

1a. David Cohen Question

Please send me a description of the need for the ETCC project and a description of what it entails. Is this a multiple-year project to complete?

1b. ISO Response (revised)

The projects listed in the budget book represent a preliminary all inclusive list of projects that will be ranked to determine the final list that will be incorporated into the approved budget. The item currently listed under the “Enhancement of the Technology Foundation” section as **“Existing transmission contract calculator (ETCC) replacement. - Large”** is an internal application used by the ISO for meeting the reliability standard MOD-001 that was recently proposed by the NERC. This includes the management of existing transmission contracts and transmission ownership rights, calculation of the available transfer capability (ATC), available flow-gate capability (AFC), operational transfer capability (OTC) and the total transfer capability (TTC). The implementation of Reliability Standard MOD-001-2 will enhance the reliable operation of the bulk power system. The ETCC replacement will allow for the consolidation of numerous tools used by ISO Operations, will improve efficiency by eliminating duplicate entry of data, and will modernize the technology platform by allowing for the elimination of the Delphi software to align with ISO standards. The full scope of this project is yet to be determined. The current ETCC application has not had any major changes since the implementation of the new market in 2009. The duration of this project will be determined after business requirements are developed and once an assessment of the development timeline is completed. If the project is approved the entire cost will be included in the 2015 budget even if the project takes longer than the budget year to complete.

2a. SVP and MID Question

After 2015, if the ISO does not need to replenish the \$10 million it anticipates it will not spend in 2015 from the cash funded capital account, SVP/MID expect that the ISO budget for at least 2016 would reflect that circumstance. SVP/MID understand that the ISO’s key goals in designing the cash funded capital account in a manner that collects more than is anticipated to be expended for capital projects include: a) reducing the risk of incurring additional costs related to borrowing for capital projects; and b) assisting in maintaining consistent rates. However, to the extent that the \$10 million anticipated not to be expended in 2015 is actually not expended, and does not need to be replenished in 2016, and to the extent other costs decrease or remain stable, SVP/MID expects that the ISO overall budget would decrease for 2016. While SVP/MID understand that rate stability has been expressed by stakeholders as a desired characteristic of the Grid Management Charge (“GMC”), SVP/MID highly value budgets that reflect actual expenditures. Relatively small fluctuations in rates, such as the amount at issue with the cash funded capital account, can instill and increase stakeholder confidence that only those funds actually needed are being collected, and that the funds are expended appropriately.

2b. ISO Response

The ISO has three types of expenditures in any given year that make up the revenue requirement: the operations and maintenance budget (less the other revenue and operating reserve credit), debt service, and capital projects. In recent years, the ISO has been committing approximately \$20-\$24 million per year towards capital projects; however, the actual amount collected in the annual revenue requirement is more closely related to the room underneath the revenue requirement cap. This results in collection of amounts greater than the anticipated needs in some years but less than anticipated amounts in others years, depending upon the other components of the revenue requirement. The table below indicates the amount of cash-funded capital approved to be collected in the revenue requirement over the past years compared to the approved capital project budget.

Budget Year	Cash-Funded Capital	Capital/Project Budget	
	(in millions)		
2010	\$15.0	\$31.0	1
2011	\$23.5	\$23.5	
2012	\$17.0	\$23.4	2
2013	\$24.0	\$19.5	
2014	\$26.0	\$24.0	

1 Larger amount is related to the ISO’s new building, the shortfall was met with bond funds.

2 Board approved \$20.8 million in the original budget and an additional \$2.6 million later in the year.

2b. ISO Response

Therefore, the cash funded capital account is not designed to collect more than anticipated to be expended for capital projects, as that has only been the case in the most recent two years. In fact, the ISO is currently experiencing an environment in which debt service requirements have declined due to the retirement of the 2008 bonds and the refinancing of the 2009 bonds. This reduction is being recouped in a higher level of cash funded capital in 2015, thereby keeping the revenue requirement stable. However, the extra cash-funded capital collection is not only intended to stabilize next year’s revenue requirement, but to stabilize the revenue requirement for years to come. The following graphs attempt to illustrate this long-term strategy.



Chart 1 displays the components of, and total revenue requirement over some time period in the future. The graph is illustrative and not intended to be an actual forecast, but presents a reasonable view of a long-term forecast. The blue, upward-sloping line represents the net O&M budget (O&M less the offsets to the annual revenue requirement). Over time, it is projected that this component will increase due to inflation in labor and non-labor expenses. The orange flat line represents the level annual debt service needs. The green, downward-sloping line represents the cash-funded capital component of the revenue requirement. The thick yellow line at the top of the graph is the sum of the components and represents the annual revenue requirement. This simple illustration shows that cash funded capital will have to decline at the same rate as the net O&M component increases over time in order to maintain a stable revenue requirement. Therefore, while cash-funded capital collected

may exceed the anticipated amount to be committed during the year, as is the case in 2015, that will reverse itself in the future as the ISO collects less and less capital, but presumably continues to require the same annual level of commitment.

