

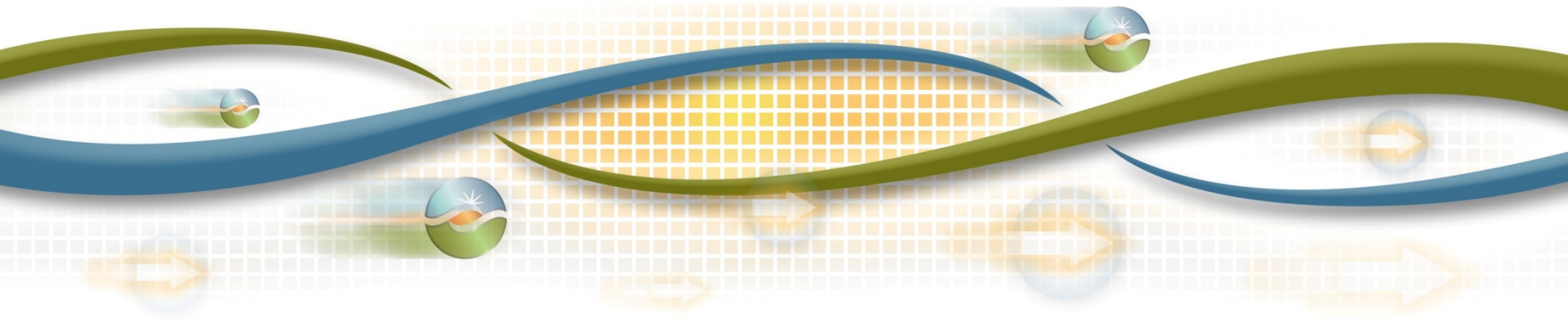


California ISO
Shaping a Renewed Future

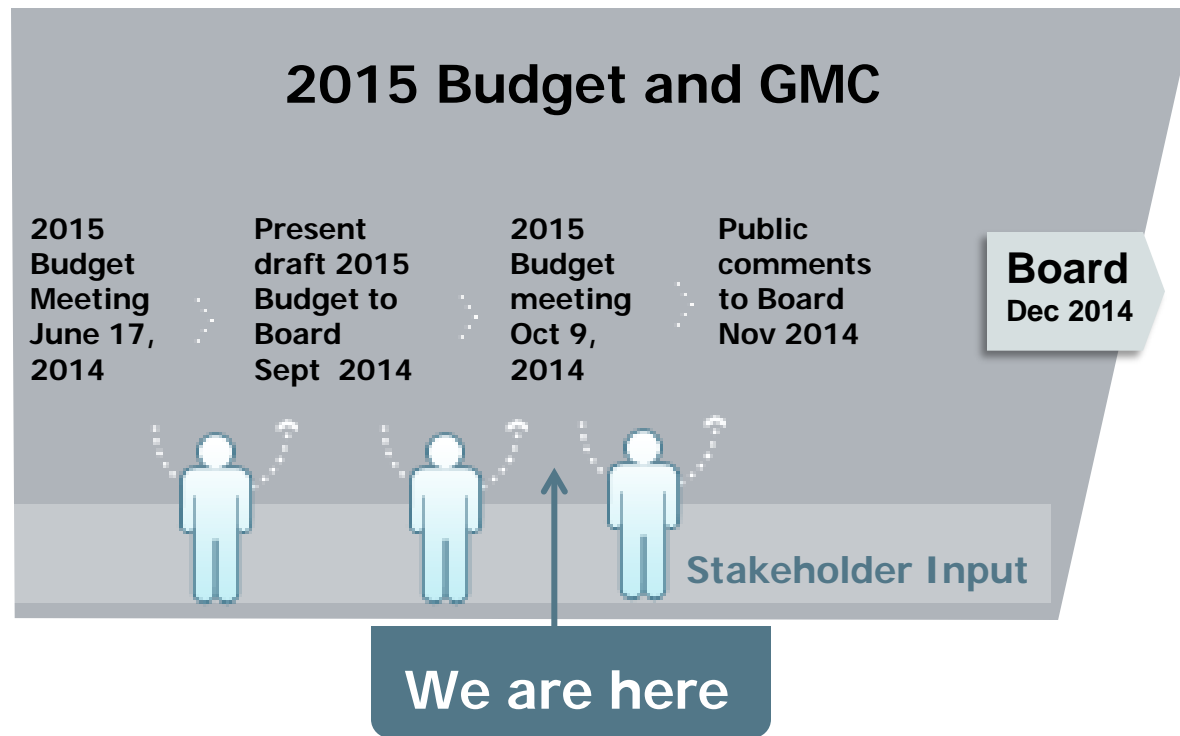
Briefing on Draft 2015 Budget

Ryan Seghesio
Chief Financial Officer and Treasurer

Stakeholder Meeting
October 9, 2014



Timeline for 2015 budget and GMC rates

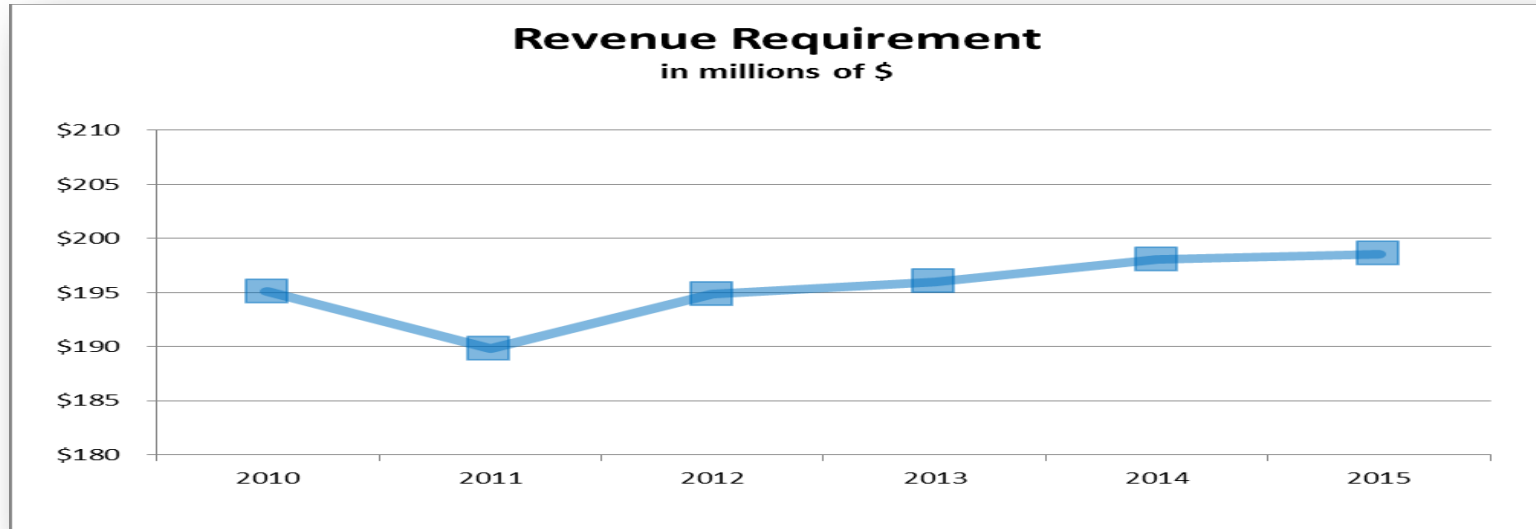


The budget development timeline extends from June through December.

Previous Events	Date
Introduction of budget process to stakeholders	June 17, 2014
