Briefing on Draft 2010 Budget

Mike Epstein
Director of Financial Planning

GMC Stakeholder Meeting
October 1, 2009

Timeline for Stakeholder Process for GMC Budget

You are here

Meeting to discuss budget
June 17, 2009

Meeting to review exhibits
July 22, 2009

Draft budget Published
September 14, 2009

Meeting to discuss budget
October 1, 2009

Comments on budget due
October 14, 2009

Comments presented to Board
October 29-30, 2009

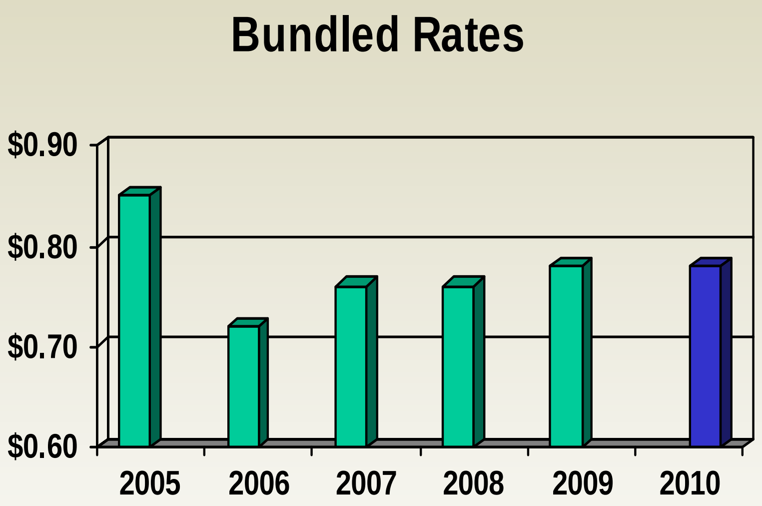
Board Approval
December 16-17, 2009

FERC Filing
Not later than Nov. 1, 2009

Opportunities for Stakeholder Input

2010's bundled rate of $0.78 remains about the same as 2009.

- Goal is a relatively stable bundled rate
- We have a large one-time inflow of GMC ($15M) due to Payment Acceleration in 2009
- Revenue credit from FERC interest refund case ($4M)
- Anticipate a revenue requirement of $195M
  - Includes O&M, capital spending and debt service
  - $2M under $197M rate cap
  - $2.1M increase over 2009

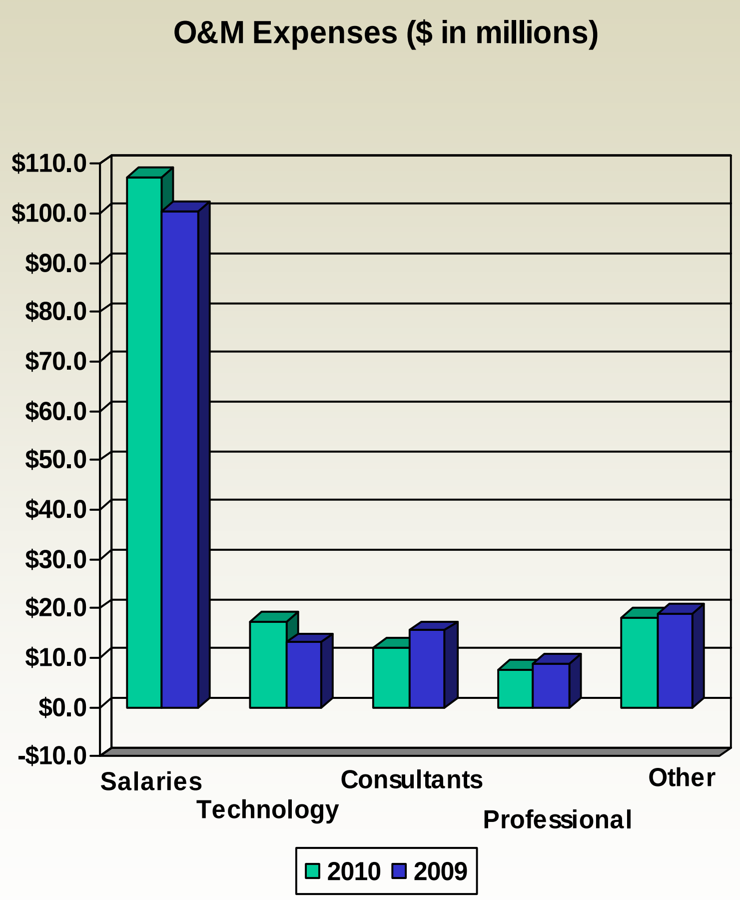


The revenue requirement reflects the one-time GMC inflow and other credits.

