

## ATTACHMENT

### TANC Questions on 2008 GMC Preliminary Draft O&M and Capital Budget dated September 11, 2007

Q. Please identify the basis for and rationale of using a 4% increase in Salaries for 2008 as shown on Page 24 of the document.

- a) What is the annual adjustment or escalation percentage contained in the CAISO contracts or service agreements with 3<sup>rd</sup> Party Vendors or consultants working on MRTU?
- b) What are other ISO and RTO entities including in their 2008 Budgets for escalation or increases in Salaries?
- c) Please quantify what the amount of reduction in 2008 O&M expenses would be if the CAISO Board were to instead use an increase in salaries of 3.5% compared to 4.0%.

#### ***CAISO Response:***

*CAISO's currently budgeted 4% salary increase percentage is the based on the market outlook for staff compensation in the view of CAISO's Human Resources department and their initial discussions with outside advisor Hay Group. The 4% figure will be validated or revised based on additional discussions to be held in October.*

*a) CAISO's standard Consulting Contract does not include a provision for annual cost increases (a Standard Escalation rates clause). Most Work Orders for consultants are for a specific period and an established rate. CAISO's financial manager responsible for the MRTU program is aware of one long-term contract that specifies a cap of 5% on annual rate increases.*

*b) CAISO has not compiled a comparison of salary inflation factors used by peer ISO/RTOs at this time, but such information is considered in the assessment performed by Hay Group.*

*c) The 4% increase is budgeted for a total cost of \$3,539,893.  $3.5\% / 4\% = 87.5\%$  \*  $3,539,893 = 3,097,406$ , or a difference of \$442,487.*

Q. Refer to page 181, what is the basis for the CAISO assuming that it will obtain a 4.5% overall interest rate in the 1<sup>st</sup> quarter of 2008 new bonds it plans to issue with a 5-6 term?

- a) For the 2008 new Bonds does the CAISO assume that it will be buying insurance to make that debt more attractable?

- b) What are the current S&P and Moody's Bond Rating of the CAISO?  
c) Refer to page 182, when does the CAISO anticipate that S&P/Moody's rating will be > BBB+?

**CAISO Response:**

- a) *The structure of the 2008 bonds has not yet been determined. CAISO will obtain structuring ideas and recommendations from potential underwriters later this year. In 2007, CAISO considered various types of debt including variable rate demand bonds, auction rate securities and fixed rate bonds. Bond insurance is not necessary with some of the structures. CAISO is interested in the structure with the overall lowest cost and risk. Accordingly, the planned 2008 bonds may or may not have bond insurance.*
- b) *CAISO's current Standard & Poors Underlying Rating (SPUR) is BBB+ / Positive Outlook. CAISO's current Moody's rating is A2/Stable Outlook.*
- c) *S&P has indicated that the successful implementation of MRTU will be an important consideration as to whether CAISO warrants an improved underlying rating.*

Q. Please identify when, (month and year), the CAISO will begin to implement and finally "fully" execute an employee time recording and tracking system?

**CAISO Response:**

*CAISO has heard and considered the request to implement an employee time recording and tracking system, and is committed to moving forward with this. Several issues have impacted CAISO's progress on this initiative, many of which have been resolved. These include:*

- *Concern regarding time tracking and employee exempt vs. non-exempt classification. With the completion of a comprehensive analysis of the classification of all CAISO employees in 2007, this barrier no longer exists.*
- *Executive Management support for time reporting: CAISO's President/CEO has requested time reporting information in conjunction with an overall move toward a metrics based/process oriented business.*
- *Consideration of what categories should be used to track time. CAISO's business process mapping initiative during 2006/2007 has provided a starting point for consideration of this.*
- *Implementation of Oracle's Automated Time Manager (ATM) in 2006 provides a platform that may be used to capture and record employee time. This system may have*

*limitations that are currently being considered, and as a result, this system may be one of several alternatives.*

- *CAISO's desire to proceed with this project is constrained by the need to focus limited IT and other resources on the CAISO's highest priorities including implementation of MRTU and subsequent market design enhancements.*

*With appropriate consideration for these factors, CAISO's 2007-2011 strategic plan included a Corporate Services Division goal that contemplated the development of more granular cost information:*

