



California ISO
Your Link to Power

Managing Our
Business
and Leading Our
People
To Deliver Results



April 18-19, 2007

Decision on Five-Year Business Plan,
2007-2011

Our planning process is comprehensive and iterative



¹ Initially Three-Year Business Plan, now Five-Year Business Plan revisited on an annual basis

Key assumptions driving our 5-year plan

Regional Growth

- State economy and electricity demand
- Import levels into California

Operational Pressures

- Grid will continue to be stretched to meet rising demand
- Staffing challenges with right skills
- More ISO services

Market Realities

- Heavy reliance on hedging mechanisms by load-serving entities
- Largely bi-lateral market
- Renewable resources and demand response (in and out of state)
- Climate changes and environmental regulations inter-state and federally
- Community aggregation and customer choice
- Market restructuring in the West will vary between nil and slow
- Competition at the wholesale level will continue to be “law of the land”



Corporate strategic objectives for 2007–2011

Tiers

Strategic Objectives

Deliverables

Achieve Excellence in Grid & Market Operations

Achieve Robust, Competitive Markets for Energy & Ancillary Services

Enablers

Develop Energy Infrastructure

Develop People/Skills

Satisfiers

Satisfy the Customer

Facilitate Implementation of Public Policy Priorities

Key initiatives supporting excellence in grid & market operations

Deliverables

Excellence in Grid and Market Operations

- Reliable operations with diverse resource mix
- Transparent, automated, streamlined operations with advanced tools
- Forward analysis capability
- Expedited settlements

Key Initiatives

- 🌐 National Reliability Standards
- 🌐 Expedited Settlements (2008)
 - Reduce timeframe (business days) between Trade Day and the Posting of Initial Settlements Statements from 38 business days to 9 business days
- 🌐 New control center
- 🌐 Advanced tools to support reliable operations
- 🌐 Operator training on new advanced tools

Key initiatives supporting robust, competitive markets

Deliverables

Robust, Competitive Markets for Energy & Ancillary Services

- Efficient allocation and use of transmission system
- Long-term transmission rights
- Effective means to price value of capacity
- Renewable resources and demand response products
- Regional coordination

Key Initiatives

- 🌐 Market Redesign and Technology Upgrade (MRTU)
- 🌐 Long-term transmission rights (2007 – 2008)
- 🌐 Value-added market enhancements, e.g., convergence bidding, scarcity pricing (2009 – 2011)
- 🌐 Capacity pricing mechanisms (2007 – 2008)
- 🌐 Demand participation in ISO markets
- 🌐 Regional outreach and coordination
- 🌐 Market simplification

Key initiatives supporting energy infrastructure development

Enablers

Develop Energy Infrastructure

- Expand and reinforce transmission system
- Provide Information for regulatory and investment deliberations and decisions
- Facilitate streamlined, efficient generation and transmission interconnection process

Key Initiatives

- 🌐 “Third-category” of transmission
- 🌐 Reliable integration of renewable resources
- 🌐 California Planning Group (new paradigm)
- 🌐 ISO Tariff Amendment filing on transmission planning
- 🌐 High-priority transmission projects:
 - Congestion
 - Renewable Resources
- 🌐 Southern California backbone upgrades
- 🌐 Aging Infrastructure
- 🌐 Partnerships with Federal, State and public entities

Key initiatives supporting people/skills development

Enablers

Develop People/Skills

- Create world-class organization: “Employer of Choice”
- Design and build new ISO campus providing secure, healthy, and positive work environment
- Develop an informed, inspired, and diverse workforce
- Equip employees with critical knowledge and skills
- Commit to achieving California ISO’s strategic objectives

Key Initiatives

- 🌐 New ISO campus
- 🌐 “ISO Academy”
- 🌐 Career management program
- 🌐 ISO Internship programs
- 🌐 Talent Management Program



Key initiatives supporting enhanced customer service

Satisfiers

Enhance Customer Service

- Integrate customer care into corporate culture
- Provide tools and information products that increase the transparency of ISO operations
- Focus corporate effort on customer-driven initiatives and related measures of success

