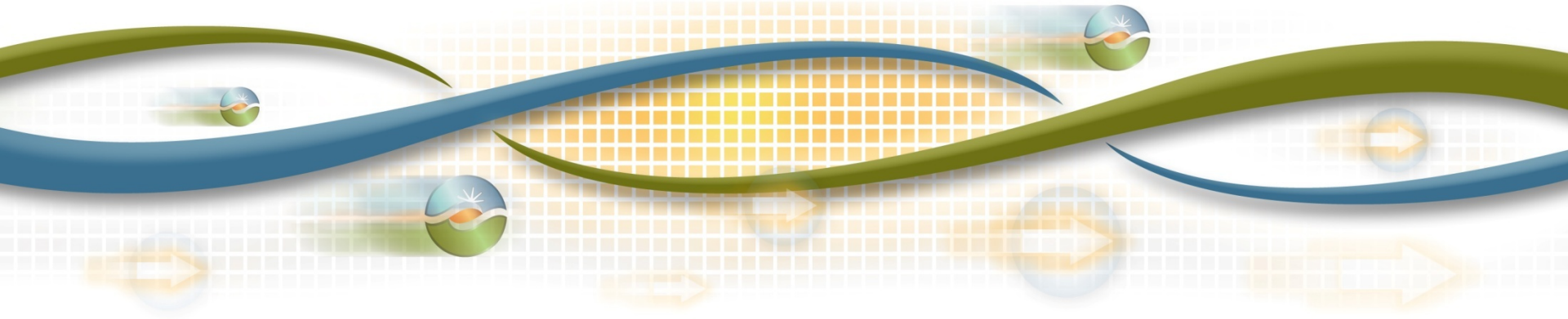




# Decision on budget for fiscal year 2016

Ryan Seghesio  
Chief Financial Officer & Treasurer

Board of Governors  
General Session  
December 17-18, 2015



The budget development timeline extends from June through December.

<b>Previous Events</b>	<b>Date</b>
Introduction of budget process to stakeholders	June 2015
Internal budgeting process - primary	June – September
Board review of preliminary budget (Executive Session)	September 2015
Preliminary budget posted to public website	September 2015
Internal budgeting process – secondary	Through November
Stakeholder budget workshop	October 2015

