



CALIFORNIA ISO

FY2003 Budgeting Process

**Kickoff Meeting
7/08/2002**

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Contents:

- Introduction
- Timeline
- Objectives
- Deliverables
- Tools
- Next Steps



Budget Uses

- Why budget?
 - For commercial companies:
 - For financial planning
 - To monitor performance
 - For California ISO, those reasons plus:
 - Basis for FERC rates
 - Lengthy discovery and hearing process to determine whether rates are “just and reasonable”.

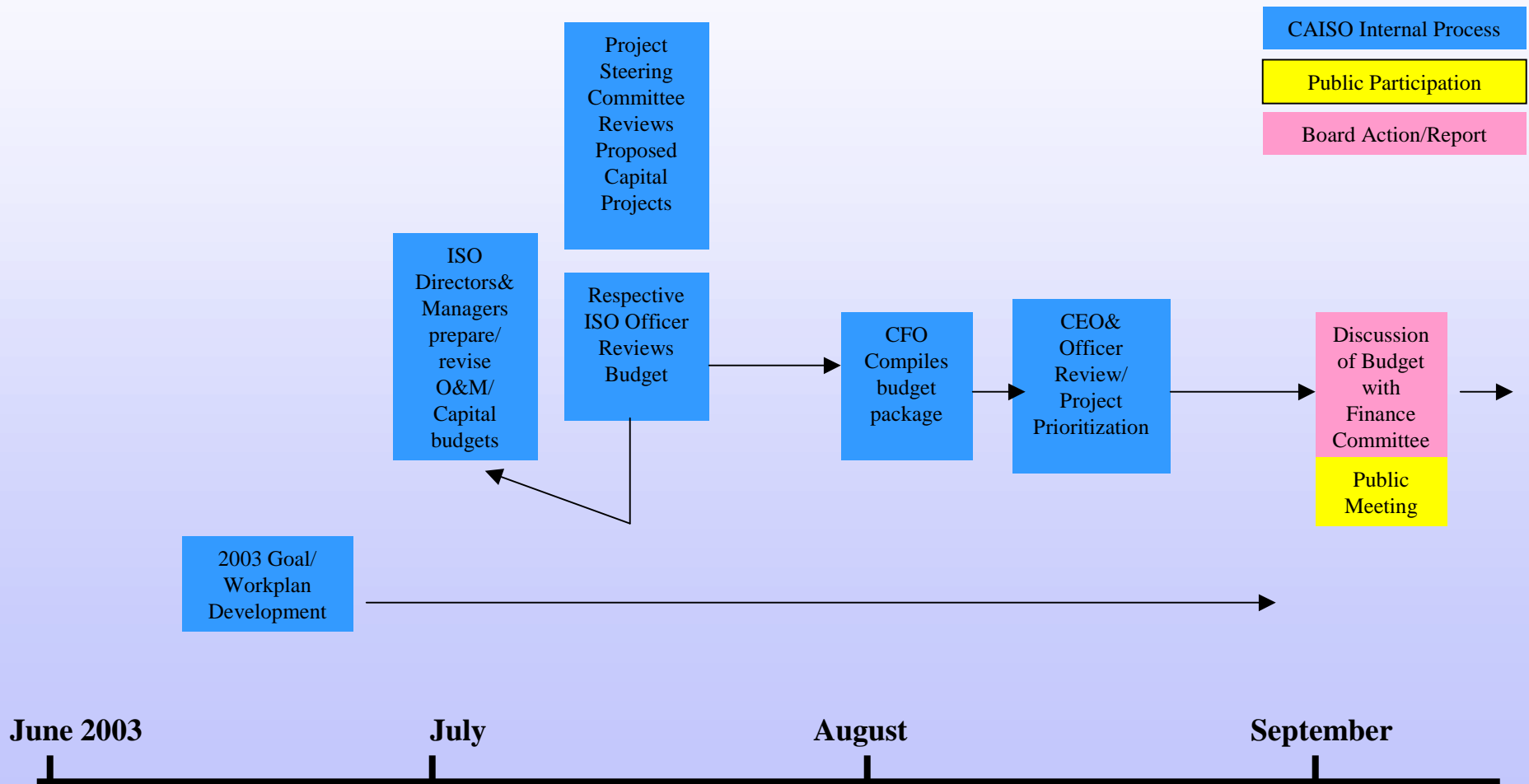


2003 Budget Development

- 5 month process begins in July
 - Begins with TW guidance memo
 - “Ends” with FERC filing on November 1, 2002
- Results in O&M budget, capital budget and unbundled GMC rates.



