

Appendix A

Decision on FY2008 Budget



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California ISO
Your Link to Power

Board of Governors
December 12-13, 2007

Outline

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

GMC Rates

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

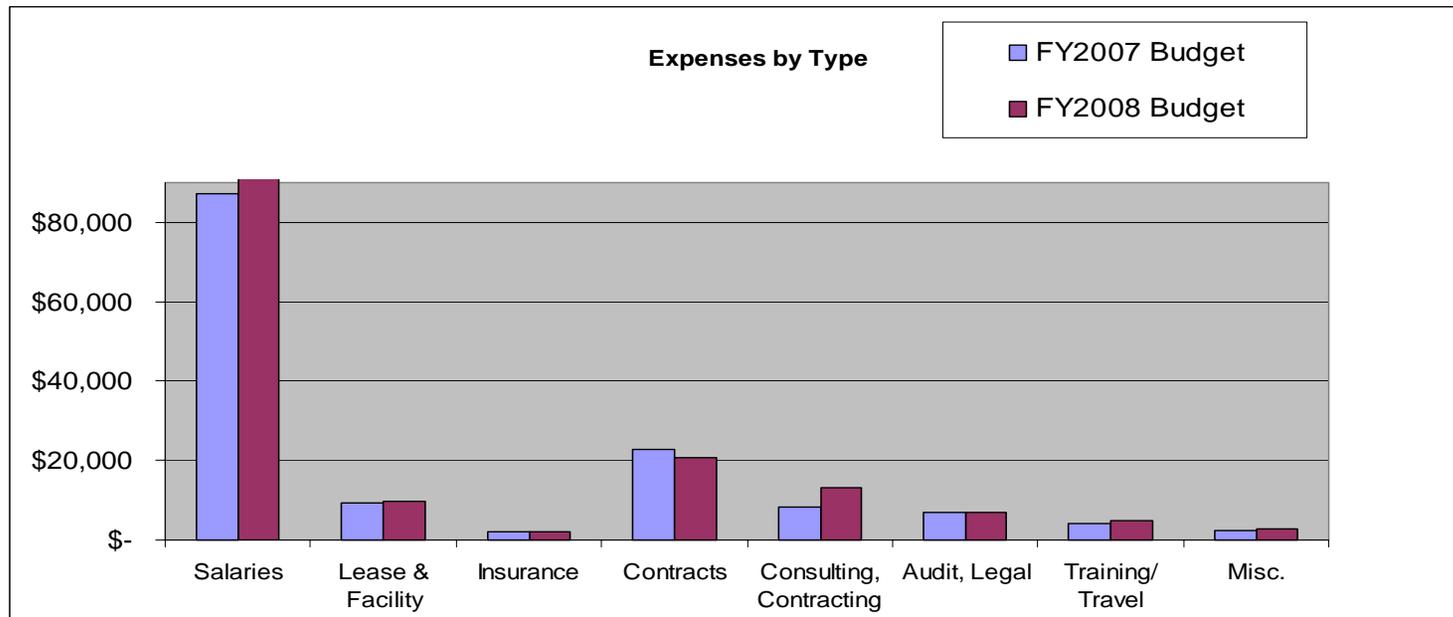
Remaining Events	Date
8 Board meeting: Receive additional public comments on Budget	December 13/14, 2007
9 Board Approval of Budget	December 13/14, 2007
10 Posting of Rates / Informational Filing with FERC	December 17, 2007
11 New Rate effective (pre-MRTU) with subsequent rate structure revisions upon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

