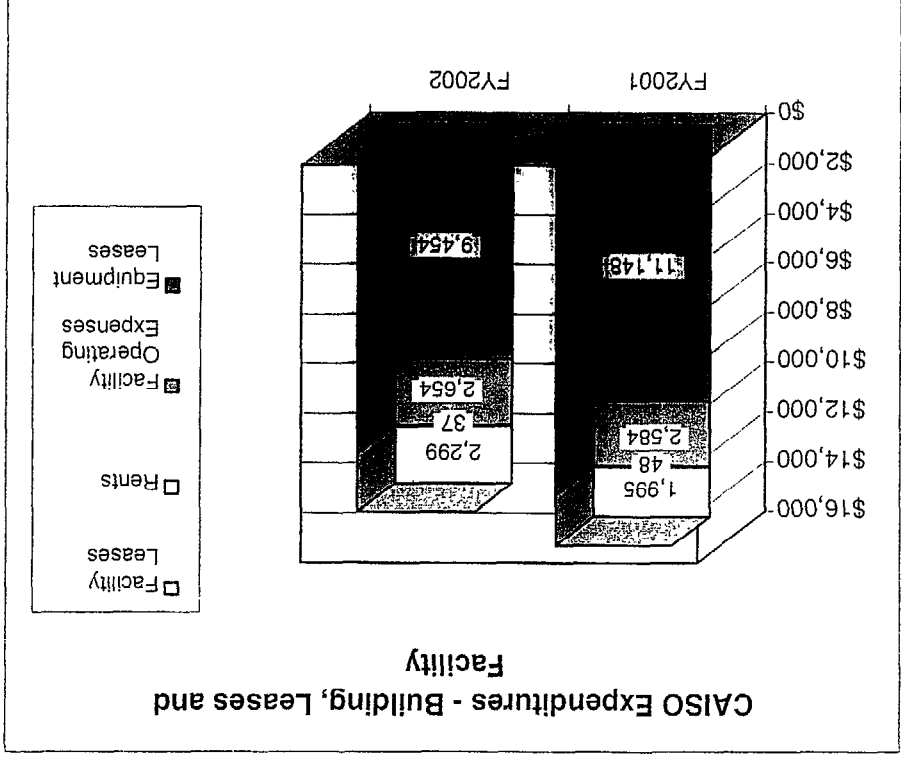
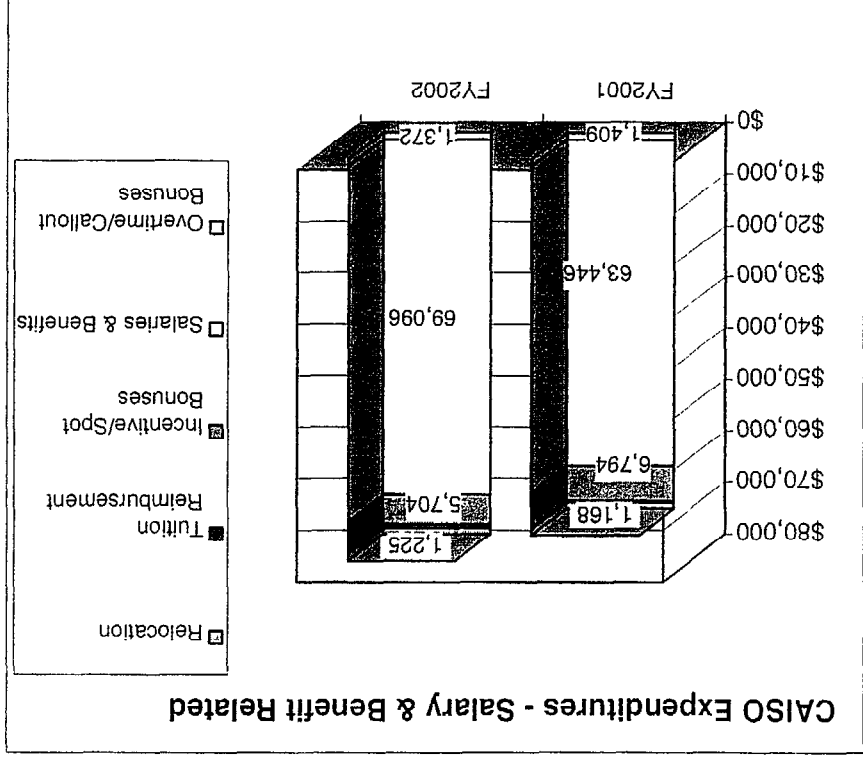
FY2001 Budget (reflective of reorganization)

