



CALIFORNIA ISO

**FY2001 Proposed O&M
and Capital Budget**

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-DRAFT-

Work in Process

Date: 10/16/00

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I. Introduction

Our goal in preparation of this document is to present and explain the financial basis for both the ISO's current and proposed operations and services for FY2001 and beyond, and to include the methodology and approach to implementation of an "unbundled" Grid Management Charge (as approved by the Board in September 2000).

In the sections which follow, we will

- Provide an overview of the challenges faced and responses reflected in the preparation of a FY2001 budget,
- Provide a summary of the guidance that was provided to CAISO departments in preparation of their proposed budgets,
- Present in summary form the proposed FY2000 Budget, with indications of the costs related to maintaining the level of service provided in FY2000, and the costs related to implementing the proposed FY2001 capital investments and other additional CAISO services.
- Identify in summary form the incremental programs which have been developed and proposed by ISO Management in the proposed budget for FY2001.
- Present detailed discussions by Division of the specific components of the proposed FY2001 Budget, including the costs related to maintaining service at FY2000 levels, and the costs associated with incremental additions to this level of service.
- Provide an overview of the recommended FY2001 Capital Budget, which provides for a significant portion of the Comprehensive Market Redesign (CMR) and acquisition and implementation of a replacement Energy Management System (EMS)
- Outline the process for determination of the billing determinants and the resultant unbundled GMC rates.

II. Challenges and Responses

Challenges

Significant cost pressure was exhibited in several areas during FY2000 as a result of new programs and functionality implemented by CAISO, and resulted in the need for increased funding for FY2001. Areas which have contributed to cost pressure include:

- A variety of additional activities undertaken in FY2000 (see next page)
- Staffing related to implementation of FY2000 approved capital projects and other 2000 projects
- Increased debt service from capital expenditures
- Equipment leases, software maintenance & other support costs related to new capital projects
- Significantly higher than budgeted utilization of outside legal resources
- Unanticipated facilities costs in FY2000
- HR costs related to hiring additional staffing in FY2000, and anticipated turnover in FY2001
- Continuing contractor costs as a result of difficulties in completing contractor conversions which were planned for FY2000.
- Unbudgeted penalties and sanctions in FY2000
- Response to regulatory investigations

Company wide effect of Capital Projects on FY2001 O&M Budget

The size and scope of the Capital Budget proposed for FY2001 is discussed later in this document.

Capital projects implemented in FY1999 and FY2000 have been effective--Market redesign efforts implemented in 1999 have saved \$132 million in ancillary service costs from August 1999 to August 2000. It is projected that the benefits to the market from implementation of Ten Minute Settlements may approach \$30 million in September alone. However, these projects do have a significant impact on our costs.

Management estimates that, as a rule of thumb, each dollar of capital expenditures has as much as a \$.50 cent per year impact on subsequent year revenue requirements: \$.25 for O&M, and an additional \$.12 - \$.25 for debt services costs. Until FY2000, capital spending did not have a direct incremental effect on the GMC through debt service. The ISO issued \$301.4 million in bonds in 1998--the proceeds from the debt issuance provided funding for additional capital expenditures in 1998 and 1999, and the costs of servicing the bonds were included in our original 1998 GMC of \$.7831/MWh. Any capital spending after the exhaustion of these funds required additional debt issuance by the ISO, and an increase in the GMC.

Of the total cost increase reflected in the proposed FY2001 budget, 9% is for debt service on additional borrowing in FY2000. A full 23% of the increase is for debt service (including operating reserve impact) on anticipated FY2001 borrowing. In addition to the debt service, a substantial portion of the increase in O&M costs in the proposed budget provides resources for implementation and support of FY2001 capital projects. We must recognize that a decision to go forward with these capital projects, as recommended by ISO Management, will impact revenue requirements in FY2001 and beyond.

A chart of additional programs implemented and requirements met since startup in 1998 follows, which illustrates in part why costs have increased. The chart compares CAISO's overall revenue requirement with the additional programs implemented.

Tasks and Accomplishments vs. Revenue Requirement

2001

2000

Unanticipated Activities in Tables

Revenue Requirement in millions

279
276
273
270
267
264
261
258
255
252
249
246
243
240
237
234
231
228
225
222
219
216
213
210
207
204
201
198
195
192
189
186
183
180
177
174
171
168
165
162
159
156
153
150

1998

1999

Revenue Requirement	1998	1999	2000	2001
279	99-20 Enterprise Systems Maintenance	99-19 Enterprise Data Management	00-37 QF PGA	01-12 Action Plan on Transmission/Generation
276	99-19 Facilities Expansion	99-18 NERC/NIPCC Critical Infrastructure Program	00-36 Open Access to Information	01-11 New EMS Training
273	99-18 Technical Standards Working Group	99-17 Document Management System (EDMS)	00-35 RMR Pre-dispatch	01-10 Output of Comprehensive Market Reform
270	99-17 State-Federal Governance Issues	99-16 ISO Payment Calendar Changes	00-34 Comprehensive Market Reform	01-09 MORC Revision
267	99-16 Cyclic/Static Univ. Data Arch. (CUDAs)	99-15 SC - Self Audit	00-33 Expanded Client Training	01-08 Migration of SASI systems
264	99-15 StartUp	99-14 InterSC Trade Adjustment Bids	00-32 Long Run Facilities Plan	01-07 Electric Settlement Workshop
261	99-14 FERC Filings-Commenting on Others	99-13 Expanded DMA Scope/Studies	00-31 Investigations/Regulatory Requirements	01-06 SOMB Validation routines
258	99-13 GFN/ADR	99-12 New Generation Congestion/Interconnection	00-30 Distributed Generation	01-05 FERC Studies 2001
255	99-12 Permanent Financing	99-11 Y2K Readiness Efforts	00-29 "No Pay" rule Implementation	01-04 Open Access Conditions in Participating ISO Generator
252	99-11 SAS 70 Audit	99-10 UFE Retroactive Adjustment	00-28 10 Minute Markets	01-03 Payment Calendar Issues
249	99-10 MSC	99-9 Information Security	00-27 Automated Dispatch	01-02 New Bond Issues for Facility Capex
246	99-9 RMR Settlement	99-8 ACCM	00-26 Penalties & Sanctions	01-01 Q1 2001 Summary Report
243	99-8 Contract Negotiations	99-7 Local Area Reliability Service	00-25 Locational Market Power Mitigation	
240	99-7 Expanded Market Participation	99-6 Settlements Improvements	00-24 Neutrality Charge Investigation	
237	99-6 Operational Audits	99-5 Expanded Grid Planning	00-23 Metering Data Audit	
234	99-5 Compliance	99-4 Info Provisioning: HIM/PI	00-22 Out of Market Pricing Analysis	
231	99-4 Phase II Software	99-3 FIR Auction	00-21 Load Participation Program	
228	99-3 Tariff Amendments & Simplification	99-2 AVS Redesign 1999&2000	00-20 Demand Response Program	
225	99-2 Stakeholder Processes	99-1 Transmission Access Changes	00-19 New Board Members	
222		99-0	00-18 Generation vs. Transmission Analysis	
219		98-20 Enterprise Systems Maintenance	00-17 Price Cap Issues	
216		98-19 Facilities Expansion	00-16 Telecommunications Contract Renegotiation	
213		98-18 Technical Standards Working Group	00-15 Summer 2000 Preparedness	
210		98-17 State-Federal Governance Issues	00-14 GAO Unbundling	
207		98-16 FERC Filings-Commenting on Others	00-13 Relicensing/New Bond Issuance	
204		98-15 GFN/ADR	00-12 RTO	
201		98-14 InterSC Trade Adjustment Bids	00-11 Shared Services Investigation	
198		98-13 Expanded DMA Scope/Studies	00-10 WSCC/RMS	
195		98-12 New Generation Congestion/Interconnection	00-9 NERC Compliance Reporting Templates	
192		98-11 Y2K Readiness Efforts	00-8 New Operator Training	
189		98-10 UFE Retroactive Adjustment	00-7 Congestion Management Reform	
186		98-9 Information Security	00-6 E-Tag System	
183		98-8 ACCM	00-5 EMS Replacement	
180		98-7 Local Area Reliability Service	00-4 OASIS Redesign	
177		98-6 Settlements Improvements	00-3 SI Workspace Module	
174		98-5 Expanded Grid Planning	00-2 Market Redesign	
171		98-4 Info Provisioning: HIM/PI	00-1 FDP Alerts	
168		98-3 FIR Auction		
165		98-2 AVS Redesign 1999&2000		
162		98-1 Transmission Access Changes		
159		98-0		
156		98-20 Enterprise Systems Maintenance		
153		98-19 Facilities Expansion		
150		98-18 Technical Standards Working Group		

CORE/INITIAL RESPONSIBILITIES

Responses

Faced with the new requirements and costs previously discussed, Management has attempted to identify cost savings opportunities to allow the new requirements to be accommodated while minimizing the impact on the overall budget. The budget presented for consideration is not a "cost-plus" budget which merely takes current year costs and programs and adds required additional programs. Rather, all CAISO divisions have performed a comprehensive bottom to top review of all activities performed, and:

- Found more efficient and/or more cost effective ways of performing that work
- Eliminated work when possible (displaced to allow for new recommended tasks)

These cost savings initiatives are discussed in detail by Division.

CAISO continually compares its practices to the industry best practices. We have participated in several benchmarking studies since 1998, and have retained industry leading consultants to identify best practices and compare our operations against those best practices to find ways to perform our work in the most efficient, cost effective manner possible. These efforts include:

- 1998 Comparison of Independent System Operators (TGAL Study)
- 1998 Cost Performance Benchmarking Study (CAISO Study)
(compared CAISO costs and staffing against US independent system operators)
- 1998 TSO Staffing Survey of Transmission System Operators (TSO/CAISO)
(compares CAISO staffing against 20 worldwide transmission system operators)
- 1999/2000 TSO Operating and Cost Performance Benchmarking Study (TSO/CAISO)
(compares CAISO operating performance and overall costs by function against 20 worldwide transmission system operators)
- Electric Utility Cost Group (EUCG) Benchmarking -including semi-annual meetings with other North American ISOs
- IT/Gartner Group Benchmarking Studies-Computing Services
- IT/Gartner Group Benchmarking Studies-Telecom Services
- IT/Gartner Group Benchmarking Studies-Application Services
- Audits including: SAS70, Operational Audits, EDP Audits

III. Budget Guidance

In developing their FY2001 O&M budgets, Officers were provided with the following guidance by Terry Winter in a June 2000 memorandum:

As we begin the budgeting process for FY2001, I would like to share my thoughts with you on this important undertaking.

Overall, our challenge is to demonstrate fiscal discipline despite our continued provision of additional functionality to the market and as we take on new responsibilities. While our Board and the stakeholders recognize this level of service does not come without a price, we nonetheless must put together a clear and compelling case for any additional resources we require. Accordingly, the initial guidance I will give for the first draft of the FY2001 O&M budget is that we develop a budget which provides for service at the level provided this year, as well as implements the incremental programs associated with the approved FY2000 capital expenditures, and proposed FY2001 capital expenditures. To this end, departments should maintain their budgets at the FY2000 level, except for increases related to implementing these programs, and anticipated FY2001 salary adjustments. As for the capital budget, I would expect that our spending next year will be substantially lower than the \$40.1 million budget this year.

Additionally, to the extent your proposed budget is increased as a result of implementing the FY2000/2001 capital programs, be prepared to identify cost saving opportunities which would permit you to maintain your budget at the FY2000 level (plus salary adjustments).