Key Initiatives

- 🌐 Division-by-division initiatives targeting issues raised in the customer survey
- 🌐 MRTU communication and readiness efforts in response to customer survey
- 🌐 Stakeholder process improvement
- 🌐 Enterprise-wide issue tracking
- 🌐 Customer portal to access market information and issue resolution data

Key initiatives supporting implementation of public policy initiatives

Satisfiers

Align With State and Federal Environmental, Renewable, And Demand Response Priorities

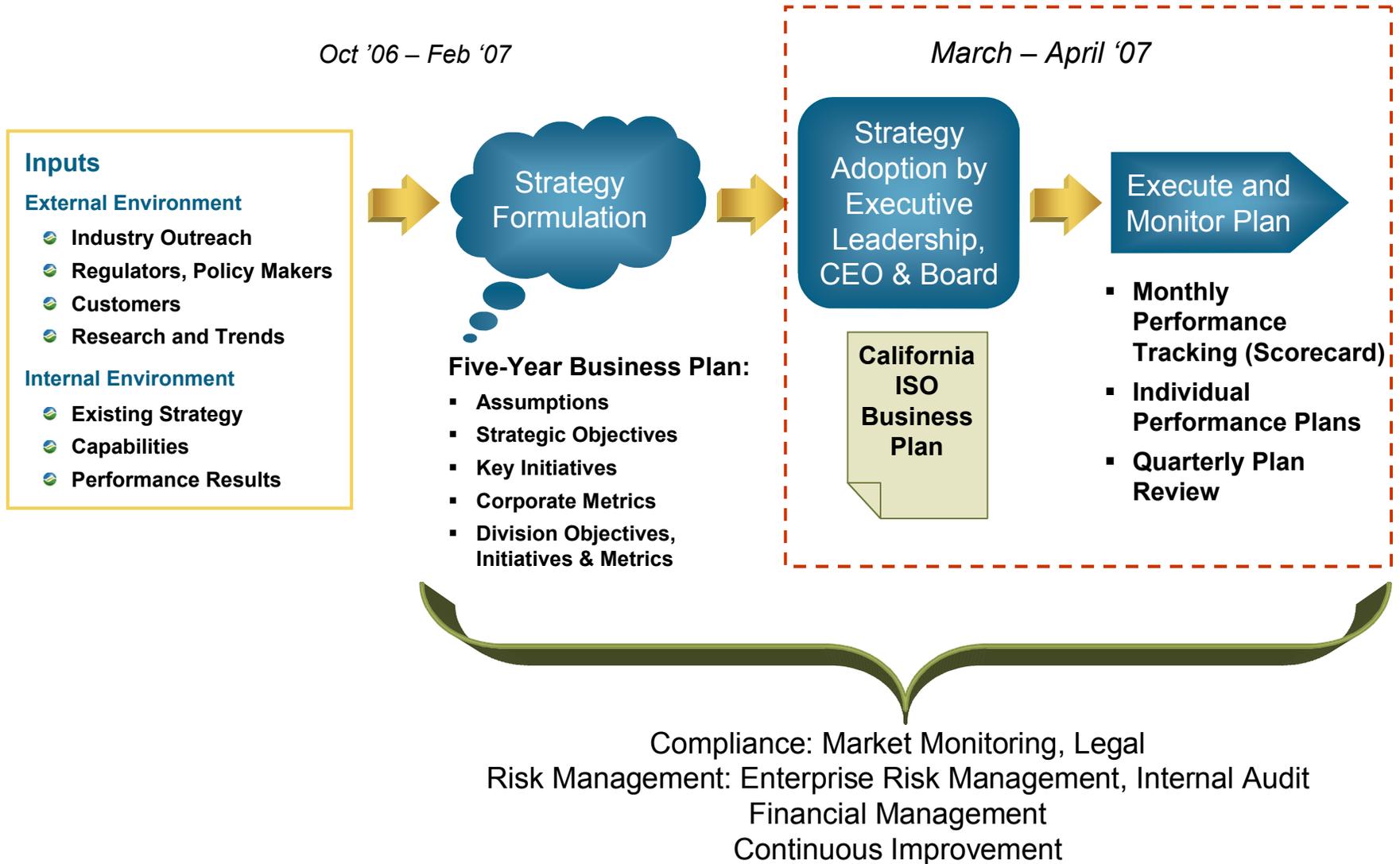
- Inform policy deliberations
- Actively facilitate discussions with policymakers and regulators and provide information for their deliberations and decisions
- Provide tools and information products
- Focus corporate effort on customer-driven initiatives

