

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

PROPOSED 1999 GRID MANAGEMENT CHARGE

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

PROPOSED RESOLUTION TO ADOPT 1999 BUDGETS AND AUTHORIZE FILING OF RESULTING GMC WITH FERC (1998-11-0x)

WHEREAS, the California Independent System Operator Corporation (CAISO) has prepared and made available for public comment its proposed 1999 budgets;

NOW, THEREFORE, BE IT RESOLVED that the Board of Governors of CAISO hereby approves the 1999 Budgets as presented, including an increase in the number of full time employees of CAISO to 308; and authorizes CAISO management to make such filings as may be necessary with FERC to implement the GMC rate for 1999 as indicated in the budgets presented.

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

PROPOSED:

1999 OPERATING & MAINTENANCE BUDGET

1999 CAPITAL EXPENDITURE BUDGET

1999 FINANCE BUDGET

1999 EXPENSE RECOVERY BUDGET

1999 REVENUE REQUIREMENT

1999 TRANSMISSION VOLUME

1999 GRID MANAGEMENT CHARGE

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

OVERVIEW

PROCESS

- **The Preliminary 1999 Grid Management Charge (GMC) Report was made available to all stakeholders in accordance with the ISO Grid Management Charge (GMC) Settlement dated 06/01/98 (the “GMC Settlement”), and posted on the ISO web site on October 2, 1998.**
- **In addition, the Preliminary 1999 GMC Report was presented at an ISO GMC Workshop open to all stakeholders on October 15, 1998. At the ISO GMC Workshop, ISO Management presented the current Revenue Requirement, Transmission Volume and resulting Grid Management Charge forecast. Public comments and questions were received at this meeting.**
- **Written comments from stakeholders on the Preliminary 1999 GMC Report were to be submitted to the Chief Financial Officer, by e-mail or by facsimile on or before November 5, 1998. None were received.**
- **There have been no changes in the proposed budgets made between the Preliminary 1999 GMC Report and the report presented here.**

RECOMMENDATION

- **The Proposed 1999 ISO GMC report will be reviewed by the Finance Committee and a final Revenue Requirement, Transmission Volume and resulting Grid Management Charge will be approved by the Board of Governors at the November board meeting.**

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EXECUTIVE SUMMARY

- ⇒ **The 1999 Grid Management Charge is projected to decrease by \$0.0050 (0.64%) from \$0.7831 in 1998 to \$0.7781 in 1999 assuming that the current GMC Settlement continues for 1999.**
- ⇒ **The 1999 Revenue Requirement is projected to increase by \$5,867,000 (3.84%) from \$152,867,000 in 1998 to \$158,734,000 in 1999.**
- ⇒ **The 1999 Capital Expenditure Budget is projected to be \$41,724,000 and will be funded by the remaining bond proceeds from the initial public borrowing in May of 1998 as well as separate Capital Expense Recovery associated with the Phase II Telecommunications project. The initial public borrowing was designed to cover all of the Infrastructure and 1998/1999 Capital Expenditures. These funds were included in the amount financed in May, which amount was approved in the GMC Settlement.**
- ⇒ **The 1999 Transmission Volume is projected to increase by 9,000,000MWh (4.62%) from 195,000,000 MWh in 1998 to 204,000,000 MWh in 1999 due to normal load growth and higher Wheeling Volume.**
- ⇒ **The 1999 Full Time Employees (FTEs) increased by 12 (4.05%) from 296 in the 1998 Budget to 308 in the 1999 Budget.**
- **ISO Management is projecting savings of \$11,140,000 in the 1998 Operating & Maintenance Budget. Of the \$11,140,000, approximately \$9,361,000 represents one-time savings that are not repeatable in 1999.**

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EXECUTIVE SUMMARY (Continued)

