

Appendix A

# Decision on FY2008 Budget



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California ISO  
Your Link to Power

Board of Governors  
December 12-13, 2007

# Outline

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**Budget Overview**
  - Budget Timeline
  - Changes from September Posting
  - Components of ISO Revenue Requirement

	\$ in '000	
	<u>2007</u>	<u>2008</u>
O&M Budget	\$143,805	\$152,655
Debt Service	\$ 71,485	\$ 59,518
Capital / Project Expenditures	\$ 7,500	\$ 8,500
Expense Recovery	(\$ 7,653)	(\$7,814)
Operating Reserve Credit	(\$25,248)	(\$21,226)
Total Revenue Req.	\$189,890	\$191,635

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**GMC Rates**
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**Revenue Requirement Trend**

# Budget Timeline

Previous Events	Date
1 Strategic Planning Process	First Quarter 2007
2 Stakeholder kickoff	June 2007
3 Internal Budgeting Process	July-August
4 Board Review of Preliminary Budget (Executive Session)	September 6/7, 2007
5 Stakeholder Budget Workshop	Teleconference, September 14, Workshop, September 18, 2007
6 Written Comments on Budget Due	October 5, 2007
7 Board meeting: Receive public comments on Budget	October 18, 2007

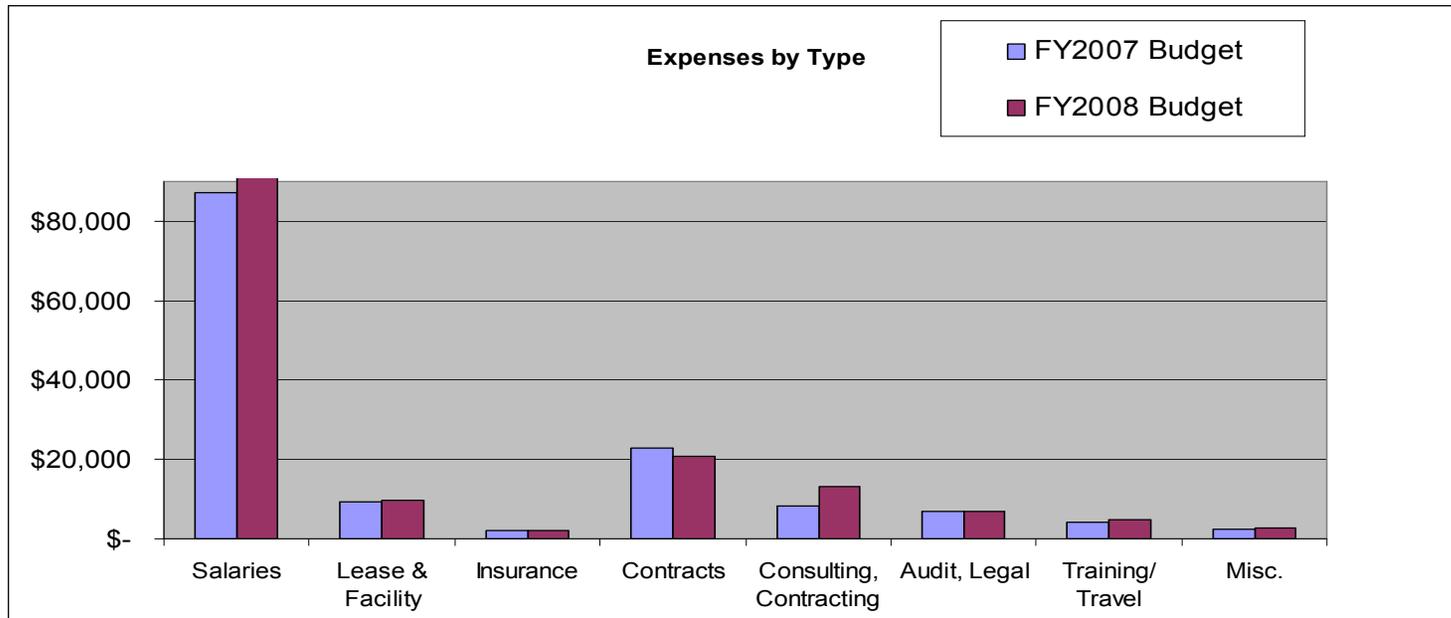
Remaining Events	Date
8 Board meeting: Receive additional public comments on Budget	December 13/14, 2007
9 Board Approval of Budget	December 13/14, 2007
10 Posting of Rates / Informational Filing with FERC	December 17, 2007
11 New Rate effective (pre-MRTU) with subsequent rate structure revisions upon MRTU implementation	January 1, 2008
12 Presentation of 2008-2012 Business Plan	February 7-8, 2008