Internal budgeting process – primary	June – September
Board review of preliminary budget (Executive Session)	September 19, 2014
Preliminary budget posted to public website	September 22, 2014

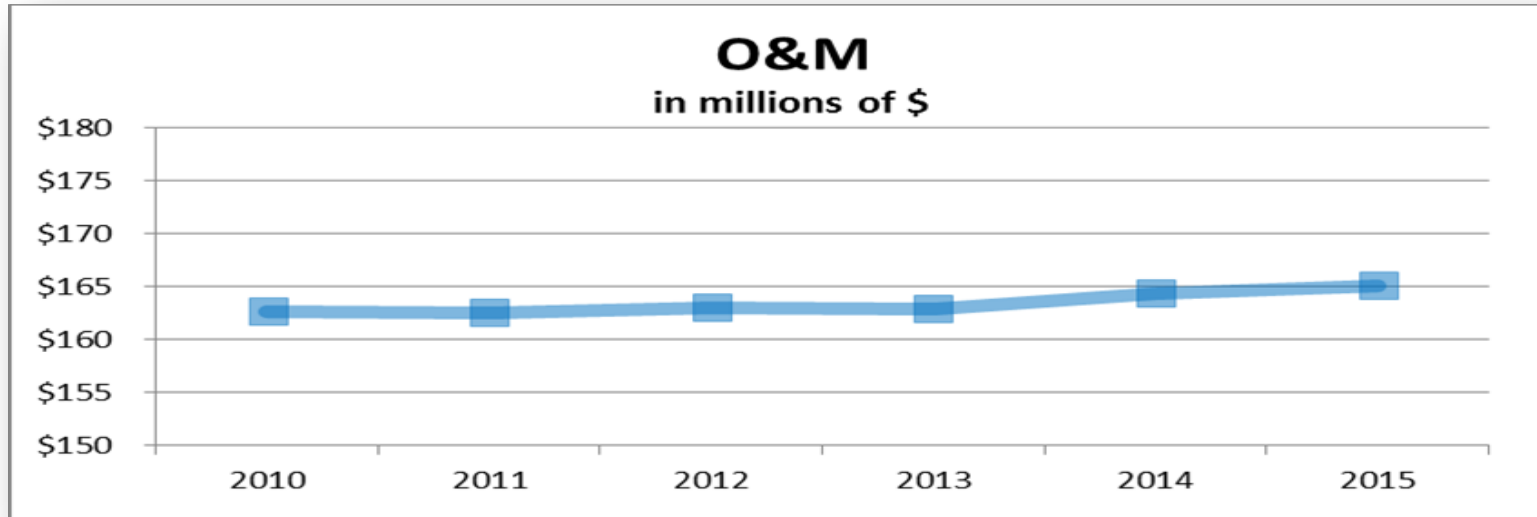
Upcoming Events	Date
Internal budgeting process – secondary	Through November
Stakeholder budget workshop	October 9, 2014
Board decision on budget (General Session)	December 22, 2014
Posting of grid management charge rates	December 23, 2014

