California ISO
Shaping a Renewed Future

2013 Budget
Initial Stakeholder Meeting

June 21, 2012

Agenda

TOPIC	PRESENTER
Introduction & budget principles	Ryan Seghesio
2012 - 2016 Strategic Plan	Steve Greenlee
Managing employee compensation	Brenda Thomas
2012 Budget process & GMC rate outlook	Charles Snay
2012 - 2013 Project release plans	Janet Morris
2011 & 2012 Project summaries	Jan Cogdill
2011 & 2012 YTD Financial Summary	Denise Walsh
2012 GMC rate changes	Charles Snay
2013 Budget Calendar & Next Steps	Charles Snay
Stakeholder Feedback & Discussion	Group

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Budget Principles

Ryan Seghesio
CFO and Treasurer

2013 Budget Principles

- Provide transparency of the budget process
- Enhance stakeholder understanding of the budget
- Gather stakeholder input to the budget
- Maintain fiscal discipline
- Accommodate relevant Strategic Plan Initiatives
- Maintain service levels
- Deliver a revenue requirement under $199M

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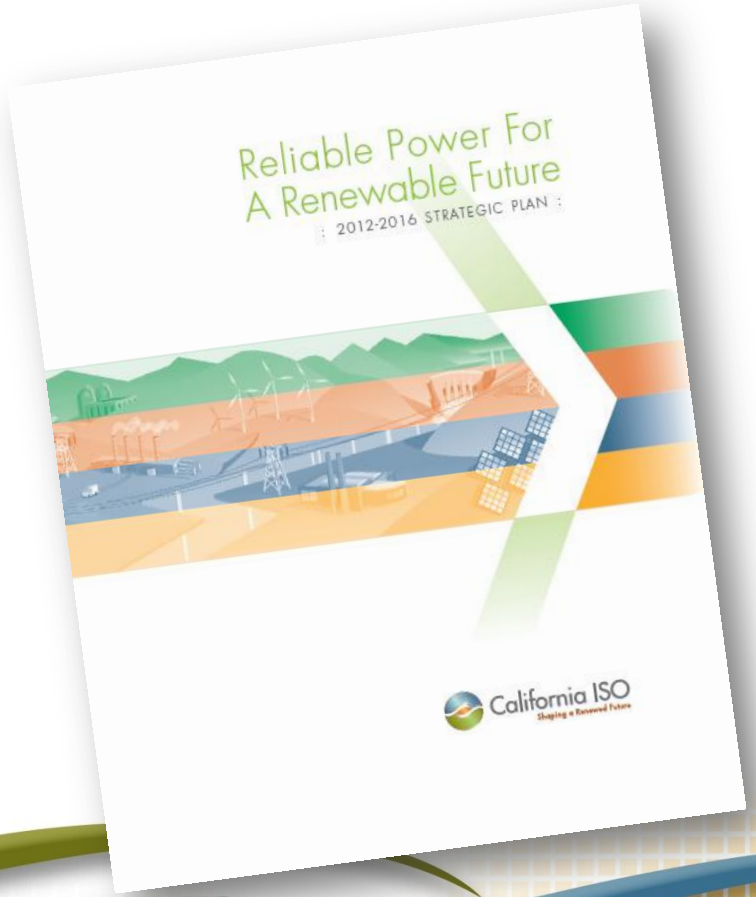


The 2012-2016 Strategic Plan

Steve Greenlee
Communications Writer Editor

Strategy One:

Facilitate California's transition to a smarter, cleaner, more reliable and secure energy future

The Challenge:

California pioneered the development of renewable energy resources in the 1980s. Building on that tradition, the state now requires that by 2020, 33% of electricity come from renewable sources. As the organization responsible for energy reliability, the ISO is at the forefront of making this vision possible—while continuing to keep the lights on.

Renewable generation poses both unique opportunities and operational challenges. It reduces greenhouse gas emissions, improves generation diversity and creates jobs. But wind and solar resources depend on the weather and most renewable sources (including biomass and geothermal) tend to be located in places far from California's population centers—both complicating electricity predictability and requiring transmission connections.

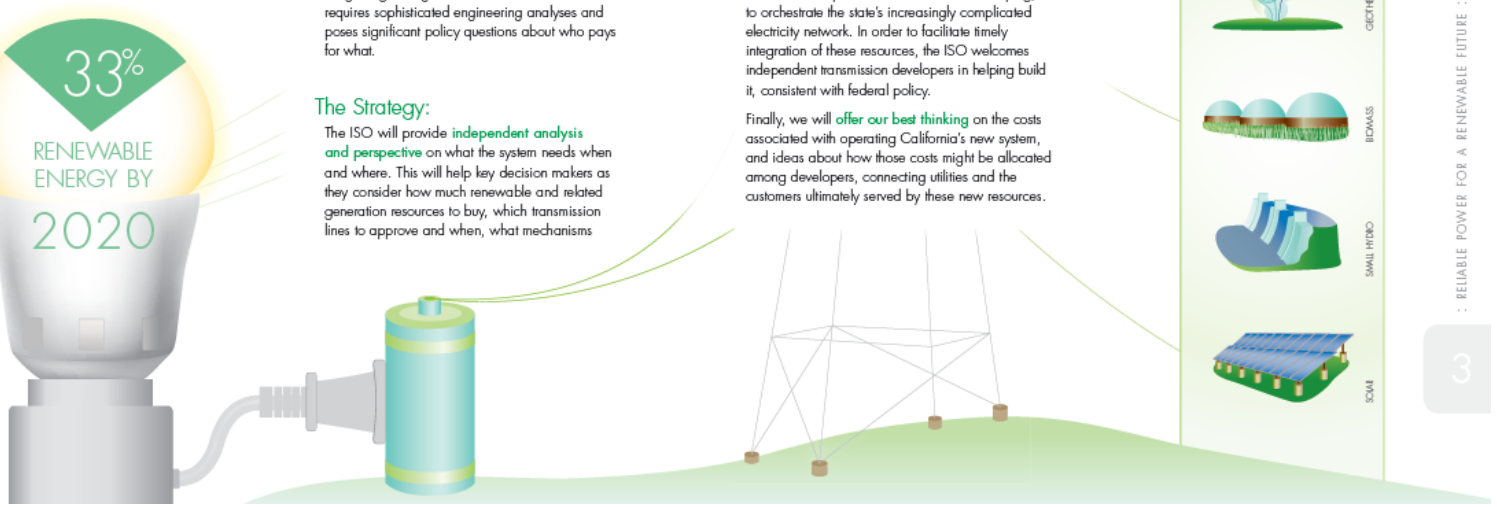
These new resources should be developed in the most costeffective and environmentally responsible way for California consumers. Renewable developers have already proposed over 57,000 MW of new generation for the ISO grid, but our system's current peak requirement is only about 50,000 MW. Integrating the right amount of new resources requires sophisticated engineering analyses and poses significant policy questions about who pays for what.