| | 2001 | % Change | 2002 | % Change | 2001 | % Change | 2002 | % Change | 2001 | % Change | 2002 | % Change | | | | |
|--|----------|----------|-----------|----------|-----------|----------|-----------|----------|-----------|----------|-----------|----------|----------|------|------------|------|
| 1 Salaries and Benefits | \$ 579 | 18% | \$ 3,282 | 26% | \$ 15,481 | 20% | \$ 28,106 | 80% | \$ 6,264 | 34% | \$ 14,773 | 80% | \$ 4,636 | 64% | \$ 73,121 | 32% |
| 2 Bldg. Lease & Facility Costs | - | 0% | 4,727 | 38% | 11,048 | 14% | - | 0% | - | 0% | - | 0% | - | 0% | 15,775 | 7% |
| 3 Insurance | - | 0% | 971 | 8% | - | 0% | - | 0% | 209 | 1% | 1,133 | 6% | 189 | 3% | 971 | 0% |
| 4 Third Party Vendor Contracts | - | 0% | 83 | 1% | 44,053 | 57% | 2,129 | 6% | 1,636 | 9% | 1,563 | 6% | 1,502 | 21% | 47,996 | 21% |
| 5 Prof & Consulting Services | 100 | 3% | 343 | 3% | 2,325 | 3% | 1,882 | 5% | 9,080 | 49% | 1,563 | 8% | 75 | 1% | 9,152 | 4% |
| 6 Audit, Legal & Regulatory | - | 0% | 1,250 | 10% | - | 0% | - | 0% | 463 | 3% | 965 | 5% | 550 | 8% | 10,985 | 5% |
| 7 Training, Travel, Professional Dues | 2,570 | 79% | 188 | 1% | 937 | 1% | 2,122 | 6% | 836 | 5% | 131 | 1% | 263 | 4% | 7,774 | 3% |
| 8 Miscellaneous | 5 | 0% | 1,670 | 13% | 2,828 | 4% | 1,091 | 3% | - | 0% | - | 0% | - | 0% | 6,824 | 3% |
| 10 Other | - | 0% | - | 0% | - | 0% | - | 0% | - | 0% | - | 0% | - | 0% | - | 0% |
| Subtotal | 3,254 | 100% | 12,494 | 100% | 76,671 | 100% | 35,131 | 100% | 18,459 | 100% | 18,565 | 100% | 7,215 | 100% | 171,798 | 76% |
| Other Debt Service-Existing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 50,512 | 22% |
| Operating Reserve-Existing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 12,628 | 6% |
| Debt Service-2002 Debt | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0% |
| Operating Reserve-2002 Debt | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0% |
| Cash Funded Capital Expenditures | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0% |
| Expense Recovery | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0% |
| Revenue Credit from Operating Reserves | \$ 3,254 | 100% | \$ 12,494 | 100% | \$ 76,671 | 100% | \$ 35,131 | 100% | \$ 18,459 | 100% | \$ 18,565 | 100% | \$ 7,215 | 100% | \$ 225,306 | 100% |
| Total | 3,254 | 100% | 12,494 | 100% | 76,671 | 100% | 35,131 | 100% | 18,459 | 100% | 18,565 | 100% | 7,215 | 100% | 225,306 | 100% |
| Headcount | 2 | | 315 | | 1215 | | 199 | | 44 | | 120 | | 265 | | 5445 | |

FY2002 Proposed vs. FY2001

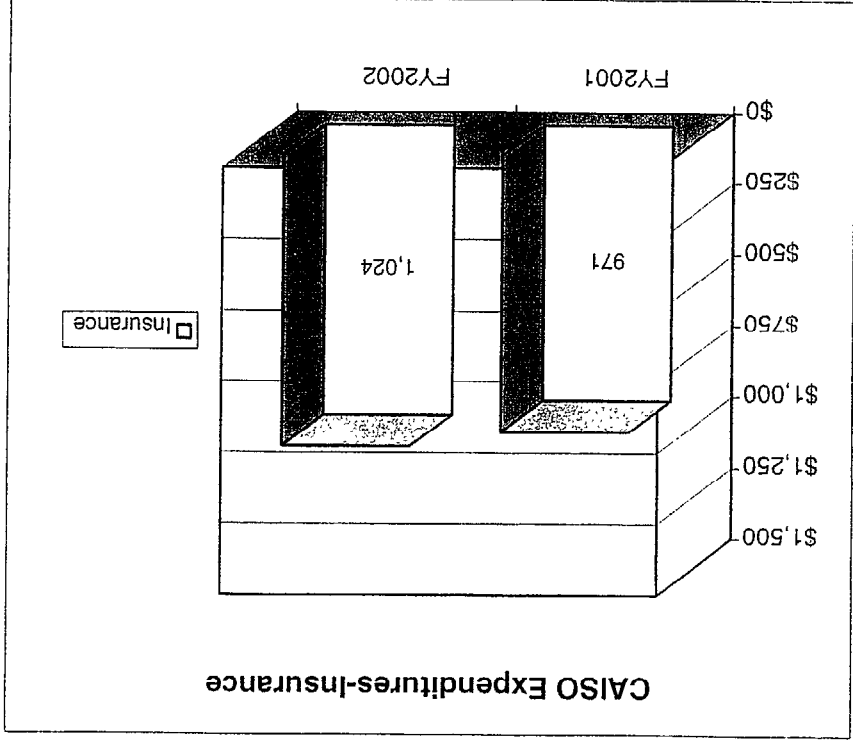
| | 2001 | % Change | 2002 | % Change | 2001 | % Change | 2002 | % Change | 2001 | % Change | 2002 | % Change | | | | |
|--|------------|----------|-------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|------|-----------|------|
| 1 Salaries and Benefits | \$ 161 | 28% | \$ 99 | 3% | \$ 1,475 | 10% | \$ (789) | -3% | \$ 725 | 12% | \$ (416) | -3% | \$ 639 | 14% | \$ 3,801 | 8% |
| 2 Bldg. Lease & Facility Costs | 412 | 9% | 412 | 9% | (1,744) | -16% | - | - | - | - | (40) | -4% | - | - | (1,331) | -8% |
| 3 Insurance | - | - | 53 | 5% | (227) | -1% | - | - | (69) | -33% | (40) | -4% | (157) | -63% | 53 | 5% |
| 4 Third Party Vendor Contracts | 150 | 150% | 32 | 3% | (1,259) | -54% | 2,011 | 120% | 126 | 8% | 827 | 40% | 1,267 | 84% | (2,029) | -4% |
| 5 Prof & Consulting Services | - | - | (10) | -3% | - | - | - | - | 2,041 | 23% | 527 | 40% | - | - | 2,911 | 32% |
| 6 Audit, Legal & Regulatory | - | - | 70 | 6% | - | - | 377 | 18% | (7) | -1% | (230) | -24% | 97 | 0% | 2,111 | 20% |
| 7 Training, Travel, Professional Dues | (2,501) | -97% | 22 | 13% | 688 | 24% | (903) | -83% | (547) | -65% | (75) | -57% | 121 | 46% | (1,444) | -19% |
| 8 Miscellaneous | 15 | 300% | (581) | -36% | 1,000 | 1% | (16) | -3% | - | - | - | - | - | - | (1,281) | -19% |
| 10 Other | - | - | 97 | 1% | 732 | 1% | (687) | -3% | 2,268 | 12% | (134) | -1% | 1,966 | 27% | 985 | 3% |
| Subtotal | (2,175) | -67% | 97 | 1% | 732 | 1% | (687) | -3% | 2,268 | 12% | (134) | -1% | 1,966 | 27% | 5,667 | 3% |
| Other Debt Service-Existing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (5,500) | -2% |
| Operating Reserve-Existing | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (1,375) | -1% |
| Debt Service-2002 Debt | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 4,748 | 2% |
| Operating Reserve-2002 Debt | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,187 | 1% |
| Cash Funded Capital Expenditures | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 8,301 | 4% |
| Expense Recovery | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (208) | 0% |
| Revenue Credit from Operating Reserves | \$ (2,175) | 100% | \$ 97 | 100% | \$ 732 | 100% | \$ (687) | 100% | \$ 2,268 | 100% | \$ (134) | 100% | \$ 1,966 | 100% | \$ 12,420 | 9% |
| Total | (2,175) | 100% | 97 | 100% | 732 | 100% | (687) | 100% | 2,268 | 100% | (134) | 100% | 1,966 | 100% | 12,420 | 9% |
| Headcount | 40 | | 40 | | 180 | | 70 | | 90 | | 60 | | 20 | | 460 | 8% |