# Changes from September Budget Posting

Component of Revenue Requirement \$ in millions	FY2008 Budget: Previous Posting	FY2008 Budget: Final	Change	Explanation
O&M Budget	\$152.6	\$152.6	\$0	N/A
Debt Service	\$59.5	\$59.5	\$0	N/A
Cash Funded Capital / Project Expenditures	\$2.5	\$8.5	\$6	Increased cost recovery for LGIP program for overheads
Expense Recovery	\$7.8	\$7.8	\$0	N/A
Revenue Credit from Operating & Capital Reserve	\$15.3	\$21.2	\$5.9	Higher than budgeted revenues in summer months offset lower than budgeted revenues in early months.
Total	\$191.6	\$191.6	\$0	N/A

# O&M Budget (\$ in '000)

	FY2007 Budget	FY2008 Budget	FY2008 % of Total	Amount Change	% Change from FY2007 Budget
Salaries and Benefits	\$ 87,181	\$ 92,182	60%	\$ 5,001	6%
Bldg, Lease & Facility Costs	9,359	9,704	6%	345	4%
Insurance	2,209	2,012	1%	(196)	-9%
Third Party Vendor Contracts	22,914	20,858	14%	(2,055)	-9%
Consulting and Contracting	8,397	13,294	9%	4,897	58%
Audit, Legal & Regulatory	6,901	7,031	5%	131	2%
Training and Travel	4,316	4,680	3%	364	8%
Miscellaneous	2,530	2,893	2%	364	14%
<b>Total Gross O&amp;M Budget</b>	<b>\$ 143,805</b>	<b>\$ 152,655</b>	<b>100%</b>	<b>\$8,850</b>	<b>6.2%</b>
<i>O&amp;M Budget excluding LGIP</i>	<i>\$ 143,055</i>	<i>\$ 151,954</i>		<i>\$8,898</i>	<i>6.2%</i>