The Strategy:

The ISO will provide **independent analysis and perspective** on what the system needs when and where. This will help key decision makers as they consider how much renewable and related generation resources to buy, which transmission lines to approve and when, what mechanisms will best encourage customer efficiency and how to accelerate deployment of new energy storage and communication technologies that complement the ISO's world-leading grid management and forecasting platform.

We will **facilitate timely development** of generator interconnection projects by appropriately managing the project queue and progress milestones in line with the state's grid operational needs and regulatory timetables. In addition, we will provide new market mechanisms to bring online new resources offering the kinds of operational flexibility we need (such as 1-minute response and more versatile ramping) to orchestrate the state's increasingly complicated electricity network. In order to facilitate timely integration of these resources, the ISO welcomes independent transmission developers in helping build it, consistent with federal policy.

Finally, we will **offer our best thinking** on the costs associated with operating California's new system, and ideas about how those costs might be allocated among developers, connecting utilities and the customers ultimately served by these new resources.



2 Strategy Two:

Ensure continued reliability during grid transformation —from today's aging fleet of fossil power plants to a cleaner, more diverse and complex portfolio of resources

The Challenge:

Many fossil-fuel power plants within the ISO grid are at the end of their economic and physical lives. Thirteen of these plants (representing about 17,500 MW) and the state's nuclear facilities must retrofit, repower, or retire by 2020 and 2024, respectively to comply with state "once-through cooling" policy restricting the use of coastal waters for power plant cooling. However, some of these plants are in areas with transmission bottlenecks, resulting in the need for local generation to minimize the risk of power outages for those customers.Some of these plants can be powered up quickly when weather or system conditions limit wind or solar power output.

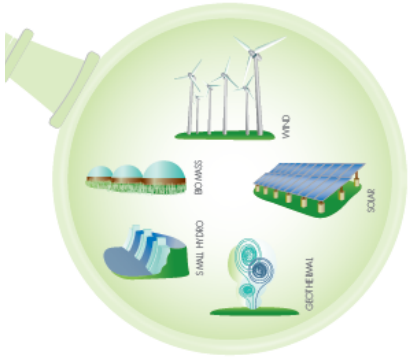
As renewable sources come into the system, procurement of fossil-fuel generation will decline just when it is needed to offset the intermittency of variable resources. ISO studies show these "grid workhorses" will remain needed for reliability until other technologies such as storage or demand response mature. Another complication is that current market prices do not cover the cost of operating an existing fossil-fuel power plant, let alone the cost of developing a new facility. Furthermore, existing plants are not currently eligible to compete for long-term procurement contracts for new resources.

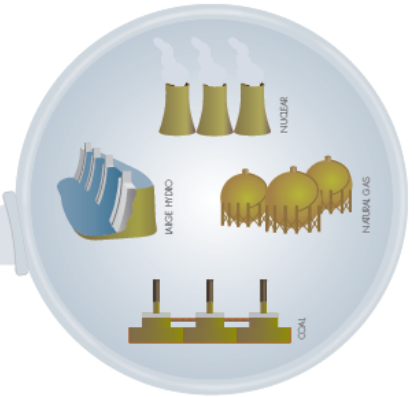
The Strategy:

The ISO will work closely with other agencies to develop a long-term procurement strategy that ensures reliable operation throughout all areas of the grid.

This will require coordinating compliance with once-through cooling policy and local reliability requirements, developing appropriate financial support for continued availability of existing generation facilities necessary to complement new renewables, and encouraging innovation in new and more flexible storage, demand response and ramping capabilities across our portfolio.

Working closely with the California Public Utilities Commission, we will identify ways to optimize its Resource Adequacy Program, Long Term Procurement Program and the ISO backstop procurement authority to focus on maintaining an efficient fleet with proper capabilities. We will work with stakeholders to broaden the ISO's backstop abilities to ensure that more flexibility exists to react to system needs. Finally, we will make sure that system needs are fully studied, documented and available to policy makers and stakeholders.





3 Strategy Three:

Strengthen California's global leadership commitment to renewable, responsible and reliable electricity

The Challenge:

Energy policy is inherently complicated and contentious. It involves difficult trade-offs among competing and legitimate public policy and private interests. These range from customer concerns about cost and environmental quality, generator needs for business viability, public expectations of accountability and an overarching need for strengthening California's economic competitiveness. Simply put, electricity powers not just the lights, but the jobs upon which we all depend.