- **ISO Management is projecting new expenses exceeding \$16,000,000 in the 1999 O&M and Financing Budgets that did not occur in 1998.**
- **ISO Management recommends that the 1999 Operating & Maintenance Budget be increased by \$3,776,000 (3.46%) from \$109,286,000 in 1998 to \$113,062,000 in 1999.**
- **The 1999 Finance Budget is projected to increase by \$4,162,000 (9.32%) from \$44,658,000 in 1998 (10/17/97 FERC Tariff Filing) to \$48,820,000 in 1999. The increased financing costs result from increased long term borrowings due to increased infrastructure expenses (\$28,056,000) and delayed start expenses (\$20,817,000) that became necessary after the 10/17/97 FERC Tariff Filing. The increase of \$4,162,000 associated with tax exempt financing reflects a reduction from a potential increase of \$8,497,000 associated with taxable financing had the ISO not received ISO 501(c)3 Tax Status.**
- **The 1999 O&M Expense Recovery Budget (non GMC revenues) is projected to increase by \$2,071,000 (192.29%) from \$1,077,000 in 1998 to \$3,148,000 in 1999 and the 1999 Capital Expense Recovery Budget is projected to be \$3,000,000 due to increased collections associated with Phase II Telecommunications Expense Recovery. The direct assignment of these expenses will be presented with the overall budget to the Board of Governors at the November board meeting for approval.**

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MOST OF SAVINGS IN 1998 O&M BUDGET ARE NOT REPEATABLE

- ISO Management is currently projecting savings of \$11,140,000 as of 10/30/98 in the 1998 Operating & Maintenance Budget of \$109,286,000. Of the \$11,140,000 in savings, approximately \$9,361,000 represents one-time savings from two categories that will not be repeated in 1999.

<u>Expense Category</u>	<u>One Time Savings</u>
Salaries and Benefits	\$2,459,000
MCI Telecommunications Contract	<u>6,902,000</u>
	\$9,361,000

- ISO Management projects Salaries and Benefits savings of \$2,459,000 due to ISO Departments “feathering” the hiring of employees during 1998 resulting in one-time savings. ISO is now near full staffing.
- ISO Management projects MCI Telecommunications Contract savings of \$6,902,000 due to a settlement with MCI and delayed startup, resulting in one-time savings during the first quarter of 1998 when the ISO was not in operation.

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NEW EXPENSES FOR 1999 O&M AND FINANCING BUDGETS

- **ISO Management projects expenses of \$1,500,000 for FERC Annual Charges, given recent FERC orders applying FERC Annual Charges to the PX. FERC Fees were not budgeted in 1998.**
- **Merit Pay Incentives expense for 1999 over 1998 salary levels is projected to be \$1,485,000.**
- **Alliance SA/SI/BBS software maintenance expense is projected to be \$1,600,000 including direct costs. The SA/SI/BBS software maintenance expense was capitalized for 1998 since this expense was paid before start up.**
- **Hardware and software maintenance expense for products acquired in 1998 is projected to be \$1,278,000. This is a new expense for 1999.**
- **Computer hardware leasing expense for equipment acquired in 1998 and expected to be acquired in 1999 is projected to be \$1,972,000. This is primarily a new expense (only \$100,000 to be incurred in 1998). Leasing was selected on the basis of a lower Net Present Value cost compared to purchasing.**

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NEW EXPENSES FOR 1999 O&M AND FINANCING BUDGETS (Continued)

- **Professional and Consulting Services expense for existing full time contractors performing IT functions (e.g. database administration and operating system administration) is projected to increase by \$1,978,000. These IT functions had not been fully included in the 1998 budget.**
- **Phase II Telecommunications expense is projected to be \$2,160,000. This is a new expense for 1999.**
- **The 1999 Finance Budget is projected to increase by \$4,162,000 (9.32%) from \$44,658,000 in 1998 (10/17/97 FERC Tariff Filing) to \$48,820,000 in 1999. The increased financing costs result from increased long term borrowings due to increased infrastructure expenses (\$28,056,000) and delayed start expenses (\$20,817,000) that became necessary after the 10/17/97 FERC Tariff Filing. The increase of \$4,162,000 associated with tax exempt financing reflects a reduction from a potential increase of \$8,497,000 associated with taxable financing had the ISO not received ISO 501(c)3 Tax Status.**
- **Total of New Expenses for the 1999 O&M and Financing Budgets is estimated to exceed \$16,000,000.**