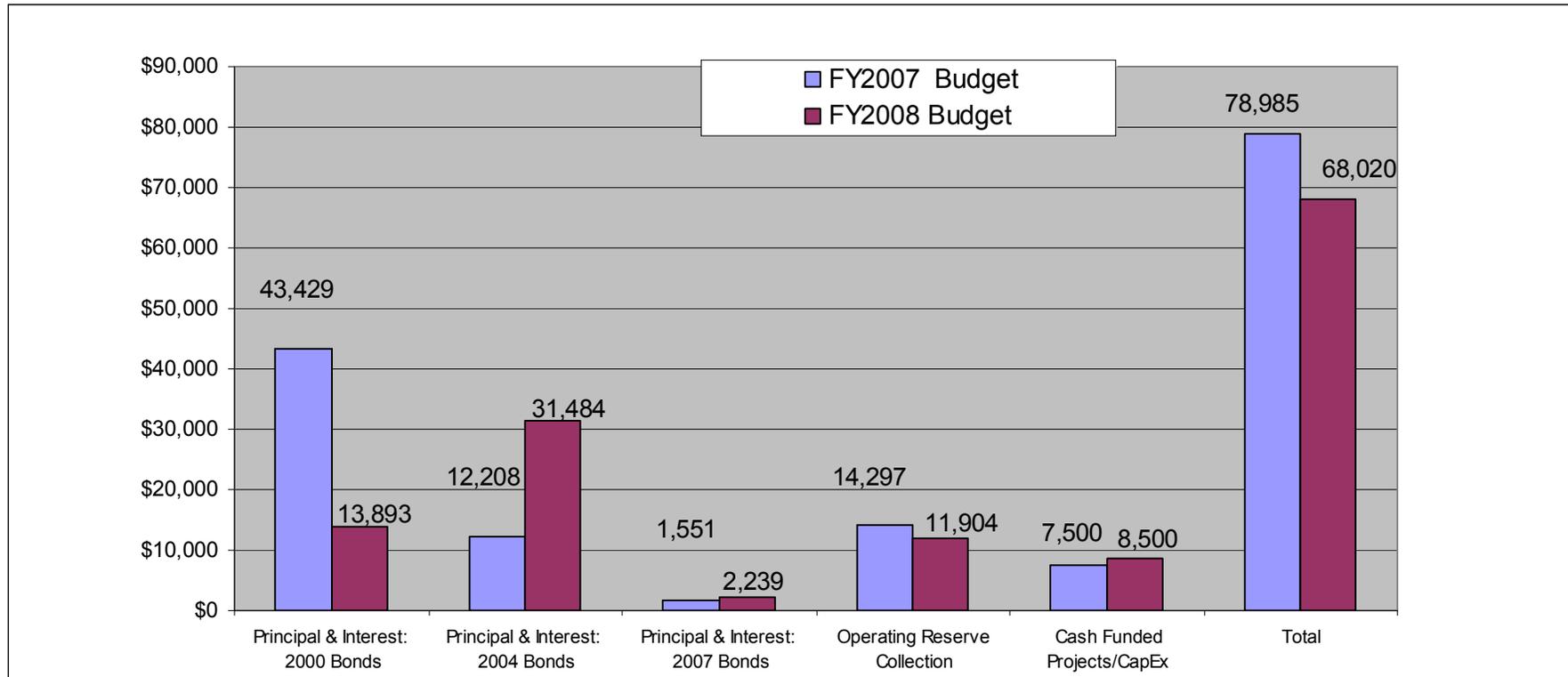


# Staffing Levels

CAISO Division	FY2007 Budget	FY2008 Budget
Chief Executive Officer / Market Monitoring /HR *	33.0	33.0
VP Planning & Infrastructure Development (incl. LGIP for 2007)	56.5	54.5
Chief Financial Officer & VP Corp. Services	47.5	49.5
Chief Information Officer	103.0	103.5
VP of Operations (incl. WECC Sec. Coord.)	207.5	210.5
General Counsel & VP Legal Affairs	21.5	22.0
VP Market Development & Program Man.	33.5	33.5
VP External Affairs	38.5	38.5
Subtotal	541.0	545.0
Less: <i>LGIP Program</i>	(5.0)	(5.0)
<i>WECC Security Coordinators</i>	(9.0)	(8.0)
<i>MRTU / PMO Staff Capitalized</i>	(9.0)	(6.0)
<b>Total</b>	<b>518.0</b>	<b>526.0</b>



# Debt Service, Cash Funded Capital And Projects, and Operating & Capital Reserve Collection (\$ in '000)



**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.

# Capital / Project Budget

- \$30 million budget provides funding for the following categories of projects:
  - Compliance/Regulatory Requirements
  - Essential Projects/Corporate Infrastructure
  - Strategic Initiatives
  - Budget for Identified Future Market System Enhancements
- Reflects constraints of 2008:
  - Key resources: including IT staff / vendors
  - Focus on MRTU startup and successful operation
- Consistent with overall funding needs identified for 2008 in the 2007-2011 Business Plan
- Funding Sources
  - Direct Funding from GMC: \$8.5 million
  - Balance (\$21.5 million): Bond Funding
    - » Bond offering of \$60-80 million planned for May 2008
    - » Will fund 2008 and 2009 Cap-Ex needs, consistent with assumptions in 2007-2011 Strategic Plan and plan to maintain GMC level of 76 cents per Mwh or less.

## Misc. Expense Recovery and Operating & Capital Reserve Credit (\$ in '000)

	FY2007 Budget	FY2008 Budget	Amount Change	% Change
Interest Earned on Operating Funds	\$ 2,205	\$ 2,205	\$ -	0%
Miscellaneous Revenue	345	345	-	0%
LGIP	1,032	968	(64)	-6%
COI Path Operator Fee	2,000	2,000	-	0%
WECC Security Coordinator Fees	2,071	2,297	226	11%
<b>Total O&amp;M Expense Recovery Budget</b>	<b>\$7,653</b>	<b>\$7,814</b>	<b>\$162</b>	<b>2%</b>

	FY2007 Budget	FY2008 Budget	Amount Change	% Change
Forecast Operating Reserve Balance, year-end previous and current year	46,819	44,124		
Less: Operating & Capital Reserve Requirement (15% of Operating Budget)	(21,571)	(22,898)		
<b>Revenue Credit</b>	<b>\$ 25,248</b>	<b>\$ 21,226</b>	<b>\$ (4,022)</b>	<b>-16%</b>

## Revenue Requirement and Pro-forma Bundled GMC Summary (\$ in '000, except GMC)

	FY2007	FY2008 Budget	Amount Change	% Change
<b>Total O&amp;M Budget</b>	\$ 143,805	\$152,655	8,850	6%
<b>Total Debt Service and Reserve Collection</b>	71,485	59,520	(11,965)	-17%
<b>Cash Funded Capital / Project Expenditures</b>	7,500	8,500	1,000	N/A
<b>Total Expense Recovery Budget</b>	(7,653)	(7,814)	(162)	2%
<b>Available Revenue Credit</b>	(25,248)	(21,226)	4,022	-16%
<b>Revenue Requirement</b>	<b>\$ 189,890</b>	<b>\$191,635</b>	<b>1,745</b>	<b>0.9%</b>

