

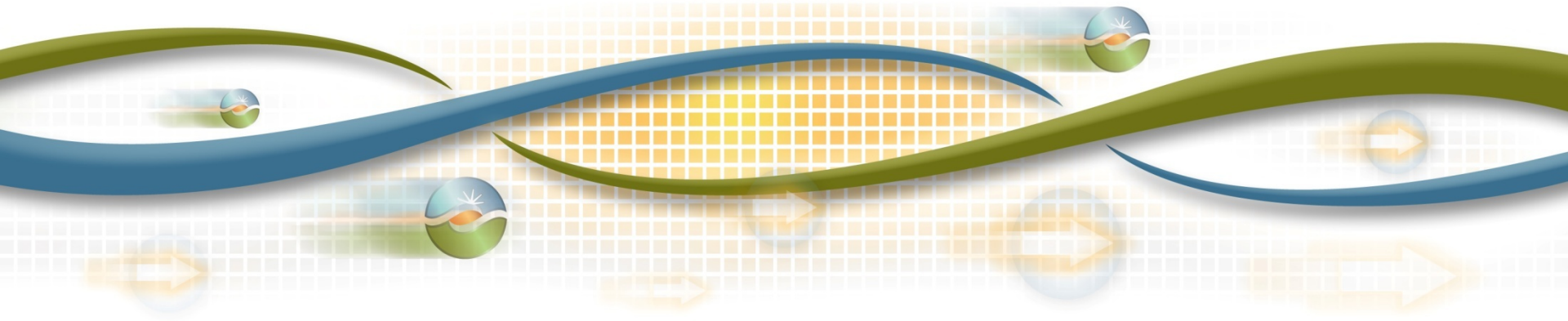


California ISO  
Shaping a Renewed Future

# Decision on 2015 budget

Ryan Seghesio  
Chief Financial Officer & Treasurer

Board of Governors  
General Session  
December 17-18, 2014



# The budget development timeline extends from June through December.

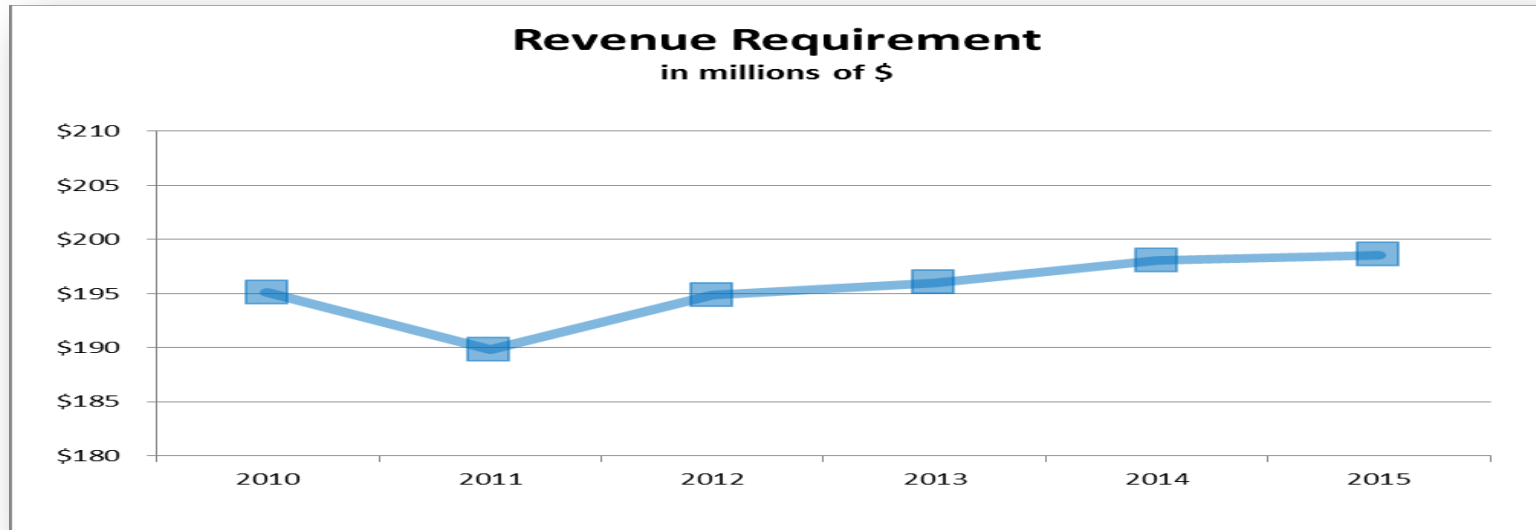
Previous Events	Date
Introduction of budget process to stakeholders	June 2014
Internal budgeting process - primary	June – December
Board review of preliminary budget (executive session)	September 2014
Preliminary budget posted to public website	September 2014
Stakeholder budget workshop	October 2014