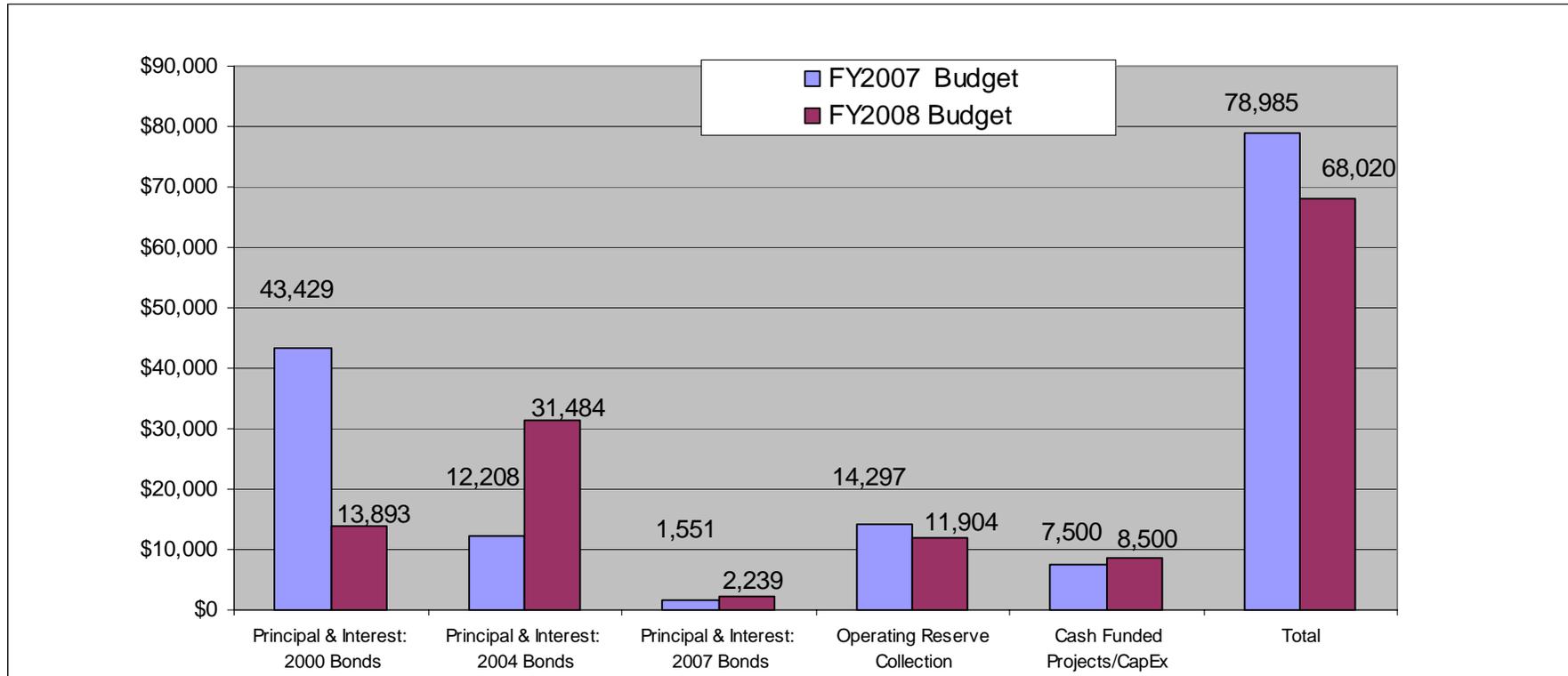
	FY2007 Budget	FY2008 Budget	FY2008 % of Total	Amount Change	% Change from FY2007 Budget
Salaries and Benefits	\$ 87,181	\$ 92,182	60%	\$ 5,001	6%
Bldg, Lease & Facility Costs	9,359	9,704	6%	345	4%
Insurance	2,209	2,012	1%	(196)	-9%
Third Party Vendor Contracts	22,914	20,858	14%	(2,055)	-9%
Consulting 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%
Total Gross O&M Budget	\$ 143,805	\$ 152,655	100%	\$8,850	6.2%
<i>O&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)
Total	518.0	526.0

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%
Total O&M Expense Recovery Budget	\$7,653	\$7,814	\$162	2%

	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)		
Revenue Credit	\$ 25,248	\$ 21,226	\$ (4,022)	-16%

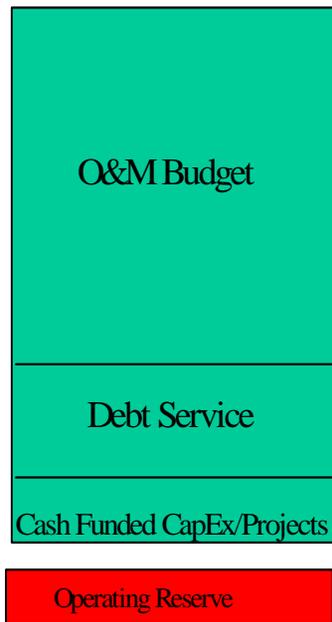
Revenue Requirement and Pro-forma Bundled GMC Summary (\$ in '000, except GMC)

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

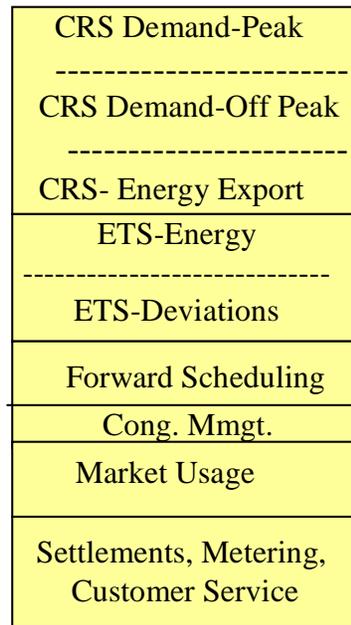
	FY2007 Budget	FY2008 Budget	Amount Change	% Change
Indicative Bundled GMC Rate per MWh	\$ 0.760	\$ 0.755	(0.005)	-0.7%

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
Net Revenue Requirements by Service (\$ in '000)				
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%
	\$ 189,890	\$ 191,635	\$ 1,745	1%

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
Net Revenue Requirements by Service (\$ in '000)				
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%
	\$ 189,890	\$ 191,635	\$ 1,745	1%

Billing Determinant Volumes and GMC Rates – post-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	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%

Grid Management Charges					
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

