

# Memorandum

**To:** ISO Board of Governors  
**From:** Philip Leiber, CFO & Treasurer  
**Date:** December 8, 2008  
**Re:** **Decision on 2009 Budget, Revenue Requirement and GMC Rates**

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*This memorandum requires Board action.*

## EXECUTIVE SUMMARY

This memorandum summarizes the proposed Operations and Maintenance (O&M) and Capital/Project budgets, revenue requirement and associated Grid Management Charge (GMC) rates for 2009.

- The revenue requirement for 2009 will be \$193 million, an increase of less than 1% from the 2008 revenue requirement of \$191.6 million.
- The pro-forma bundled GMC for 2009 will be \$0.776 per MWh, an increase from \$0.755 in 2008 due to falling energy volumes.

The proposed revenue requirement will provide funding for the ISO's defined business processes, evolving scope (including additional market capabilities, compliance mandates, support of environmental policy initiatives, and proactive transmission planning) and enable the ISO to deliver on the commitments made in the 2008-2012 strategic plan.

Management recommends the following motion for Board action:

***MOVED, that the ISO Board of Governors approves the 2009 O&M and Capital/Project Budgets as set forth in the memorandum dated December 8, 2008, and related attachments.***

***That the ISO Board of Governors authorizes Management to take all necessary and appropriate action to implement the pre-MRTU Grid Management Charge (GMC) rates reflecting the 2009 Budgets consistent with the rate categories set forth in the extension of the 2004-2008 GMC Settlement Agreement filed with FERC in October 2008; and***

***That the ISO Board of Governors authorizes Management to implement the post-MRTU 2009 GMC rates consistent with the GMC under MRTU rate structure proposal presented to the Board on December 13, 2007, and currently pending FERC approval.***

## BACKGROUND AND BUDGET OVERVIEW

Management commenced the 2009 budgeting process in June with an initial stakeholder meeting to provide an overview of the ISO budgeting process, finances and strategic objectives. We compiled the budget during July and August, and presented the preliminary budget for Board and stakeholder review in September. We held a stakeholder budget meeting on September 26 and responded to questions at that time.

The ISO 2009 revenue requirement of \$193 million is below the \$195 million threshold specified in the October 2008 GMC settlement extension to avoid a Federal Energy Regulatory Commission (FERC) rate case on the revenue requirement. The proposed 2009 revenue requirement has not substantially changed overall since the September posting, though there have been minor changes in certain components, as noted below:

Component of Revenue Requirement	\$ in millions			Explanation
	Previous Posting	Final	Change	
O&M budget	\$156.4	\$156.7	\$0.3	True-up staffing costs
Debt service	\$59.4	\$59.4	\$0	N/A
Cash funded Capital / Project expenditures	\$0	\$0	\$0	Increased cost recovery for LGIP program for overheads
Expense recovery	(\$6.1)	(\$6.1)	\$0	N/A
Revenue credit from operating & capital reserve	(\$15.9)	(\$17)	(\$1.1)	Numerous factors including updated 2008 revenue and expense forecast
Total revenue requirement	\$193.8	\$193	(\$0.8)	N/A

The proposed Capital/Project budget of \$35 million has been reduced from the \$38.4 million proposed earlier, and the proposed project list may be further refined in subsequent months. The Capital/Project budget will be funded from the proceeds of the 2008 bond offering.

With the implementation of MRTU during 2009, two GMC rate structures will be in effect, reflecting existing and post-MRTU go-live operations. Management has posted on the ISO website the information used in the calculation of the 2009 GMC rates, including billing determinant detail, a mapping of costs to GMC service categories, and operating and capital reserve credit applicable to the 2009 revenue requirement. The composite/bundled GMC for 2009 increases to \$0.776 cents from the current \$0.755 due to falling energy demand. (The 2009 forecast completed last fall anticipated 255,000,000 Mwh, while the current forecast anticipated 248,648,000, a decrease from the 252,400,000 anticipated in September. If volumes were maintained at the anticipated level of 255,000,000, the 2009 bundled/composite GMC would have been \$0.757 / MWh.)

A summary of the 2009 budget, revenue requirement and GMC rates is included as **Attachment A**, while a comprehensive report on these matters comparable to the initial budget posting in September is included as **Attachment B**.