FY2002 Budget Overview: by Expense Type
\$ in 000's

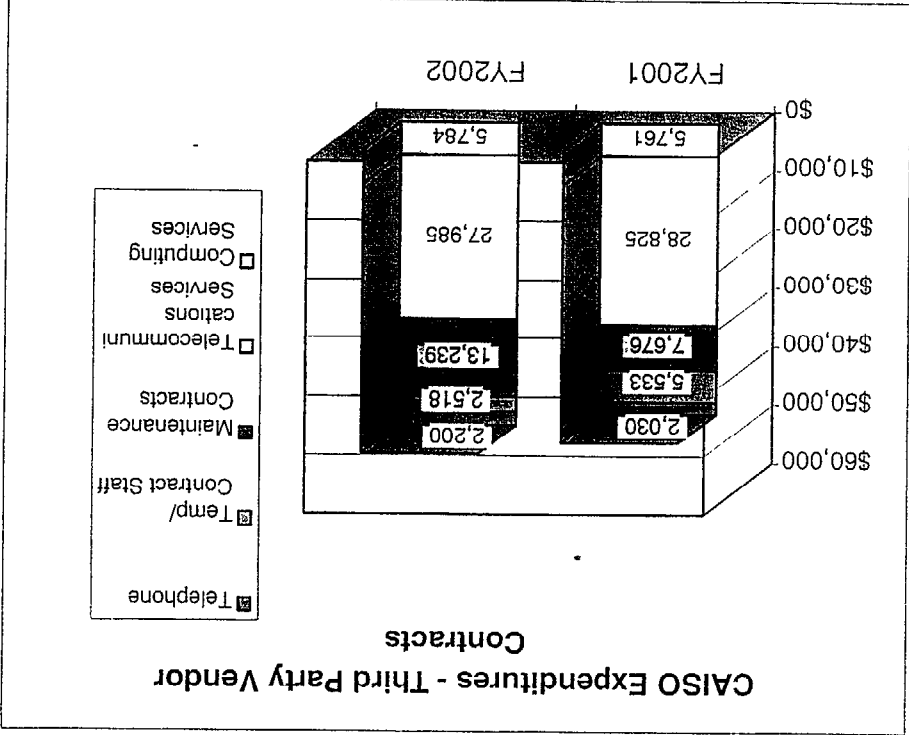


- Reduction in incentive bonus: budget at 73% payout vs. 100% in 2001.
- Savings of \$1.8 million.
- Increase in salaries in benefits: \$3.2 million for 2002 salary adjustment
- \$2 million for additional ISO staff or contractor conversions.
- Additional ISO staff from contractor conversions: 23 and new employees: 23
- Increase in tuition reimbursement program costs from \$300K to \$700K.
- Reduction in IT Asset group equipment leases of \$1.7 million.
- Additional facility operating costs due to new leased space in Folsom business park.
- Additional facility lease costs from new leased space in Folsom business park.

FY2002 Budget Overview: by Expense Type
\$ in 000's



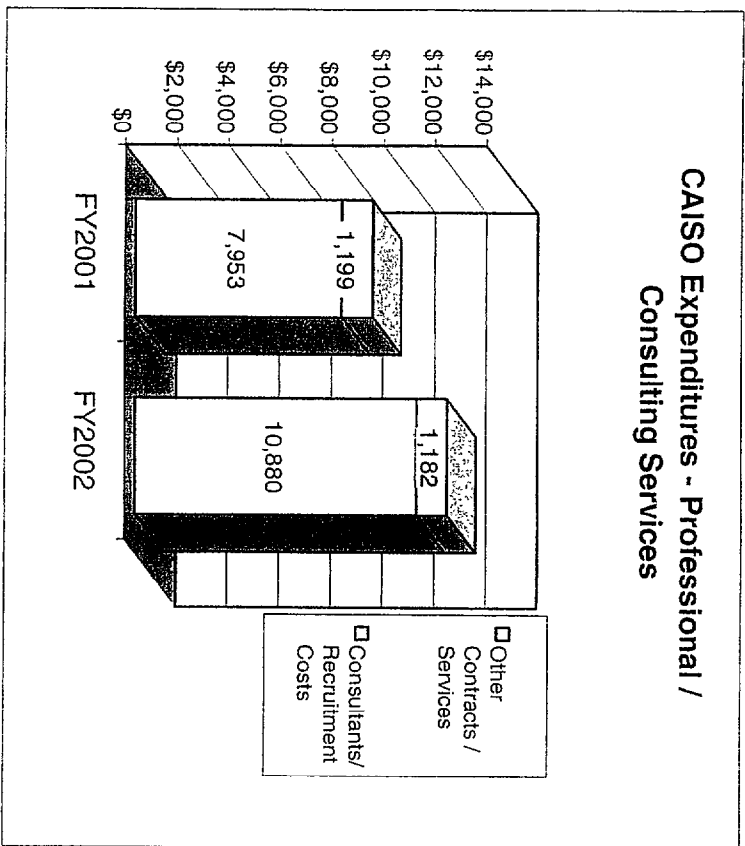
- Increase in coverage for normal equipment growth.



- Reduction in temporary contract staff--mainly in Operations, offset by IT,
and savings due to new contracting strategy.
- Additional maintenance contracts on hardware and software added during
2001 and 2002.