As we did last year, we will not ignore opportunities to increase the efficiency of the markets we operate and to provide additional responsive service to stakeholders. To the extent possible, we should fit such programs in our proposed base budget. Other opportunities will be presented and considered outside of the base budget using the "incremental opportunity" format developed last year. The case for such incremental programs will need to be compelling to Management and the Board. I will also note that with the unbundled GMC we are likely to have in place next year, certain projects may be more attractive to the Board and stakeholders than others. As an example, because market enhancements will be paid for by only those participants who use the market, there may be a greater willingness to allow for cost increases in these areas than in the mandatory "control area operations" category of service, where all users bear these costs.

I encourage you to actively participate in the budgeting meetings that will be scheduled throughout this summer. These meetings are designed so that you can be fully informed about the plans of the various departments for FY2001, and how these plans may affect your service requirements and costs. We will also want to ensure that the effect of our capital spending plan on our operating budget is adequately considered. In summary, please work closely with your counterparts across our organization to develop a budget that makes a strong case for our resource needs for next year, and is realistic, yet challenging enough that our Board and stakeholders will recognize the clear value we will deliver with these funds.

IV. Budget Overview

The Exhibits in this section provide a high level overview of the outcome of the budgeting process, including:

1. Exhibit: Charts-Overall Revenue Requirement and Unbundled GMCs
 - Chart A: Overall revenue requirement (consisting of O&M budget plus financing budget) proposed for FY2001
 - Chart B: Unbundled GMCs for FY2001 vs. Pro Forma Unbundled 2000 GMC
2. Exhibit: Chart-What Causes the Change in Overall Revenue Requirement?
3. Exhibit: Summary Table of the Proposed FY2001 Budgets and GMC Components
4. Exhibit: Detailed Table of the Proposed FY2001 O&M Budget
5. Exhibit: Chart-Expenses By Category

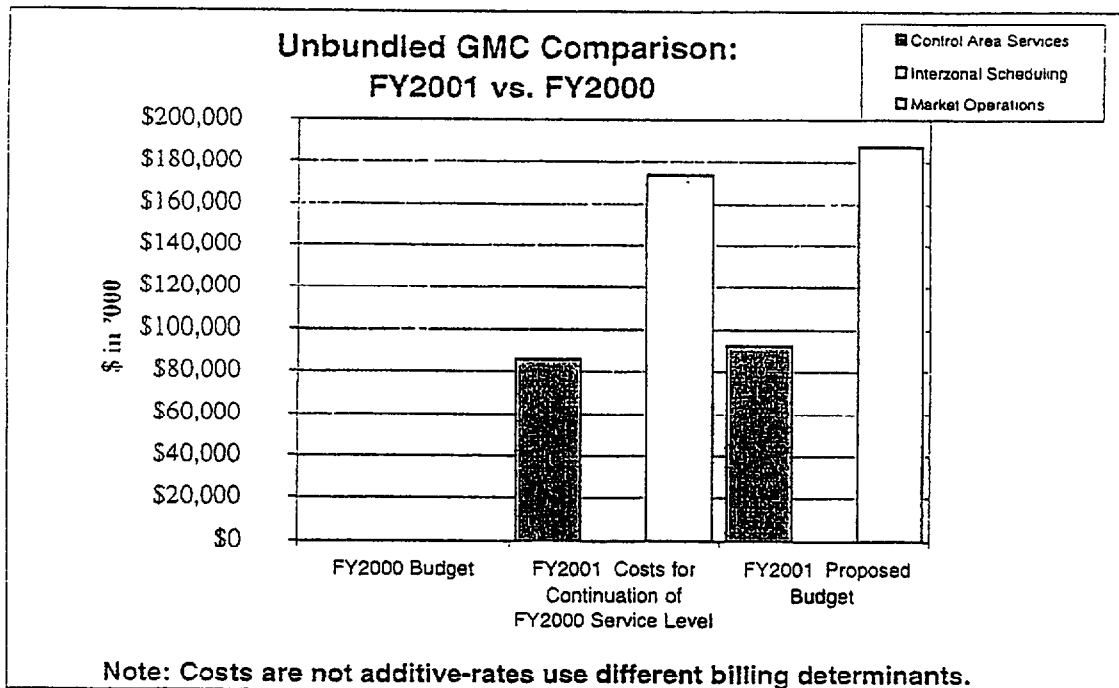
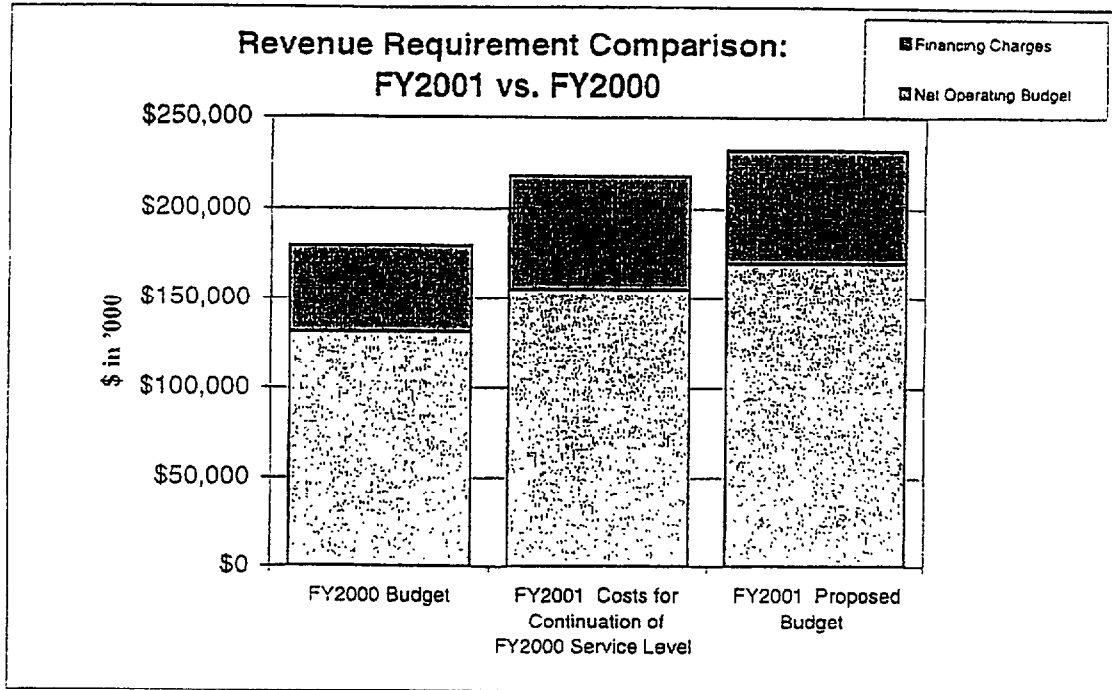
Chart A: Budget Overview	Chart B: Changes
Chart A: Salaries & Benefit Related	Chart B: Building, Leases and Facility
Chart A: Insurance	Chart B: Third Party Vendor Contracts
Chart A: Professional/Consulting	Chart B: Legal & Audit
Chart A: Training, Travel	Chart B: Miscellaneous



CALIFORNIA ISO

FY2001 Budget Overview

Overall Revenue Requirement and Unbundled GMCs



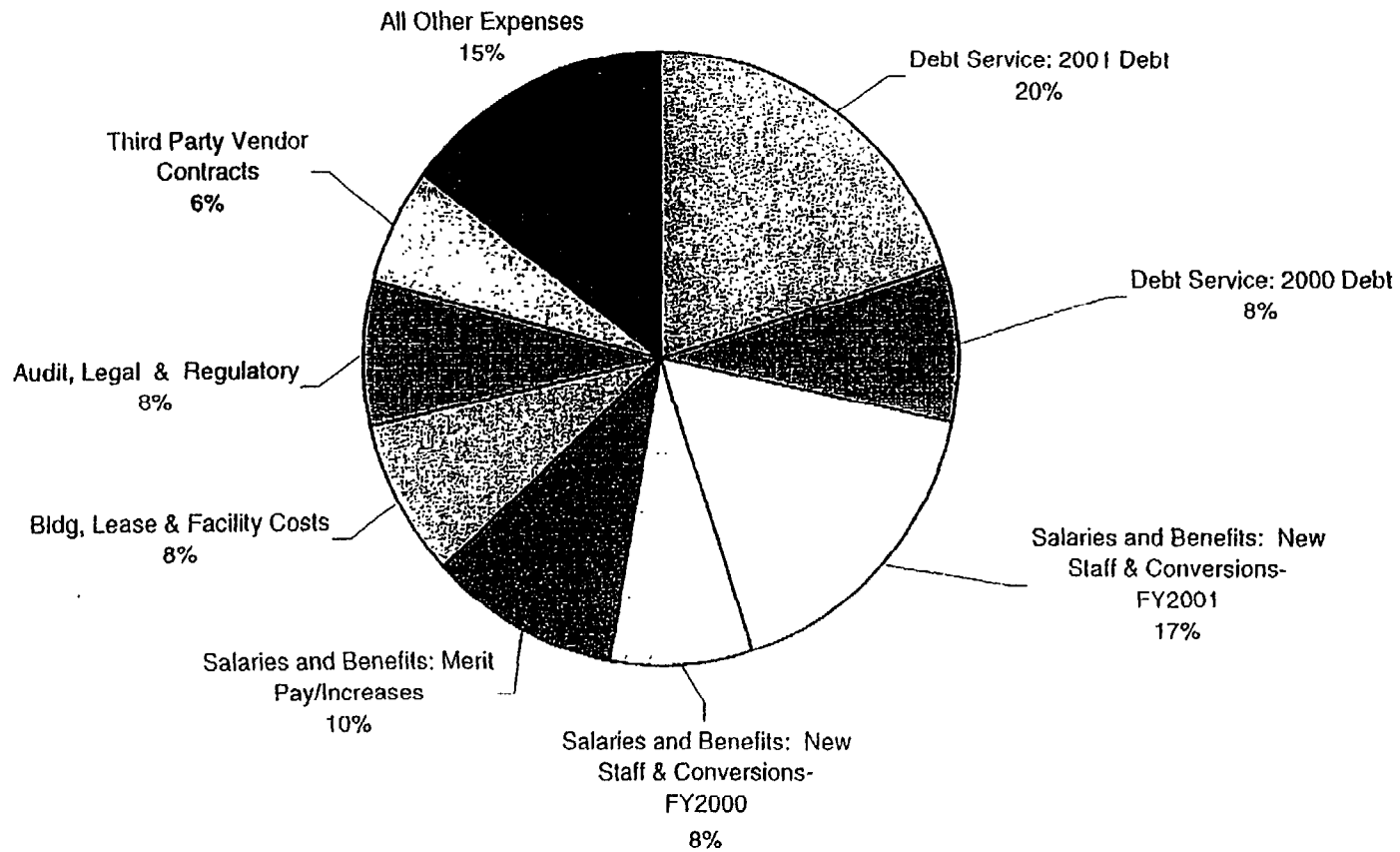


CALIFORNIA ISO

FY2001 Budget Overview

\$ in 000's

**FY2000 vs. FY2001: Source of Change in Revenue Requirement
(\$53 million Exclusive of Revenue Credit, \$46 million after Revenue Credit)**



FY2001 GMC Summary

\$ in 000's

FY2000 Budget	FY2001 Costs for Continuation of FY2000 Service Level	FY2001 Proposed Budget
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Revenue Requirement

