



California ISO  
Your Link to Power

# Decision on 2011 Budget

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Chief Financial Officer & Treasurer

Board of Governors Meeting  
General Session  
December 15-16, 2010

# The budget development timeline extends from June through December.

<b>Previous Events</b>	<b>Date</b>
Introduction of budget process to stakeholders	June 2010
Status update of budget process to stakeholders	August 2010
Internal budgeting process	July – November
Board review of preliminary budget (Executive Session)	September 2010
Preliminary budget posted to website	September 2010
Stakeholder budget workshop	October 2010
Informational filing with the FERC	October 2010

<b>Upcoming Events</b>	<b>Date</b>
Board decision on budget (General Session)	December 2010
Posting of rates	December 2010

# The ISO will deliver on its goals while reducing costs to customers

- Economic conditions have led to lower volumes increasing the need for cost containment for all
- Proposed budget:
  - Absorbs salary adjustments and increased healthcare costs
  - Absorbs transitional friction costs between Blue Ravine and Iron Point sites
  - Allows for continued delivery of more market functionality
  - Lowers overall revenue requirement
  - Slightly decreases bundled GMC rate

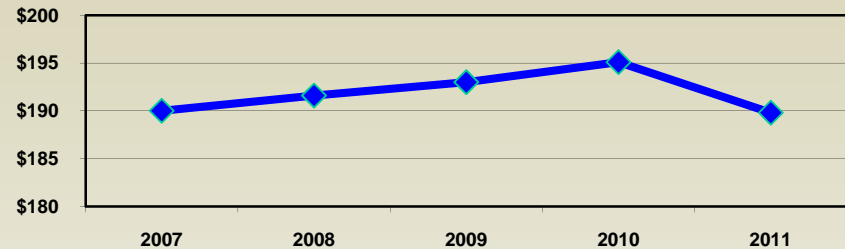
# The proposed revenue requirement is \$189.8 million, a decrease of \$5.3 million from 2010.

- Revenue requirement decreases by \$5.3 million.
  - \$7.2M under \$197M rate cap
  - Equal to 2007 level

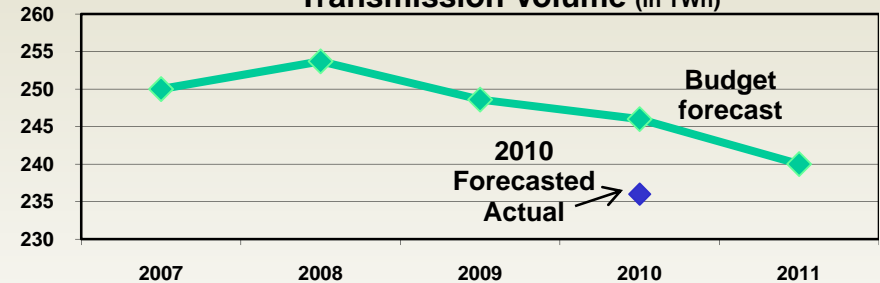
- Anticipated transmission volume lower than 2010 budget forecast, but higher than forecasted actual for this year

- Proposed pro-forma bundled GMC rate decreases slightly to \$0.791

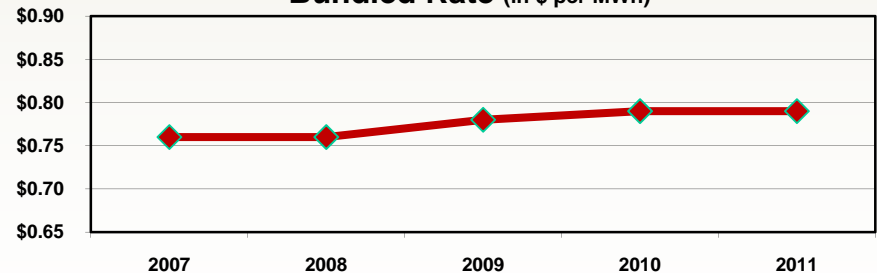
Revenue Requirement (\$ in millions)



Transmission Volume (in TWh)



Bundled Rate (in \$ per MWh)



