

Memorandum

To: ISO Board of Governors
From: Phil Leiber, Treasurer and Director of Financial Planning
Bill Regan, Chief Financial Officer
Cc: ISO Officers
Date: May 21, 2007
Re: *2008 Budget Development Calendar*

This memorandum does not require Board action.

EXECUTIVE SUMMARY

Each year prior to the initiation of CAISO's annual budget process, Management develops a budget calendar (attached to this memorandum) for the purpose of coordinating internal budget development and Board review, and to facilitate awareness of opportunities for stakeholders input. Through the budget process, CAISO determines the annual revenue requirement and the Grid Management Charge (GMC) rates for the following year.

Internal Budget Development Process

The basis for the 2008 budget will be the 2007-2011 Strategic Business Plan. CAISO will aim to achieve the challenging metrics and operational improvements set forth in the Business Plan within the cost targets also identified in the plan. These targets include bundled GMC rate targets for 2008 of between \$0.72 and \$.76 cents per MWh on a bundled basis (stretch and target goals, respectively). Further, we expect that an extension of the existing GMC Settlement agreement into 2008 until the start of MRTU will also require that we set a revenue requirement below a cap of \$195 million (without a rate case to justify costs at FERC) that was identified in the previous GMC extension through 2007. Accordingly, we will be aiming to continue to "deliver more" while maintaining the bundled GMC rate at \$0.76 or less in 2008.

CAISO departments will prepare preliminary budget proposals during July for presentation to the Officer team in August. ISO Officers will review and prioritize proposed programs and funding levels to compile a "management recommended budget," which will be presented to the Board in an executive session briefing for preliminary guidance and direction in early September.

External Budget Review Process

CAISO will host meetings with stakeholders prior to and during the budget development process. The first opportunity for stakeholder consultation will be at the June 12, 2007 meeting at which stakeholders will be invited to offer their comments, suggestions and recommendations for the coming year's O&M and capital expenditures and CAISO priorities. The feedback received at this meeting will be provided to CAISO managers, directors and Officers for consideration during the preparation of their budgets, and CAISO will provide written comments on feedback received. On September 10, CAISO will publish the preliminary budget for stakeholder review. On September 14, CAISO will hold a teleconference to provide a brief overview of the preliminary budget, and on September 18 CAISO will hold a stakeholder budget workshop scheduled to discuss the details of the ISO's 2008 budget and to receive additional comments.

Board Budget Review Process

The Board will have several opportunities to review and discuss the proposed budget and to receive comments from stakeholders. The Board will review management's proposed budget on September 6/7 in executive session. After presentation of the budget at a workshop on September 14, stakeholders will have the opportunity to submit comments for Board consideration at the October Board meeting. Finally, the Board will vote on the budget on December 12/13.

Posting of GMC Rates

As discussed in the GMC related memorandum in this Board package, the ISO is aiming to file this summer, with stakeholder support, a continuation of the existing rate structure until MRTU effectiveness on February 1, 2008, and a new rate structure compliant with MRTU thereafter. We expect to post 2008 GMC rates for the pre and post-MRTU cutover by December 15, 2007.

**California ISO
2008 Budget Development Calendar**

Event	Proposed Date For 2008 Budget Process	Date For 2007 Budget Process
1 Budget Process Timeline published	May 18, 2007	June 13, 2006
2 Meeting with GMC Stakeholders on priorities, cost control ideas, and proposed capital projects	June 12, 2007	June 27, 2006
3 Budget Process Rollout to Departments	June 21/26, 2007	June 29, 2006
4 Internal Budget Development Process	June– August	July – August
5 Board Review of Preliminary Budget (Executive Session)	September 6/7, 2007	September 6, 2006
6 Budget teleconference for interested parties	September 14, 2007	September 11, 2006
7 Stakeholder Budget Workshop	September 18, 2007	September 14, 2006
8 Written Comments on Budget Due (for CAISO response and inclusion in Board package)	October 5, 2007	October 5, 2006
9 Board meeting: receive public comments on budget	October 18, 2007	October 18, 2006
10 Board Approval of Budget	December 12/13, 2007	December 14, 2006
11 Posting of Rates / Informational Filing with FERC	December 15, 2007	December 15, 2006
12 New GMC Rates effective (continuation of existing rate structure)	January 1, 2008	January 1, 2007
13 Revised MRTU Compliant GMC Rates effective	February 1, 2008 / MRTU Effectiveness	-