

SVP and MID comment

- 1) During the June 17 budget meeting, there was discussion regarding the allocation of costs attributed to adjustment to the Energy Imbalance Market (“EIM”) reflected in the Spring 2015 release of “Minor design changes resulting from the Fall 2014 release.” As SVP and MID understand the discussion, adjustments to the EIM such as software supplements, that are installed as part of the Spring 2015 release, would be allocated between “baseline” charges that are passed through to market participants broadly through the Grid Management Charge (“GMC”) and fees directly assessed to entities participating in the EIM, such as PacifiCorp. SVP and MID ask for more explanation regarding the criteria for allocating costs between the baseline charges flowed through the GMC and specific-entity EIM fees. Does the ISO rely on written guidance to allocate costs between baseline and specific-entity charges/fees? If so, can the ISO post or point to such written guidance?
- 2) On page 21 of the ISO’s June 17, 2014 presentation, the ISO shows that capital expenditures last year were \$7.8 million compared to \$18.3 million (approved). Why were actual capital expenditures far less than approved expenditures? Are actual expenditures expected to be lower than approved capital expenditures in 2014 and 2015? If so, by how much?

ISO response

1) Here are the guidelines that are being used for allocating costs between EIM General and EIM for PacifiCorp. We are using our standard software development life cycle process for managing budget and the Corporate Management Committee is overseeing the EIM project budgets on a monthly basis.

Project	Criteria
Energy Imbalance Market (EIM) - General	Work done to build an energy imbalance market with CAISO as the Market Operator, benefitting all ISO stakeholders.
Energy Imbalance Market (EIM) - PacifiCorp	Work done to build the energy imbalance market with PacifiCorp as outlined in the MOU and implementation agreement. See the filing located on the ICAISO website at http://www.caiso.com/Documents/Apr30_2013EnergyImbalanceMarketImplementationAgreement-PacifiCorpER13-1372-000.pdf

2) Unfortunately the information on page 21 was not clear and was comparing apples to oranges. The \$7.8 million referred to actual spending while the \$18.3 million referred to project approvals. Looking at page 7 of the board report for the 4th quarter of 2013 included in the handouts, the project budget for 2013 was \$19.5 million and \$18.25 million had been approved.

Of the \$18.25 million in approvals \$7.8 million had been spent. Spending always lags behind approvals. It typically takes up to two years to fully complete the spending on a project. Projects approved late in the year may not complete until the end of the following year and final milestone payments occur sometime later. The full 2013 approved budget of \$18.25 million will be spent.

Referring to page 3 of the same handout the chart shows that \$11.8 million of pre 2013 projects are still active and only \$7.7 million of that was spent in 2013.

CDWR comment

Overview: CAISO proposes to increase the total 2015 revenue requirement to \$200 million from the current 2014 revenue requirement of \$198 million. CAISO forecasts the bundled GMC rate to remain flat (~\$0.80/MWh) assuming transmission volume stays at an approximate 0.5% growth rate.

SWP requests CAISO put more detail into the O&M budget related to the proposed increases and carry-over of unspent dollars and reserves from the previous year in the 2015 Budget and GMC rates book. CAISO should clarify how to accurately process prior year remaining funds for budgeted capital in the 2015 new capital proposal. For example, 2013 Capital expenditures were \$10.5 million or 57% below the approved budget, where is it shown and how does this get carried over to future years?

It would also be helpful if CAISO would clarify previous year completed projects relisted on the new financial documents. In recent years' active and completed capital projects lists, the CAISO uses the same Capital ID and description over multiple years, but there doesn't seem to be an explanation of why previously completed projects reappear with a new budget in later years. For example, Capital ID#12500 - 2012 Facilities Projects; the April 30, 2013 Completed Projects list shows it as complete, the April 30, 2013 Active Projects list shows it is 49% complete with a different budget, then the March 31, 2014 Active Projects list shows it again with a different budget and different percentage of completion. This makes it difficult to follow one of the 2015 Budget Principles, to provide budget process transparency.

ISO response

Overview: The chart on slide 8 showing a 2015 budget of \$200 million was only an indicative number. The ISO must still go through the budget process and the final number could be less, the same or more than the 2014 revenue requirement of \$198 million. The budget book which will be posted on the CAISO website in September will contain the detail of the proposed budget. The ISO intends to put more detail into the in the 2015 Budget and GMC rates book related to the proposed increases and carry-over of unspent dollars and reserves from the previous year.

Capital expenditures: Looking at page 7 of the board report for the 4th quarter of 2013 included in the handouts, actual capital expenditures in 2013 were \$15.5 million of which \$7.8 were for 2013 approved projects and \$7.7 was for projects approved prior to 2013. Spending always lags behind approvals. It typically takes up to two years to fully complete the spending on a project. Projects approved late in the year may not complete until the end of the following year and final milestone payments occur sometime later. The full 2013 approved budget of \$18.25 million will be spent. We do not know where the reference to \$10.5 million comes from.

Prior year completed projects: Several types of projects are funded on an annual basis such as Campus Operations (facilities) and hardware and software purchases. These projects receive an annual budget and then request s for specific projects or purchases are made throughout the year. Some of these specific project requests are completed in the original year and some are carried forward as the funds are not taken away at the end of a calendar year. The individual projects that have been completed are shown on the completed listing and any remaining funds or projects are shown on the active listing with the remaining budget listed. While items are tracked with stand-alone codes, for these listing the projects have been consolidated to one budget number, to keep it at a higher level, as items in these projects can have a wide range of individual costs.