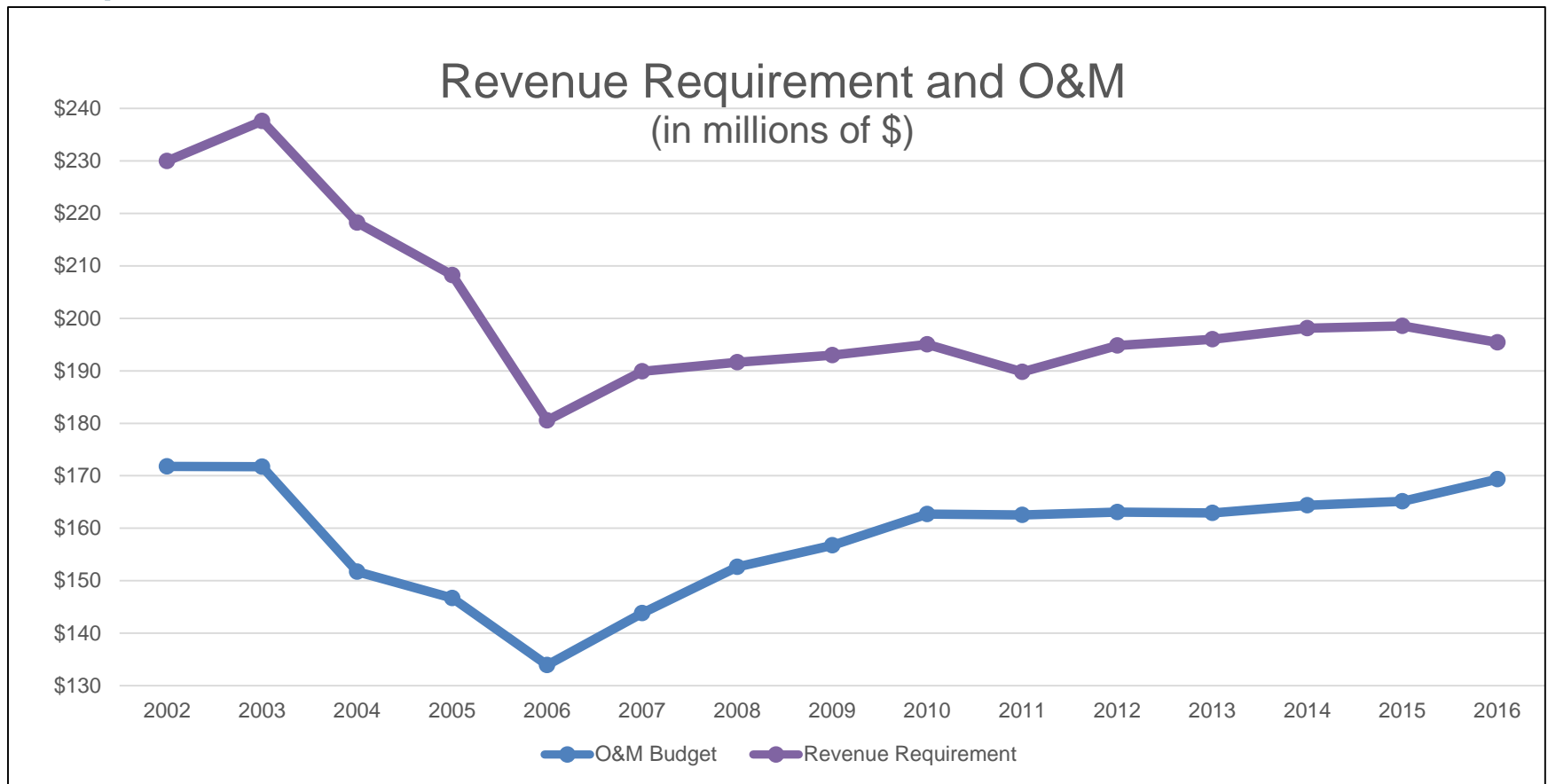
  

<b>Upcoming Events</b>	<b>Date</b>
Board decision on budget (General Session)	December 2015
Posting of 2016 grid management charge rates	December 2015

# Revenue requirement growth rate remains disciplined despite upward cost pressures.

- Revenue requirement is decreasing overall by \$3.2 million
  - Personnel expenses continue to be our largest O&M driver
  - Revenue increasing by \$1.4 million largely due to EIM administrative charges
  - Cash funded capital decreasing by \$6.0 million

# Management remains committed to a stable revenue requirement.



- Revenue requirement is 18% lower than its peak in 2003
- Average annual growth rate of 0.3% since 2007

Both transmission volume and revenue requirement decreases resulting in a minimal increase to GMC rates.

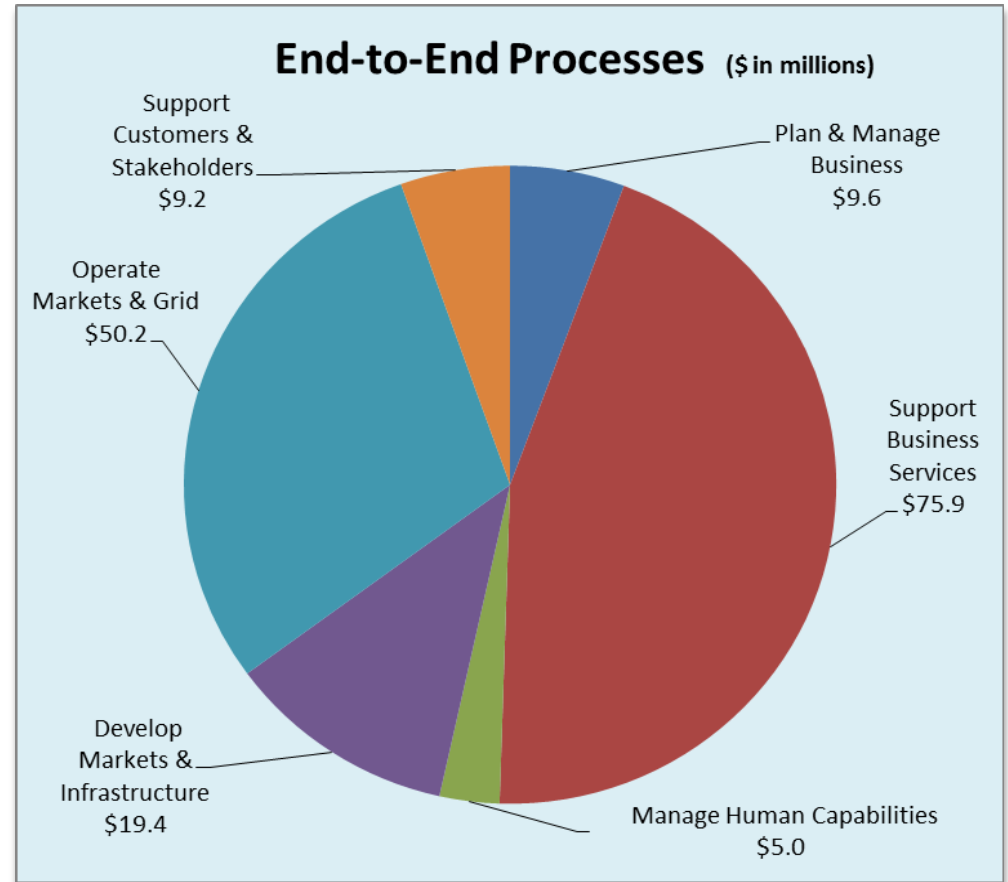
Revenue Requirement Component (\$ in millions)	2016 Proposed Budget	2015 Budget	Change
Operations & Maintenance Budget	<b>\$169.3</b>	\$165.1	\$4.2
Debt Service (including 25% reserve)	<b>16.9</b>	16.9	-
Cash Funded Capital	<b>24.0</b>	30.0	(6.0)
Other Costs and Revenues	<b>(10.8)</b>	(9.4)	(1.4)
Operating Costs Reserve Adjustment	<b>(4.1)</b>	(4.1)	-
<b>Total Revenue Requirement</b>	<b>\$195.3</b>	\$198.5	\$(3.2)
Transmission Volume in TWh	<b>242.7</b>	248.5	(5.8)
Pro-forma Bundled GMC in \$ per MWh	<b>\$0.805</b>	\$0.799	\$0.006