Operating & Maintenance Budget	\$ 133,217	\$ 157,322	\$ 171,798
Difference from FY2000 FERC Filed Operating Budget		24,105	38,581
		18%	29%
Financing Budget:			
Principal-Existing Debt	26,800	30,233	30,233
Interest-Existing Debt	11,656	11,785	11,785
Total Debt Service-New Debt		8,494	8,494
Operating Reserve (25% of Principal & Interest)	9,614	12,628	12,628
Subtotal, Financing Collection	48,070	63,141	63,141
Less: Expense Recovery Budget:			
Interest Earnings	(1,100)	(1,350)	(1,350)
SC Application & Training Fees			
WSCC Reimbursement	(904)	(1,052)	(1,052)
Subtotal, Revenue Requirement before Revenue Credit	\$ 179,283	\$ 218,061	\$ 232,537
Revenue Credit From Operating Reserve		\$ (9,402)	\$ (7,230)
Total Revenue Requirement	\$ 179,283	\$ 208,659	\$ 225,307
Difference from FY2000 FERC Filed Revenue Requirement		29,376	46,024
		16%	26%

Multiplied by:

Cost Allocation Factors

Control Area Services	45.0%	49.3%	49.3%
Interzonal Scheduling	7.0%	7.8%	7.8%
Market Operations	48.0%	42.9%	42.9%

Equals:

Revenue Requirements by Service

Control Area Services	\$ 80,677	\$ 102,920	\$ 111,131
Interzonal Scheduling	\$ 12,550	\$ 16,312	\$ 17,614
Market Operations	\$ 86,056	\$ 89,427	\$ 96,562

Divided By:

Billing Determinant Volume Forecast

Existing GMC Settlement Transmission Volume	216,000	228,000	228,000
Control Area Services	260,679	269,803	269,803
Interzonal Scheduling	79,534	80,941	80,941
Market Operations	113,709	116,015	116,015

Equals:

Grid Management Charge ("GMC")

Bundled GMC w/ Existing GMC Settlement Basis	\$ 0.830	\$ 0.915	\$ 0.988
Control Area Services	\$ 0.309	\$ 0.381	\$ 0.412
Interzonal Scheduling	\$ 0.158	\$ 0.202	\$ 0.218
Market Operations	\$ 0.757	\$ 0.771	\$ 0.832


CALIFORNIA ISO
FY2001 Budget Summary

Detailed Table of the Proposed O&M Budget

Cost Center	Area	FY2000 Budget	FY2000 Forecast	FY2000 Head-count	FY2001 Costs for Continuation of FY2000 Service Level	FY2001 Headcount for Continuation of FY2001 Service Level	FY2001 Incremental Programs	FY2001 Incremental Program FTEs	FY2001 Proposed Budget	FY2001 Proposed Budget FTEs	FY2001 Proposed Budget vs. 2000 Budget
1100	Chief Executive Officer	8,480,782	10,252,000	25.5	12,587,677	30.5	2,770,000	-	16,357,677	80.5	8,876,946
1111	CEO - General	770,487		2.0	996,280	2.0	2,500,000	-	3,496,280	2	2,725,793
1211	HR General	2,513,480		11.5	3,727,666	12.5	270,000	-	3,997,666	13	1,484,186
1221	Office Administration	1,542,057		7.0	2,843,978	9.0	-	-	2,843,978	9	1,301,921
1231	Facilities	3,654,707		5.0	5,019,950	7.0	-	-	5,019,753	7	1,365,046
1300	Chief Financial Officer	7,485,885	8,453,000	47.5	9,717,944	54.0	95,200	-	9,813,144	55.0	2,327,259
1311	CFO - General	607,802		1.5	577,386	2.0	-	-	577,306	2	(30,416)
1321	Accounting	2,253,398		7.5	2,213,659	8.5	-	-	2,213,659	9	(39,739)
1331	Treasury/Financial Planning	1,448,834		4.5	1,686,387	4.5	95,200	1	1,781,587	6	332,752
1340	Settlements	5,175,851		34.0	5,240,513	39.0	-	-	5,240,513	39	64,662
1341	Billing and Settlements	1,027,958		3.0	670,794	4.0	-	-	670,794	4	(357,165)
1342	Application Support	1,122,142		6.0	981,091	6.0	-	-	981,091	6	(141,051)
1343	BBS - PSS	1,349,125		11.5	1,678,135	14.5	-	-	1,678,135	15	329,010
1344	BBS - FSS	1,676,625		13.5	1,910,493	14.5	-	-	1,910,493	15	233,867
1400	Chief Information Officer	44,503,717	63,043,000	198.5	69,682,074	212.0	5,091,280	-	74,773,354	215	3,169,637
1411	CIO - General	756,031		1.5	758,625	1.5	-	-	758,625	2	2,593
1420	Project & Application Svcs Grp	12,123,862		19.5	18,193,670	29.5	4,160,233	-	22,353,903	30	10,230,041
1421	Project & Application Services	254,849		1.5	237,246	1.5	-	-	237,246	2	(17,603)
1422	Application Dev & Support Ctr	1,290,587		8.0	3,815,196	17.0	-	-	3,815,196	17	2,524,609
1423	Project Office Group	703,005		5.0	834,817	5.0	-	-	834,817	5	131,813
1424	IT Asset & Contract Group	9,875,421		5.0	13,306,410	6.0	4,160,233	-	17,466,643	6	7,591,222
1430	Technology Infrastructure Svcs	41,740,223		22.0	41,144,850	26.0	1,746,047	1	42,890,897	27	1,150,675
1432	Computing & Telecom Svcs - Gen	196,200		1.0	266,186	2.0	-	-	266,186	2	69,986
1431	Computing Services	6,640,496		4.0	6,903,806	5.0	187,392	-	7,091,198	5	450,701
1441	Telecommunication Services	32,959,575		10.0	31,760,693	11.0	1,558,655	1	33,319,348	12	359,773
1451	Technology Risk Management	1,943,952		7.0	2,214,165	8.0	-	-	2,214,165	8	270,214
1460	Operations Systems Group	9,418,034		52.0	9,005,219	59.0	85,000	-	9,090,219	59.0	(327,815)
1463	Operations Systems	270,083		3.0	330,530	3.0	-	-	330,530	3	60,447
1461	EMS/SCADA	1,643,117		10.0	1,325,381	11.0	-	-	1,325,381	11	(317,736)
1462	MDAS	1,995,435		14.0	3,061,586	15.0	-	-	3,061,586	15	1,066,151
1464	Generation Communication Project	1,943,832		-	-	-	-	-	-	-	(1,943,832)
1465	System Engineering & Admin	2,410,242		16.0	3,011,338	20.0	-	-	3,011,338	20	601,096
1466	Data Quality Group	600,107		5.0	683,905	6.0	85,000	-	768,905	6	168,798
1467	Operational Applications	555,217		4.0	592,479	4.0	-	-	592,479	4	37,262
1471	Information Architectures & Tech.	465,561		3.5	579,710	4.5	-	-	579,710	5	114,149
1500	Chief Operations Officer	33,190,018	31,500,000	233.0	36,782,321	236.0	4,010,325	-	40,792,646	251.0	7,602,628
1511	VP Operations-General	1,200,103		2.0	1,192,286	2.0	900,000	-	2,092,286	2	892,183
1521	Grid Planning	2,067,821		15.0	2,157,346	15.0	-	-	2,157,346	15	89,524
1510	Eng'g & Support Group	10,799,785		67.0	11,564,906	69.0	2,583,000	-	14,147,906	80.0	3,348,121
1512	Managing Dir - Eng'g & Support	-		1.5	557,441	1.5	-	-	557,441	2	557,441
1560	OSAT Group	5,516,908		34.0	6,350,772	36.0	507,000	3	6,857,772	39.0	1,340,864
1540	OSAT Group General	424,109		1.0	253,354	2.0	-	-	253,354	2	(170,755)
1549	Operations Training Group	1,638,812		18.0	2,861,000	18.0	382,000	3	3,243,000	21	1,604,188
1554	Operations R&D Group	981,228		4.0	1,011,426	4.0	-	-	1,011,426	4	30,198
1555	Operations Support Group	2,472,759		11.0	2,224,992	12.0	125,000	-	2,349,992	12	(122,767)
1540	Engineering and Maintenance Grp	5,749,183		37.0	5,895,890	37.0	2,078,000	8	7,971,890	45.0	2,222,707
1547	Engineering and Maintenance	1,291,628		2.0	443,763	2.0	-	-	443,763	2	(847,865)

Detailed Table of the Proposed O&M Budget

Cost Center	Area	FY2000 Budget	FY2000 Forecast	FY2000 Headcount	FY2001 Costs for Continuation of FY2000 Service Level	FY2001 Headcount for Continuation of FY2001 Service Level	FY2001 Incremental Programs	FY2001 Incremental Program FTEs	FY2001 Proposed Budget	FY2001 Proposed Budget FTEs	FY2001 Proposed Budget vs. 2000 Budget
1542	Outage Coordination	1,382,970		10.5	1,414,459	10.5	-	-	1,414,459	11	31,488
1543	Operations Engineering	2,548,228		19.0	2,798,471	19.0	2,076,000	8	4,874,471	27	2,326,243
1558	Transmission Facilities	526,356		5.5	1,239,197	5.5	-	-	1,239,197	6	712,841
1520	Operations Group	\$ 18,568,008		143.5	\$ 20,628,587	144.5	\$ 527,325	4	\$ 21,155,912	146.5	\$ 2,587,909
1513	Managing Director - Operations	-		1.5	294,606	1.5	-	-	294,606	2	294,606
1544	Operations Scheduling	4,250,717		35.0	4,767,767	36.0	126,885	1	4,894,652	37	643,935
1570	Grid Operations Group	\$ 7,574,469		58.0	\$ 8,380,653	58.0	126,440	1	\$ 8,507,093	59.0	\$ 932,624
1545	Grid Operations	6,768,443		51.0	7,328,616	51.0	126,440	1	7,455,056	52	686,612
1546	Security Coordination	806,025		7.0	1,052,037	7.0	-	-	1,052,037	7	246,011
1550	Market Operations Group	\$ 6,740,817		49.0	\$ 7,185,561	49.0	274,000	2	\$ 7,459,561	51.0	\$ 718,744
1551	Market Operations	768,997		2.0	594,590	2.0	-	-	594,590	2	(174,407)
1552	Manager of Markets	2,528,200		20.0	2,765,503	20.0	-	-	2,765,503	20	237,303
1553	Application Development & Testing	1,504,119		13.0	1,656,874	13.0	137,000	1	1,793,874	14	289,755
1556	Market Planning	686,102		4.0	732,924	4.0	-	-	732,924	4	46,822
1557	Market Support & Development	1,253,399		10.0	1,435,669	10.0	137,000	1	1,572,669	11	319,270
1600	General Counsel	\$ 11,779,581	\$ 14,474,000	31.0	\$ 16,052,159	31.0	\$ 841,500	4	\$ 16,893,659	35.0	\$ 5,114,078
1611	General Counsel	542,603		2.0	529,348	2.0	-	-	529,348	2	(13,255)
1631	Legal and Regulatory	7,049,814		18.0	11,774,730	18.0	705,500	3	12,480,230	21	4,830,416
1831	Board of Governors	1,129,889		-	723,500	-	-	-	723,500	-	(406,389)
1641	Department of Market Analysts	2,453,276		11.0	3,024,581	11.0	136,000	1	3,160,581	12	707,305
1700	Client Services	\$ 5,265,678	\$ 4,600,000	37.0	\$ 5,724,251	41.0	\$ 467,835	13	\$ 6,192,086	44.0	\$ 926,508
1711	Client Services - General	377,052		2.0	453,265	2.0	-	-	453,265	2	76,213
1731	Contracts and Compliance	2,290,583		17.0	2,271,597	17.0	110,835	1	2,382,432	18	91,849
1741	Client Relations	2,597,943		18.0	2,999,389	22.0	357,000	2	3,356,389	24	758,446
1800	Strategic Development & Continuation	\$ 605,009	\$ 764,000	8.5	\$ 1,424,594	7.5	\$ 300,000	-	\$ 1,724,594	7.5	\$ 1,119,586
1811	Strategic Dev & Com - General	-		2.5	706,810	3.5	-	-	706,810	4	706,810
1821	Communications	605,009		4.0	717,784	4.0	300,000	-	1,017,784	4	412,775
Totals		\$ 133,216,514	\$ 134,086,000	479.0	\$ 151,971,021	520.5	14,476,140	24	\$ 166,447,161	544.5	\$ 33,230,647