Management proposes a small increase in the revenue requirement to \$198.5 million.



- 16% lower than its peak in 2003
- Average annual growth rate of 0.6% since 2007
- Only a 4.6% increase over the last eight years
- \$3.5M under the \$202M requested rate cap

Management proposes the O&M budget to increase to \$165.1 million.



- Makes up 83% of revenue requirement
- An annual growth rate of 0.3% since 2010
- Only a 1.5% increase over the last five years

The proposed revenue requirement and bundled grid management charge rate remain stable.

Revenue Requirement Component (\$ in millions)	2015 Proposed Budget	2014 Budget	Change
Operations & Maintenance budget	\$165.1	\$164.4	\$0.7
Other costs and revenue	(9.4)	(8.3)	(1.1)
Debt service (including 25% reserve)	16.9	16.9	-
Cash funded capital	30.0	26.0	4.0
Operating cost reserve adjustment	(4.1)	(1.0)	(3.1)
Total Revenue Requirement	\$198.5	\$198.0	\$0.5
Transmission volume in TWh	248.5	247.3	1.2
Pro-forma bundled GMC in \$ per MWh	\$0.799	\$0.801	\$(0.002)

The proposed O&M budget increases by \$739,000 to \$165.1 million.

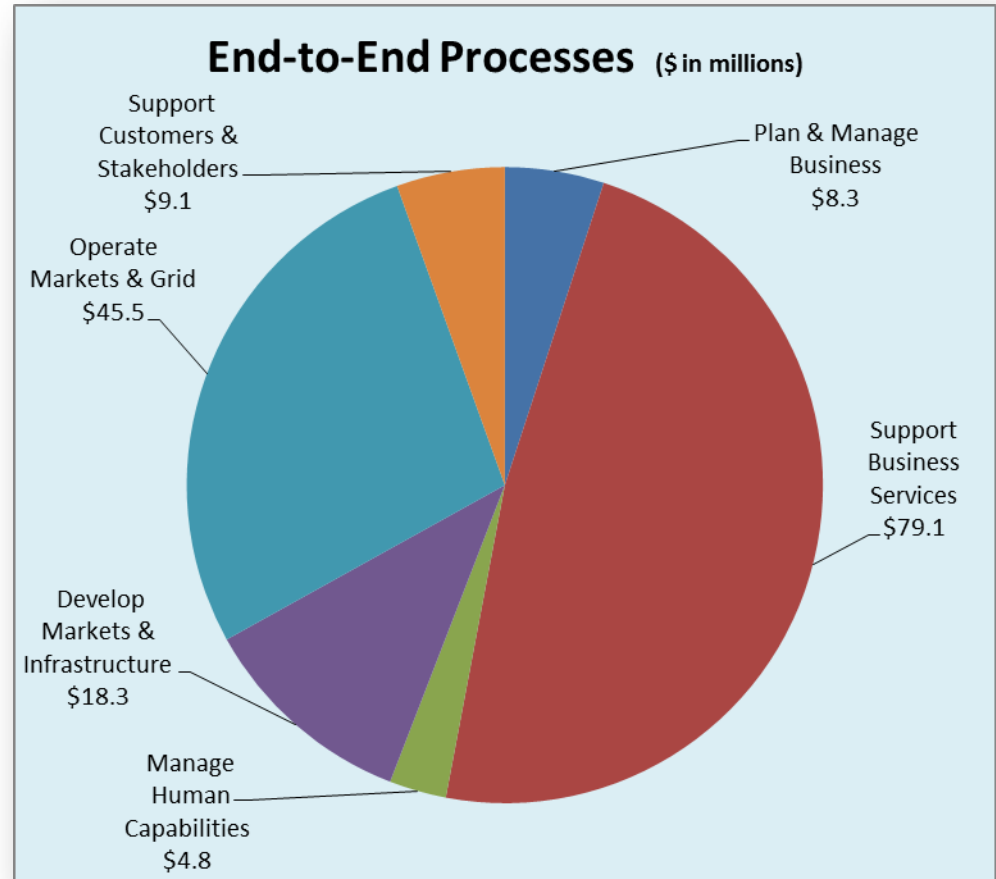
O&M Budget by Resource (\$ in millions)	2015 Proposed Budget	2014 Budget	Change
Salaries and benefits	\$117.8	\$114.3	\$3.5
Occupancy costs and equipment leases	3.7	3.5	0.2
Telecommunication and hardware and software maintenance costs	14.2	14.6	(0.4)
Consultants and contract staff	11.6	13.1	(1.5)
Outsourced contracts and professional fees	10.4	11.8	(1.4)
Training, travel, and other costs	7.4	7.1	0.3
Total	\$165.1	\$164.4	\$0.7

