



# Decision on 2009 Revenue Requirement and GMC Rates

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# This presentation provides an overview of the proposed 2009 budget and GMC rates

- Budget Overview
  - Changes from Previous Posting
  - Components of ISO Revenue Requirement
  - GMC Rates
- Revenue requirement history/projection

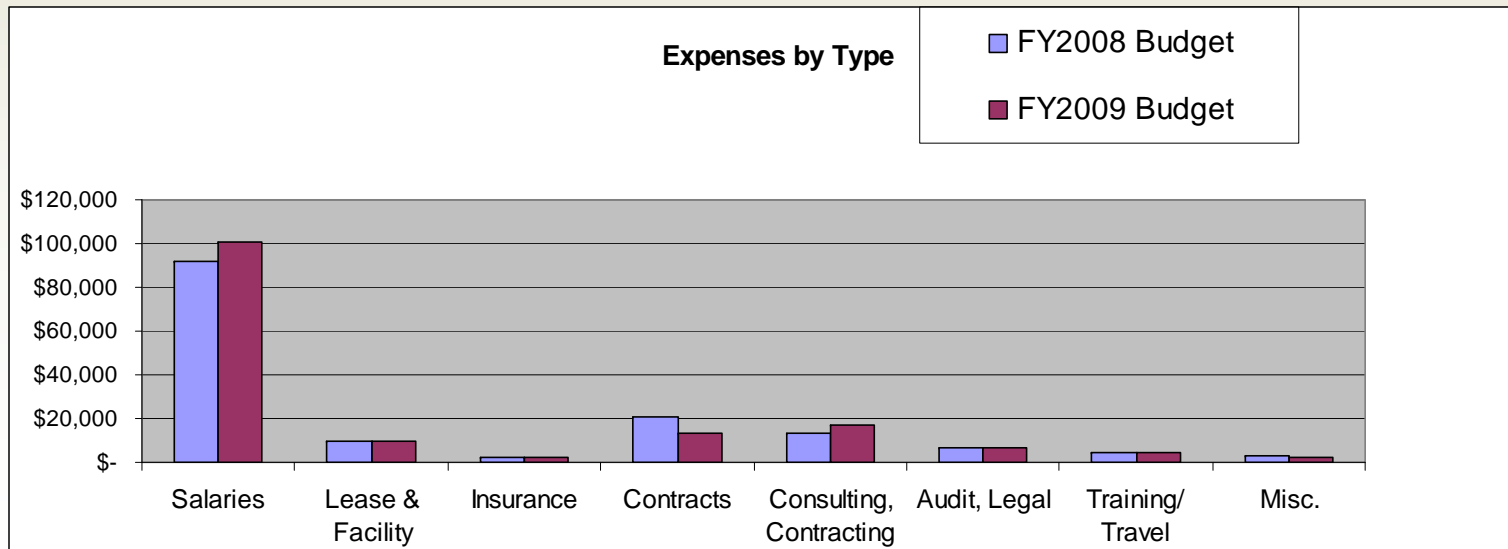
# Costs are reduced from the September preliminary posting, but so are volumes, resulting in an increase in the bundled GMC

Component of Revenue Requirement	FY2009 Budget: Previous Posting	FY2009 Budget: Final	Change	Explanation
O&M Budget	\$156.4	\$156.7	\$0.3	True-up staffing costs
Debt Service	\$59.4	\$59.4	\$0	N/A
Cash Funded Capital / Project Expenditures	\$0	\$0	\$0	Increased cost recovery for LGIP program for overheads
Expense Recovery	(\$6.1)	(\$6.1)	\$0	N/A
Revenue Credit from Operating & Capital Reserve	(\$15.9)	(\$17)	(\$1.1)	Numerous factors including updated 2008 revenue and expense forecast
Total Revenue Requirement	\$193.8	\$193	(\$0.8)	N/A

Volume	252,400,000 (Down from 255,000,000MWh)	248,648,000	(3,752,000)	Falling energy demand due to recession / mild 2008
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The O&M budget includes funding for additional market capabilities, compliance mandates, support of environmental policy initiatives, and proactive transmission planning.