Component ($ in millions)	2010	2009	change
O&M	**$162.7**	**$156.7**	**$6.0**
Expense recovery	**(8.1)**	**(6.1)**	**(2.0)**
Debt service	**61.0**	**59.4**	**1.6**
Out of pocket capital	**15.0**	**-**	**15.0**
Revenue credit	**(35.5)**	**(17.0)**	**(18.5)**
Total	**$195.1**	**$193.0**	**$2.1**
Transmission volume in GWh	**250.0**	**248.6**	**1.4**
Pro forma rate in $ per MWh	**$0.780**	**$0.776**	**$0.004**

Overall, O&M is up $6M or 3.8%.

- Personnel costs are up $7.1M due to:
  - 3.5% merit increase;
  - 2% burden increase to 35%; and
  - Anticipated overtime costs
- Staffing is down 8 to 569
- Technology is up $4.2M due to maintenance of software for new market
- Consultants & contractors is down $3.3M
- Professional fees (legal) is down $1.3M



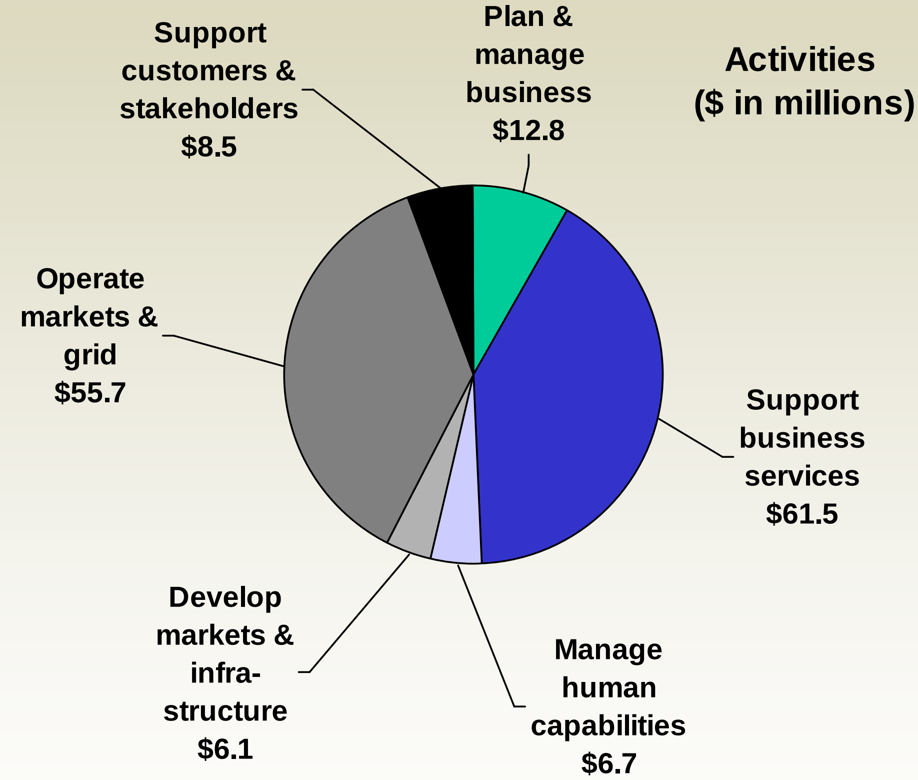
The divisional changes are largely driven by personnel costs.