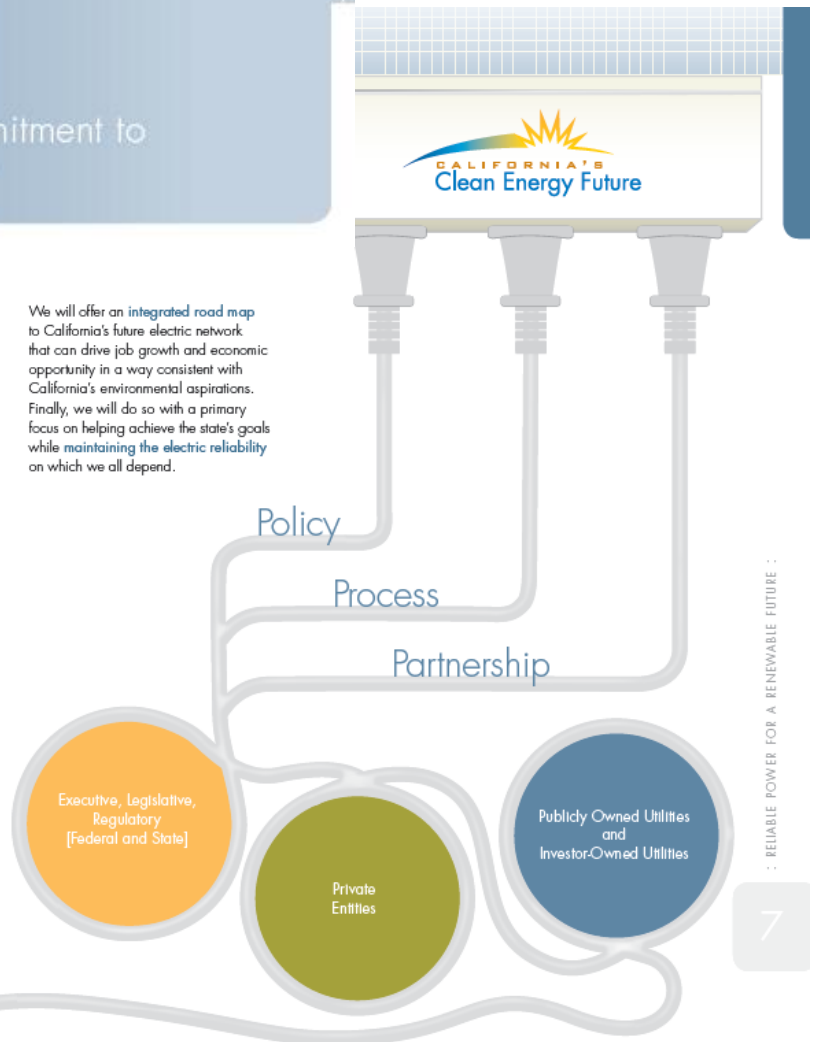
Regulatory authority over these considerations is shared by several state and federal entities with separate and sometimes overlapping responsibilities. For example, the ISO is federally regulated and must simultaneously answer to the Federal Energy Regulatory Commission and state policy makers that oversee, among other things, utility resource procurement, infrastructure permitting and ratemaking. In order to build the kind of electric network we need to fuel our state's future economic prosperity, we need continued coordination and clarity across the regulatory landscape of which the ISO is a part.

The Strategy:

As the entity ultimately responsible for keeping California's lights on, we have the duty to provide **independent perspective** on what it takes to reliably operate the grid while pursuing the state's multiple policy objectives. Building on the collaborative foundation laid by the multi-agency California's Clean Energy Future initiative, the ISO will explore **new opportunities for policy coordination** among policy makers.

We will provide greater transparency for agency and public input into our transmission planning process, including related environmental considerations, and work cooperatively on efforts to **streamline generation interconnections** on both the distribution and transmission systems.

We will offer an **integrated road map** to California's future electric network that can drive job growth and economic opportunity in a way consistent with California's environmental aspirations. Finally, we will do so with a primary focus on helping achieve the state's goals while **maintaining the electric reliability** on which we all depend.



4 Strategy Four:

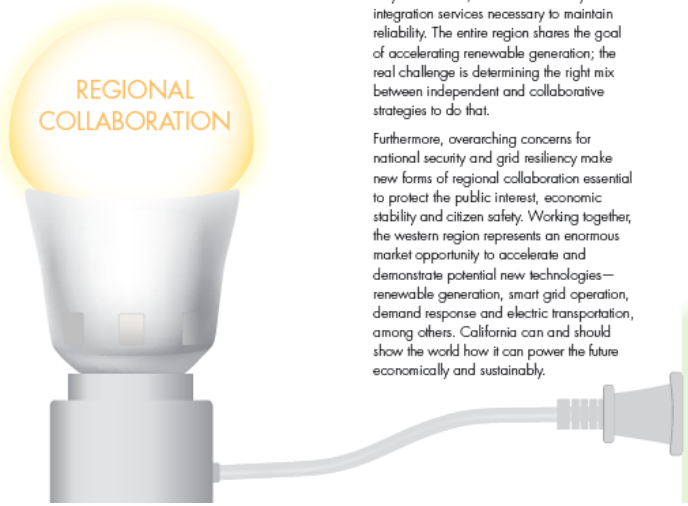
Explore opportunities for regional collaboration and focused technological innovation—to strengthen the reliability, sustainability, security and resiliency of our electricity network

The Opportunity:

California is synonymous with innovation—in culture, technology and policy. Our electric grid should be the cleanest, safest, most secure and efficient in the world. Fortunately, nature and physics combine to offer an unprecedented opportunity to make that happen for Californians and our neighbors in the West. These opportunities have been tapped in the past and offer great possibilities for the future. They include vast hydro resources in British Columbia and the northwest; significant geothermal generation from California, Nevada, Utah and Colorado; low cost wind in Montana and Wyoming; and intense solar potential in the deserts of the southwest and Mexico.

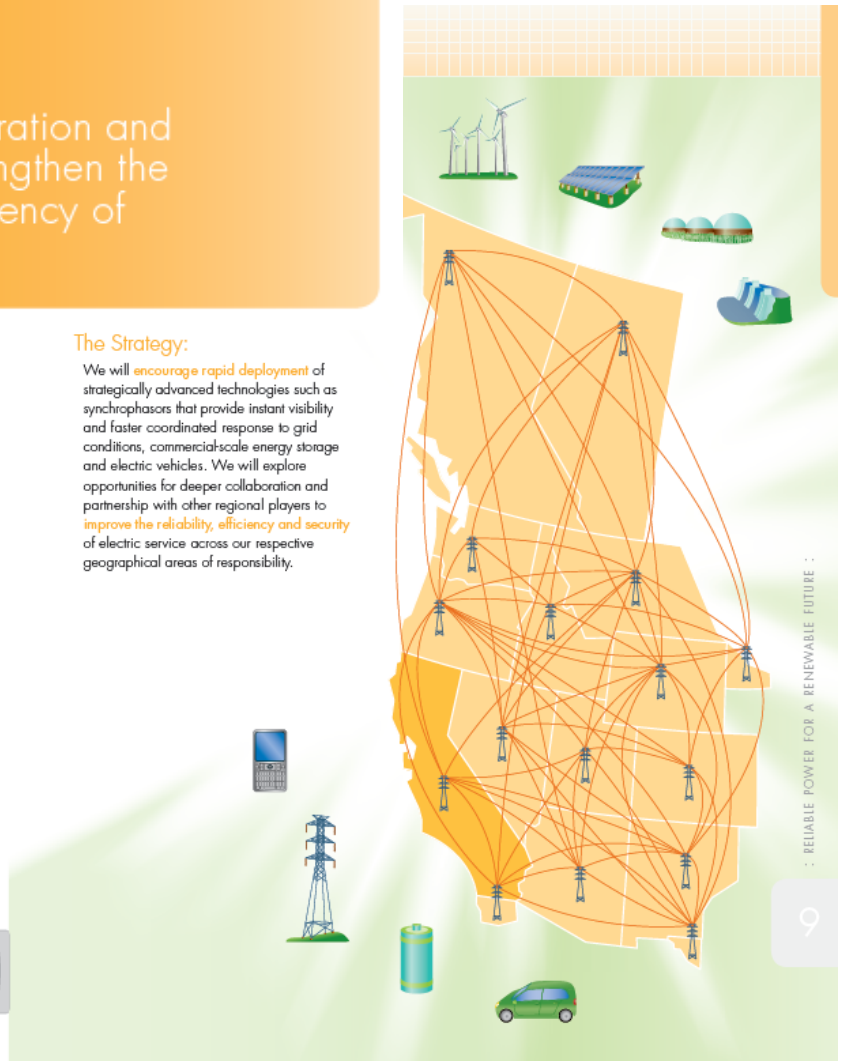
There are significant imbalances among the location, mix and scale of potential renewable resources, the nature and magnitude of the customer demand they could serve, and the availability of integration services necessary to maintain reliability. The entire region shares the goal of accelerating renewable generation; the real challenge is determining the right mix between independent and collaborative strategies to do that.