	FY2008 Budget	FY2009 Budget	FY2009 % of Total	Amount Change	% Change from FY2008 Budget
<b>Salaries and Benefits</b>	\$ 92,182	\$ 101,039	64%	\$ 8,857	10%
<b>Bldg, Lease &amp; Facility Costs</b>	9,704	9,551	6%	(153)	-2%
<b>Insurance</b>	2,012	2,014	1%	2	0%
<b>Third Party Vendor Contracts</b>	20,858	13,427	9%	(7,432)	-36%
<b>Consulting and Contracting</b>	13,294	17,062	11%	3,768	28%
<b>Audit, Legal &amp; Regulatory</b>	7,031	6,421	4%	(610)	-9%
<b>Training and Travel</b>	4,681	4,685	3%	4	0%
<b>Miscellaneous</b>	2,893	2,543	2%	(350)	-12%
<b>Total Gross O&amp;M Budget (including LGIP)</b>	<b>\$ 152,656</b>	<b>\$ 156,743</b>	<b>100%</b>	<b>\$4,087</b>	<b>2.7%</b>



# ISO's expanded scope is funded in part through efficiencies and cost reductions.

- **Optimized Resource Utilization**
  - In-sourced external legal work
  - Optimized shifts in the control room to reduce overtime
  - Promoted health management and medical cost containment
  - Achieved effective organizational structure: consolidate VP positions
- **Procurement and Sourcing Strategies**
  - Reduced telecommunication spend, both ongoing and with the roll-off of a telecom equipment lease
  - Achieved cost savings in network management
  - In-sourcing of IT services previously performed by contractor
- **Other Changes**
  - Eliminated Reliability Coordination function that results in reduction in O&M budget, and corresponding cost recovery (no net change in Revenue Requirement)
  - Commencement of construction on Iron Point land results in effectiveness of property tax exemption
  - Aligned travel costs with recent trend/forecast
  - Reduced costs of IT hardware/software maintenance contracts

# The net increase in the O&M Budget of \$4 million consists of several components:

<b>2008 Operations &amp; Maintenance Budget</b>	<b>\$152,655</b>
<b><u>Increases in the Budget</u></b>	<b>17,903</b>
<i>Salary and Benefits:</i>	
Compensation adjustments for 2009	3,600
Increased staffing related to IT contract conversion	4,414
Other increased staffing in O&M Budget	5,387
<i>Buildings, Leases and Facility:</i>	
Increase in annual lease costs and operating expenses	365
<i>Consulting, Temporary Contract Staff</i>	
Project support in IT, Operations support for CRR, IRM/RTM, recruitment costs	3,768
<i>Audit:</i>	
SAS70 Costs related to MRTU	60
<i>Training, and Professional Dues:</i>	
Increase in training for ISO Academy and misc. prof. dues	182
<i>Miscellaneous:</i>	
Increase in bank fees due to lower bank earning allowances, and align office supply expense to actual experience	126

<b><u>Decreases in the Budget</u></b>	<b>(13,815)</b>
<i>Salary and Benefits:</i>	
Elimination of Reliability Coordination function	(1,900)
Reduction in Overtime/Callouts (primarily in Operations)	(998)
<i>Buildings, Leases and Facility:</i>	
Net decrease in annual property taxes	(223)
Decrease in equipment lease costs (planned buyout of telecom equipment lease)	(517)
<i>Third Party Vendor Contracts:</i>	
Reduction in software/hardware maintenance costs	(1,784)
Elimination of outsourced IT service contracts	(4,923)
Reduction in telecom/internet costs	(725)
<i>Legal:</i>	
Reduction in outside legal costs related to in-housing additional recurring legal work	(670)
<i>Training, Travel and Professional Dues:</i>	
Align travel costs with 2007/2008 experience	(178)
<i>Miscellaneous:</i>	
Decrease in publications, misc. hardware/software	(234)
Decrease in property taxes due to commencement on facility construction	(178)
<b>Net Change</b>	<b>4,088</b>
<b>2009 Proposed O&amp;M Budget</b>	<b>\$156,743</b>

# 2009 capital projects will be funded from 2008 bond proceeds

- Up to \$35 million of projects are proposed for 2009, including projects in four categories:
- All funded from bond proceeds:

## Essential Projects

Six projects including: EMS Hardware upgrade, computer purchases, disk/backup storage