# A summary of the 2011 revenue requirement compared to 2010.

<b>Revenue Requirement Component</b> (\$ in millions)	2010 Final Budget	2011 Proposed Budget	Change
Operations & Maintenance budget	\$162.7	<b>\$162.5</b>	\$(0.2)
Miscellaneous revenue	(8.1)	<b>(6.9)</b>	1.2
Debt service (including 25% reserve)	61.0	<b>43.7</b>	(17.3)
Out-of-pocket capital funding	15.0	<b>23.5</b>	8.5
Reserve credit	(35.5)	<b>(33.0)</b>	2.5
<b>Total Revenue Requirement</b>	\$195.1	<b>\$189.8</b>	\$(5.3)
<b>Transmission volume in TWh</b>	246.0	<b>240.0</b>	(6.0)
<b>Pro-forma bundled GMC in \$ per MWh</b>	\$0.793	<b>\$0.791</b>	\$(0.002)

The proposed O&M budget decreases by \$0.2 million, or 0.1%, to \$162.5 million in 2011.

A reconciliation of the change across the major resource components follows (\$ in millions):

<b>2010 O &amp; M budget</b>	<b>\$162.7</b>
Salaries and benefits	-
Occupancy and equipment leases	1.0
Telecommunications and technology maintenance costs	(1.1)
Consultants and contract staff	(1.3)
Outsourced contracts and professional fees	1.5
Training, travel, and other costs	(0.3)
<b>2011 O &amp; M proposed final budget</b>	<b>\$162.5</b>

# An actual to budget comparison of the resource components.

\$ in millions

	2010 Final Budget	2010 Actuals (forecasted)	2011 Proposed Budget
Salaries and benefits	110.0	107.1	<b>110.0</b>
Occupancy and equipment leases	10.2	10.3	<b>11.2</b>
Telecomm and technology maintenance	17.0	15.3	<b>15.8</b>
Consultants and contract staff	9.9	11.3	<b>8.6</b>
Outsourced contracts and professional fees	8.5	6.6	<b>10.1</b>
Training, travel, and other costs	7.2	7.0	<b>6.9</b>
<b>Totals</b>	<b>162.7</b>	<b>157.6</b>	<b>162.5</b>

The divisional changes are largely driven by internal and external personnel costs.