$ in millions

Division	**2010** **budget**	**2009** **budget**	**$** **variance**	**%** **variance**	**Comment**
CEO	$12.5	$12.0	$0.5	3.7%	Personnel cost increases offset by lower relocation & recruiting
MID	$15.7	$15.7	$ -	- %	Personnel cost increases offset by lower consulting
Corporate Services	$65.9	$64.9	$1.0	1.5%	Technology contract increases offset by lower personnel costs
Operations	$46.9	$43.8	$3.1	7.1%	Increased personnel costs & overtime
Legal	$12.6	$12.2	$0.4	3.3%	Personnel costs increases offset by lower outside counsel
External Affairs	$9.0	$8.0	$1.0	12.5%	Increased personnel costs

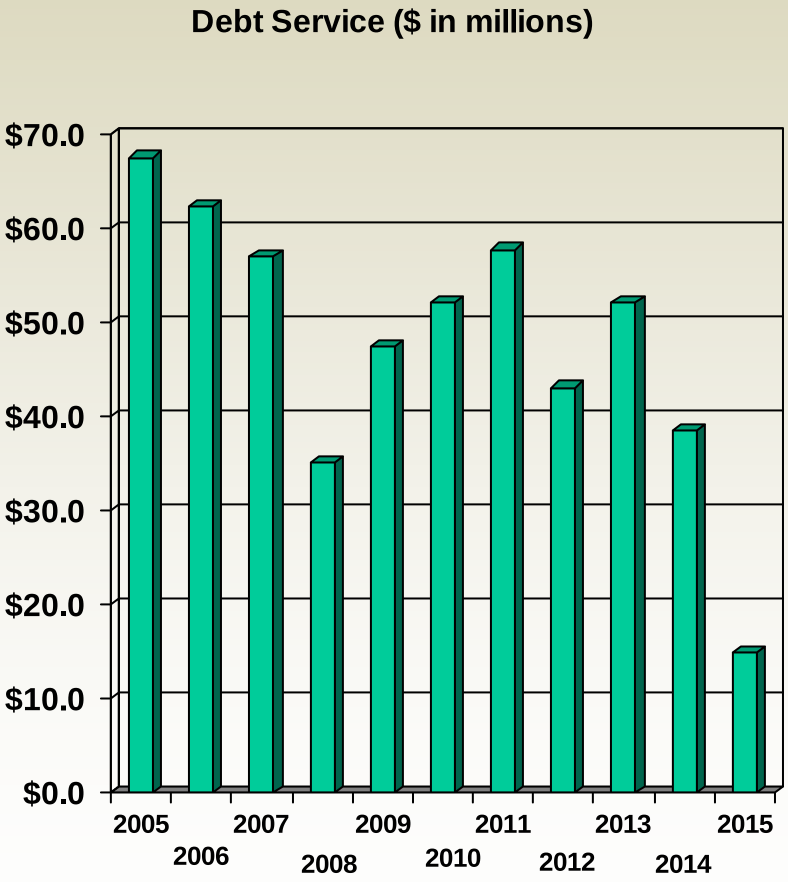
For the first time, we are leveraging activity based costing to analyze the budget.

- Activity based costing (ABC) commenced third quarter of 2009
- Ten core end-to-end processes identified
- Aggregated into six activities
- ABC will provide insight into resource utilization



We will experience a small debt service increase for 2008 bonds but not for 2009 bonds.

- 2008 bonds included in GMC through 2013
- 2008 bonds paid off in 2014
- 2009 facility bond payments made from interest reserve until 2012
- 2009 facility debt annual debt service of $14.9M from 2012 to 2039 (with option to refinance after 5 years)



2010 capital will be financed through GMC and bond funds

- Total non-facility spending targeted at $33M for further market enhancements and regular capital
  - Multi-stage modeling
  - Scarcity Pricing
  - Convergence Bidding
  - Proxy Demand Response
  - Standard Capacity Product
  - Hardware/software upgrades

- Capital will be funded through revenue credits of $15M and $18M from 2008 bond proceeds

Key GMC rates are projected to change based on the new market and lower volumes.

Rate	2010 rate	2009 rate	$ variance	% variance	comment
Core reliability service - on peak	$80.18	$70.28	$9.90	14.1%	Lower volumes projected for 2010 & under collection in 2009
Energy transmission service – net energy	$0.30	$0.30	$ -	- %	No change
Energy transmission service – deviations	$1.09	$1.02	$0.07	6.9%	Under collection in 2009
Forward scheduling	$2.04	$1.10	$0.94	85.5%	Lower volumes projected for 2010 & under collection in 2009
Market usage - A/S & real time energy	$0.37	$0.59	($0.22)	(37.3)%	Higher volumes projected for 2010 and over collection in 2009
Market usage – forward energy	$0.14	$0.43	($0.29)	(67.4)%	Higher volumes projected for 2010 & over collection in 2009

Rates shown for those that make up 93.3% of revenue requirement.
10 remaining rates individually less than 5% of the revenue requirement