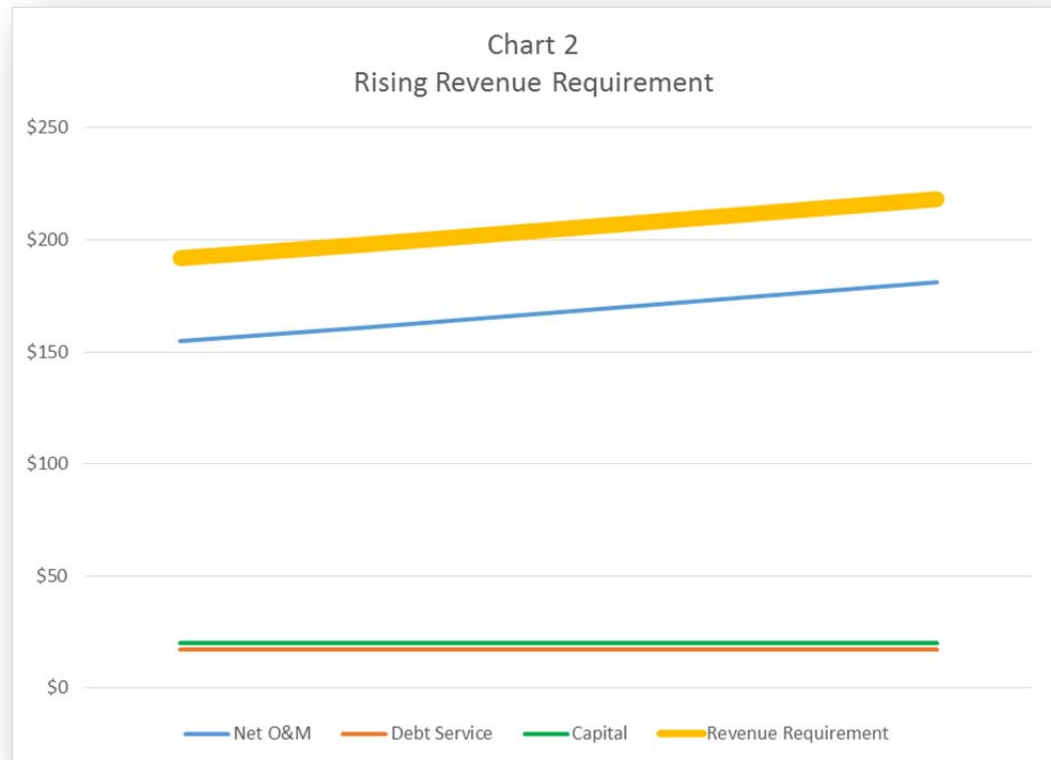
2b. ISO Response

Conversely, Chart 2 illustrates an example of the forecast if the ISO only collects capital at the level of anticipated commitment each year. A stable capital collection results in an upward-sloping revenue requirement. Therefore, the near-term reduction in the revenue requirement on the left- side of this graph is offset by higher revenue requirements on the right- side.

Since 2010, it has been ISO Management’s intention, with support from the Board and stakeholders, to view the revenue requirement from a long-term perspective.

The creation of cash-funded capital as a component of the revenue requirement and the resulting capital reserves has allowed the ISO to maintain a stable revenue requirement.

It is also likely to allow for stability for years to come. Therefore, the anticipated over collection in 2015 of capital will not impact the collection of capital in the 2016 budget, although will increase the capital reserves available for funding of projects next year and beyond.



3a. SVP and MID Question

Questions arose before and during the October 9 stakeholder meeting concerning the planned update of the existing transmission contract calculator (“ETCC”). SVP/MID understand that the ISO is undecided as to whether the capital budget impact of this update will be “Large”, as noted in the budget book. However, to the extent funds are approved for the ETCC update, SVP/MID understand that the total costs for the update will be included in the 2015 budget, even if expenditures for this project cross-over into 2016. SVP/MID understand that allocation to the year of approval is standard practice for most projects at the ISO, though a limited set of projects have allocations crossing-over to following years. If a substantial amount of expenditures for the ETCC update are projected to cross-over into 2016, SVP/MID ask the ISO to consider, due to the uncertainty as to the scope of the ETCC update, allocating an appropriate percentage of the projected ETCC update costs to the 2016 budget.

3b. ISO Response

Each year has a stand-alone capital / projects budget only available to be used for projects approved in that year. Any remaining budget not approved for projects would go into the cash-funded capital reserve funds to be used in future years (see 2b. ISO Response above). The goal each year is to use the current year’s capital / projects budget for projects started within the year. The annual approved budget amount cannot be exceeded without Board approval. On occasion, projects that are brought to the Corporate Management Committee (CMC) later in the year will be split over multiple years in order to accommodate other projects that still need funding in the current year. In regards to the ETCC project, the final ranking of the 2015 projects has not been completed. It is too early in the process to determine from which year’s capital / projects budget this project will be funded - if approved.