## Compliance/Regulatory

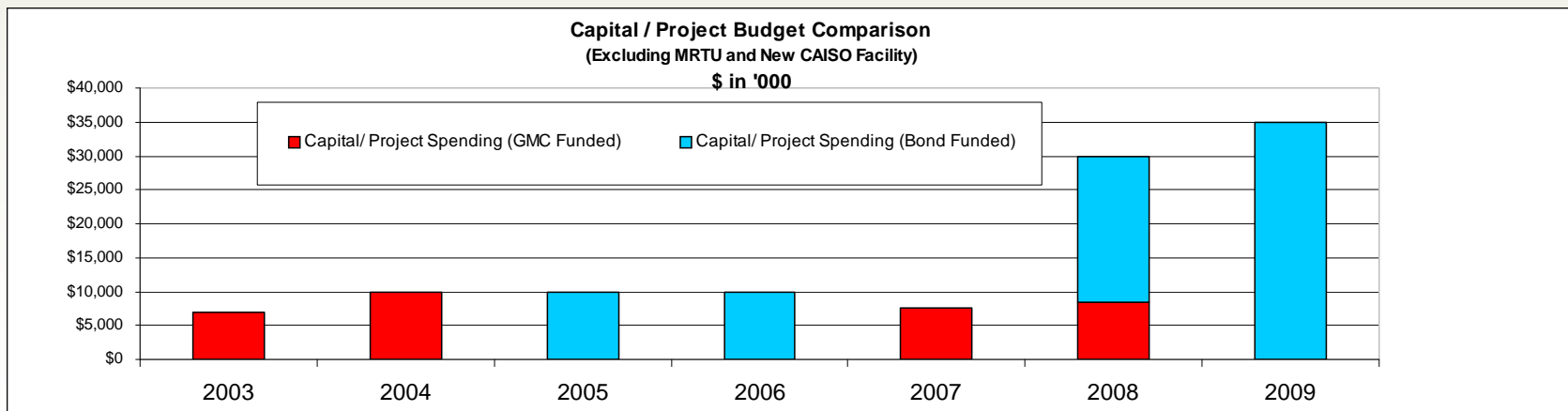
6 projects including: MAP, Critical Infrastructure Protection, CRR enhancements

