



Decision on FY2018 budget

April Gordon

Director, Financial Planning and Procurement

Board of Governors meeting

General Session

December 14, 2017



The budget development timeline extends from July through December.

Previous Events	Date
Introduction of budget process to stakeholders	July 25
Internal budgeting process	July – October
Preliminary budget provided to Board of Governors and posted to public website	October 25
Preliminary budget reviewed by Board of Governors (Executive Session)	November 1-2
Stakeholder budget workshop	November 7

Upcoming Events	Date
Board decision on budget (General Session)	December 13-14
2018 grid management charge rates posted	December 18

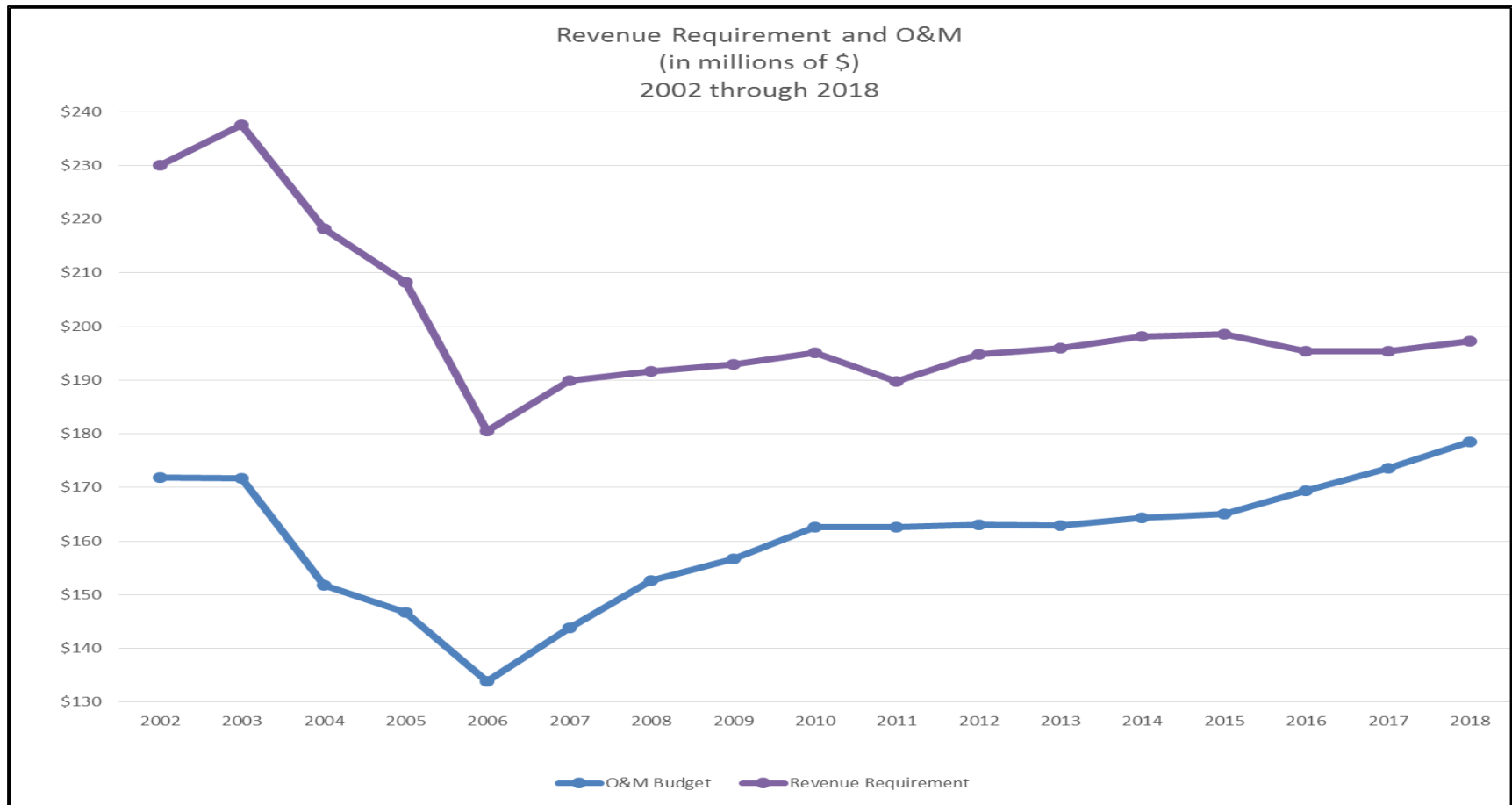
Additional labor expense offset by additional revenue and lower cash funded capital yields 1.0% increase in Revenue Requirement