The proposed O&M budget increases by \$4.2 million to \$169.3 million.

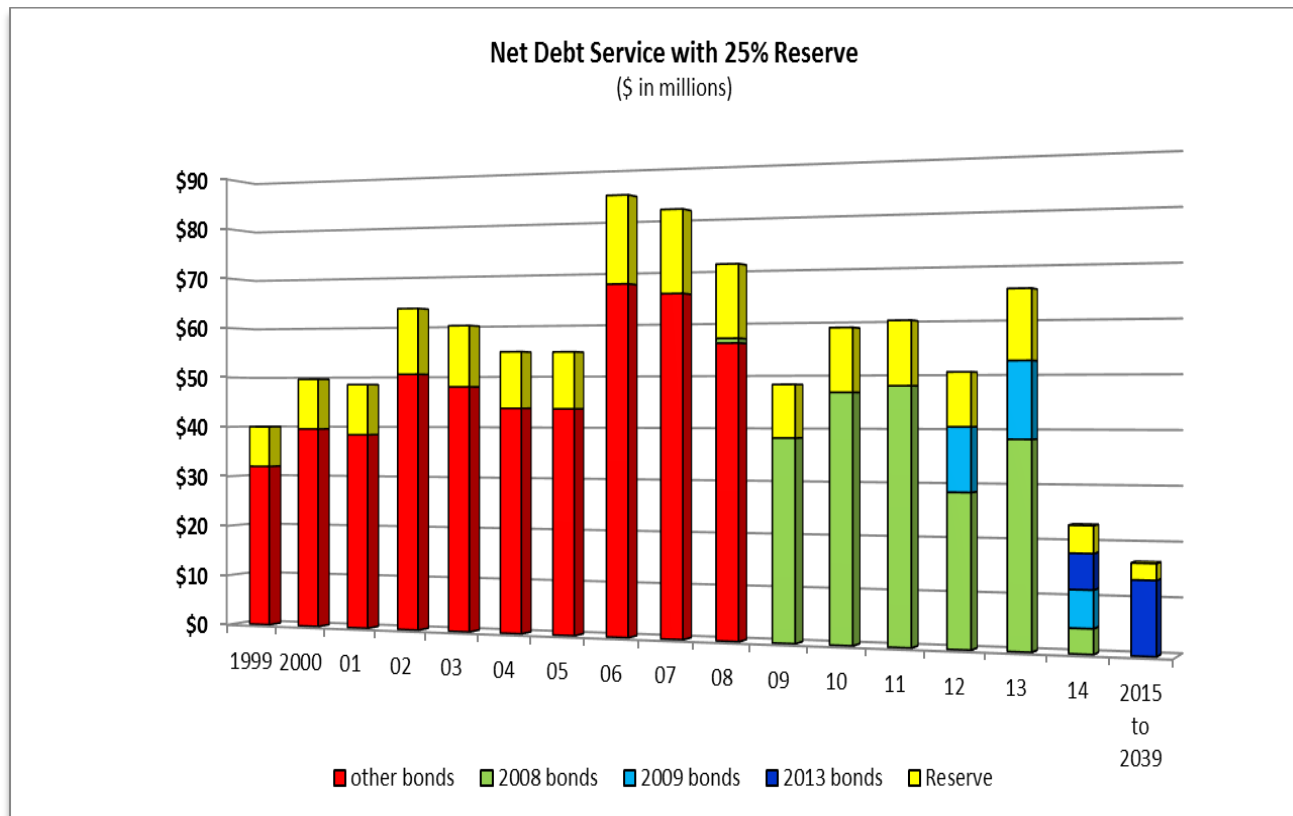
<b>O&amp;M Budget by Resource (\$ in millions)</b>	<b>2016 Proposed Budget</b>	<b>2015 Budget</b>	<b>Change</b>
Salaries and Benefits	<b>\$121.6</b>	\$117.8	\$3.8
Occupancy Costs and Equipment Leases	<b>3.7</b>	3.7	-
Telecommunication and Hardware and Software Maintenance Costs	<b>14.1</b>	14.0	0.1
Consultants and Contract Staff	<b>11.8</b>	11.5	0.3
Outsourced Contracts and Professional Fees	<b>9.7</b>	10.4	(0.7)
Training, Travel, and Other costs	<b>8.4</b>	7.7	0.7
<b>Total</b>	<b>\$169.3</b>	\$165.1	\$4.2

