

Memorandum

To: ISO Board of Governors

From: Steve Berberich, Vice President of Technology and Corporate Services and
Chief Financial Officer

Date: October 21, 2009

Re: **Status of draft 2010 Budget**

This memorandum does not require Board action.

EXECUTIVE SUMMARY

Management of the California Independent System Operator Corporation (ISO) has presented the draft 2010 budget to the ISO Board of Governors for review and comment, posted it to the ISO website for stakeholder review, and discussed it at a stakeholder meeting on October 1. At its December meeting, the Board will be asked to approve the budget, and the resulting grid management charges (GMC) that will be effective in January 2010. This memorandum summarizes the status of the budget proposal and outlines the remaining steps in the budget process.

DISCUSSION AND ANALYSIS

Budget Summary

The draft 2010 revenue requirement is \$195.1 million, representing an increase of \$2.1 million from 2009 and a less than 1.4% increase over the past three years. The revenue requirement results in a bundled grid management charge of \$0.78, the same as in 2009. The revenue requirement is comprised of the operating and maintenance (O&M) budget, debt service on the 2008 bonds, reductions from miscellaneous expense recoveries, and an operating reserve credit from 2009. The revenue requirement is below the \$197 million cap set forth in the ISO tariff. The ISO will seek Board authorization at this Board meeting for a further extension of the rate cap through the end of 2010.

Management proposes an O&M budget of \$162.7. This is the largest component of the revenue requirement and represents an increase of \$6.0 million or 3.8% from 2009. This increase is largely driven by personnel costs associated with the additional demands of

operating the new market and maintaining a robust compliance program. Those increases are mitigated by 2009 staff reductions, reduced external legal spending and ongoing cost reduction programs.

In addition to the O&M budget, we anticipate \$15 million in GMC funded capital expenditures and \$61 million in debt service. The debt service does not include any costs associated with the Iron Point building as those debt service costs are being capitalized and paid out of bond funds until the building is completed. The total for O&M, capital and debt service will be partially offset by anticipated credits from the reserve fund to net a total revenue requirement of \$195.1.

Budget process

The stakeholder process commenced on June 6 with a budget kickoff meeting that included stakeholders. A follow up meeting was scheduled for June 22. The draft budget and exhibits were posted on the ISO website and then discussed at a stakeholder budget workshop on October 1. At this time, no written comments have been received from stakeholders. Stakeholders will have the opportunity to present comments on the draft budget to the Board at its October 28 meeting. Between now and early December when the final budget will be submitted for approval, the ISO will provide additional opportunities for public review and comment.

Board approval of the draft budget is scheduled for the December 15-17 Board meeting. The ISO will subsequently post the GMC rates on its website to be effective on January 1, 2010.

At the October 28 Board meeting, the Board will be asked to approve, under a separate agenda item, the extension of the revenue requirement cap and rate structure, which will also include a modification to the market usage forward energy charge. The GMC extension must be filed with FERC by October 31.