Timeline of FY2003 Budgeting Process



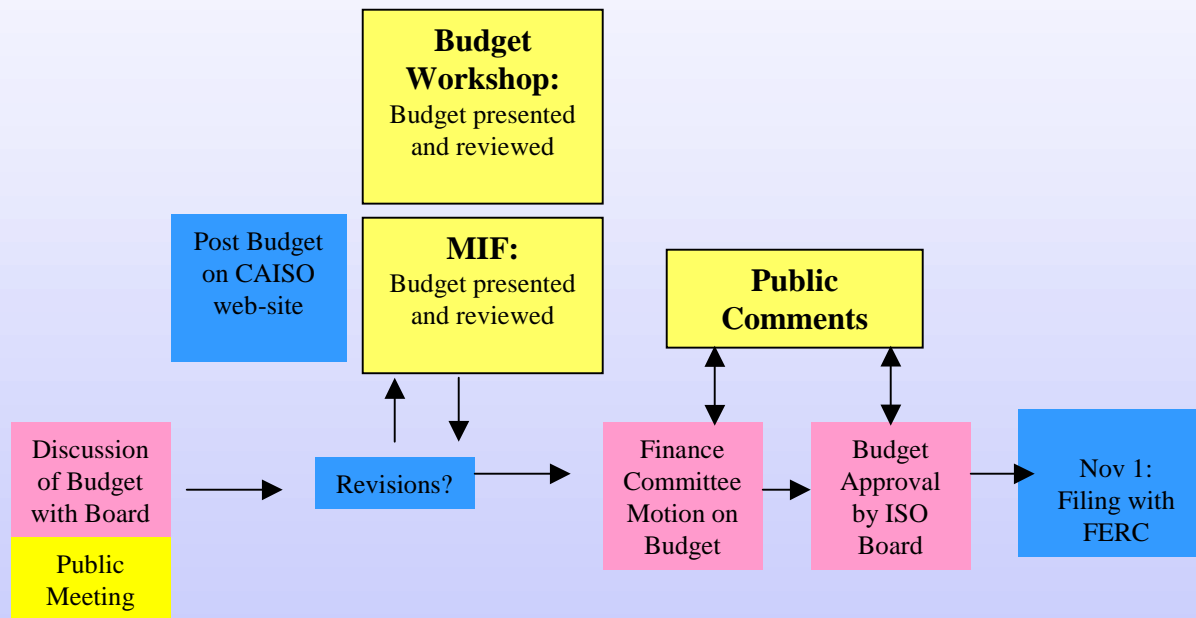


Timeline of FY2003 Budgeting Process

CAISO Internal Process

Public Participation

Board Action/Report



September

October

November

January 2003



Deliverables

JULY-AUG

Proposed
FY2003
Base Operating
Budget

(developed with
Budget Tool)

Proposed
FY2003
Incremental &
Decremental
Programs

(developed with
Budget Tool)

Proposed
FY2003
Capital Budget

(documented in
Access Tool)

Commentary on
Dept. Functionality
with base budget
and incremental/
decremental
programs

(developed with Budget
Tool)

GMC
Unbundling
Support

(developed with
Budget Tool)

SEPT

Budget Overview
for Stakeholder
Advisory
Committee and
Board of
Governors

Budget Posting
on CAISO
Website

OCT

Final Board
Memo on
Proposed
FY2003
Operating &
Capital Budget

NOV 1

FERC GMC
Filing





Overall Budget Strategy

- ISO revenue requirement (~ total costs) should not continue to increase as was the case from 1998 to 2001.
- Goal: no revenue requirement increase from 2002



“Putting the Horse before the Cart”

Efforts on 2003 Strategic Plan, Goals, Workplans precede (or are developed concurrently with) 2003 budget.



O&M Budget Philosophy for 2003

- Aim to:
 - Reduce or maintain O&M spending level.
 - Will require that we eliminate more than we add.
 - We will attempt to fund costs of new responsibilities by identifying cost reducing programs.



O&M Budget Mechanics

- Output: Comprehensive report of base budget and other programs, by ISO cost center
- Base budget
 - Programs budgeted for 2002, and necessary in 2003.
- Other programs
 - Incremental programs
 - new for 2002 and needed in 2003
 - new for 2003
 - Decremental programs
 - cost saving opportunities
 - All departments must identify at least 7% cost savings from 2002 targeted spending level of \$171.6 million.
 - Identify impacts



Capital Budget

- Capital Budget:
 - Output from budget process = Size of overall proposed budget with representative project list
- What is a capital expenditure?
 - Expenditures >\$2,000 which provide a benefit beyond the current year.