**Provide Efficient and Cost-Effective Services**

| <b>SUPPORTING INITIATIVE</b>  | <b>IMPLEMENTATION TIMELINE</b> |
|---|--------------------------------|
| Enhance Financial Services  | 2007–2009                      |
| The core financial management function of the Division will be enhanced through Oracle Financial system upgrades including tools for project and capital management, procurement, project/activity costing and budgeting. |                                |

*Two CAISO departments, Accounting and Treasury/Financial Planning, are currently engaged in planning the time-reporting initiative. A draft whitepaper entitled “Project Time Reporting, Costing and Budgeting Business Requirements” has been developed which includes objectives, potential reports of time information, alternatives, issues, and a workplan for the project. Additionally, meetings have been scheduled to review practices at peer ISOs and other utilities during September/October.*

*Consideration is also being given to a phased approach that could involve several stages:*

|   |
|---|
| <p><b>Phase I:</b></p> <p>Definition of requirements and implementation of:</p> <ul style="list-style-type: none"> <li>• <i>a time reporting system that will record hours related to ongoing O&amp;M projects (in addition to the current capability for charging time to exceptions such as vacation time, and capital projects)</i></li> </ul>         |
| <p><b>Phase II:</b></p> <p>Definition of requirements and implementation of:</p> <ul style="list-style-type: none"> <li>• <i>Capability to provide project costing. Project costing for O&amp;M projects/initiatives may be informational only (i.e. costs for employees could continue to be primarily charged to their home cost center)</i></li> </ul> |
| <p><b>Phase III:</b></p> <p>Definition of requirements and implementation of:</p>   |

- *Activity based budgeting. CAISO staff would be assigned to projects in the annual budgeting process. During the budget year, time worked would be assigned to projects. Variance reporting would be by project.*

*If such a phased approach is used, CAISO contemplates completing Phase I during 2008, with work on Phases II and III to take place in 2008 and 2009.*

Q. Please refer to page 157 (158) MRTU Program, please provide the quantitative estimate associated with the improved operating efficiency (i.e. lower production costs and lower out-of-merit costs) associated with the CAISO grid under MRTU. Please provide a description of the methodology employed to develop that quantitative estimate.

***CAISO Response:***

*Please be advised that there has been no detailed or explicit studies performed to quantify the operational savings expected under MRTU operation. The fundamental features of the market are accepted "best practices" in other working LMP markets and as such it is recognized that many of the MRTU features will put downward pressure on out-of-market costs incurred by the system operator. Beyond the savings potential in out-of-market costs, the MRTU framework which includes a two-settlement system, locational marginal prices, and advanced market power mitigation procedures, will place additional downward pressure on energy and ancillary service prices through transparent price discovery, increased market efficiencies, and consistent competitive market outcomes in both a short and long-term time horizon. As MRTU goes into production, the CAISO will be tracking numerous metrics to better quantify the operational and market benefits actually achieved.*

Q. Please provide an estimate of the Total 2008 Capital Budget (+ or - \$5.0 million) associated with what the CAISO classifies as FERC Mandated projects, for the items listed below:

| <b>2008-2009 Capital and Project Budget</b> |   |
|---|---|
| <b>Project ID</b>                           | <b>Project Name</b>   |
| 172   | Mandated Market Changes - Annual Request of same amount 2008 & 2009                               |
| 360   | Interim Capacity Procurement Mechanism  |
| 364   | Year 1 Market Design Enhancements (Release 1A excluding Convergence Bidding and Scarcity Pricing) |
| 394   | MRTU – Market Participant Required Enhancements   |

|     |   |
|-----|---|
| 395 | Implement CRR Market, Release 2 (LT-CRR)  |
| 400 | Year 1 Market Design Enhancement: Scarcity Pricing  |
| 401 | Convergence Bidding   |
| 404 | Year 2 Market Design Enhancements (Release 2 Market Design Enhancements)<br>Use of Bid-in Demand rather than demand forecast;<br>peaked/combined cycle modeling;<br>BCR for resources with greater than 24 hour minimum up time<br>SLIC to SIBR interface<br>Export of AS<br>Multi-Segment A/S Bids<br>Multi-Hour constraint in RUC<br>9 ramp-rate segments |
|     |   |

***CAISO Response:***

*The total estimated cost of the above items is \$36,000,000. The “Year 2 Market Design Enhancements” item constitutes the majority of the \$36,000,000 cost, while the other projects have an estimated individual cost of between \$500,000 and \$4,000,000.*