- Operations and maintenance budget increases by \$4.9M
 - 14 additional headcount, and other labor expense increases; which are offset in part by decreases in non-personnel expenses such as contractors, outside legal and telecommunications.
- Revenue increase of \$3.4M primarily driven by additional EIM participants and additional intermittent resource forecasting activity

Higher revenue requirement offset by higher projected volumes yield less than 1% increase to bundled cost per MWh.

Revenue Requirement Component (\$ in millions)	2018 Proposed Budget	2017 Budget	Change
Operations & Maintenance Budget	\$178.5	\$173.6	\$4.9
Debt Service (including 25% reserve)	16.9	16.9	-
Cash Funded Capital	22.0	24.0	(2.0)
Other Costs and Revenues	(16.7)	(13.3)	(3.4)
Operating Costs Reserve Adjustment	(3.5)	(5.9)	2.4
Total Revenue Requirement	\$197.2	\$195.3	\$1.9
Transmission Volume in TWh	241.3	240.7	0.6
Pro-forma bundled cost per MWh	\$0.817	\$0.811	\$0.006

Management remains committed to a stable revenue requirement.



- Revenue requirement is 17% lower than its peak in 2003
- Average annual growth rate is less than 1% since 2007

O&M Budget: The proposed O&M budget increases by \$4.9 million to \$178.5 million.

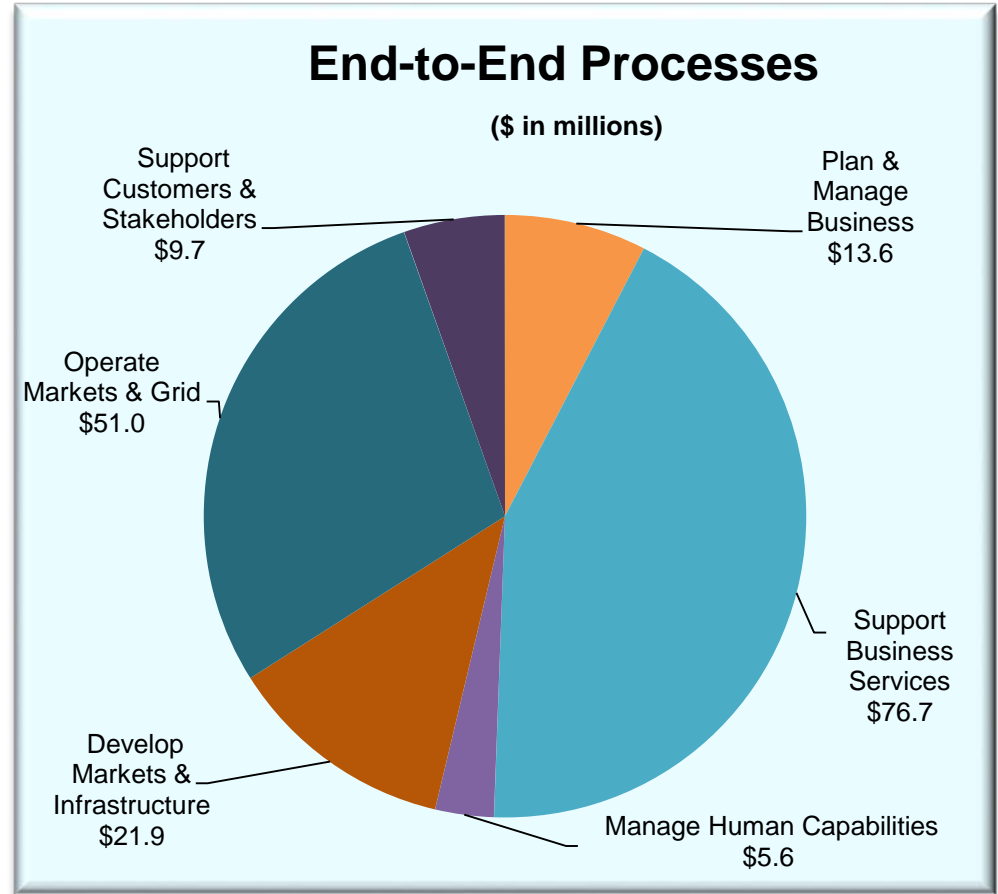
O&M Budget by Resource (\$ in millions)	2018 Proposed Budget	2017 Budget	Change
Salaries and Benefits	\$132.1	\$126.0	\$6.1
Occupancy Costs and Equipment Leases	3.1	3.1	-
Telecommunication and Hardware and Software Maintenance Costs	14.0	14.5	(0.5)
Consultants and Contract Staff	11.1	11.8	(0.7)
Outsourced Contracts and Professional Fees	10.2	10.2	-
Training, Travel, and Other costs	8.0	8.0	-
Total	\$178.5	\$173.6	\$4.9