Capital Budget

Is it a capital project?

Software Example:

- | | | |
|-----|------------------|--|
| YES | New application: | Third party purchase or customized development. |
| YES | Enhancements: | new functionality to existing applications. |
| NO | Maintenance: | Support of existing applications.
Small fixes, replacing existing functionality with different functionality, looking at existing information in a different way. |



Capital Budget

How are funds managed?

- Funds managed at the Corporate level, with funds allocated as a result of Project Steering Committee review and recommendation to Officers (and Board for > \$1,000,000) for project.



Capital Budget Issues

- How is the Capital Budget Funded?
 - 1998-2000: Bond Issuances. Cost spread over many years.
 - 2001 forward: cost recovered in full during the budget year (bond issuances not possible in 2001/2002/2003?)
- Effect of Capital Projects on O&M budget
- Prioritize
- GMC unbundling cost allocation



Tools for Developing the Budgets

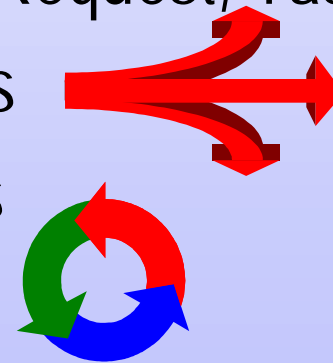
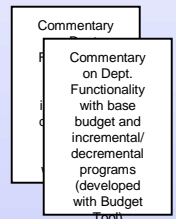
- Capital Budget
 - Access Database input tool
- Operating & Maintenance Budget
 - Internet based budget tool
 - collect & compile standardized budget and cost allocation information
 - Upgraded version of tool used last year.



Demonstration of Operating Budget Tool

- Steps:

- 1 - Getting Started
- 2 - Budget for Compensation Related Costs
- 3 - Budget Other Expenditures
- 4 - Description of Department, Budget Request, Tasks
- 5 - Incremental/ Decremental Programs
- 6 - Consider Interdepartmental Impacts





Monitoring Budget Performance: Monthly Financial Reports

California ISO
Expenditure Detail by Cost Center
Current Period: Jun- 02

Operating Expenses	Current Month				Year To Date				Annual Budget
	Actual	Budget	Var \$	Var %	Actual	Budget	Var \$	Var %	
Salaries and Benefits									
110 Salaries-Regular	\$ 38,714	\$ 53,510	14,795	27.6%	405,687	561,854	156,167	27.8%	695,629
113 Overtime/ Call-out Bonuses	\$ -	\$ 334	334	100.0%	-	3,503	3,503	100.0%	4,337
Total	\$ 38,714	\$ 53,844	\$ 15,129	28.1%	\$405,687	\$565,357	\$159,670	28.2%	\$ 699,966
Third Party Vendor Contracts									
640 Temporary/Contract Staff	\$ 1,558	\$ 3,447	1,889	54.8%	19,116	34,470	15,354	44.5%	41,374
Total	\$ 1,558	\$ 3,447	\$ 1,889	54.8%	\$ 19,116	\$ 34,470	\$ 15,354	44.5%	41,374
Professional and Consulting									
430 Consultants	\$ -	\$ 2,500	2,500	100.0%	7,900	25,000	17,100	68.4%	30,000
470 Other Contracts & Services	\$ -	\$ -	-	n/m	9,975	-	(9,975)	n/m	-
Total	\$ -	\$ 2,500	\$ 2,500	100.0%	\$ 17,875	\$ 25,000	\$ 7,125	28.5%	\$ 30,000
Total Operating Expenses	40,272	59,791	19,518	32.6%	442,678	624,827	182,149	29.2%	771,340



Ongoing Budget Responsibilities

- Manage to Approved Budget
 - Director/Manager Responsibilities
 - If you foresee the need to spend more than is budgeted for the year, inform VP. VP may be able to accommodate within his/her budget as a result of lower spending elsewhere.
 - Officers
 - Review priorities and reallocate resources as necessary
- Achieve budget goals
 - All ISO staff have portion of compensation tied to achieving budget goals: spend even less than approved budget. Relates to 15-25% of incentive compensation.



Next Steps/Questions

- Next Steps:
 - Budget tool link to be distributed.
 - Schedule of meetings to be released.
 - Tuesday 7/23 - Brief your Officers on budget proposal
 - Tuesday 7/30 - Complete budget proposals
- Questions / Issues?