Furthermore, overarching concerns for national security and grid resiliency make new forms of regional collaboration essential to protect the public interest, economic stability and citizen safety. Working together, the western region represents an enormous market opportunity to accelerate and demonstrate potential new technologies—renewable generation, smart grid operation, demand response and electric transportation, among others. California can and should show the world how it can power the future economically and sustainably.



The Strategy:

We will encourage rapid deployment of strategically advanced technologies such as synchrophasors that provide instant visibility and faster coordinated response to grid conditions, commercial-scale energy storage and electric vehicles. We will explore opportunities for deeper collaboration and partnership with other regional players to improve the reliability, efficiency and security of electric service across our respective geographical areas of responsibility.



Electricity Road Map

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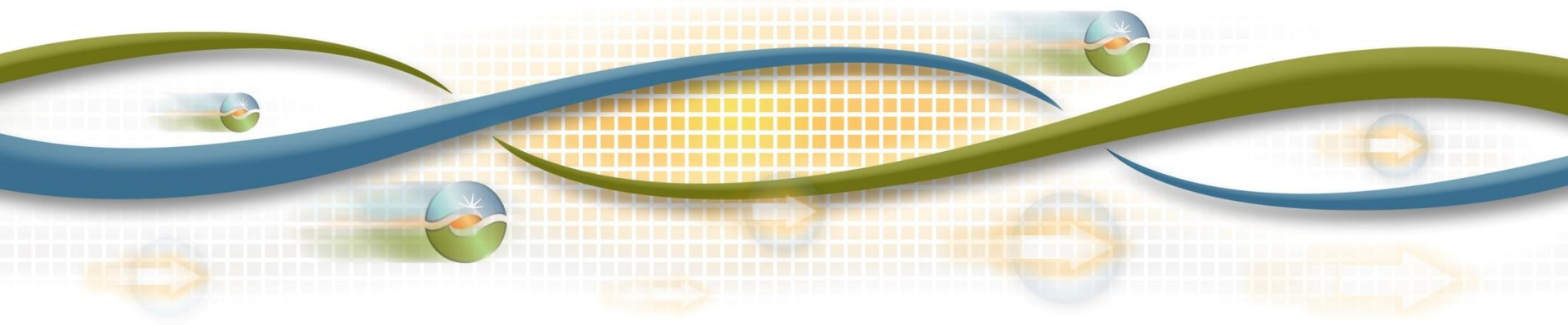
Managing Employee Compensation

Brenda Thomas
VP, Human Resources



Managing employee compensation reflects ISO people strategy to attract, train, motivate and retain top talent.

- Competitive Pay
  - Market pay practices
  - Annual salary surveys covering 100% of ISO positions
- Strong Performance Management Program
  - Individual performance plans
  - Stretch objectives
  - Ongoing feedback, coaching and support
- Pay for Performance Philosophy
  - Year-end evaluation of performance results against objectives
  - Differentiation of merit dollars based on performance
- 0-3% Merit Increase Guidelines
  - Optimal utilization of available merit dollars
  - Not all employees receive pay increases