CALIFORNIA ISO
FY2001 Budget Summary
Detailed Table of the Proposed O&M Budget

Cost Center	Area	FY2000 Budget	FY2000 Forecast	FY2000 Headcount	FY2001 Costs for Continuation of FY2000 Service Level	FY2001 Headcount for Continuation of FY2001 Service Level	FY2001 Incremental Programs	FY2001 Incremental Program FTEs	FY2001 Proposed Budget	FY2001 Proposed Budget FTEs	FY2001 Proposed Budget vs. 2000 Budget
Totals		\$ 133,216,514	\$ 134,086,000	479.0	\$ 151,971,021 Increase	520.5 41.5	14,476,140	24	\$ 166,447,161	544.5	\$ 33,230,647
Other	Payroll Burden Change to 32%				937,800				937,800		
	Officer LT Comp.				366,000				366,000		
	Spot Bonuses				175,000				175,000		
	Salary Increases				3,872,262				3,872,262		
	Subtotal, Salary Related Adjustments				5,351,062				5,351,062		
	Total Expected O&M Budget	133,216,514			157,322,083				171,798,223		
	Debt Service Funding-Current	38,456,000			38,456,000				38,456,000		
	Debt Service-FY2000				3,562,753				3,562,753		
	Debt Service-FY2001				8,493,867				8,493,867		
	Operating Reserve (25% debt Service)	9,614,000			12,628,155				12,628,155		
	Expense Recovery	(2,004,000)			(2,402,037)				(2,402,037)		
	Total Revenue Requirement	\$ 179,282,514			\$ 218,060,822				\$ 232,536,962		
	/ Transmission Volume	216,000,000			228,000,000				228,000,000		
	=GMC	\$ 0.830			\$ 0.956				\$ 1.020		
	Revenue Credit				\$ (7,230,267)				\$ (7,230,267)		
	Revenue Requirement after Revenue Credit	\$ 179,282,514			210,830,555				225,306,695		
	/ Transmission Volume	216,000,000			228,000,000				228,000,000		
	=GMC	\$ 0.830			\$ 0.925				\$ 0.988		

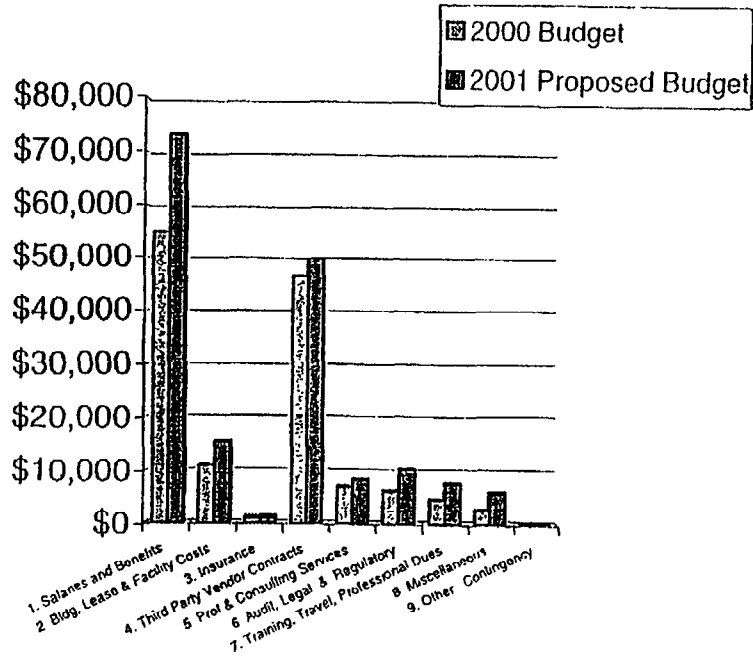


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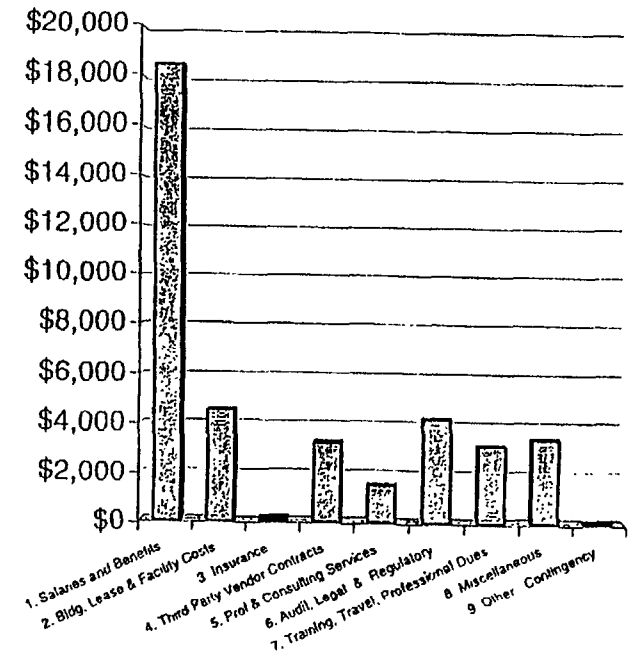
FY2001 Budget Overview

\$ in 000's

Cal ISO Total O&M Budget



Cal ISO Total O&M Budget Changes



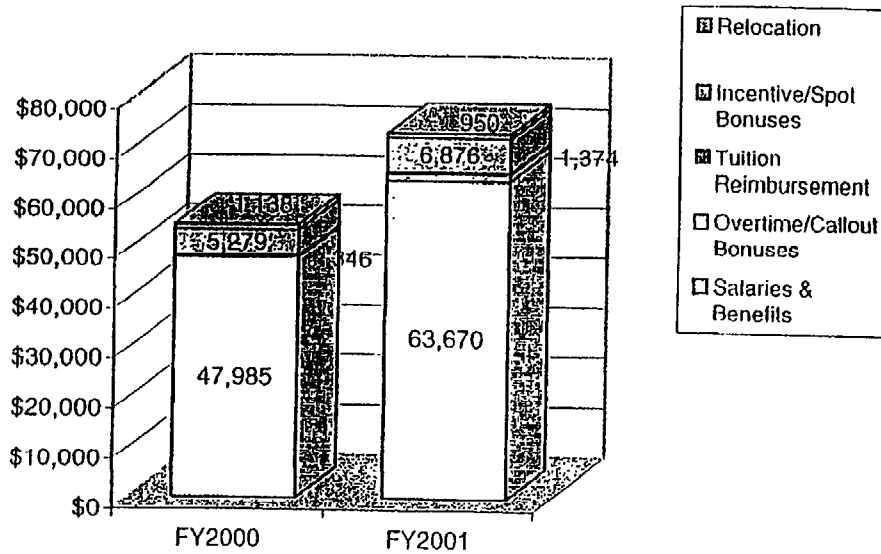


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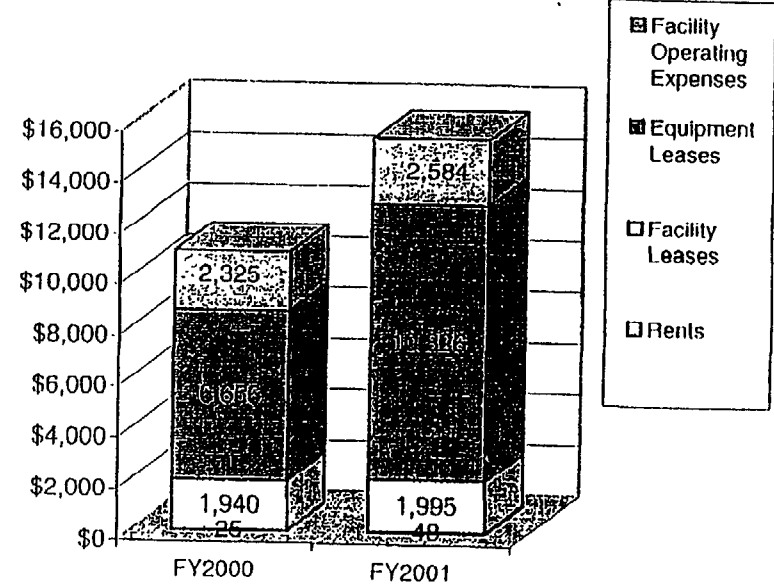
FY2001 Budget Overview

\$ in 000's

CAISO Expenditures - Salary & Benefit Related



CAISO Expenditures - Building, Leases and Facility



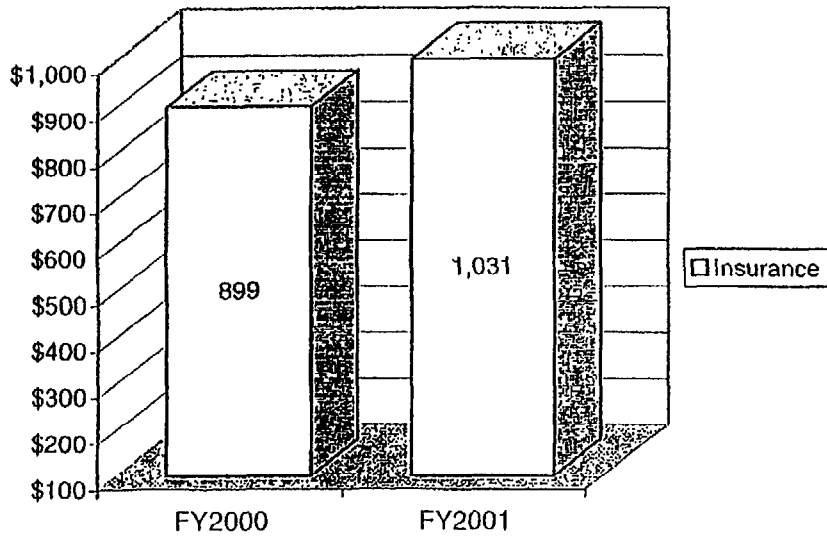


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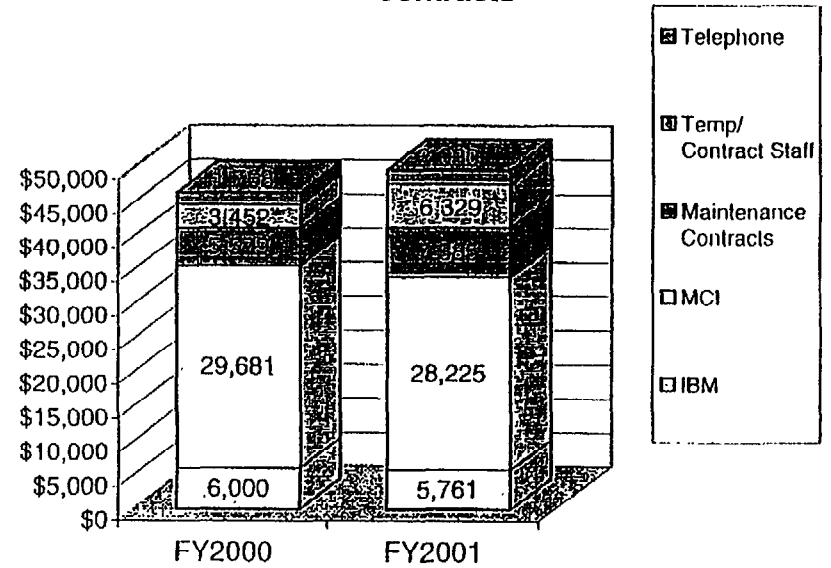
FY2001 Budget Overview