	FY2007 Budget	FY2008 Budget	Amount Change	% Change
<b>Indicative Bundled GMC Rate per MWh</b>	\$ 0.760	\$ 0.755	(0.005)	-0.7%

# Revenue Requirement and Determination of GMC Rates

## Revenue Requirement



## Costs of ISO Services



## Unbundled Rates

$$\frac{\text{Category Costs}}{\text{Billing Determinant Volume}} = \$/\text{Unit}$$

**Notes:**

2008 will have two separate rate structures in place: pre and post MRTU. The above illustration represents the pre-MRTU rate structure.

## GMC Service Categories and Cost Allocation – pre-MRTU

### FY2008 Revenue Requirement and Rates Detail \$ in 000's

	FY2007 Budget	FY2008 Budget	Change	% Change
<b>Net Revenue Requirements by Service (\$ in '000)</b>				
Core Reliability Services - Demand (peak)	\$ 40,208	\$ 32,245	\$ (7,962)	-20%
Core Reliability Services - Demand (off-peak)	\$ 1,439	\$ 1,075	\$ (364)	-25%
Core Reliability Services - Energy Export	\$ 6,270	\$ 7,425	\$ 1,156	18%
Energy Transmission Services- Net Energy	\$ 71,682	\$ 70,558	\$ (1,124)	-2%
Energy Transmission Services- Deviations	\$ 11,461	\$ 12,154	\$ 693	6%
Other 2004 GMC Settlement Related Collections	\$ 1,577	\$ -	\$ (1,577)	-100%
Forward Scheduling	\$ 8,822	\$ 8,952	\$ 131	1%
Congestion Management	\$ 13,416	\$ 16,300	\$ 2,884	21%
Market Usage	\$ 34,265	\$ 42,010	\$ 7,745	23%
Settlements, Metering, Client Relations	\$ 750	\$ 915	\$ 165	22%
	<b>\$ 189,890</b>	<b>\$ 191,635</b>	<b>\$ 1,745</b>	<b>1%</b>

# Billing Determinant Volumes and GMC Rates – pre-MRTU

FY2007 Budget    FY2008 Budget    Change    % Change

## Billing Determinant Volume Forecast

Core Reliability Services - Demand (peak): NCP - MW-months	446,608	445,518	(1,090)	0%
Core Reliability Services - Demand (off-peak): NCP - MW-months	24,225	22,512	(1,713)	-7%
Core Reliability Services - Energy Export: MWh of exports	12,513,357	14,202,455	1,689,098	13%
Energy Transmission Services- Net Energy: MWh of Load	250,030,240	253,658,530	3,628,290	1%
Energy Transmission Services- Deviations: MWh of net uninstructed deviations	12,269,813	12,300,654	30,841	0%
Forward Scheduling: number of hourly schedules and Awarded AS bids	10,490,835	11,057,905	567,069	5%
Congestion Management: MWh of net HA scheduled interzonal flows	127,813,673	142,807,959	14,994,286	12%
Market Usage: MWh of awarded AS, IE and net Uninstructed Deviations	55,473,658	46,807,756	(8,665,902)	-16%
Settlements, Metering, Client Relations: customer months	1,500	1,829	329	22%

## Grid Management Charges

Core Reliability Services					
Core Reliability Services - Demand (peak) [\$/MW-month]	\$ 90.029	\$ 72.3774	\$ (17.65)	-20%	
Core Reliability Services - Demand (off-peak) [\$/MW-month]	\$ 59.421	\$ 47.7708	\$ (11.65)	-20%	
Core Reliability Services - Energy Export [\$/MWh]	\$ 0.501	\$ 0.5228	\$ 0.02	4%	
Energy Transmission Services- Net Energy [\$/MWh]	\$ 0.287	\$ 0.2782	\$ (0.01)	-3%	
Energy Transmission Services- Deviations [\$/MWh]	\$ 0.934	\$ 0.9881	\$ 0.05	6%	
Forward Scheduling [\$/schedule]	\$ 0.841	\$ 0.8096	\$ (0.03)	-4%	
Congestion Management [\$/MWh]	\$ 0.105	\$ 0.1141	\$ 0.01	9%	
Market Usage [\$/MWh]	\$ 0.618	\$ 0.8975	\$ 0.28	45%	
Settlements, Metering, Client Relations [\$/month]	\$ 500	\$ 500	\$ -	0%	

### Note:

2007 Rates were revised in during 2007 to reflect changes in billing determinant volumes for certain rate categories. The above 2007 rates are the originally budgeted rates.