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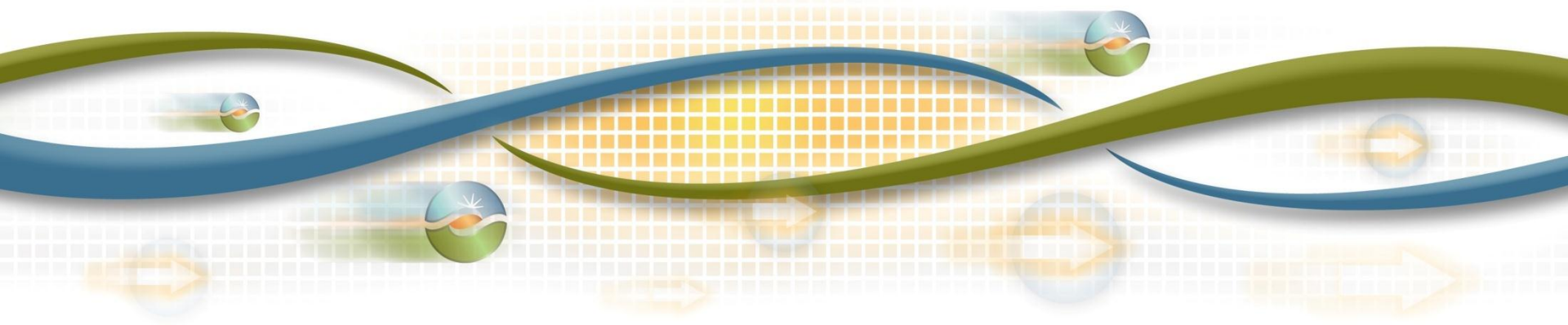
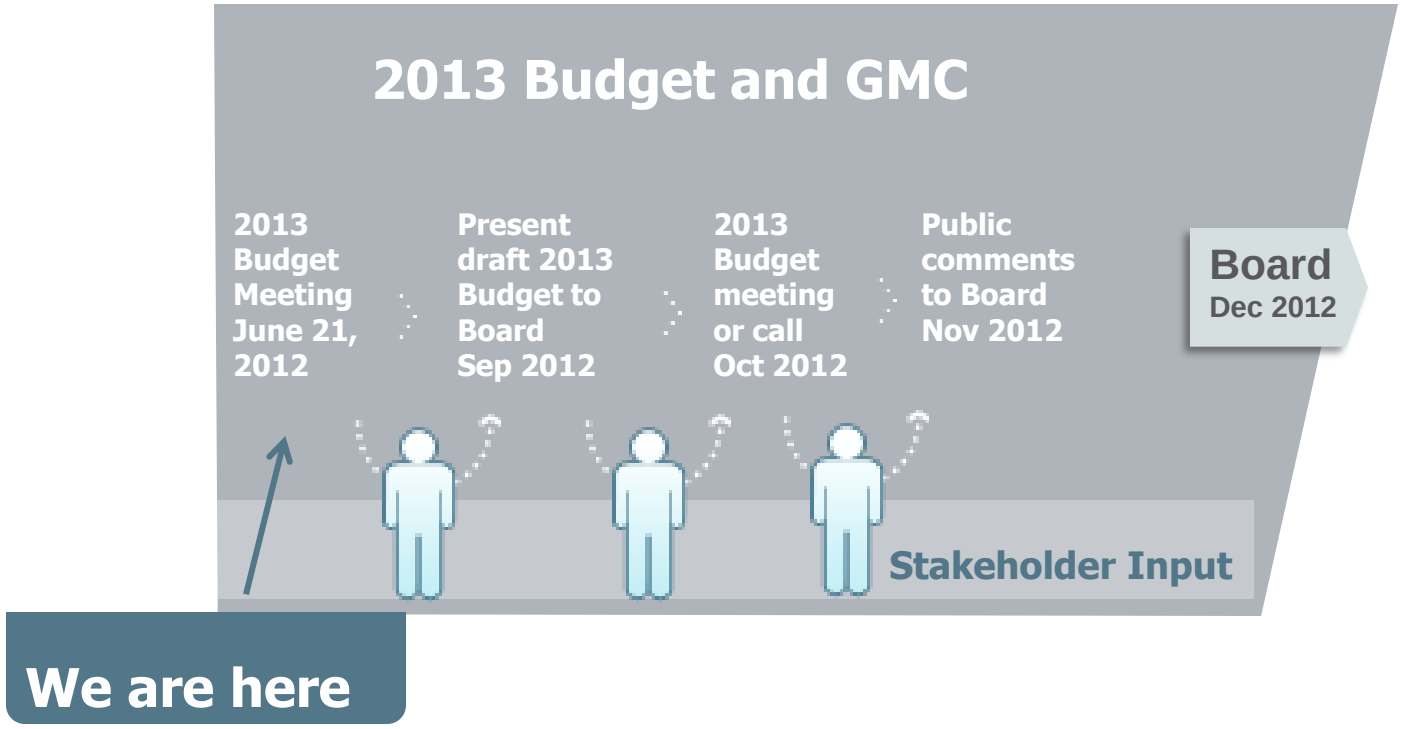
Budget Process and Rate Outlook