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

1998/1999 OPERATING & MAINTENANCE BUDGET COMPARISONS

<u>O&M Budget Category</u>	<u>1998 O&M Budget (1)</u>	<u>1999 O&M Budget</u>	<u>Changes in Budget</u>	
			<u>Amount</u>	<u>Percentage</u>
Salary and Benefits	\$ 36,457,000	\$ 38,412,000	\$ 1,955,000	5.36%
Building, Leases & Facility Costs	3,448,000	6,165,000	2,717,000	78.80%
Insurance	550,000	768,000	218,000	39.64%
Third Party Vendor Contracts	43,700,000	46,460,000	2,760,000	6.32%
Professional and Consulting Services	7,229,000	9,533,000	2,304,000	31.87%
Legal, Regulatory and Consulting	6,700,000	5,030,000	(1,670,000)	(24.93%)
Training, Travel and Professional Dues	4,250,000	3,455,000	(795,000)	(18.71%)
Other	3,471,000	1,739,000	(1,732,000)	(49.90%)
Contingency	3,481,000	0	(3,481,000)	(100.00%)
FERC Fees		<u>1,500,000</u>	<u>1,500,000</u>	NA
Total O&M Budget	\$109,286,000	\$113,062,000	\$ 3,776,000	3.46%

(1) Based on FERC Filing on 10/17/97 and Board of Governors approval on 12/10/97.

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1998/1999 CAPITAL EXPENDITURE BUDGET COMPARISONS

<u>Capital Expenditure Category</u>	<u>Infrastructure & 1998 Capital Budget (1)</u>	<u>1999 Capital Budget (2)</u>
Infrastructure	\$221,536,000	\$ 29,268,000
Shared System Software	10,925,000	6,680,000
Computing Equipment	2,024,000	1,758,000
Facilities	1,775,000	1,018,000
Financing Charges	1,600,000	0
Phase II Telecommunications (3)	<u>0</u>	<u>3,000,000</u>
Total Capital Expenditure Budget	\$237,860,000	\$ 41,724,000

(1) Based on FERC Filing on 10/17/97 and Board of Governors approval on 12/10/97.

(2) The 1999 Capital Expenditure Budget is projected to be \$41,724,000 and will be funded by the remaining bond proceeds from the initial public borrowing in May of 1998 as well as separate Capital Expense Recovery associated with the Phase II Telecommunications project. The initial public borrowing was designed to cover all of the Infrastructure and 1998/1999 Capital Expenditures. These funds were included in the amount financed in May, which amount was approved in the GMC Settlement.

To the extent that projects scheduled for completion in 1998 are deferred until 1999, this amount could increase accordingly.

(3) The direct assignment of these expenses will be presented to the Board of Governors at the November board meeting for approval.

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1998/1999 FINANCE BUDGET COMPARISONS

<u>Finance Budget Category</u>	<u>1998 Finance Budget (1)</u>	<u>1999 Finance Budget</u>	<u>Changes in Budget</u>	
			<u>Amount</u>	<u>Percentage</u>
Principal Reserve Funding	\$ 20,370,000	\$ 25,600,000	\$ 5,230,000	25.68%
Interest Reserve Funding	15,356,000	13,456,000	(1,900,000)	(12.37%)
Operating Reserve Funding	<u>8,932,000</u>	<u>9,764,000</u>	<u>832,000</u>	9.31%
Total Finance Budget	\$ 44,658,000	\$ 48,820,000	\$ 4,162,000	9.32%

(1) Based on FERC Filing on 10/17/97 and Board of Governors approval on 12/10/97.

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1998/1999 EXPENSE RECOVERY BUDGET COMPARISONS

<u>O&M Expense Recovery Category</u>	<u>1998 Recovery Budget (1)</u>	<u>1999 Recovery Budget</u>	<u>Changes in Budget</u>	
			<u>Amount</u>	<u>Percentage</u>
Interest Earned on Operating Funds	\$ 299,000	\$ 200,000	\$ (99,000)	(33.11%)
Connection and Application Fees	778,000	100,000	(678,000)	(87.15%)
WSCC Security Coordinator Fees	0	688,000	688,000	NA
Phase II Telecommunications (2)	<u>0</u>	<u>2,160,000</u>	<u>2,160,000</u>	NA
Total O&M Expense Recovery Budget	\$ 1,077,000	\$ 3,148,000	\$ 2,071,000	192.29%

<u>Capital Expense Recovery Category</u>	<u>1998 Recovery Budget (1)</u>	<u>1999 Recovery Budget</u>	<u>Changes in Budget</u>	
			<u>Amount</u>	<u>Percentage</u>
Phase II Telecommunications (2)	\$ 0	\$ 3,000,000	\$ 3,000,000	NA

(1) Based on FERC Filing on 10/17/97 and Board of Governors approval on 12/10/97.