## Strategic Initiatives

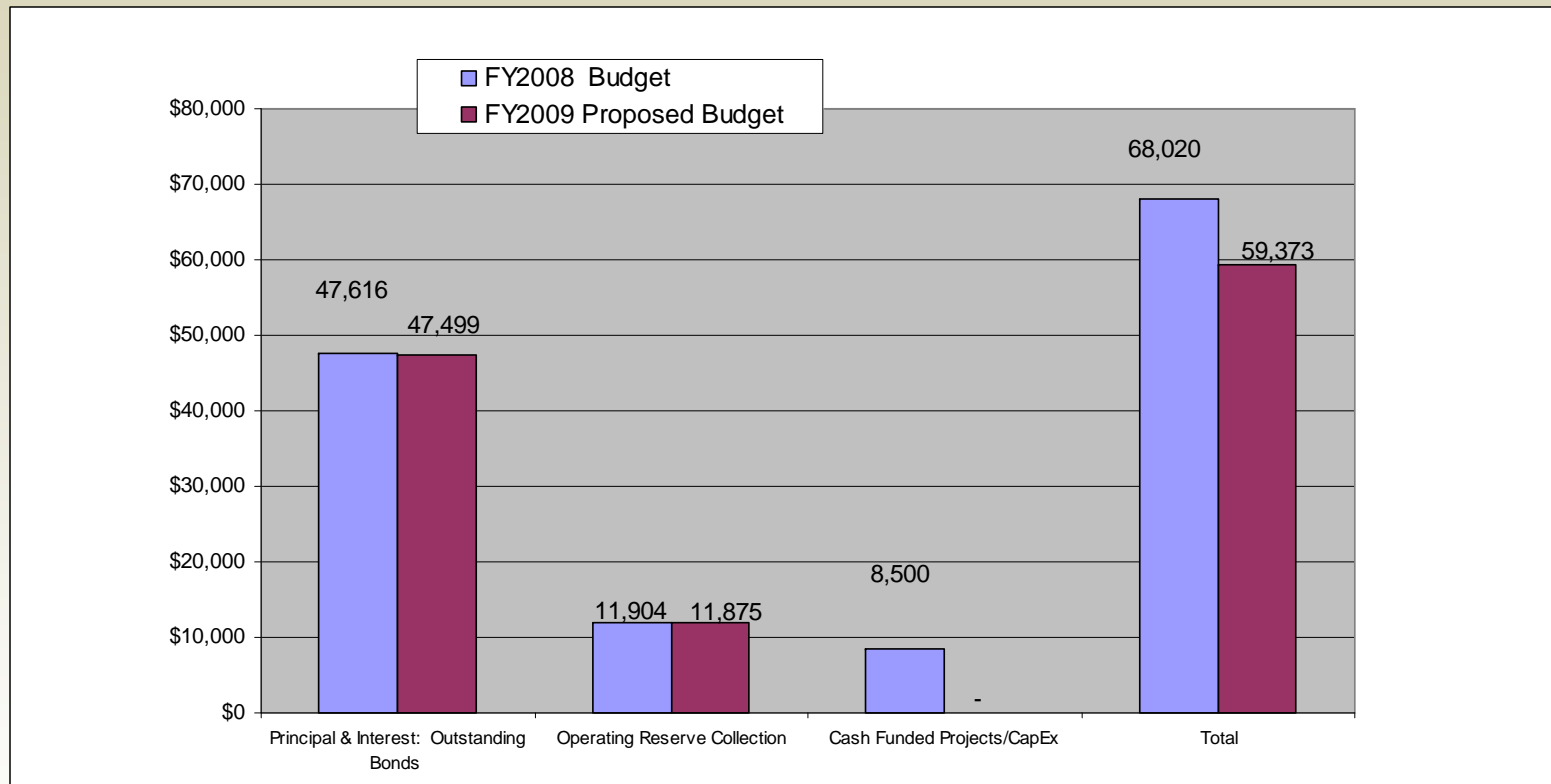
8 Projects including: Demand response, ABC, Network Apps/Dynamic stability

## Future System Enhancements

12 Projects including: Model constraints of combined cycle units, enhancements to MQS



# 2009 Debt Service includes principal and interest payments on bonds issued in June 2008



## Notes:

Annual Operating & Capital Reserve collection is 25% of debt service. When the Operating & Capital Reserve balance reaches 15% of the subsequent year's budgeted O&M level, any excess funds are applied against the revenue requirement.



The Revenue Requirement increases less than 1%, but the Bundled GMC increases about 2.7% due to volume decreases.