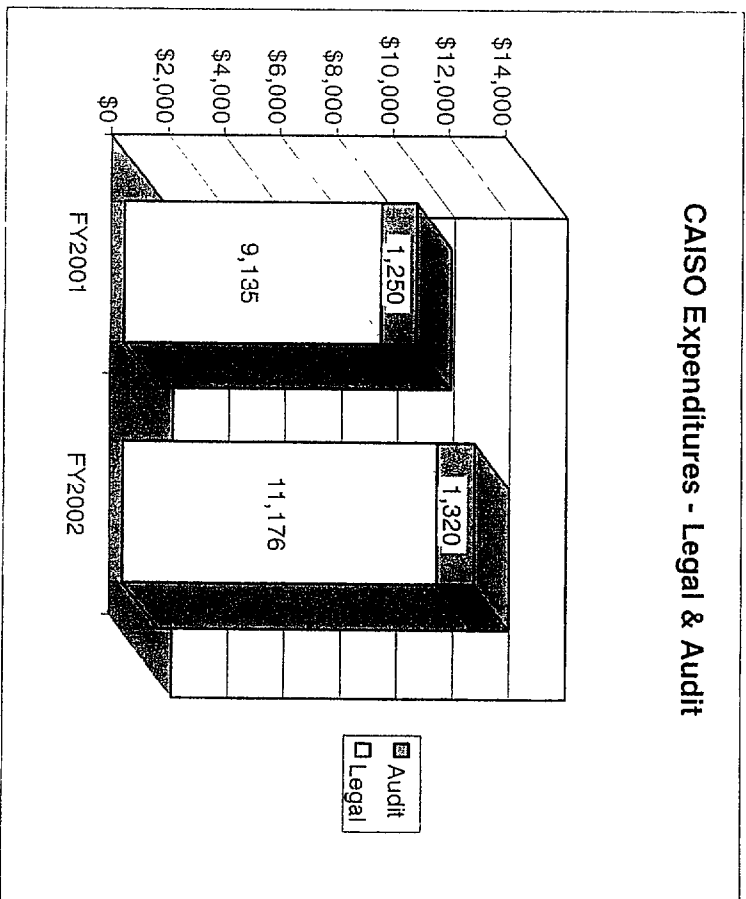
FY2002 Budget Overview: by Expense Type
\$ in 000's

CAISO Expenditures - Professional / Consulting Services



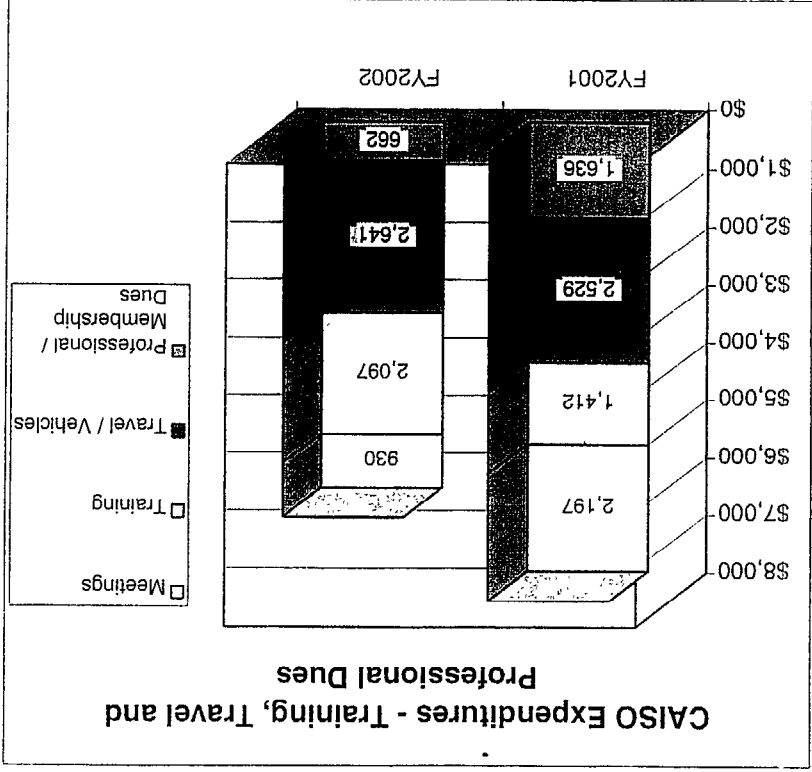
- Increase in consultants of \$2.2 million in Operations, \$700K Markets. Reclassification from Temporary/Contract staff.

CAISO Expenditures - Legal & Audit

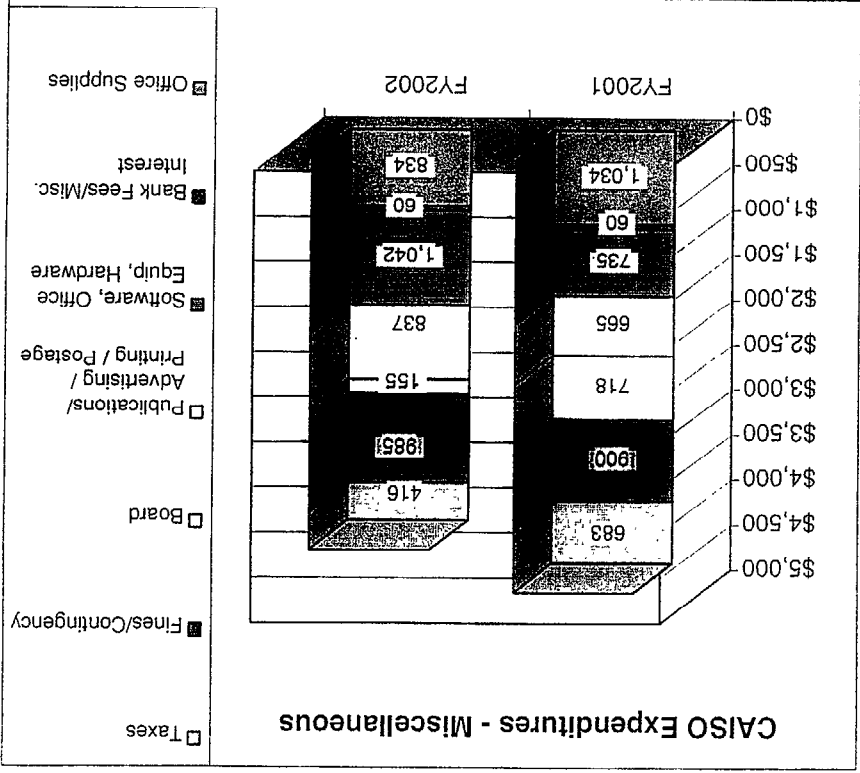


- Increase in Legal costs in GC area: investigations, bankruptcy advice & representation, telecom RFP support, refund litigation, offset by reductions of \$600K in general outside counsel expenses.