(2) The direct assignment of these expenses is discussed separately at the November Board of Governors meeting for approval.

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1998/1999 REVENUE REQUIREMENT COMPARISONS

<u>Revenue Requirement Category</u>	<u>1998 Revenue Requirement (1)</u>	<u>1999 Revenue Requirement</u>	<u>Changes in Revenue</u>	
			<u>Amount</u>	<u>Percentage</u>
Total O&M Budget	\$109,286,000	\$113,062,000	\$ 3,776,000	3.46%
Total Finance Budget	44,658,000	48,820,000	4,162,000	9.32%
Total Expense Recovery Budget	(1,077,000)	(3,148,000)	(2,071,000)	192.29%
Total Revenue Requirement	\$152,867,000	\$158,734,000	\$ 5,867,000	3.84%

(1) Based on FERC Filing on 10/17/97 and Board of Governors approval on 12/10/97.

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1998/1999 TRANSMISSION VOLUME COMPARISONS

<u>Transmission Volume Category</u>	<u>1998 Transmission Volume ⁽¹⁾</u>	<u>1999 Transmission Volume ^{(1),(7)}</u>	<u>Changes in Volume</u>	
			<u>Amount</u>	<u>Percentage</u>
Pacific Gas & Electric (PG&E) ⁽²⁾	83,094,000	84,540,000	1,446,000	1.74%
Southern California Edison (SCE) ⁽³⁾	78,427,000	81,470,000	3,043,000	3.88%
San Diego Gas & Electric (SDG&E) ⁽⁴⁾	17,718,000	18,100,000	382,000	2.16%
Existing Contracts ⁽⁵⁾	13,135,000	11,425,000	(1,710,000)	(13.02%)
Exports (Wheeling) ⁽⁶⁾	<u>2,330,000</u>	<u>8,200,000</u>	<u>5,870,000</u>	251.93%
Total Transmission Volume	194,704,000	203,735,000	9,031,000	4.64%
Total Transmission Volume (Rounded)	195,000,000	204,000,000	9,000,000	4.62%

(1) Based on the GMC Settlement.

(2) PG&E's retail load represents the volume used in PG&E's 1999 Rate Case filings.

(3) The SCE forecast represents SCE's October 1998 retail load estimate, which is about 3% lower than the CEC forecast for 1999.

(4) SDG&E's 1999 volume forecast is unchanged from the previous 1999 estimate contained in CAISO's October 1997 Tariff rate filing. This estimate is about 3.4% higher than the CEC Forecast, and reflects the current view of SDG&E staff.

(5) Based on the GMC settlement, existing contract volumes are treated differently for GMC purposes; in some cases where the transmission lines and generation are not part of the ISO Controlled Grid, no GMC is assessed, e.g. MWD, COTP; for a majority of the existing contract volumes, the GMC is currently assessed on only 50% of the existing contract volumes.

(6) Wheeling or Export volume estimates are based on historical data from April to August 1998.

(7) The estimated ISO load for 1998 is expected to be around 200,000 GWh. The 1999 load forecast would represent a 2% load growth over actual experience in 1998.

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1998/1999 GRID MANAGEMENT CHARGE COMPARISONS

	<u>1998 GMC ⁽¹⁾</u>	<u>1999 GMC ⁽¹⁾</u>	<u>Changes in GMC</u>	
			<u>Amount</u>	<u>Percentage</u>
Total Revenue Requirement	\$152,710,000	\$158,734,000	\$ 6,024,000	3.94%
Transmission Volume (MWh)	195,000,000	204,000,000	9,000,000	4.62%
Grid Management Charge	\$ 0.7831	\$ 0.7781	\$ (0.0050)	(0.64%)
Headcount	296	308	12	4.05%

(1) Based on the GMC Settlement.

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

1998 ISO DEPARTMENT O&M BUDGETS and 1999 ISO DEPARTMENT O&M BUDGETS

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(See Appendix A)

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1998 ISO DEPARTMENT O&M BUDGETS versus 1999 ISO DEPARTMENT O&M BUDGETS

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(See Appendix B)