



Memorandum

To: ISO Board of Governors

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

Date: December 9, 2009

Re: Decision on 2010 Budget, Revenue Requirement and GMC Rates

This memorandum requires Board action.

EXECUTIVE SUMMARY

This memorandum summarizes the proposed O&M and Capital/Project budgets, revenue requirement and associated GMC rates for 2010.

- *The revenue requirement for 2010 will be \$195.1 million, an increase of 1.1.% from the 2009 revenue requirement of \$193.0 million.*
- *The pro-forma bundled GMC for 2010 will be \$0.793 per Mwh, an increase from \$0.776 in 2009 due to falling energy volumes.*

The proposed revenue requirement will provide funding for the California Independent System Operator Corporations (ISO) 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 2009-2013 strategic plan.

Management recommends the following motion for the ISO Board of Governors action:

Moved, that the ISO Board of Governors approves the 2010 O&M and Capital/Project Budgets as set forth in Attachment A to this memorandum dated December 9, 2009, and authorizes Management to take all necessary and appropriate actions to implement the 2010 grid management charge rates reflecting the 2010 budgets.

BACKGROUND AND BUDGET OVERVIEW

The ISO commenced the 2010 budgeting process in June, and began with an initial stakeholder meeting to provide an overview of the budgeting process, a review of the ISO's finances, and to provide an overview of the ISO's strategic objectives. Management constructed the budget during July and August, and presented the preliminary budget for the Board and stakeholder review in September. The ISO held a stakeholder budget on October 1 and responded to questions at that time (notes from the workshop are posted on the ISO website).

The ISO revenue requirement for 2010 of \$195.1 million is below the \$197 million threshold specified in the October 2009 GMC settlement extension. The proposed 2010 revenue requirement has not changed since the September posting, although there have been minor changes to divisional budgets and headcount. The composite/bundled GMC for 2010 increases to \$0.793 cents from the current \$0.776 due to falling energy demand (the current forecast is 246.0 GWh, a decrease of 1% from the 248.6 GWh estimated for 2009 and 2009 was down 2.5% from the original forecast). A summary of the revenue requirement follows (\$ in millions):

Component of Revenue Requirement	Amount
O&M budget	\$ 162.7
Debt service	61.0
Cash funded capital	15.0
Expense recoveries	(8.1)
Revenue credit from operating reserve	(35.5)
Total Revenue Requirement	\$ 195.1
Transmission volume in GWh	246.0
Pro-forma Bundled GMC per Mwh	\$ 0.793

Management will post on the ISO website the information used in the calculation of the 2010 GMC rates, including billing determinant detail, a mapping of costs to GMC service categories, and Operating and Capital reserve credit applicable to the 2010 rates comparable to the initial budget posting in September is included as **Attachment A**.