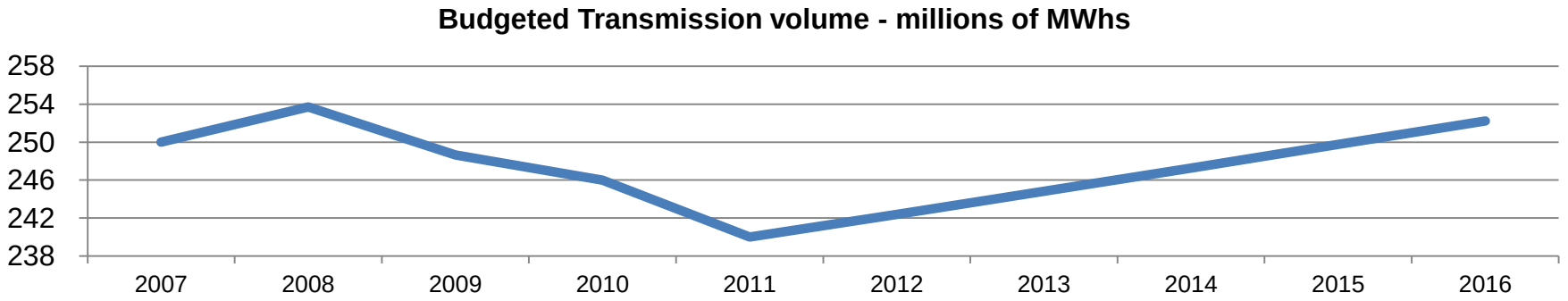
Charles Snay
Assistant Treasurer

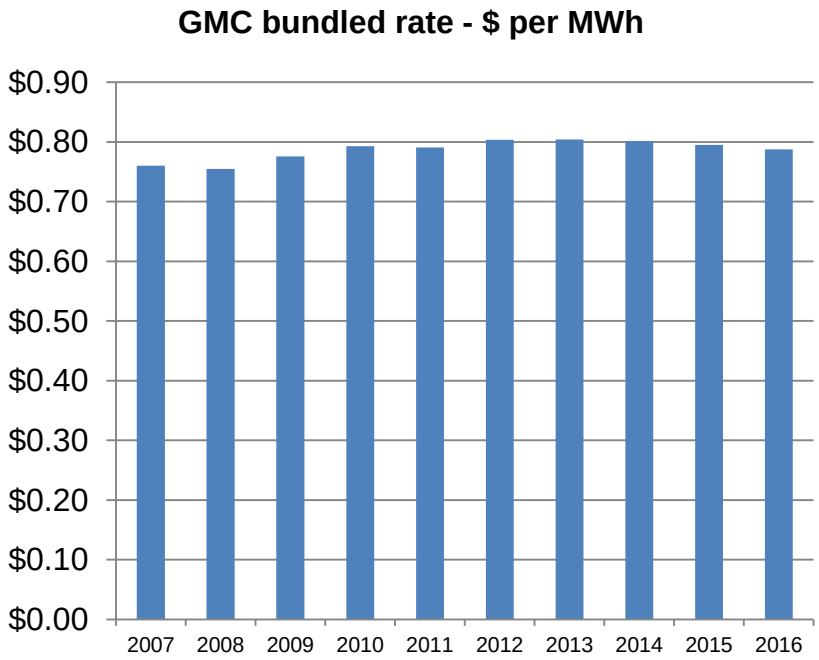


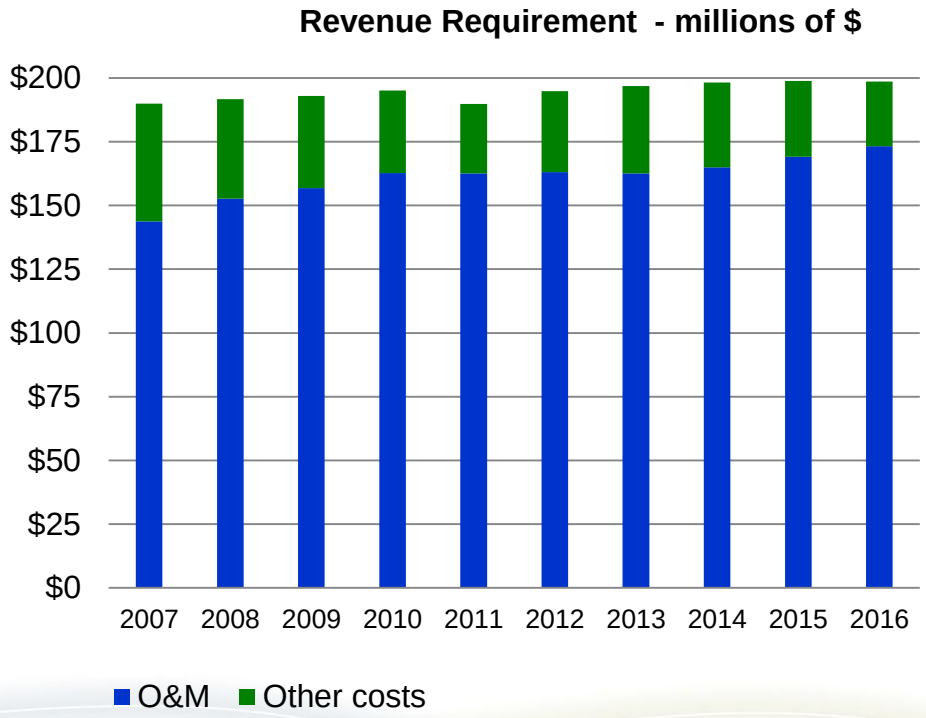
Timeline for 2013 budget and GMC rates



GMC Revenue requirement and rate outlook







2012 - 2013 Project Release Plans

Janet Morris
Director, Program Office

Release planning information is updated and discussed regularly throughout the year.

- Release planning page: http://www.caiso.com/informed/Pages/ReleasePlanning/Default.aspx
- Master Stakeholder Engagement Plan: http://www.caiso.com/Documents/MasterStakeholderEngagementPlan.pdf
  - Policy and implementation initiatives
  - Updated on the first of each month
  - Two year time horizon
- Market Performance and Planning Forum
  - Every eight weeks
  - Technical and release plan updates
- Release Users Group
  - Bi-weekly updates to release plan
  - Interactive review of project impact assessment and milestones
- Technical Users Group – Technology Roadmap http://www.caiso.com/Documents/ExternalTechnologyRoadmap_TUGWebConferenceJune5_2012.pdf

The 2013 Release Plan includes several approved policy initiatives and other high priority projects.

- Spring 2013
  - Dynamic Transfers
  - FERC Order 755 – Pay for Performance
  - Mandatory MSG
  - Post Emergency Filing BCR changes
  - Access and Identity Management
  - Master File Enhancements
- Fall 2013
  - RIMPR-Phase 1 / BCR Mitigation Measures
  - Circular Scheduling
  - Commitment Cost Refinements
  - Flexible Ramping Product (to be presented to the Board in September 2012)
  - Intertie Pricing and Settlement (to be presented to the Board in September 2012)
  - Outage Management System for Generation (tentative)
  - Subset of Hours (scope to be determined)

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Project Summaries

Jan Cogdill
Lead Financial Planning

Summary of Projects 2011-2013

- Projects completed during June 2011 to May 2012
  - 27 Capital projects completed
    - actual costs $13.3M vs. budget of $13.9M
  - 33 Requirements & other projects
    - actual costs $4.1M vs. budget of $4.4M
  - Iron Point building
    - actual cost $145.3M vs. budget of $160.0M
- Active projects as of May 31, 2012
  - 36 Capital Projects
    - budgeted costs $24.9M, YTD spent $11.2M
  - 39 Requirements & other projects:
    - budgeted costs $6.4M, YTD spent $2.6M

The 2012 budget and 2013 projects

- 2012 project budget
  - Approved at $20.8M
- 2013 budget
  - Targeted at $19.5M
  - Excess of 60 proposed projects will be prioritized to meet final budget limit

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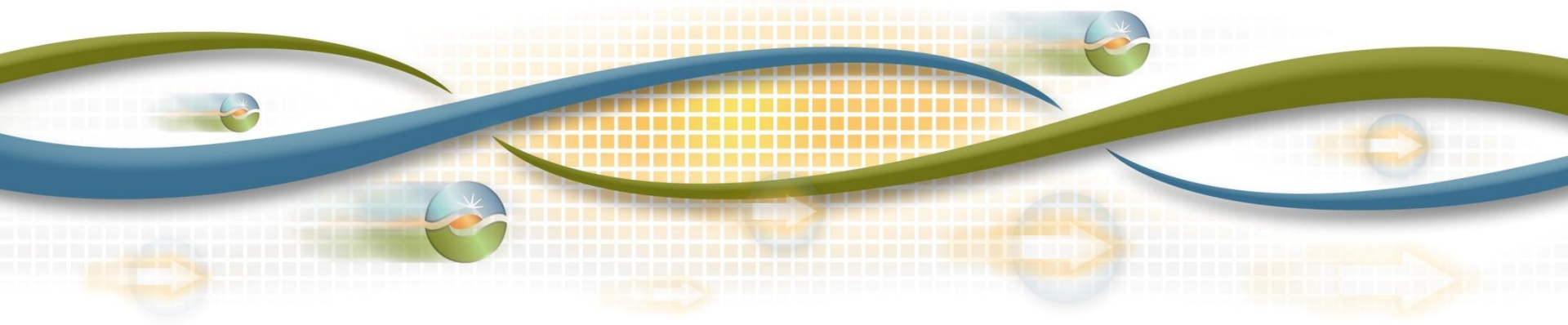
2011 & 2012 Q1 Financial Summary