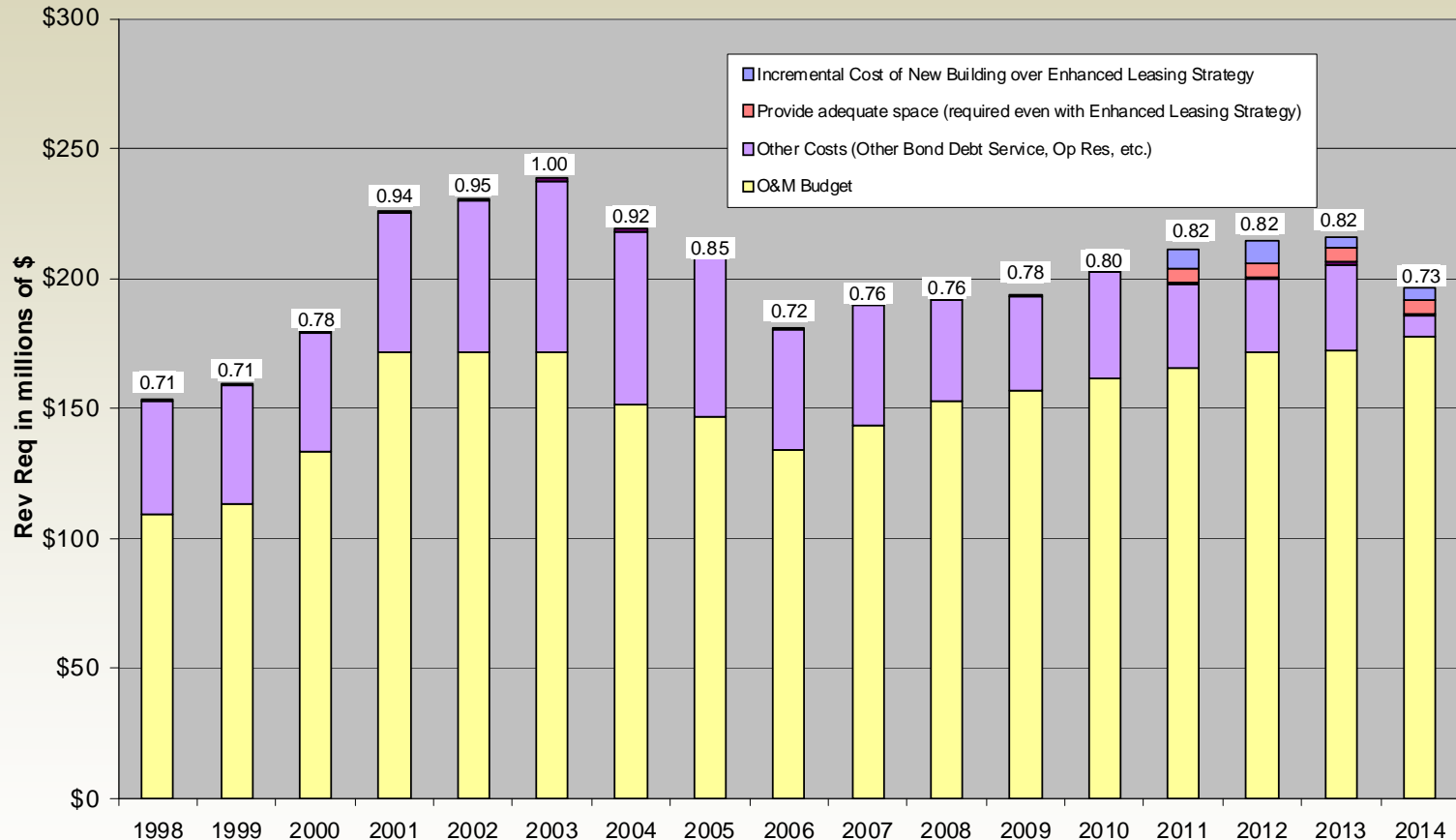
(\$ in '000, except GMC)	FY2008	FY2009 Proposed Budget	Amount Change	% Change
Total O&M Budget	\$ 152,656	\$ 156,743	4,087	2.7%
Total Finance and Cash Funded CapEx/Project Budget	\$ 68,020	\$ 59,373	(8,647)	-12.7%
Total Expense Recovery Budget	\$ (7,814)	\$ (6,141)	1,674	-21.4%
Available Revenue Credit	\$ (21,226)	\$ (16,997)	4,229	-19.9%
Revenue Requirement	\$ 191,636	\$ 192,978	\$ 1,342	0.7%

Transmission Volume (MWh)	253,700	248,648	(5,052)	-2%
Pro-Forma Bundled Grid Management Charge	\$0.755	\$0.776	\$0.021	2.7%

**Notes:**

1. 2009 forecast transmission volume of app. 248,648MWh is below the previously assumed budget of 255,00MWh. With that volume, the GMC would have been \$0.757 / MWh.
2. Cash Funded CapEx/Project Budget includes \$8.5 million direct funding in 2008, and \$0 in 2009.
3. O&M Budget and Expense Recovery Budget excludes WECC costs and reimbursement for reliability coordinators in 2009.
4. Detailed rates for unbundled GMC charges are provided in Attachment 2 to Board memo dated December 8, 2008.

# A six year projection of the Revenue Requirement / GMC shows challenges in 2010-2013



Notes:

- Actual bundled rates in effect during 1998-2000 (based on a different measure of volume and discounts for certain customer classes) were \$0.7831, \$0.778, \$0.83. Rates in 2001 and subsequent years were unbundled. These pro-forma bundled rates are provided for comparison purposes.
- Includes anticipated financial impact of new headquarters facility.
- Projected revenue requirement and rates are affected by numerous factors including volumes, budget variances, interest rates, etc. Actual amounts may differ.