## GMC Service Categories and Cost Allocation – post-MRTU

	FY2007 Budget	FY2008 Budget	Change	% Change
<b>Net Revenue Requirements by Service (\$ in '000)</b>				
Core Reliability Services - Demand (peak)	\$ 40,208	\$ 30,158	\$ (10,050)	-25%
Core Reliability Services - Demand (off-peak)	\$ 1,439	\$ 1,006	\$ (434)	-30%
Core Reliability Services - Energy Export	\$ 6,270	\$ 6,945	\$ 675	11%
Energy Transmission Services- Net Energy	\$ 71,682	\$ 67,369	\$ (4,313)	-6%
Energy Transmission Services- Deviations	\$ 11,461	\$ 11,924	\$ 463	4%
Core Reliability Services/ Energy Transmission Services - TOR		\$ 847	\$ 847	N/A
Other 2004 GMC Settlement Related Collections	\$ 1,577	\$ -	\$ (1,577)	-100%
Forward Scheduling	\$ 8,822	\$ 13,566	\$ 4,744	54%
Market Usage - Ancillary Services and Real Time Energy	\$ 34,265	\$ 41,235	\$ 6,970	20%
Market Usage - Forward Energy		\$ 16,757	\$ 16,757	N/A
Settlements, Metering, Client Relations	\$ 750	\$ 1,829	\$ 1,079	144%
	<b>\$ 189,890</b>	<b>\$ 191,635</b>	<b>\$ 1,745</b>	<b>1%</b>

# Billing Determinant Volumes and GMC Rates – post-MRTU

	FY2007 Budget	FY2008 Budget	Change	% Change
<b>Billing Determinant Volume Forecast</b>				
Core Reliability Services - Demand (peak): NCP - MW-months	446,608	445,518	(1,090)	0%
Core Reliability Services - Demand (off-peak): NCP - MW-months	24,225	22,512	(1,713)	-7%
Core Reliability Services - Energy Export: MWh of exports	12,513,357	10,304,044	(2,209,312)	-18%
Energy Transmission Services- Net Energy: MWh of Load	250,030,240	249,760,120	(270,120)	0%
Energy Transmission Services- Deviations: MWh of net uninstructed deviations	12,269,813	12,300,654	30,841	0%
Core Reliability Services/ Energy Transmission Services - TOR: MWh of exports		3,898,411	3,898,411	NA
Forward Scheduling: number of hourly schedules and Awarded AS bids	10,490,835	16,208,327	5,717,492	54%
Market Usage: MWh of awarded AS, IE and net Uninstructed Deviations	55,473,658	47,801,844	(7,671,814)	-14%
Market Usage: MWh of net purchases and sales in Day-Ahead Market		38,087,802	38,087,802	NA
Settlements, Metering, Client Relations: customer months	1,500	1,829	329	22%
<b>Grid Management Charges</b>				
Core Reliability Services				
Core Reliability Services - Demand (peak) [\$/MW-month]	\$ 90.029	\$ 67.6915	\$ (22.34)	-25%
Core Reliability Services - Demand (off-peak) [\$/MW-month]	\$ 59.421	\$ 44.6780	\$ (14.74)	-25%
Core Reliability Services - Energy Export [\$/MWh]	\$ 0.501	\$ 0.6740	\$ 0.17	35%
Energy Transmission Services- Net Energy [\$/MWh]	\$ 0.287	\$ 0.2697	\$ (0.02)	-6%
Energy Transmission Services- Deviations [\$/MWh]	\$ 0.934	\$ 0.9694	\$ 0.04	4%
Core Reliability Services/ Energy Transmission Services - TOR [\$/MWh]		\$ 0.2173		NA
Forward Scheduling [\$/schedule]	\$ 0.841	\$ 0.8370	\$ (0.00)	0%
Market Usage - Ancillary Services and Real Time Energy [\$/MWh]	\$ 0.618	\$ 0.8626	\$ 0.24	40%
Market Usage - Forward Energy [\$/MWh]		\$ 0.4400		NA
Settlements, Metering, Client Relations [\$/month]	\$ 500	\$ 1,000	\$ 500.00	100%

**Note:**

2007 Rates were revised in during 2007 to reflect changes in billing determinant volumes for certain rate categories. The above 2007 rates are the originally budgeted rates.

# Revenue Requirement Trend