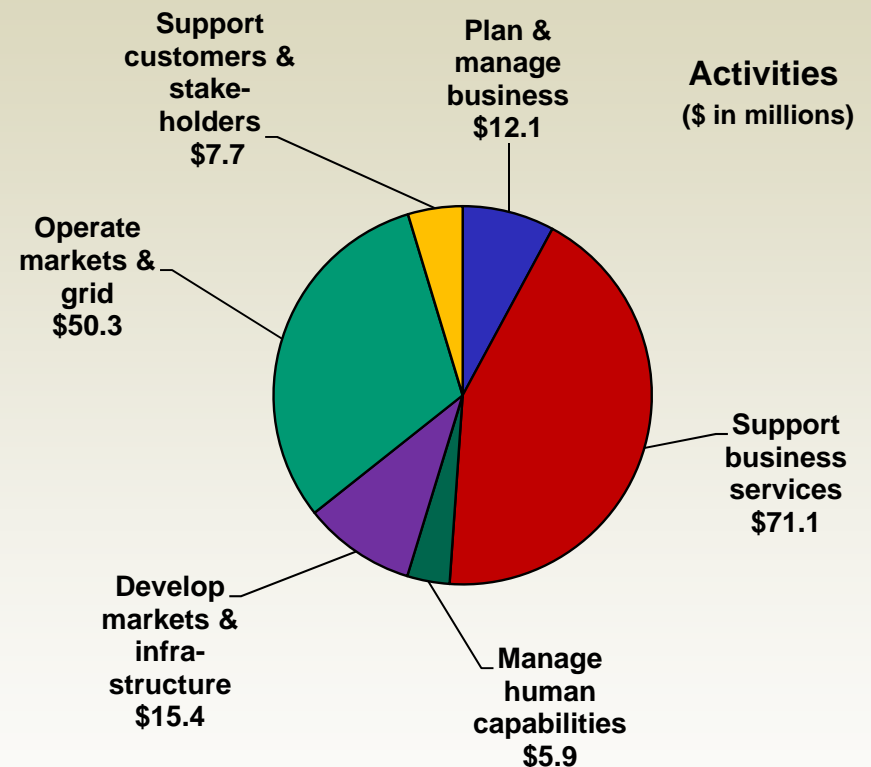
\$ in millions

Division	2010 Final Budget	<b>2011 Proposed Budget</b>	\$ Change	% Change
Chief Executive Officer Division	5.9	<b>5.2</b>	(0.7)	(11.9)%
Human Resources	6.1	<b>5.8</b>	(0.3)	(4.9)%
Market and Infrastructure Development	14.1	<b>13.2</b>	(0.9)	(6.4)%
Technology	48.4	<b>49.4</b>	1.1	2.3%
Operations	58.8	<b>58.3</b>	(0.5)	(0.9)%
Legal & Administrative	20.4	<b>22.1</b>	1.7	8.3%
Policy and Client Services	9.0	<b>8.5</b>	(0.5)	(5.6)%
<b>Totals</b>	162.7	<b>162.5</b>	(0.2)	(0.1)%



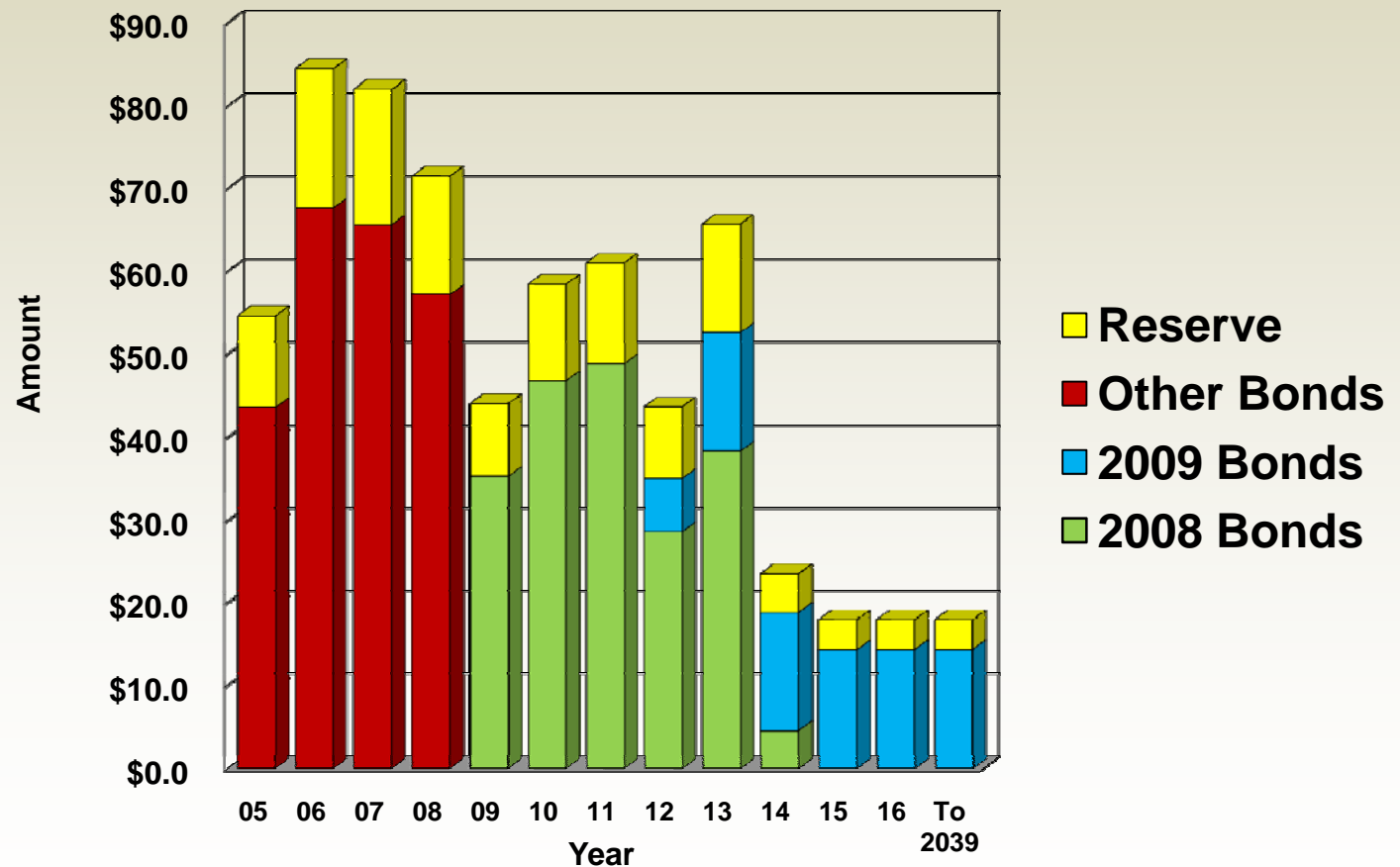
# We have implemented, and are refining, an activity based costing structure for further analysis.