Upcoming Events	Date
Board decision on budget (general session)	December 2014
Posting of grid management charge rates	December 2014

The proposed budget continues to reflect the ISO's focus on costs and efficiencies.

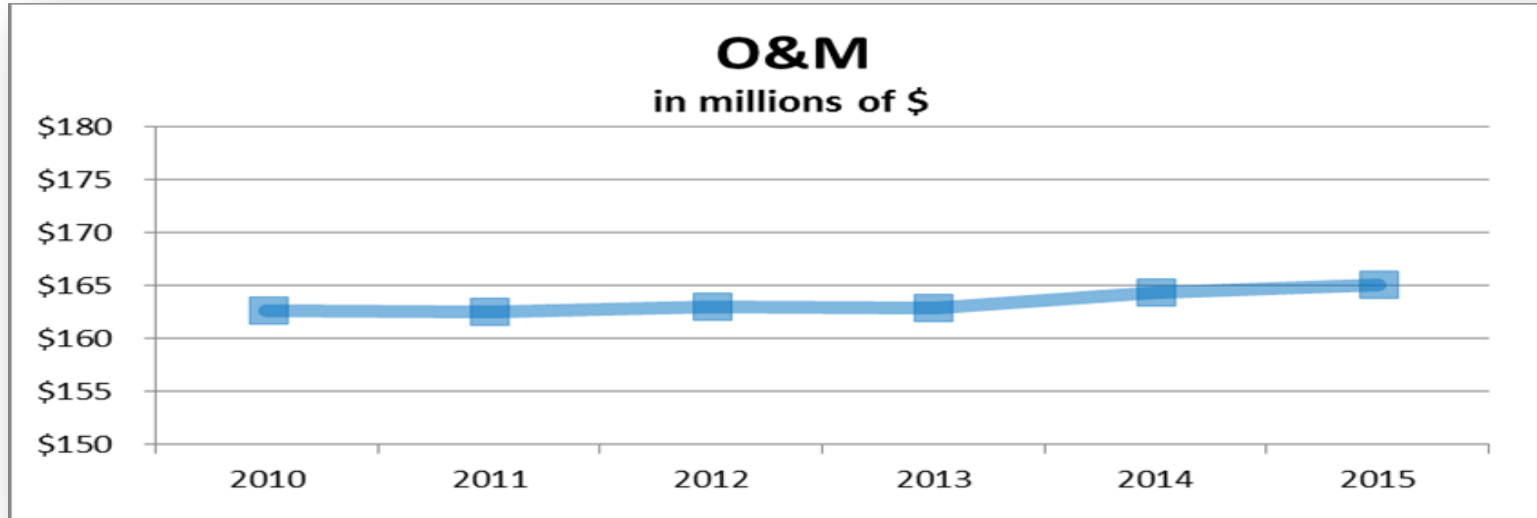
- Revenue requirement growth rate remains disciplined despite continued completion of major initiatives
- Modest increase offset by increasing volumes
- Grid management charge rates remain stable

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.

