



Memorandum

To: ISO Finance Committee

From: Bill Regan, Chief Financial Officer
Phil Leiber, Treasurer and Director of Financial Planning
Ben Arikawa, Senior Financial Analyst

Cc: ISO Board of Governors, ISO Officers

Date: June 8, 2005

Re: *2006 Budget Calendar*

This memorandum is informational only.

Each year prior to the initiation of the ISO's annual budget process, ISO management has developed a calendar with budget-related milestone dates that will lead to the establishment of the subsequent year's budget and new Grid Management Charge (GMC) rates. Unlike past years, we are not requesting Board approval of the Budget Calendar as Tariff changes brought about by the Partial Offer of Settlement ("Settlement") in the 2004 GMC Proceeding generally sets this schedule.

Attached to this memorandum is a table containing the current timeline for the 2006 budget process. This timeline is comparable to the one used last year, the first year under the Partial Offer of Settlement ("Settlement") in the 2004 GMC Proceeding. As part of the Settlement, the ISO provided increased opportunities for stakeholder discussion on O&M and capital expenditures and on ISO priorities for the coming year. The Settlement also extended the filing deadline to mid-December from late October to allow more time for these discussions and any adjustments to the budget made in response.

Internal Budget Development Process

As always, achieving the year's budget goal presents many challenges. This year, in particular, presents us with the additional challenge of internal organizational realignment.

For the coming year, the direction from the Chief Executive Officer is clear – seek and identify opportunities that will enable the ISO to be more effective and efficient; strive to be recognized as one of the most efficient ISOs – not the most expensive. ISO departments will be asked to prepare their proposed budgets in July targeting a reduced revenue requirement consistent with that of other ISOs¹.

ISO Officers will review the proposed budget in August to compile a "management recommended budget," which will be presented to the Finance Committee in an executive session briefing in late August, followed by an open session Board discussion in September.

¹ Pursuant to the agreements made under the Settlement, to avoid a full budget and rate filing to be made in October, the ISO's revenue requirement (O&M, debt service, other revenues plus operating reserve credits) must be less than \$221.7 million.

External Budget Review Process

Throughout the internal budget development process, the ISO will engage its stakeholders in an active dialogue. To facilitate this dialogue, the ISO has designated a “budget liaison,” Ben Arikawa, Senior Financial Analyst, to coordinate stakeholder requests for budget information. The ISO will host three budget meetings for stakeholders to discuss and review the budget. The first opportunity for stakeholder consultation will be at the June 17, 2005 meeting for which stakeholders have been invited to offer their comments, suggestions and recommendations for the coming year’s O&M and capital expenditures and ISO priorities. The discussion at this meeting will inform ISO Management as we prepare our recommended budget in July and August.

After this initial meeting, the ISO will continue to engage stakeholders. In late September, the ISO will offer a “Budget 101” teleconference to educate stakeholders about the ISO’s budget process in preparation for the “Stakeholder Budget Day,” scheduled for September 15th. The “Stakeholder Budget Day” is held to discuss the details of the ISO’s budget for the coming year and to receive additional comments.

Board Budget Review Process

The Finance Committee and the full Board will have several opportunities to consider comments from stakeholders, to review the management’s proposed budget and to recommend modifications to the budget. In addition, the Committee and the Board will have an opportunity to review and approve the budget and resultant GMC rates prior to their filing at the Federal Energy Regulatory Commission (FERC).

The Finance Committee will receive management’s proposed budget in late August in executive session. Based on Committee direction, ISO management will begin to revise the budget in preparation for the September 8th Board meeting. After written stakeholder comments are received in early October, the Finance Committee will review and receive further comments from the public on October 18th.

The first opportunity for the full Board to review the proposed budget will be on September 8th. The Finance Committee can brief the full Board on public comments received on the budget during its October 19th meeting. Finally, the full Board will vote on the budget in early December.

As the internal and external budget processes progress, the ISO will develop the GMC rates for 2006 using the allocation method agreed to under the Settlement. The ISO and stakeholders agreed to preserve the method for the budget years 2004 – 2006 as part of the Settlement.

Budget Filing

While the budget review process is underway, the ISO will be developing the documentation necessary for making the filing at the FERC. This documentation will include GMC rate development, as well as the budget. If the ISO meets the requirements laid out in the Settlement², this year’s filing will be informational, rather than a full filing requiring a much greater level of documentation. Once Board approval is obtained, the ISO will file the budget and GMC rates at the FERC by December 15th with an effective date of January 1, 2006.

² See footnote 1 for the limitation on revenue requirement.

**California ISO
2006 Budget Calendar**

Event	Current Date	Prior Year's Date
1 Budget Process Timeline presented to Finance Committee	June 14, 2005	June 24, 2004
2 Meeting with GMC Stakeholders on priorities, cost control ideas, and proposed capital projects	June 17, 2005	July 7, 2004
3 Budget Process Rollout to Departments	June 24, 2005	June 28, 2004
4 Annual Goal Setting Discussion Commences	Early July 2005	Early July 2004
5 Internal Budget Development Process	July – August	July – August
6 Finance Committee Review of Preliminary Budget (Executive Session)	August 30, 2005	September 1, 2004
7 Board discussion and review of preliminary Budget posting (Open session)	September 8, 2005	September 15, 2004
8 "Budget 101" teleconference for interested parties	September 13, 2005	September 20, 2004
9 Stakeholder Budget Day	September 15, 2005	September 22, 2004
10 Written Comments on Budget Due	October 7, 2005	October 20, 2004
11 Finance Committee meeting: receive public comments on budget	October 18, 2005	October 28, 2004
12 Finance Committee meeting: receive additional public comments on Budget and develop recommendation to Board **	Early December	December 3, 2004
13 Board Approval of Budget	Early December	December 3, 2004
14 Informational Budget Filing with FERC	December 15, 2005	December 15, 2004
Required time period between FERC filing and effective date of new rate	15 days	15 days
15 New Rate effective	January 1, 2005	January 1, 2004