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

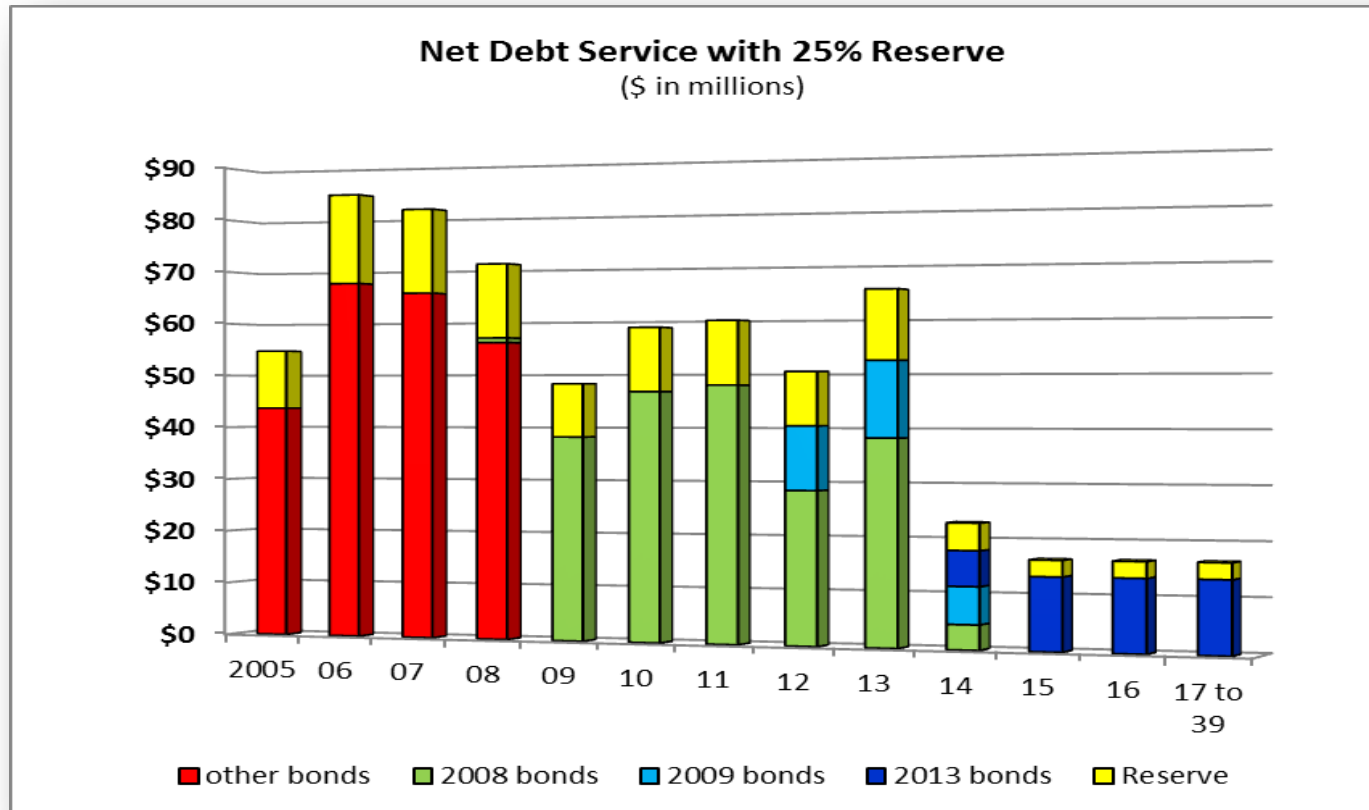
O&M Budget by Division (\$ in millions)	2015 Proposed Budget	2014 Budget	Change
Chief Executive Officer Division	\$16.8	\$16.8	\$ -
Market and Infrastructure Development	14.6	14.4	0.2
Technology	60.2	58.8	1.4
Operations	42.9	43.1	(0.2)
General Counsel and Chief Compliance Officer	12.9	14.2	(1.3)
Market Quality and Renewables Integration	7.6	7.1	0.5
Policy and Client Services	10.1	10.0	0.1
Total	\$165.1	\$164.4	\$0.7