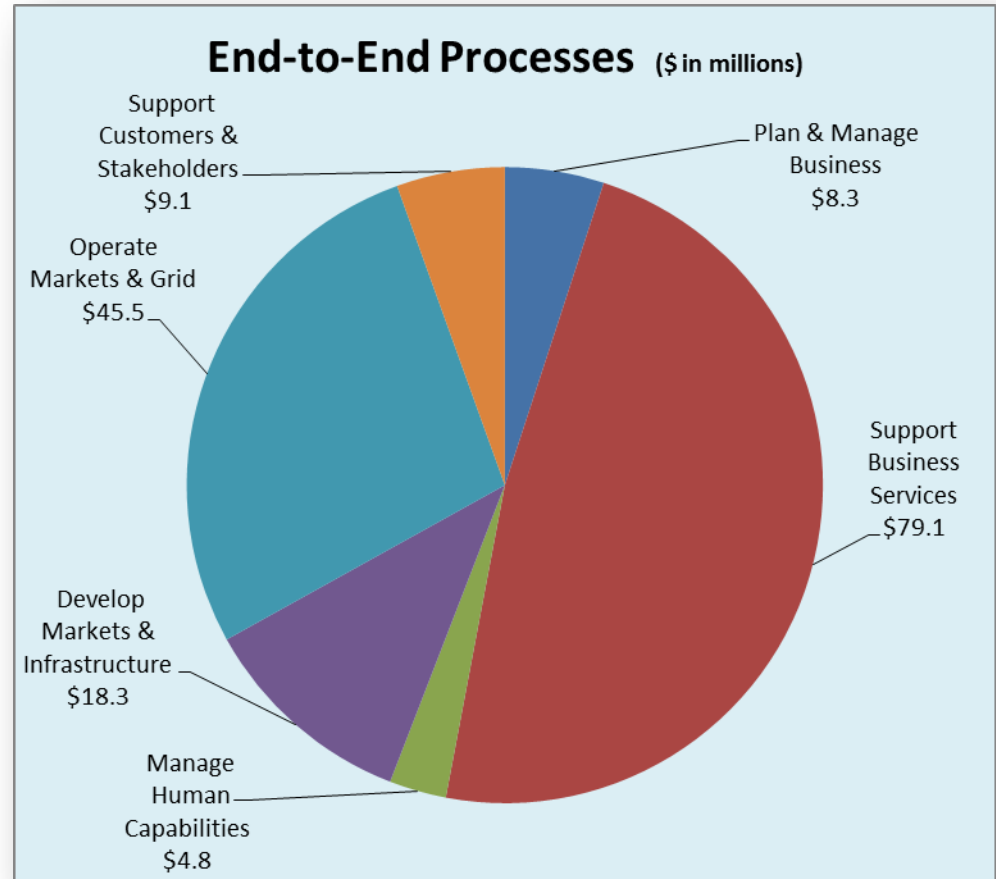
<b>Revenue Requirement Component</b> (\$ in millions)	<b>2015 Proposed Budget</b>	<b>2014 Budget</b>	<b>Change</b>
Operations & Maintenance budget	<b>\$165.1</b>	\$164.4	\$0.7
Other costs and revenue	<b>(9.4)</b>	(8.3)	(1.1)
Debt service (including 25% reserve)	<b>16.9</b>	16.9	-
Cash funded capital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