O&M Budget: The divisional changes are largely driven by personnel costs.

O&M Budget by Division (\$ in millions)	2018 Proposed Budget	2017 Budget	Change
Chief Executive Officer Division	\$20.6	\$19.3	\$1.3
Market and Infrastructure Development	16.1	15.7	0.4
Technology	65.8	63.4	2.4
Operations	44.0	43.1	0.9
General Counsel	13.4	13.5	(0.1)
Market Quality and Renewables Integration	7.8	7.5	0.3
Customer and State Affairs	8.0	8.2	(0.2)
Regional and Federal Affairs	2.8	2.9	(0.1)
Total	\$178.5	\$173.6	\$4.9

O&M Budget: We leverage an activity based costing structure for further transparency.

- 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 provides further insight into resource utilization



Debt Service: Annual requirement remains at \$16.9 million on outstanding 2013 bonds.

- \$178.4 million of bond principal outstanding
- \$16.9 million requirement consists of:
 - \$13.5 million in debt payments due to bondholders, and
 - \$3.4 million to be collected for required reserve
- Level annual debt service until February 2039
 - Bonds are callable February 2023

Capital/Project: The proposed annual capital/project budget is requested to be set at \$18 million.

- Proposed revenue requirement contains a \$22 million cash funded capital component
- Total project approvals are targeted at \$18 million for further market enhancements and regular capital
- \$4 million difference will add to capital reserves
- Draft of potential projects is contained within the budget book, which ultimately will be prioritized down to the final budgeted amount

Other Costs and Revenues: EIM growth remains the main driver in the reduction of the revenue requirement by \$16.7 million.

Other Costs and Revenue (\$ in millions)	2018 Proposed Budget	2017 Budget	Change
Energy Imbalance Market Administrative Charges	\$7.4	\$4.8	\$2.6
Intermittent Resource Forecasting Fees	3.2	2.1	1.1
Interest Earnings	2.5	2.1	0.4
California-Oregon Intertie Path Operator Fees	2.0	2.0	-
Large Generator Interconnection Projects	1.2	1.9	(0.7)
Other Fees and Charges	0.4	0.4	-
Total	\$16.7	\$13.3	\$3.4

Operating Cost Reserve Adjustment: Annual true-up will reduce the revenue requirement by \$3.5 million.

Operating Cost Reserve Adjustment (\$ in millions)	2018 Proposed Budget	2017 Budget	Change
Increase in 15% reserve for O&M budget	\$(0.7)	\$(0.6)	\$0.1
25% debt service collection from prior year	3.4	3.4	-
True-up of actual to forecast revenues and expenses	0.8	3.1	2.3
Total	\$3.5	\$5.9	\$2.4

2018 GMC and EIM charges developed using updated cost category percentages.

Grid Management Charges	2018 Proposed Rates	2017 Rates	Change
Market Services	\$0.1056	\$0.0854	\$0.0202
System Operations	\$0.2837	\$0.3025	(\$0.0188)
CRR Services	\$0.0038	\$0.0059	(\$0.0021)
EIM Administrative Charges	2018 Proposed Rates	2017 Rates	Change
Market Services Real Time Market	\$0.0834	\$0.0521	\$0.0313
System Operations Real Time Dispatch	\$0.1106	\$0.1361	(\$0.0255)

Note: -All miscellaneous fixed fees will remain the same.
 -Final rates subject to change depending on final volumes projections.