FY2002 Budget Overview: by Expense Type
\$ in 000's



- Decrease in Meetings: \$1.5 Million from CEO--budgeted in 2001, offset by increase of \$185k in IT and \$40k in OPS.
- Increase in training: \$450K IT, \$150K C&SD
- Decrease in Professional Dues: \$1 Million from CEO, Seams Mgmt, budgeted in 2001.



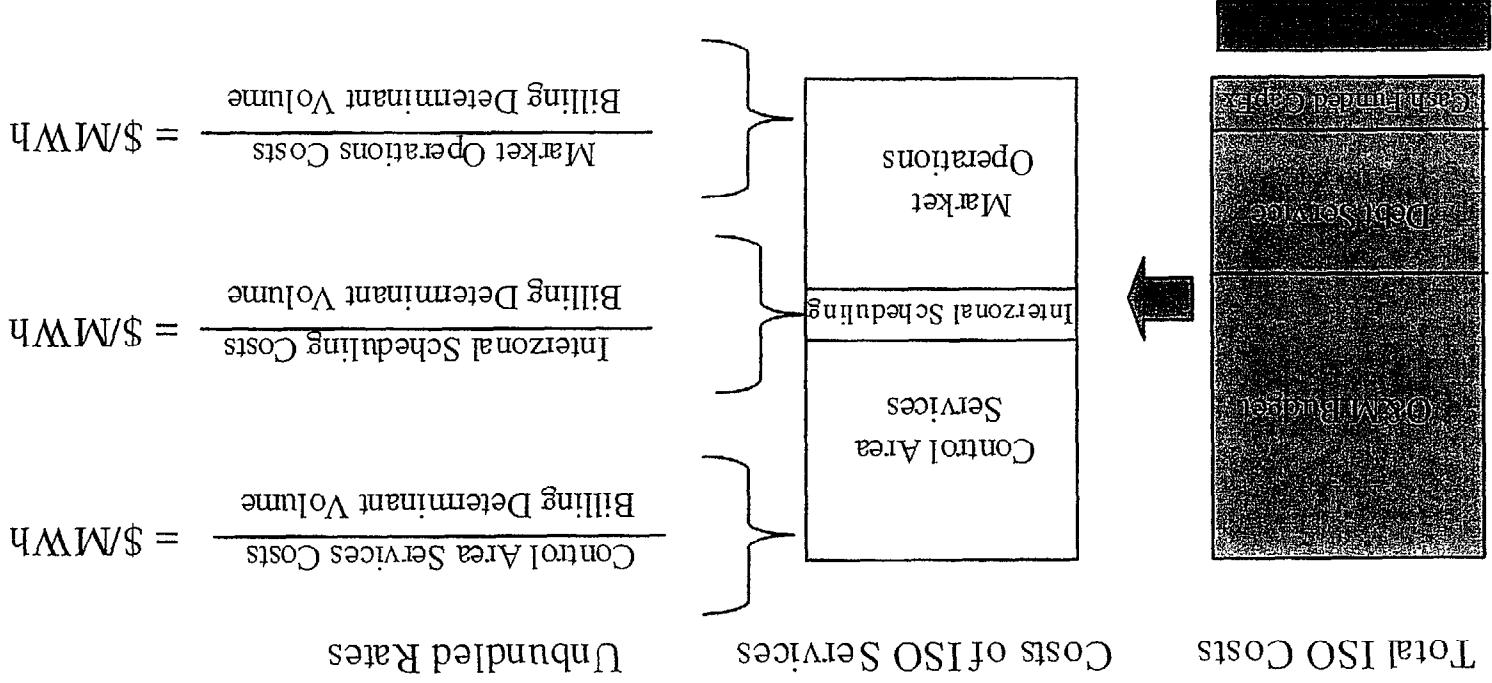
- Decrease in Property Tax due to exemption
- Eliminated WSCC fines/penalties budget.
- Reduced Board costs due to fewer members, reduced compensation.
- Increase in Software purchases (IT) \$600k, decrease in hardware \$300K
- decrease in office equip, \$100K.
- Reclassification of certain Office Supplies expenses to IT expenses.