Denise Walsh
Controller

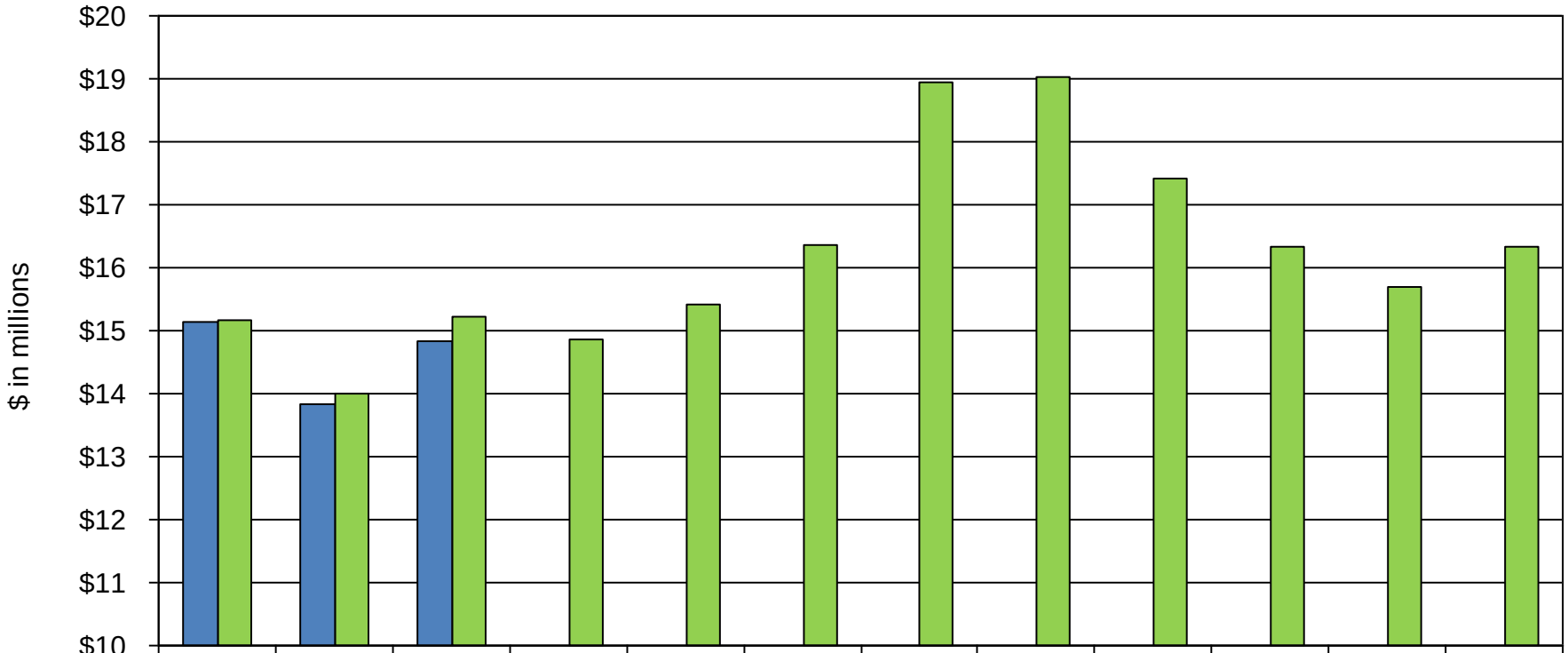


2011 Highlights

Key components of the 2011 budget:

- Operating revenues = $193.0 million vs. $191.5 million
  - Mostly Grid Management Charge (GMC) revenues
- Operating expenses = $162.5 million vs. $158.3 million
  - Operating and maintenance expenses
- Capital Expenditures= $23.5 million vs. $19.6 million (approved)
  - Fixed assets and capital projects