- Activity based costing (ABC) commenced third quarter of 2009
- Six summary activities were identified at the first level
- Level II activities continue to be rolled out to the organization
- ABC will provide further insight into resource utilization



# Debt service component of revenue requirement declines by \$17.3 million in 2011.

## Net Debt Service with 25% Reserve (\$ in millions)



# The proposed 2011 capital funding will be financed through GMC.

- Total non-facility spending targeted at \$23.5M for further market enhancements and regular capital.
- Detailed draft of proposed capital projects contained within the budget document. Areas of focus include:
  - Renewable integration and smart grid technology projects and studies
  - FERC mandated items (within 3 years of new market launch)
  - Other operational improvements to market systems
  - Hardware/software upgrades and office equipment
- All projects subject to additional review and approval by the Corporate Management Committee.

Miscellaneous revenue decreased by \$1.2 million or, or 14.8%, to \$6.9 million.

<b>2010 Miscellaneous revenue</b> (\$ in millions)	<b>\$8.1</b>
Decreases in interest revenue due to lower interest rates	(1.2)
<b>2011 Miscellaneous revenue</b>	<b>\$6.9</b>

The operating reserve credit will be \$33.0 million in 2011.

(\$ in millions)

<b>Item</b>	<b>Amount</b>
25% debt service reserve collection from prior year	12.2
Collection of additional months GMC from implementation of payment acceleration	15.9
Projected true-up of actual revenues and expenses from budget	4.9
<b>Total Reserve Credit</b>	<b>\$33.0</b>

# Key GMC rates are projected to change based on lower volumes and lower revenue requirement.

Service Component	2010 Budget Rate	2011 Budget Rate	% Change	Comments	Current Actual Rate	% Change
Core reliability service – demand on peak	\$78.51	<b>\$75.90</b>	(3.3)%	Decrease in 2011 revenue requirement	\$94.71	(19.9)%
Energy transmission service – net energy	\$0.31	<b>\$0.29</b>	(6.5)%	Decrease in 2011 revenue requirement	\$0.35	(17.1)%
Energy transmission service – deviations	\$1.16	<b>\$1.22</b>	5.2%	Lower volumes estimated for 2011	\$1.98	(38.4)%
Forward scheduling	\$1.71	<b>\$1.32</b>	(22.8)%	Under collection in 2009 increased revenue requirement for 2010. Condition did not occur in 2010 leading to lower revenue requirement in 2011.	\$2.53	(47.8)%
Market usage - A/S & real time energy	\$0.23	<b>\$0.45</b>	95.7%	Over collection in 2009 decreased revenue requirement for 2010. Condition did not occur in 2010 leading to higher revenue requirement in 2011.	\$0.23	95.7%
Market usage – forward energy	\$0.06	<b>\$0.05</b>	(16.7)%	Structure changed in 2010 as result of FERC settlement	\$0.06	(16.7)%

Rates shown for charges that make up more than 5% of revenue requirement and over 92% in aggregate.

## Existing GMC rate structure was extended through 2011 and work proceeds on new 2012 design.

- In September, the existing rate structure was extended through 2011 with the same \$197M revenue requirement cap.
- The 2012 rate structure design is underway and is intended to be simple, predictable and transparent:
  - Completed cost of service study which allowed for development of cost categories and allocation of costs
  - Developed billing determinants
  - Assessed billing impacts to customers
- Stakeholders have been updated at every step
- Board will receive a status update in Spring 2011