APPENDIX B: GMC RATE CALCULATION

FIN/PRL 09/27/2001

PROPOSED FY2002 BUDGET

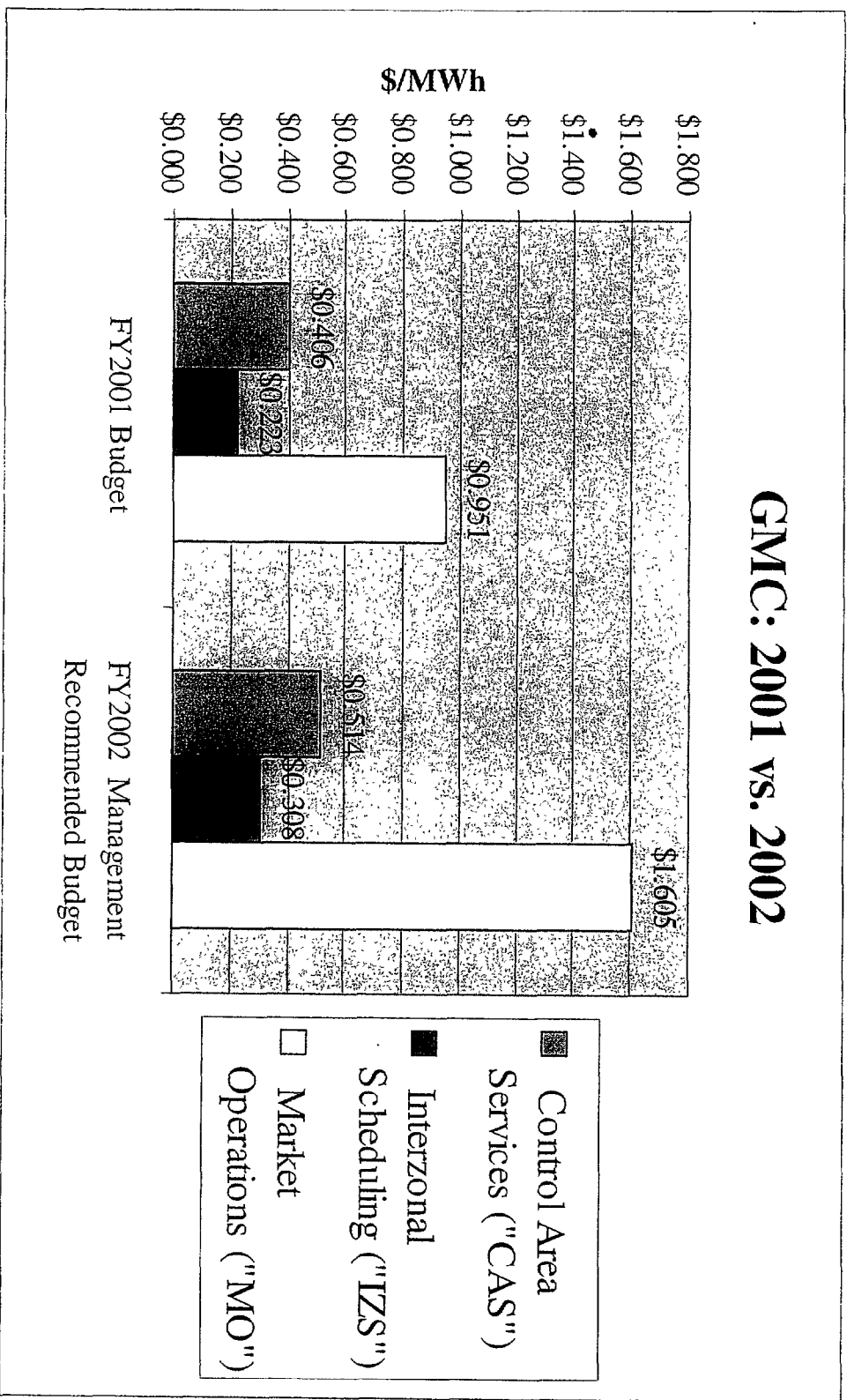
GMC Calculation



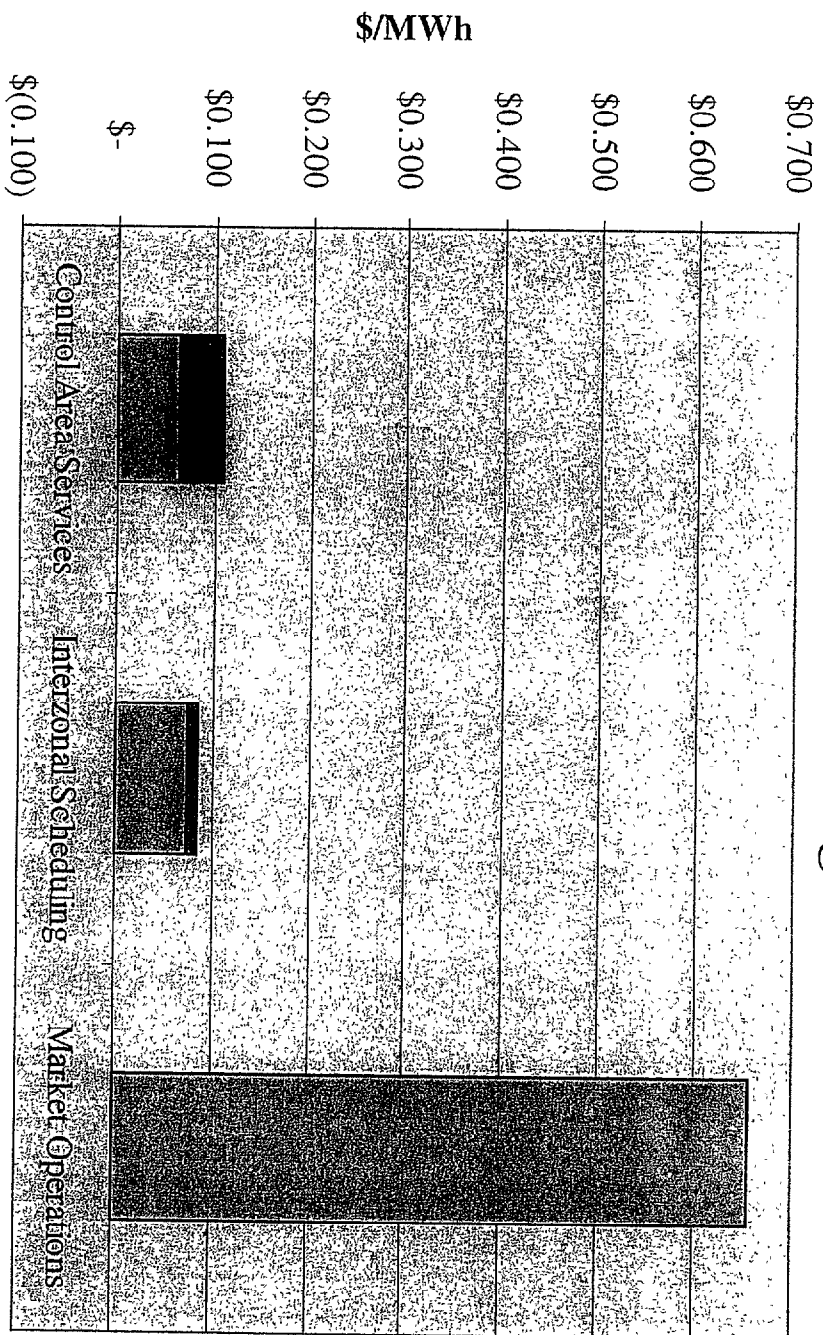
Rates

(assuming no change in 2001 rates)