Key Initiatives

- 🌐 Inform policy makers on infrastructure and market mechanisms needed to integrate renewable resources into the grid
- 🌐 Facilitate information exchange for implementing greenhouse gas reduction policies
- 🌐 Integrate state demand response programs into grid operations and build new, enhanced demand response products



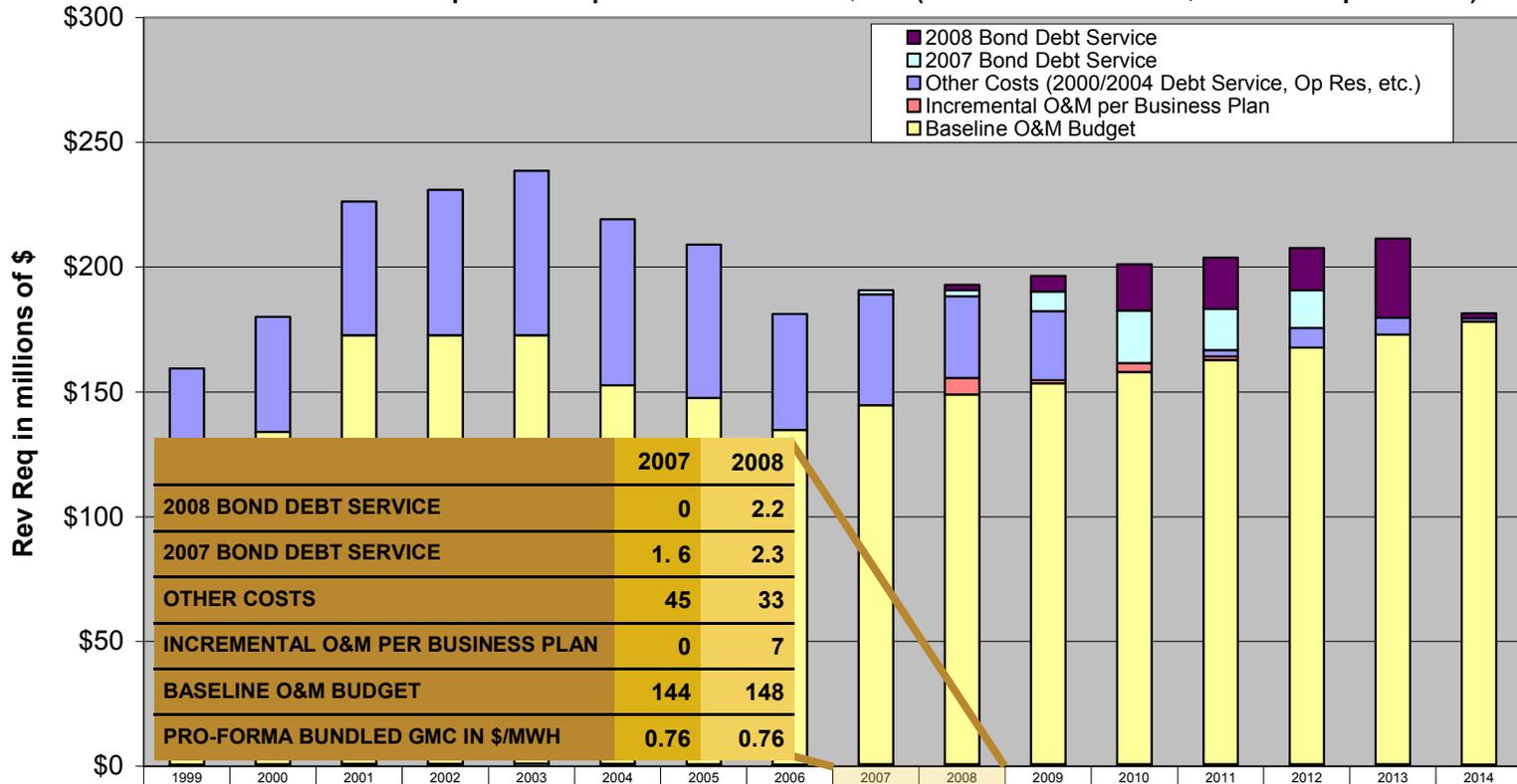
Actions are underway to integrate plan into day-to-day operations