# We leverage 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 2016 due to the level debt service of the 2013 bonds.





# The planned 2016 capital will be financed through GMC cash funded capital.

- Proposed revenue requirement contains a \$24.0 million cash funded capital component
- Total project approvals are targeted at \$16.5 million for further market enhancements and regular capital
- Detailed draft of capital project list contained within the budget book

Supplemental projects include Lincoln Operations Center, EMS replacement, and EIM implementation agreements.

- Lincoln Operations Center (LOC)
  - Planned go-live date is fourth quarter 2016
  - Approved budget \$30.4 million
- Energy management system (EMS) replacement
- EIM Implementation Agreements
  - Participants reimburse all project costs related to joining
    - Puget Sound Energy \$750,000
    - Arizona Public Service Company \$970,000

Other costs and revenue will reduce the revenue requirement by \$10.8 million.

<b>Other Costs and Revenue (\$ in millions)</b>	<b>2016 Proposed Budget</b>	<b>2015 Budget</b>	<b>Change</b>
Energy Imbalance Market Administrative Charges	<b>\$2.5</b>	\$1.6	\$0.9
Intermittent Resource Forecasting Fees	<b>2.1</b>	2.1	-
California-Oregon Intertie Path Operator Fees	<b>2.0</b>	2.0	-
Interest Earnings	<b>2.0</b>	2.0	-
Large Generator Interconnection Projects	<b>1.8</b>	1.4	0.4
Other Fees and Charges	<b>0.4</b>	0.3	0.1
<b>Total</b>	<b>\$10.8</b>	\$9.4	\$1.4

The operating cost reserve adjustment will reduce the revenue requirement by \$4.1 million.

Operating Cost Reserve Adjustment from Prior Year (\$ in millions)	2016 Proposed Budget	2015 Budget	Change
Increase in 15% reserve for O&M budget	<b>\$ (0.6)</b>	\$ (0.1)	\$ (0.5)
25% debt service collection from prior year	<b>3.4</b>	3.4	-
True-up of actual to forecast revenues and expenses	<b>1.3</b>	(0.7)	2.0
Over collection of 2009 debt service on refinancing in 2013	-	1.5	(1.5)
<b>Total</b>	<b>\$4.1</b>	\$4.1	-

## The proposed GMC rates are listed below.

Service Category or Fee	2016 Proposed Rate	2015 Rate	Change	Comments
<b><u>Service Category</u></b>				
<b>Market Services</b>	<b>\$0.0850</b>	\$0.0876	(\$0.0026)	3% lower costs projected for 2016
<b>System Operations (1)</b>	<b>\$0.2979</b>	\$0.2978	\$0.0001	1% lower volume projected for 2016
<b>CRR Services</b>	<b>\$0.0049</b>	\$0.0059	(\$0.0010)	5% lower volume and 20% lower costs projected for 2016
<b><u>Fees</u></b>				
Bid segment fee	<b>\$0.005</b>	\$0.005	-	Fixed rate
Inter-SC trade fee	<b>\$1.00</b>	\$1.00	-	Fixed rate
CRR auction bid fee	<b>\$1.00</b>	\$1.00	-	Fixed rate
TOR charges	<b>\$0.24</b>	\$0.24	-	Fixed rate
Monthly SC-ID fee	<b>\$1,000</b>	\$1,000	-	Fixed rate

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

(1) System Operations volumes excludes specified grandfathered contracts.