\$ in 000's

CAISO Expenditures-Insurance



CAISO Expenditures - Third Party Vendor Contracts

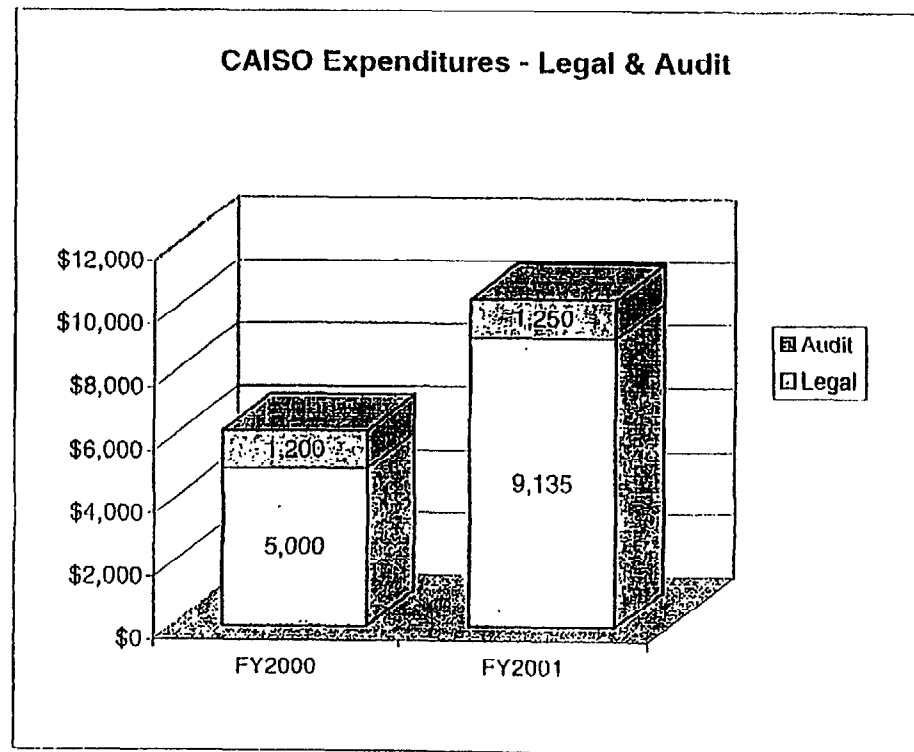
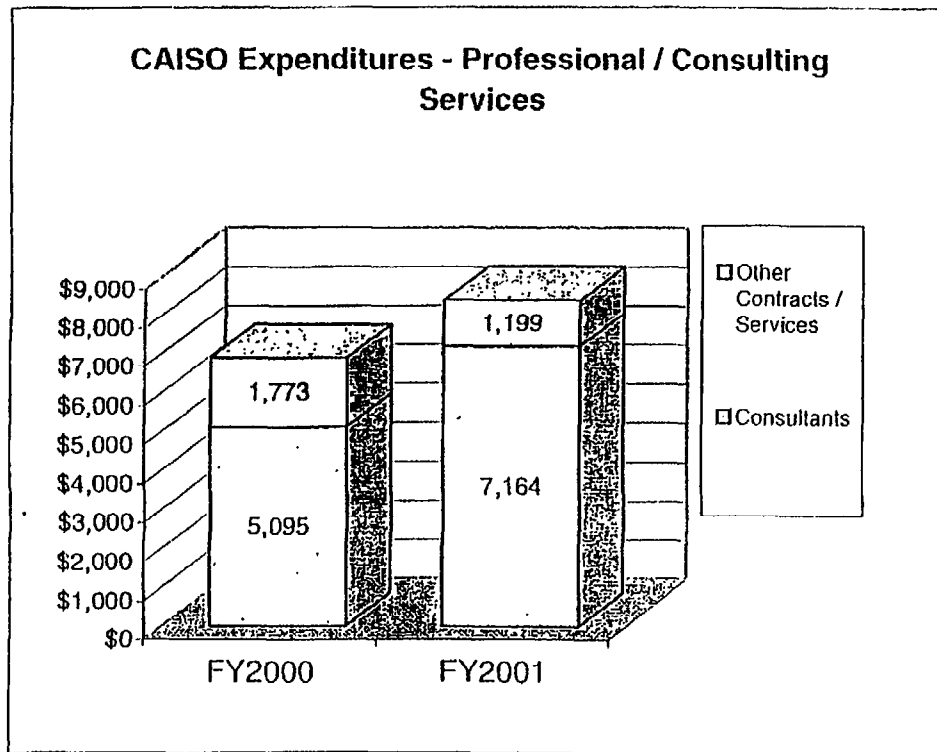




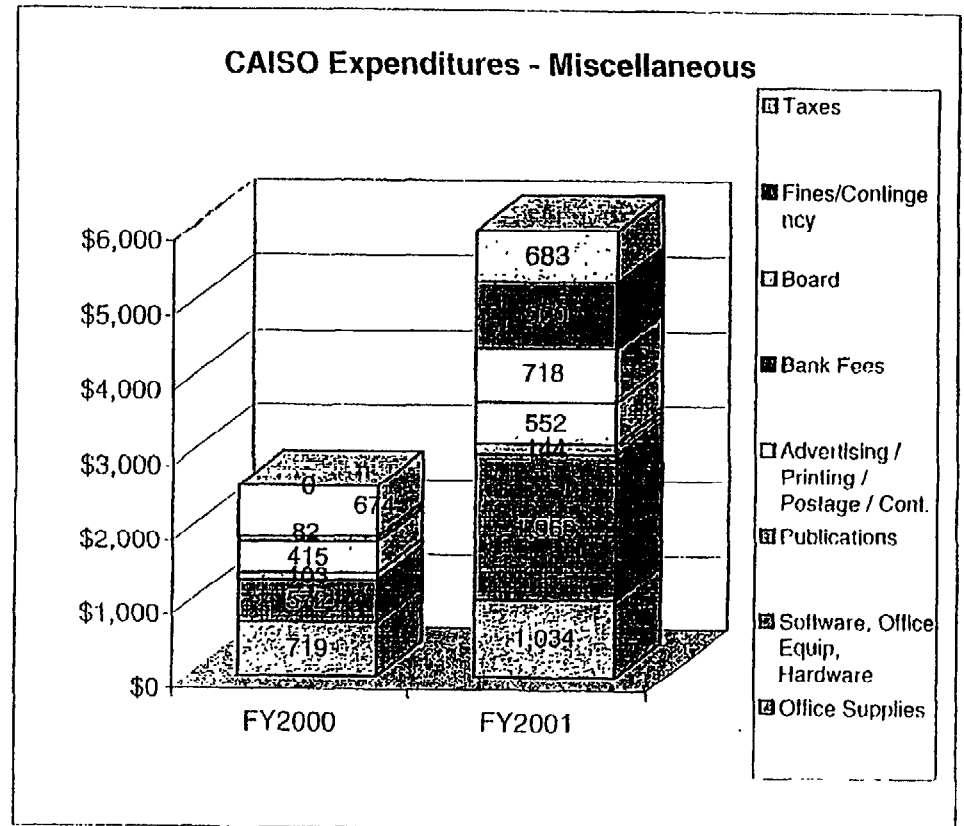
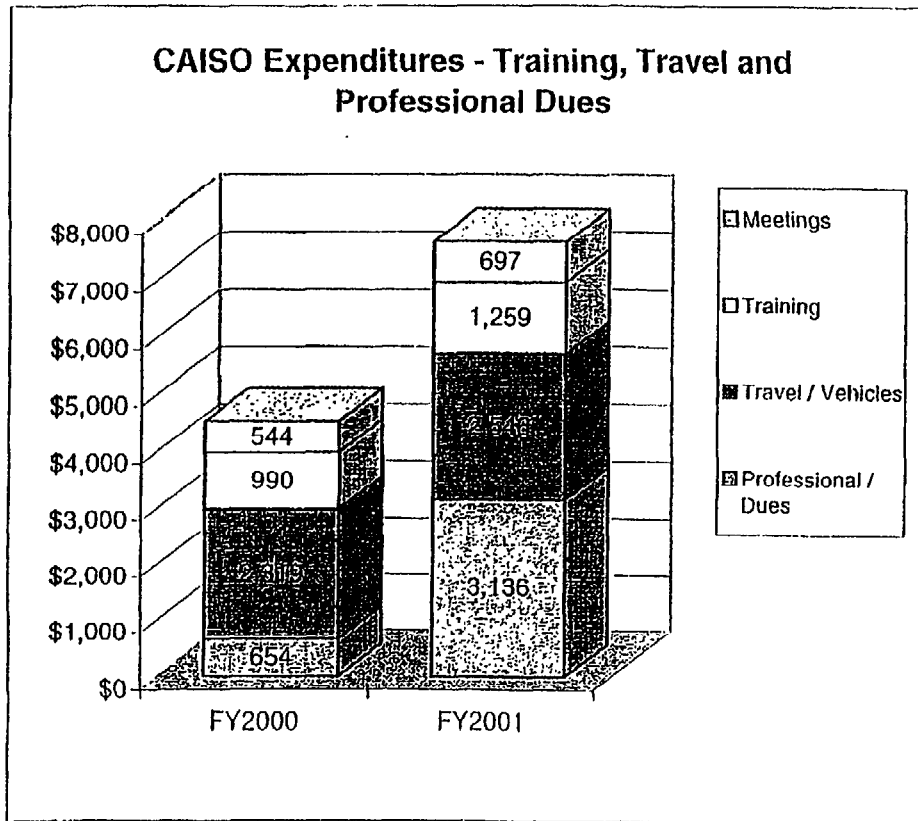
CALIFORNIA ISO

FY2001 Budget Overview

\$ in 000's



FY2001 Budget Overview
\$ in 000's



V. Programs in Proposed FY2001 Budget Which Are Incremental to FY2000 Service Levels

Of the \$38 million increase in the proposed FY2001 budget, \$24 million is related to costs necessary to provide for a continuation of the level service provided in FY2000, including the costs related to implementation of capital projects approved in FY2000. The remainder of the increase is related to:

- funding for full implementation of proposed FY2001 capital projects
- resources to deliver responsive and dedicated support to regulators and legislative inquiries.
- providing for the level of training & development that is deemed necessary and appropriate

In order to highlight the proposed changes in ISO services from FY2000 as well as the associated costs, CAISO developed a list of incremental programs for consideration by the Finance Committee. A sample of the type of program justification collected for each of these programs during the budgeting process is included as an Exhibit in this section.

