

Section 8.5, which incorporates the difference between projected and actual costs from the previous year (such costs and adjustments being more specifically defined below in the Grid Management Charge Revenue Requirement Formula);

divided by:

- forecasted annual volume in MWh;

adjusted quarterly for:

- a change in the volume estimate used to calculate the Grid Management Charge if, on an annual basis, the change is 5% or more.

**The Grid Management Charge Revenue Requirement Formula is as follows:**

Grid Management Charge Revenue Requirement =  
Operating Expenses + Debt Service + the greater of [(Coverage Requirement x Senior Lien Debt Service) or (Cash Funded Capital Expenditures)] - Interest Earnings - Other Revenues - Reserve Transfer

Where,

**Operating Expenses** = O&M Expenses plus Taxes Other Than Income Taxes (Account 408.1) and Penalties (Account 426.3)

**O&M Expenses** = Transmission O&M Expenses (Accounts 560-574) plus Customer Accounting Expenses (Accounts 901-905) plus Customer Service and Informational Expenses (Accounts 906-910) plus Sales Expenses (Accounts 911-917) plus Administrative & General Expenses (Accounts 920-935)

**Penalties** = payments by the ISO for penalties or fines incurred for violation of WSCC reliability criteria (Account 426.3) that cannot be reasonably assigned and recovered pursuant to Section 2.5.26.5.

**Debt Service** = for any fiscal year, scheduled principal and interest payments, sinking fund payments related to balloon maturities, repayment of commercial paper notes, net payments required pursuant to a payment obligation, or payments due on any ISO notes. This amount includes the current year accrued principal and interest payments due April 15 of the following year.

**Coverage Requirement** = 25% of the Senior Lien Debt Service.

**Senior Lien Debt Service** = all Debt Service that has a first lien on ISO Net Operating Revenues (Account 128 subaccounts).

**Cash Funded Capital Expenditures** = Post current fiscal year capital additions (Accounts 301-399) funded on a pay-as-you-go basis.

**Interest Earnings** = Interest earnings on Operating and Capital Reserve balances (Account 419). Interest on bond or note proceeds specifically designated for capital projects or capitalized interest is excluded.