GMC: 2001 vs. 2002



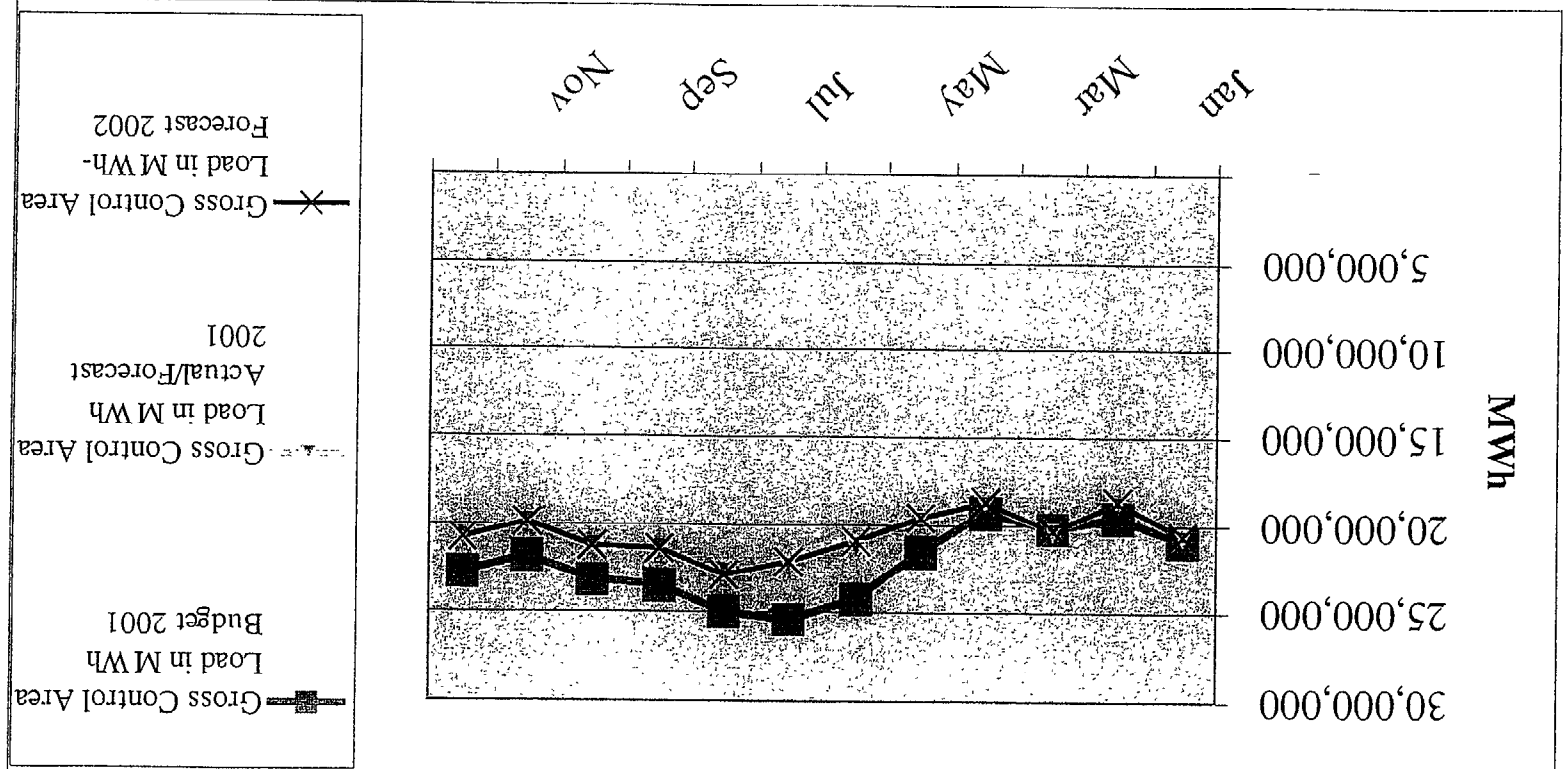
Cause of Change in Rates



■ Cost & Cost Allocation
 ■ Volume

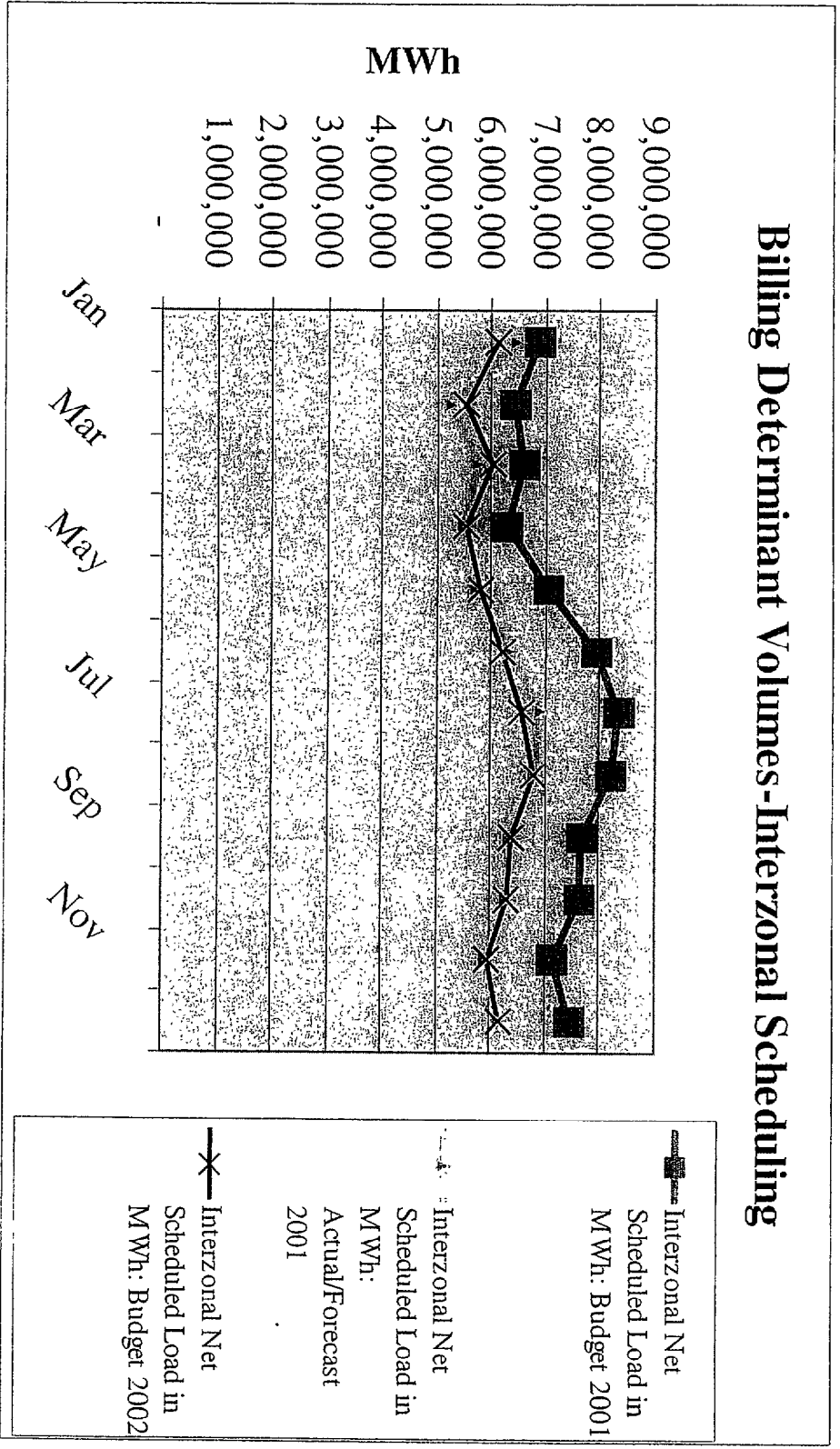
Volume: Gross Control Area Load & Exports