These programs, which were, "in the sense of the Finance Committee", justified for inclusion in the proposed budget, have been incorporated into the proposed budget.

The total cost of Management Recommended incremental programs included in the proposed budget is approximately \$14.4 million. These programs are highlighted in the Divisional budget summaries. The programs have been classified by both CAISO division, and program type using the categories below:

1. Regulatory and Tariff Compliance (FERC, NERC, WSCC Mandates)	2. Reliability/ Operating Support	3. Market & Internal Information Provision (inc. additional accuracy and analysis)	4. Internal Cost Saving, or productivity enhancement, or avoided costs	5. Corporate Communications and Stakeholder Support	6. CAISO IT & Other Infrastructure Requirement	7. Participation in Regional Transmission Organizations
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Charts and tables of incremental programs included in the proposed FY2001 budget follow:

- Exhibit: Summary Table of Incremental Programs Included in FY2001 Budget
- Exhibit: Chart of Incremental Programs Included in FY2001 Budget-By Division
- Exhibit: Detailed Table of Incremental Programs Included in FY2001 Budget
- Exhibit: Incremental Program Request Template



CALIFORNIA ISO

FY2001 Budget Summary

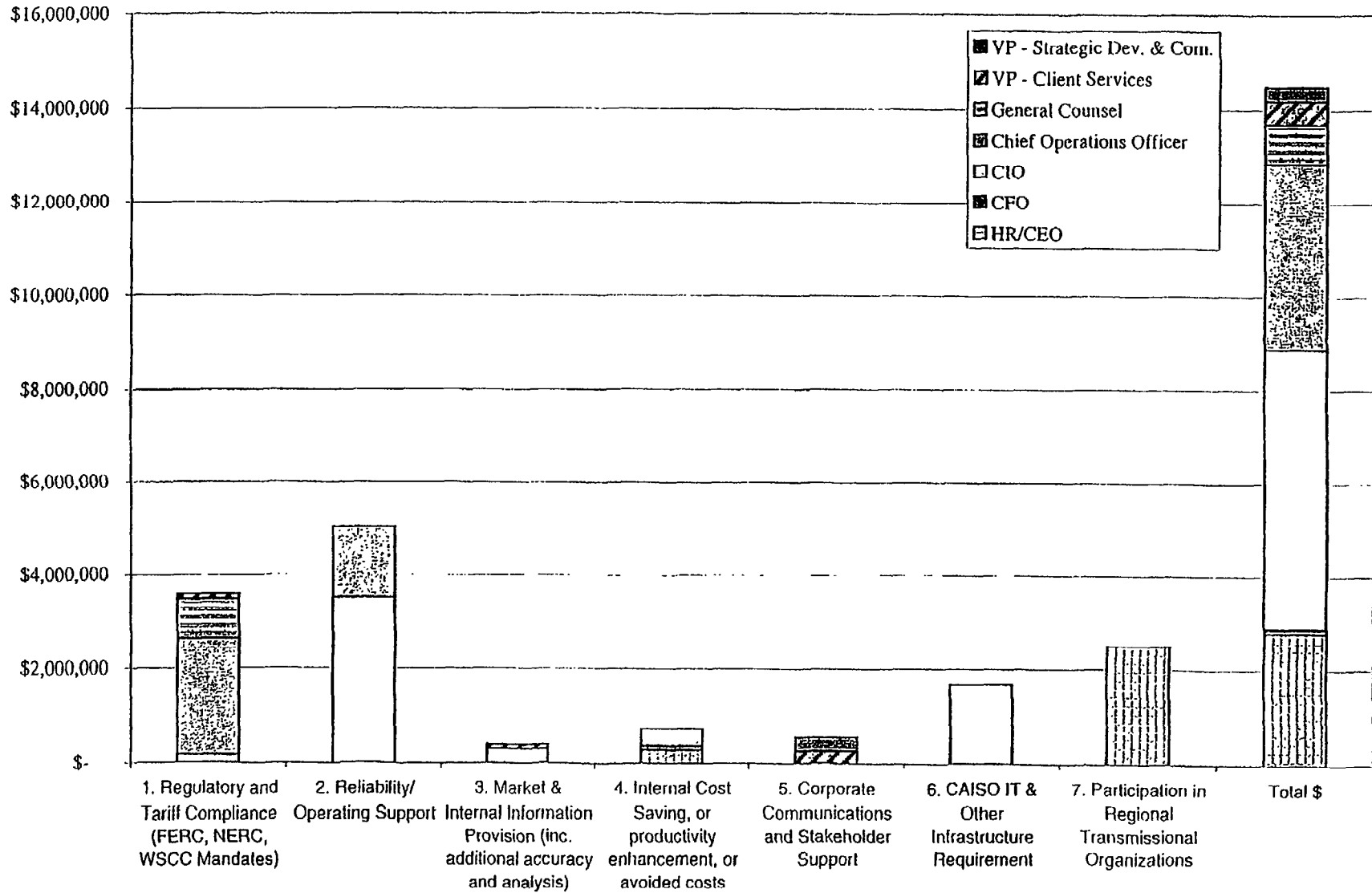
Incremental Program Summary

INCREMENTAL PROGRAMS INCLUDED IN PROPOSED BUDGET

	1. Regulatory and Tariff Compliance (FERC, NERC, WSCC Mandates)	2. Reliability/ Operating Support	3. Market & Internal Information Provision (inc. additional accuracy and analysis)	4. Internal Cost Saving, or productivity enhancement, or avoided costs	5. Corporate Communications and Stakeholder Support	6. CAISO IT & Other Infrastructure Requirement	7. Participation in Regional Transmission Organizations	Total \$	# Programs	# FTEs
CAISO Division										
HR/CEO	\$ -	\$ -	\$ -	\$ 270,000	\$ -	\$ -	\$ 2,500,000	\$ 2,770,000	3	-
CFO	-	-	-	95,200	-	-	-	95,200	1	1.0
CIO	165,500	3,504,426	295,397	350,000	-	1,675,957	-	5,991,280	23	1.0
Chief Operations Officer	2,467,885	1,542,440	-	-	-	-	-	4,010,325	10	15.0
General Counsel	841,500	-	-	-	-	-	-	841,500	4	4.0
VP - Client Services	110,835	-	95,000	-	262,000	-	-	467,835	3	3.0
VP - Strategic Dev. & Com.	-	-	-	-	300,000	-	-	300,000	1	-
Total	\$ 3,585,720	\$ 5,046,866	\$ 390,397	\$ 715,200	\$ 562,000	\$ 1,675,957	\$ 2,500,000	\$ 14,476,140		
# Programs	12	11	4	4	2	11	1		45	
# FTEs	13.0	7.0	-	1.0	2.0	1.0	-			21.0
Related to Capital Projects	\$ 1,606,500	\$ 4,720,426	\$ 280,997	\$ -	\$ -	\$ -	\$ -	\$ 6,607,923		



Management Recommended Incremental Program Opportunities



Cost Center	Area
1111	CEO - General
1211	HR General
1221	Office Administration
1231	Facilities

FY2001 Incremental Programs	FY2001 Incremental Program FTEs	Program	Capital Project Related
2,500,000	-	RTO Planning and Implementation	
170,000	-	College Based Recruiting Program	
100,000	-	Executive Development Program	
	-		
	-		

Classification

- 7. Participation in Regional Transmission Organizations
- 4. Internal Cost Saving, or productivity enhancement, or avoided costs
- 4. Internal Cost Saving, or productivity enhancement, or avoided costs

Cost Center	Area
1311	CFO - General
1321	Accounting
1331	Treasury/Financial Planning
1341	Billing and Settlements
1342	Application Support
1343	BBS - PSS
1344	BBS - FSS

FY2001 Incremental Programs	FY2001 Incremental Program FTEs	Program	Capital Project Related
95,200	1.0	Financial Analyst	
	-		
	-		
	-		
	-		

- 4. Internal Cost Saving, or productivity enhancement, or avoided costs

Cost Center	Area
1411	CIO - General
1421	Project & Application Svcs - Gen
1422	Application Dev & Support Ctr
1423	Project Office Group
1424	IT Asset & Contract Group

FY2001 Incremental Programs	FY2001 Incremental Program FTEs	Program	Capital Project Related
1,571,400	-	New EMS System	Yes
95,256	-	Market Analysis Expansion	Yes
185,741	-	Market Power Simulation System	Yes
110,000	-	Special Business Needs Software and Service Agreements	
115,000	-	Maintenance Contracts-Software Acct: 445 E-Tag II Software Support	Yes
1,287,392	-	Market & Infrastructure Redesign	Yes
29,106	-	ADSC Test Server	
115,200	-	BBS Backup Server Upgrades	
14,400	-	BBS Production Server Upgrades	
193,609	-	SLIC Phase II/Outage Coordination	Yes
360,450	-	SI Workspace Modifications	Yes
76,104	-	IT Headcount Support Per Person for net staff-\$7456 for FTEs related any incremental programs added.	
6,575	-	2001 DA Data Analysis Tool	Yes

- 2. Reliability/ Operating Support
- 3. Market & Internal Information Provision (inc. additional accuracy and analysis)
- 3. Market & Internal Information Provision (inc. additional accuracy and analysis)
- 6. CAISO IT & Other Infrastructure Requirement

- 1. Regulatory and Tariff Compliance (FERC, NERC, WSCC Mandates)

- 2. Reliability/ Operating Support

- 6. CAISO IT & Other Infrastructure Requirement
- 6. CAISO IT & Other Infrastructure Requirement
- 3. Market & Internal Information Provision (inc. additional accuracy and analysis)
- 2. Reliability/ Operating Support

- 2. Reliability/ Operating Support
- 6. CAISO IT & Other Infrastructure Requirement

- 2. Reliability/ Operating Support

Cost Center	Area
1432	Computing & Telecom Svcs - Gen
1431	Computing Services
1441	Telecommunication Services
1451	Technology Risk Management

FY2001 Incremental Programs	FY2001 Incremental Program FTEs	Program	Capital Project Related
100,000	-	Tivoli Systems Management and Monitoring consulting	
20,000	-	Temp support for new personnel equipment	
67,392	-	IT Headcount Support Per Person for net staff-\$7456 for FTEs related any incremental programs added.	
122,707	1.0	Senior Network Engineer	
600,000	-	Project support for telecommunications equipment and additional circuit requirements	
400,000	-	Project support for telecommunications consulting services.	
35,448	-	IT Headcount Support Per Person for net staff-\$7456 for FTEs related any incremental programs added.	
350,000	-	Contract Migration	
50,500	-	Additional equipment and consulting support services for Security requirements.	Yes

- 6. CAISO IT & Other Infrastructure Requirement

- 6. CAISO IT & Other Infrastructure Requirement

- 6. CAISO IT & Other Infrastructure Requirement

- 6. CAISO IT & Other Infrastructure Requirement
- 6. CAISO IT & Other Infrastructure Requirement

- 6. CAISO IT & Other Infrastructure Requirement

- 6. CAISO IT & Other Infrastructure Requirement

- 4. Internal Cost Saving, or productivity enhancement, or avoided costs
- 1. Regulatory and Tariff Compliance (FERC, NERC, WSCC Mandates)

Cost Center	Area
1463	Operations Systems
1481	EMS/SCADA
1482	MDAS
1484	Generation Communication Project
1465	System Engineering & Admin
1466	Data Quality Group
1467	Operational Applications
1471	Information Architectures & Tech.

