

Memorandum

To: ISO Board of Governors
From: William J. Regan, Jr., Chief Financial Officer
Philip Leiber, Treasurer & Director of Financial Planning
Date: December 4, 2007
Re: **Decision on FY2008 Budget**

This memorandum requires Board action.

Management recommends Board approval of the FY2008 Revenue Requirement and resulting pre- and post-MRTU GMC rates. The pro-forma bundled GMC for 2008 will be \$0.755 per MWh, a reduction from \$0.760 in 2007, and consistent with our commitment to provide long-term rate stability and a bundled GMC in the mid-70 cent range for the foreseeable future. At the same, CAISO will deliver on the commitments made in the 2007-2011 Business Plan (which will be reaffirmed and updated in the 2008-2012 Business Plan to be delivered this spring).

CAISO continued stakeholder outreach efforts in the development and review of this budget. In accordance with CAISO's obligations under the GMC Settlement Agreement, the 2008 Stakeholder Budget process began in June of this year with an initial meeting to overview the budgeting process and hear stakeholder views about the CAISO budget and company direction. Management presented a preliminary budget for review to the Board and stakeholders in early September. Comments on the proposed budget were presented to the Board at the October 18 meeting. No further comments have been received from stakeholders since October. The proposed 2008 budget has not materially changed since the September posting. The proposed O&M budget is unchanged, at \$152.7 million, and the proposed Capital / Project budget of \$30 million is consistent with the \$20-30 million anticipated range indicated in the September posting. The Operating & Capital Reserve credit has increased from \$15.3 to \$21.2 million, and we have applied this increase to provide for higher direct funding for the Capital/Project budget (which will result in lower bond funding needs¹).

With the implementation of MRTU during 2008, two rate structures will be in effect—pre and post-MRTU rates. The Budget documentation shows the anticipated rates for both periods. Management has posted on the CAISO website² the information used in the calculation of 2008 GMC rates, including billing determinant detail (for year-to-date 2007 and a forecast for 2008), a mapping of costs to GMC service categories, a forecast of the Operating & Capital Reserve balance at December 31, 2007 and the credit applicable to the 2008 Revenue Requirement.

¹ We will provide details of the planned bond transaction in January 2008, and ask for approval in March.

² <http://www.caiso.com/1c73/1c73daa33e770.html>

The CAISO Revenue Requirement for 2008 will be \$191.6 million, resulting in a bundled pro-forma GMC of \$0.755 per MWh. The FY2008 Revenue Requirement has increased less than 1% from the FY2007 Revenue Requirement of \$189.9 million, and is below the \$195 million threshold specified in the October 2007 extension GMC Settlement to avoid a FERC rate case on the Revenue Requirement. A summary of the FY2008 Revenue Requirement and GMC rates is included as **Attachment A**. A comprehensive report regarding the elements of the Revenue Requirement including the O&M budget, the capital/project budget, debt service, the Operating Reserve credit and other revenues is included in **Attachment B**.

Management recommends the following motion for Board action:

MOVED, that the ISO Board of Governors approve the 2008 O&M and Capital/Project Budgets as set forth in Attachment A and Attachment B to the memorandum dated December 4, 2007 and

That the ISO Board of Governors authorizes Management to take all necessary and appropriate action to implement the pre-MRTU 2008 GMC rates reflecting the 2008 Budgets consistent with the rate categories set forth in the extension of the 2004-2007 GMC Settlement Agreement filed with FERC in October 2007; and

That the ISO Board of Governors authorizes Management to implement the post-MRTU 2008 GMC rates consistent with the GMC under MRTU rate structure proposal presented to the Board on December 13, 2007.