We are leveraging an activity based costing structure for further transparency.

- Activity based costing (ABC) fully implemented
- Six summary activities identified at the first level
- Tracking time by level II activities
- ABC utilized to develop 2015 GMC update with great stakeholder support
- ABC will provide further insight into resource utilization



Debt service requirement remains at \$16.9 million in 2015 due to the level debt service of the 2013 bonds.



The planned 2015 capital will be financed through GMC cash funded capital.

- Proposed revenue requirement contains a \$30 million cash funded capital component
- Total project approvals are targeted at \$20 million for further market enhancements and regular capital
- Detailed draft of capital project list contained within the budget book
- Capital budgeting process continues through November; \$46 million of proposed projects to be prioritized down to the final budgeted amount.

Other costs and revenue is budgeted to offset the revenue requirement by an additional \$1.1 million.

Other Costs and Revenue (\$ in millions)	2015 Proposed Budget	2014 Budget	Change
Intermittent resource forecasting fees	\$2.1	\$2.1	\$ -
COI path operator fee	2.0	2.0	-
Interest earnings	2.0	1.9	0.1
Generator interconnection projects	1.4	1.8	(0.4)
Energy Imbalance Market administrative charges (PAC & NVE)	1.6	0.3	1.3
Other fees and charges	0.3	0.2	0.1
Total	\$9.4	\$8.3	\$1.1

The operating cost reserve adjustment will credit the revenue requirement \$4.1 million in 2015.

Operating Cost Reserve Adjustment (\$ in millions)	2015 Proposed Budget	2014 Budget	Change
Increase in 15% reserve for O&M budget	\$ (0.1)	\$ (0.1)	\$ -
25% debt service collection from prior year	3.4	8.5	(5.1)
Reverse credit taken in prior years (2010 to 2013) for amortization of bond premium	-	(7.1)	7.1
Accrual of interest expense on generator fine refund liability	(0.2)	(2.2)	2.0
True-up of actual to forecast revenues and other expenses	(0.5)	1.9	(0.2)
Over collection of 2009 debt service on refinancing in 2013	1.5	-	1.5
Total	\$4.1	\$1.0	\$3.1

The current proposed GMC rates are listed below.

Service Category or Fee	2015 Rate (1)	2014 Rate	Change	Comments
Market Services	\$0.0877	\$0.0867	\$0.0010	2% decrease in volumes
System Operations (2)	\$0.2969	\$0.2890	\$0.0079	1% increase in cost allocation
CRR Services	\$0.0079	\$0.0112	\$(0.0033)	1% decrease in cost allocation
<u>Fees</u>				
Bid segment fee	\$0.005	\$0.005	-	Fixed rate
Inter-SC trade fee	\$1.00	\$1.00	-	Fixed rate
CRR auction bid fee	\$1.00	\$1.00	-	Fixed rate
TOR charges (3)	\$0.24	\$0.27	\$(0.03)	Updated cost of service study
Monthly SC-ID fee	\$1,000	\$1,000	-	Fixed rate

CRR = Congestion Revenue Rights; SC = Scheduling Coordinator ; TOR = Transmission Ownership Rights

(1) The 2015 rates are preliminary and will be finalized for the December board meeting.

(2) System Operations volumes excludes specified grandfathered contracts.

(3) 2015 rate awaiting approval at FERC

Key calendar dates and next steps

- Written Stakeholder comments due to ISO Oct 16
 - Send to GMC@caiso.com
- Board of Governors meeting Nov 13-14
 - Public comments to board on 2015 budget
- Board of Governors meeting - approval of 2015 budget Dec 17-18
- Post rates and budget documentation to ISO website Dec 19