FY2001 Incremental Programs	FY2001 Incremental Program FTEs	Program	Capital Project Related
85,000	-	Summer 2001 - Demand Relief Validation	

Classification
2. Reliability/ Operating Support

Cost Center	Area
1511	Chief Operations Officer
1521	Grid Planning
1510	Eng'g & Support Group
1512	Managing Dir - Eng'g & Support
1580	OSAT Group
1548	OSAT Group General
1549	Operations Training Group
1554	Operations R&D Group
1555	Operations Support Group
1540	Engineering and Maintenance Group
1547	Engineering and Maintenance
1542	Outage Coordination
1543	Operations Engineering
1559	Transmission Facilities
1520	Operations Group
1513	Managing Director - Operations
1544	Operations Scheduling
1570	Grid Operations Group
1545	Grid Operations
1546	Security Coordination
1550	Market Operations Group
1551	Market Operations
1552	Manager of Markets
1553	Application Development & Testing
1556	Market Planning
1557	Market Support & Development

FY2001 Incremental Programs	FY2001 Incremental Program FTEs	Program	Capital Project Related
900,000	-	WSCC RMS Fines	
507,000	-		
115,000	1.0	Expanded Operations Training	
267,000	2.0	OTS Ops Training Support Simulator (Necessary even with the existing EMS)	Yes
125,000	-	EMS Display Development	Yes
2,076,000	5.0	Market Engineering (CONG reform/CMR/EMS (this is an annualized cost, but full amount is necessary for 2001))	Yes
909,000	3.0	Advance Apps Support (Necessary even with the existing EMS)	Yes
126,885	1.0	Regulatory Compliance	
126,440	1.0	Shift Manager (partially offset by reductions in overtime.)	
274,000	2.0		
137,000	1.0	CMR Applications Development Support & Testing	Yes
137,000	1.0	CMR Development Support	Yes

- 2. Reliability/ Operating Support
- 1. Regulatory and Tariff Compliance (FERC, NERC, WSCC Mandates)
- 2. Reliability/ Operating Support
- 2. Reliability/ Operating Support
- 2. Reliability/ Operating Support
- 2. Reliability/ Operating Support
- 1. Regulatory and Tariff Compliance (FERC, NERC, WSCC Mandates)
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- 1. Regulatory and Tariff Compliance (FERC, NERC, WSCC Mandates)

Cost Center	Area
1611	General Counsel
1631	Legal and Regulatory
1831	Board of Governors
1641	Department of Market Analysis

FY2001 Incremental Programs	FY2001 Incremental Program FTEs	Program	Capital Project Related
277,500	1.0	Additional FERC Liaison	
220,000	1.0	CA Legislative Liaison	
208,000	1.0	Additional Legal/Regulatory Staff Atty.	
135,000	1.0	Analyst for response to investigations	

- 1. Regulatory and Tariff Compliance (FERC, NERC, WSCC Mandates)
- 1. Regulatory and Tariff Compliance (FERC, NERC, WSCC Mandates)
- 1. Regulatory and Tariff Compliance (FERC, NERC, WSCC Mandates)
- 1. Regulatory and Tariff Compliance (FERC, NERC, WSCC Mandates)

Cost Center	Area
1711	Client Services - General
1731	Contracts and Compliance
1741	Client Relations

FY2001 Incremental Programs	FY2001 Incremental Program FTEs	Program	Capital Project Related
110,835	1.0	Sr. Compliance Engineer	
262,000	2.0	Add two facilitators	

- 1. Regulatory and Tariff Compliance (FERC, NERC, WSCC Mandates)
- 5. Corporate Communications and Stakeholder

Cost Center	Area
1811	Strategic Dev & Com - General
1821	Communications

FY2001 Incremental Programs	FY2001 Incremental Program FTEs	Program	Capital Project Related
95.000	-	Charge Type Mapping System	
300.000	-	Public Affairs Consulting	

Classification
3 Market & Internal Information Provision (inc.
5. Corporate Communications and Stakeholder

Totals \$ 14,476,140 24.0 \$ 6,607,923
Program Summary

1. Regulatory and Tariff Compliance (FERC, NERC, WSCC Mandates)	13	3,585,720
2. Reliability/ Operating Support	7	5,046,866
3. Market & Internal Information Provision (inc. additional accuracy and analysis)	-	390,397
4. Internal Cost Saving, or productivity enhancement, or avoided costs	1	715,200
5. Corporate Communications and Stakeholder Support	2	562,000
6. CAISO IT & Other Infrastructure Requirement	1	1,675,957
7. Participation in Regional Transmissional Organizations	-	2,500,000
	24	14,476,140

Exhibit- Incremental Program Request Template

Cost Center: [Click here and type Cost Center]
Department Name: [Click here and type department name]
Program Title: [Click here and type program name]
Estimated Cost: [Click here and type total estimated program cost]
Estimated Additional Staffing: [Click here and type number of additional staff]

Program Description and Detail:

- Description of the proposed program/expenditure/opportunity.
- Description of departmental services/functionality/output before and after the proposed change.
- Impact on market effectiveness and efficiency
- Potential risks from implementing/not implementing the proposed program:

A. Reliability of Grid Management and Dispatch Operation	
B. Compliance with Protocols, Regulations, & Contract Provisions	
C. Change Management / Operational Risks	
D. Technology Risks	
E. Financial Risks & Implications	
F. Strategic Risks	
G. Introducing Potential Exposure to ISO for Litigation	

Program Costs for the Cost Center:

Category	Proposed Cost	Proposed # of additional Staff
Salaries (including base salaries plus 40% burden)		
Building, Leases & Facility		
Insurance		
Third Party Vendor Contracts		
Professional & Consulting Services		
Legal/Audit Expenses		
Travel, Training & Professional		
Other		
Total	0	

- Cost of the proposed program on other CAISO departments, itemized, based on consultation with them.

VI. CAISO Staffing Overview

CAISO staffing changes are summarized in the following Exhibits. Detailed discussions as to the purpose of these changes is provided in the Divisional budget discussions which follow this section. Note that these staffing overviews provide a snapshot of only CAISO full time employees, and do not provide the full view of all resources used by CAISO to fulfill its responsibilities, including consultants and contractors.

The proposed budget includes a staffing cost adjustment of \$5.4 million in FY2001, to provide for:

1. Employees' merit and market adjustments to base salaries providing for a funding pool of 6% to be allocated across ISO Divisions: cost of \$3.9 million,
2. Increased benefit costs, requiring an adjustment to the "payroll burden" rate from 30 to 32%: cost of \$1 million,
3. Officer long term compensation, and employee spot bonus funding of \$.5 million

These salary and benefit related costs have not been distributed to the ISO Divisions in this proposed budget to allow for a comparison of staffing costs on a consistent basis from FY2000 to FY2001. Rather, the \$5.4 million has been shown as a separate item in the proposed budget.

The following Exhibits are provided:

- Exhibit: Table-Staffing Changes in Proposed FY2001 Budget
- Exhibit: Chart-Staffing-FY2000 to FY2001
- Exhibit: Table-Additional Positions During FY2000

**Exhibit: Table-Staffing Changes
in the Proposed FY2001 Budget**

CAISO Division	FY2000 Operating Budget	Transfers during FY2000	Additional Staff Authorized During FY2000	FY2000 Approved Staffing	FY2001 Contractor Con- versions	FY2001 New Rqmts. (Base Budget)	FY2001 New Rqmts. (Incremental Prqs)	FY2001 Proposed Budget
HR/CEO	22.5	(2.0)	5.0	25.5	4.0	1.0	-	30.5
CFO	45.5	2.0	-	47.5	-	6.5	1.0	55.0
CIO	98.5	-	-	98.5	8.0	14.0	1.0	121.5
Chief Operations Officer	215.5	-	17.5	233.0	-	3.0	15.0	251.0
General Counsel	33.5	(5.0)	2.5	31.0	-	-	4.0	35.0
Client Services	36.5	-	0.5	37.0	2.0	2.0	3.0	44.0
Strategic Dev. & Com.	-	5.0	1.5	6.5	-	1.0	-	7.5
Total FTE	452.0	-	27.0	479.0	14.0	27.5	24.0	544.5