Our plan calls for executing initiatives within defined cost parameters

PROJECTION OF REVENUE REQUIREMENT/BUNDLED GMC

With 2007 debt funding for Incremental MRTU costs (\$50 million) & \$2 million for other CapEx and 2008 Bonds for 2007-'09 Capital Needs per Business Plan of \$80M (Face Value of Bonds \$94M incl. Cap Int/DSRF)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
2008 Bond Debt Service									-	2.2	6.4	18.5	20.5	16.9	31.7	1.9
2007 Bond Debt Service									1.6	2.3	7.8	21.1	16.6	15.1	-	-
Other Costs (2000/2004 Debt Service, Op Res, etc.)	46	46	54	58	66	67	62	47	45	33	28	(1)	2	8	7	1
Incremental O&M per Business Plan									-	7	1	4	1	-	-	-
Baseline O&M Budget	113	133	172	172	172	152	147	134	144	148	153	157	162	167	172	178
Pro-Forma Bundled GMC in \$ / MWh	0.71	0.78	0.94	0.95	1.00	0.92	0.85	0.72	0.76	0.76	0.76	0.76	0.76	0.76	0.76	0.64

Notes:

O&M cost assumption: Compensation costs increase 4% annually, other expenses at 1.5% annually. Incremental O&M per 2007-2011 Business Plan.

Corporate metrics aligned to strategic objectives*

I. Deliverables
A. Excellence in Grid and Market Operations (Weight = 25%)
1) Meet all Western Electricity Coordinating Council Reliability Standards
2) Reduce Reliability Management Costs <input type="checkbox"/>
3) Reduce Settlements Timeframe
B. Achieve Robust, Competitive Markets for Energy and Ancillary Services (Weight = 20%)
4) Market Redesign and Technology Upgrade (MRTU) Implemented on Schedule and within Budget
II. Enablers
A. Energy Infrastructure Development (Weight = 20%)
5) Transmission Capacity Increase
6) Reduce uneconomic congestion on the Grid
B. People/Skills Development (Weight = 10%)
7a-c) California ISO Academy
8) "Employer of Choice"
III. Satisfiers
Enhance Customer Service (Weight = 10%)
9) Timeliness of Issue Resolution
10) MRTU Readiness and Communication
11) Stakeholder Process
Overall Objective : Financial Management (Weight = 15%)
12) Establish GMC for the Coming Year Consistent with Corporate Goals
13) Actual Annual O&M Expenses Compared to Budgeted Amount

* Metrics provided in attachments to business plan.

Management recommends approval of 5-year plan, 2007-2011**MOVED:**

Whereas, Management and employees of the Company have conducted a comprehensive assessment of external drivers and internal capabilities, objectives, opportunities and challenges in the next five years;

Whereas the ISO Board of Governors has received periodic updates concerning the nature and scope of this planning effort, and the Company's progress on that effort;

Whereas the ISO Board of Governors participated in a preliminary review of the Company's plans with regard to corporate strategic objectives and initiatives, including the recruitment, retention, and training of personnel, technology gaps and vendor relationships, legal and regulatory objectives, and other issues; and

Whereas Management based on this planning effort, has developed a comprehensive strategy to guide its operations and functions in the next five years

NOW, THEREFORE, IT IS MOVED,

That the ISO Board of Governors approve the California ISO Five-Year Business Plan, 2007 – 2011, dated April 12, 2007, and directs Management to proceed with the implementation of the Plan.