Billing Determinant Volumes-Control Area Services

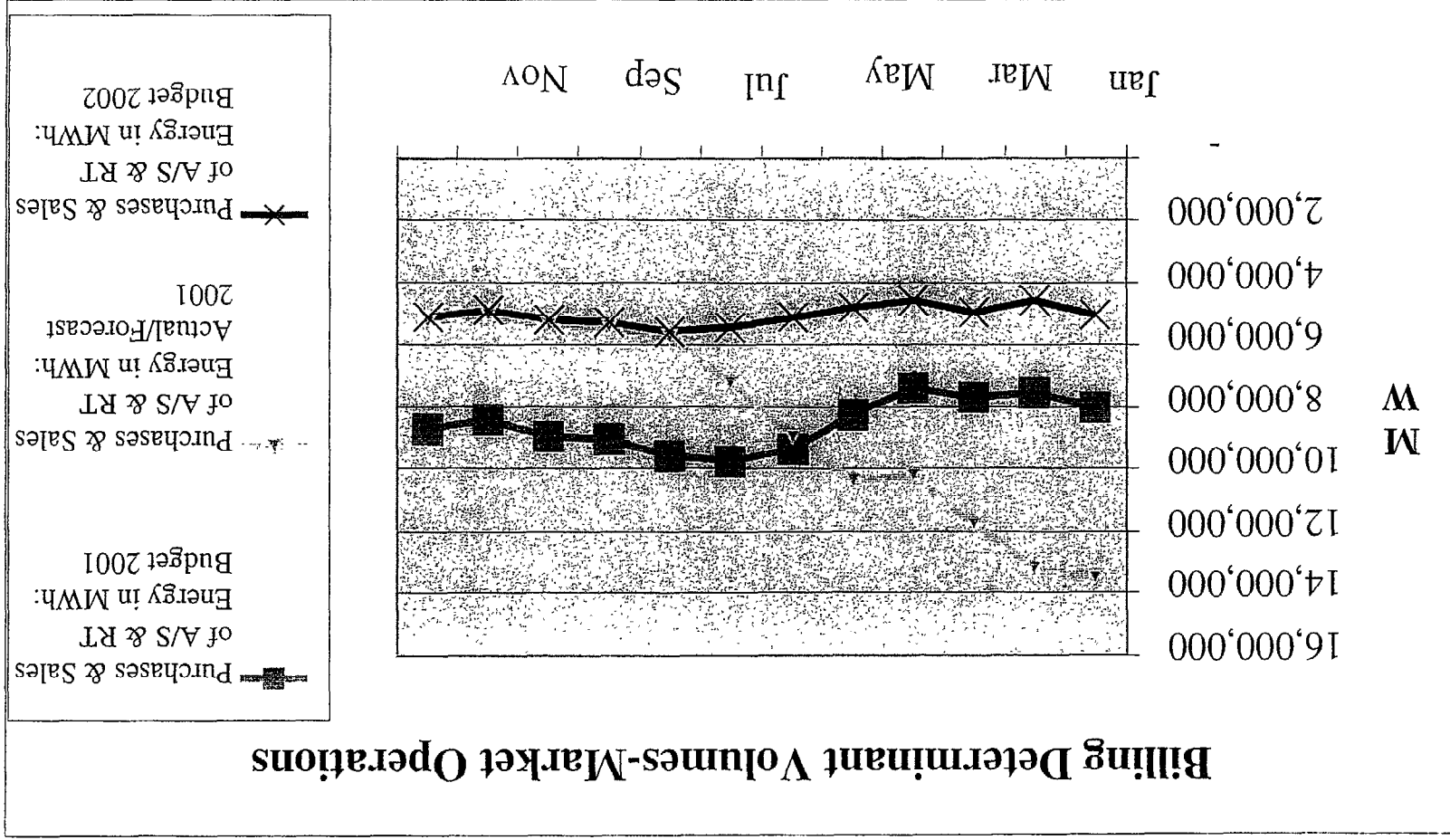


Volume: Interzonal Scheduled Load

Billing Determinant Volumes-Interzonal Scheduling



Volume: A/S & Real Time Energy





Volume: A/S & Real Time Energy

(chart provides additional detail on 2001 budgeted and actual volumes for billing determinant for the Market Operations Charge)