CALIFORNIA ISO

FY2001 Staffing Overview

\$ in 000's

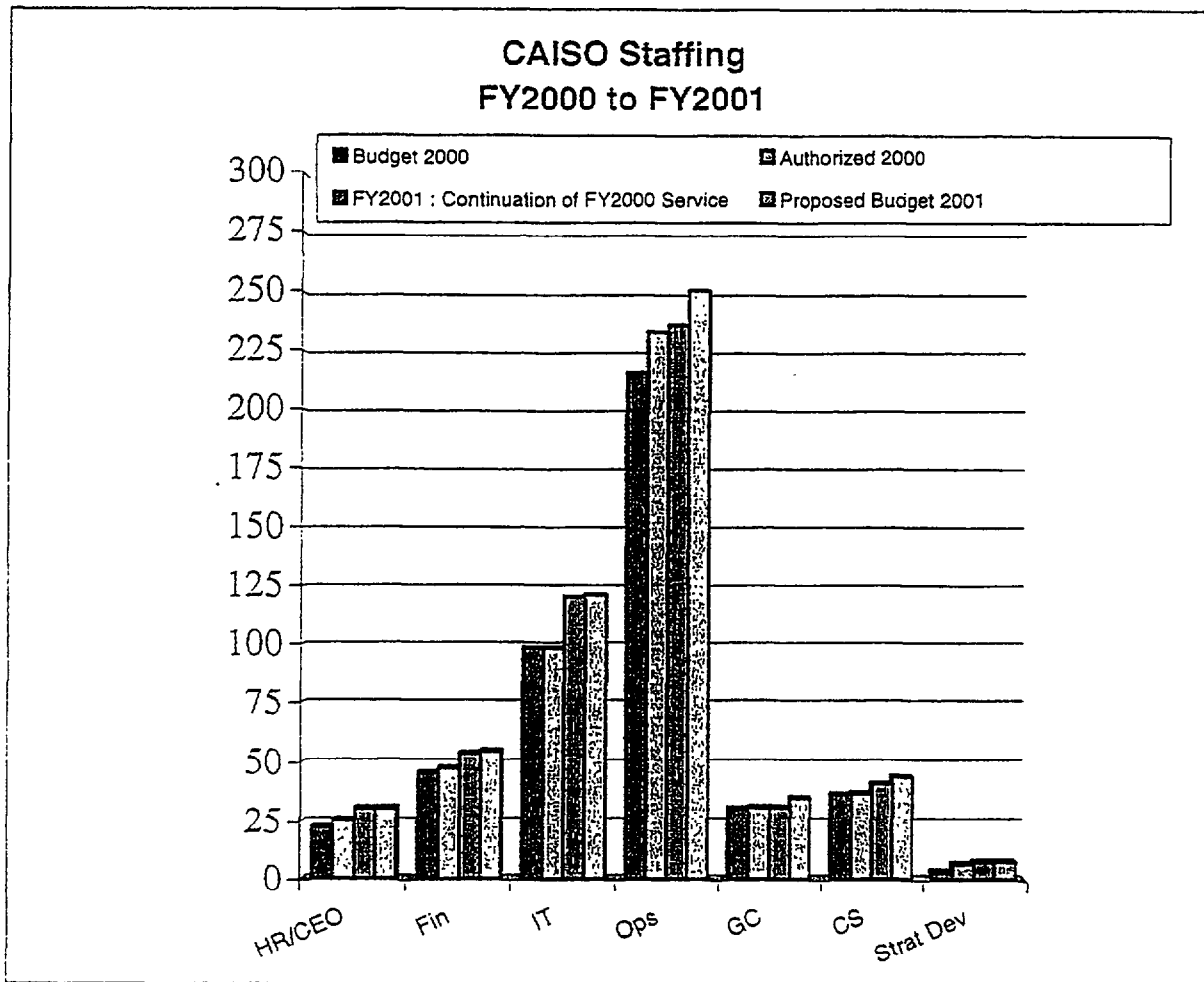


Exhibit: Additional Positions During FY2000

Cost Center	Increase	Title	Program
1211	1	Payroll & Benefits Technician	
1211	1	Sr. Human Resource Analyst	
1211	1	Administrative Assistant	
1231	1	Manager, Facilities	
1231	1	Facilities Planning Specialist	
1511	0.5	Executive Assistant	Reorganization of Operations
1512	1	Managing Director of Engineering & Training	Reorganization of Operations
1513	1	Managing Director of Operations	Reorganization of Operations
1521	2	Planning Engineers	
1543	1	Operations Engineer	Need for improved load forecasting capability & contractor conversion
1544	6	Scheduler	Implementation of the 10 minute settlements – Board approved project
1552	1	Grid Resource Coordinator	Implementation of the 10 minute settlements – Board approved project
1553	2	Market Design Engineer	Implementation of the Automated Dispatch System – ADS – – Board approved project
1549	1	Trainer	Expanded training program as part of the hiring of 10 new trainees – Board approved project
1545	1	Technical Assistant	Required for WSCC RMS Reporting and compliance program
1546	1	Manager, Security Coordination	Required to meet FERC requirements of separation of Security Coordination function from market operations and control area operations
1550	1	Market Applications DB Engineer	Implementation of the 10 minute settlements – Board approved project
1611	0.5	Executive Assistant	
1641	1	Administrative Assistant	
1641	1	Policy Analyst	
1711	0.5	Executive Assistant	
1811	0.5	Executive Assistant	
1821	1	Public Information Officer	
	-1	Other	
Total	27	Cost: \$4.2 million in FY2001	

VII. CAISO Divisional Budget Overviews

The following section provides detailed information on the proposed budgets for each CAISO division. Each division provides a description of their department, functions, staffing, and proposed budget, including incremental programs representing additional services or costs above and beyond FY2000. Each discussion is prefaced by a chart providing an overview of the proposed budget. This section begins with a chart which overviews departmental costs and changes from FY2000.

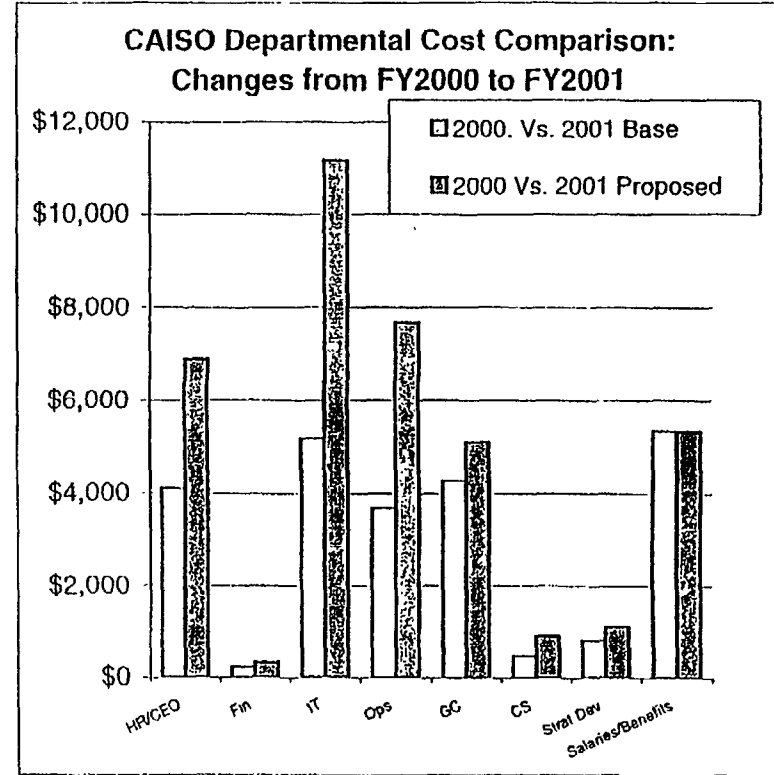
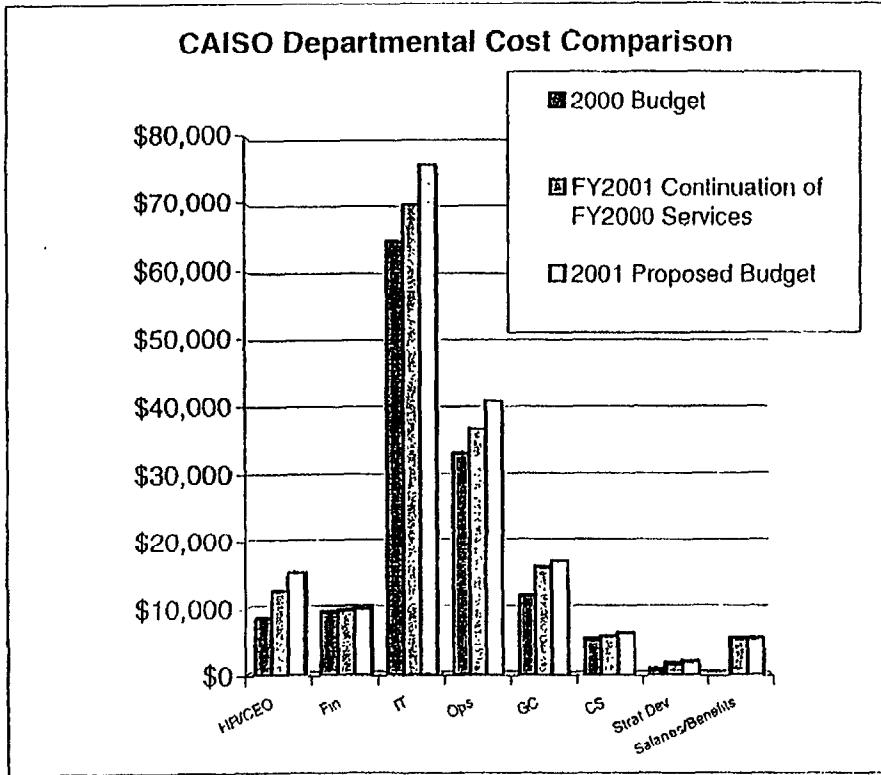
- Exhibit: Chart-Departmental Cost Comparison
 - Operations
 - Information Technology Division
 - General Counsel
 - Client Services Division
 - Strategic Development & Communication Division
 - HR/CEO Division
 - Finance Division



CALIFORNIA ISO

FY2001 Budget Overview

\$ in 000's

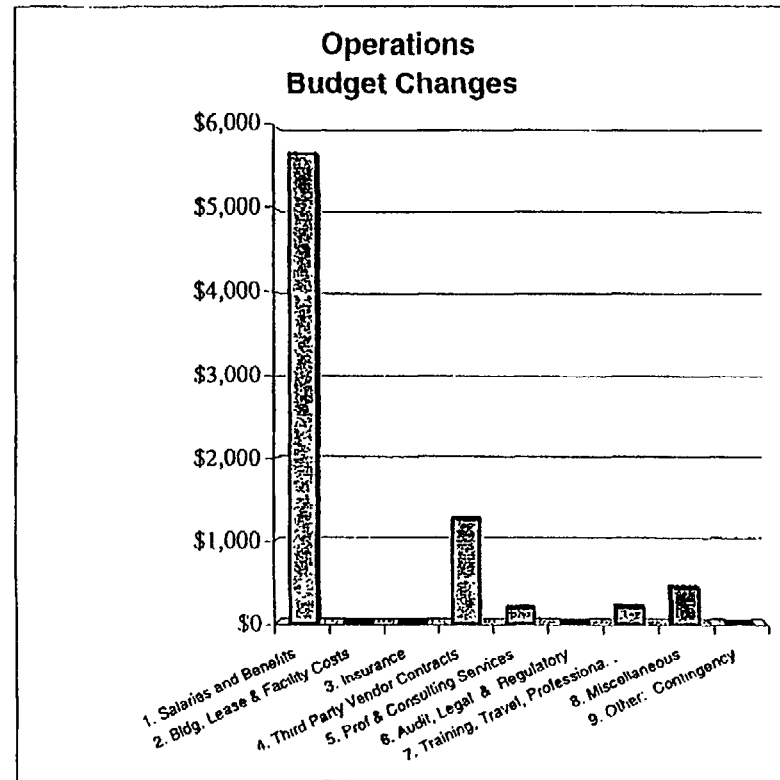
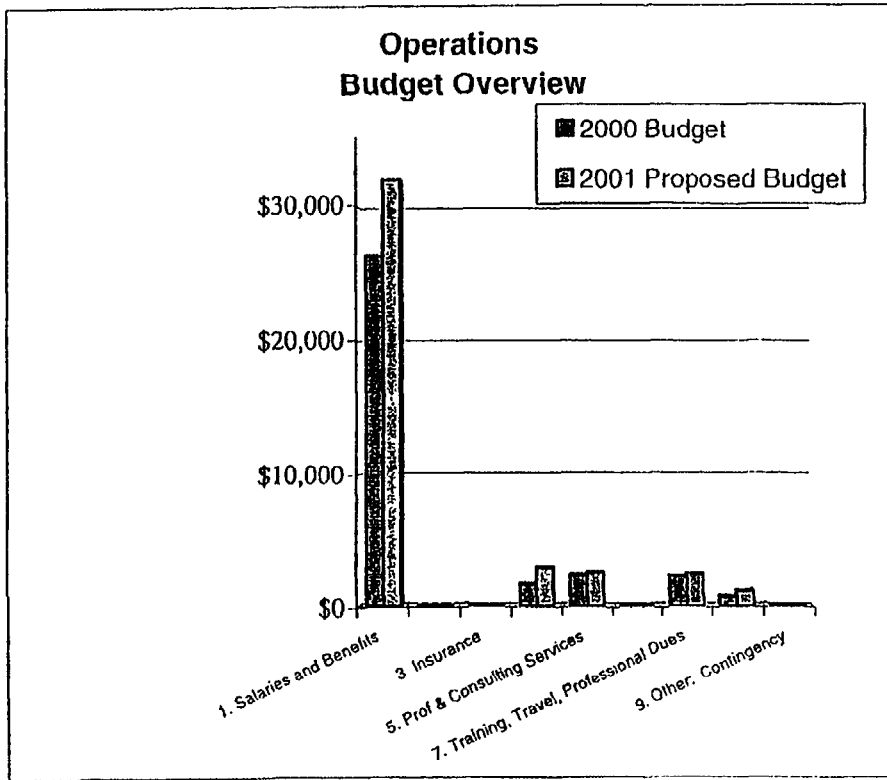




CALIFORNIA ISO

FY2001 Budget Overview

\$ in 000's



- 1 Growth in employees-board approved, new requirements
- 8 Centralize office supply purchasing, include property tax omitted last year