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

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

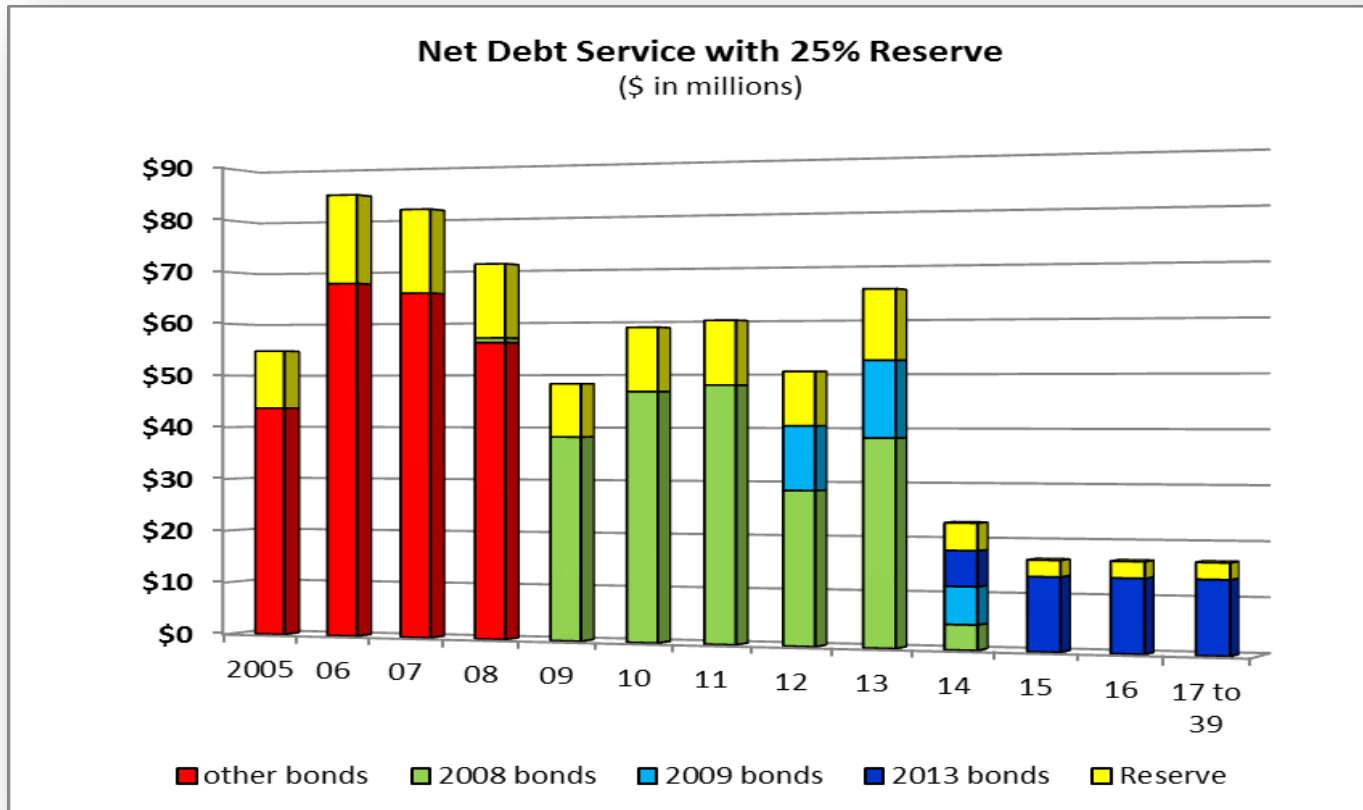
# We are leveraging an activity based costing structure for further transparency.

- 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.



# Capital/project budget continues to be funded through the revenue requirement versus debt financing.

- 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 proposed capital project list contained within the budget book

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

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

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

<b>Operating Cost Reserve Adjustment</b> (\$ in millions)	<b>2015 Proposed Budget</b>	<b>2014 Budget</b>	<b>Change</b>
Increase in 15% reserve for O&M budget	<b>\$ (0.1)</b>	\$ (0.1)	\$ -
25% debt service collection from prior year	<b>3.4</b>	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	<b>(0.2)</b>	(2.2)	2.0
True-up of actual to forecast revenues and other expenses	<b>(0.5)</b>	1.9	(2.4)
Over collection of 2009 debt service on refinancing in 2013	<b>1.5</b>	-	1.5
<b>Total</b>	<b>\$4.1</b>	<b>\$1.0</b>	<b>\$3.1</b>

# The initial 2015 grid management charge rates remain stable.

Service Category or Fee	2015 Rate	2014 Rate	Change	Comments
<b>Market Services</b>	<b>\$0.0876</b>	\$0.0867	\$0.0009	2% decrease in volumes
<b>System Operations (1)</b>	<b>\$0.2978</b>	\$0.2890	\$0.0088	1% increase in cost allocation
<b>CRR Services</b>	<b>\$0.0059</b>	\$0.0112	\$(0.0053)	1% decrease in cost allocation
<b>Fees</b>				
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 (2)	\$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) System Operations volumes excludes specified grandfathered contracts.

(2) 2015 rate awaiting approval at FERC