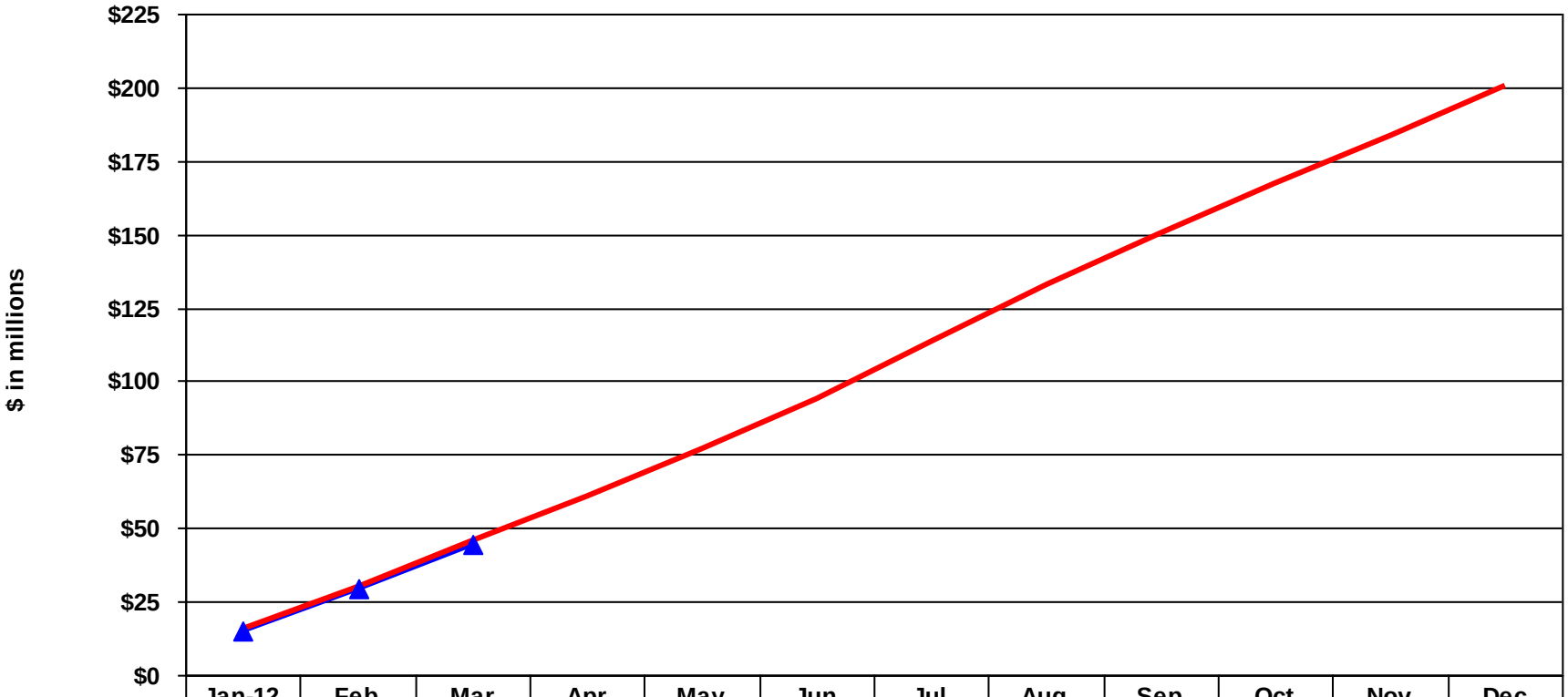
Q1 2012 Monthly GMC Revenues



	Jan-12	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Actual	15.15	13.84	14.83									
Budget	15.17	14.00	15.23	14.86	15.43	16.36	18.94	19.04	17.43	16.33	15.69	16.33
Variance	(0.02)	(0.16)	(0.40)									
Cum Variance	(0.02)	(0.18)	(0.58)									

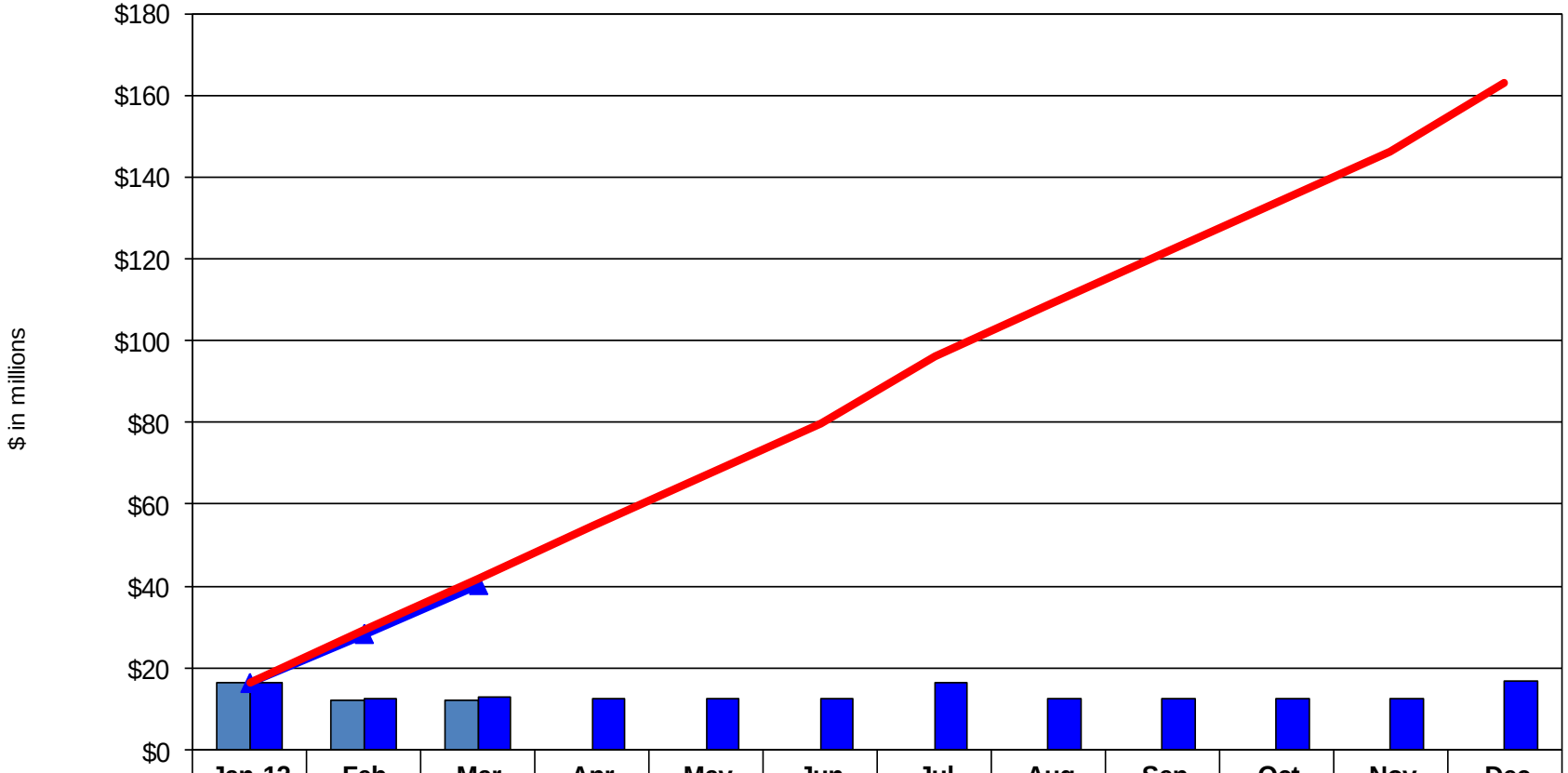
Q1 2012 Cumulative Operating Revenues

Revenues = GMC, LGIP, & Other Fees



	Jan-12	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Actual	15.25	29.17	44.29									
Budget	15.63	30.09	45.78	61.10	76.99	93.80	113.20	132.70	150.60	167.38	183.53	200.32
Variance	(0.38)	(0.92)	(1.48)									

Q1 2012 Operating and Maintenance Expenses



	Jan-12	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	16.32	11.89	11.89									
Monthly Budget	16.49	12.63	12.76	12.63	12.64	12.55	16.35	12.54	12.53	12.53	12.53	16.87
Cum Actual	16.32	28.21	40.10									
Cum Budget	16.49	29.13	41.88	54.51	67.15	79.70	96.05	108.59	121.12	133.65	146.17	163.05
Cum Variance	0.17	0.92	1.78									

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2012 GMC Rate Changes

Charles Snay
Assistant Treasurer

July 2012 GMC Rate Adjustments

GMC rate adjustments effective July 1, 2012

- Market Services
  - Rate increased from $0.0851 to $0.0950 or $0.0099
  - Projected revenue $44.6M or $2.8M lower than budgeted revenue of $47.4M
  - Likely cause was lower convergence bidding activity than projected
- System Operations – no change
- Congestion Revenue Rights (CRR) Services
  - Rate decreased from $0.017 to $0.010 or $0.007
  - Projected revenue $10.3M or $2.7M higher than budgeted revenue of $7.6M
  - Due to more activity than projected

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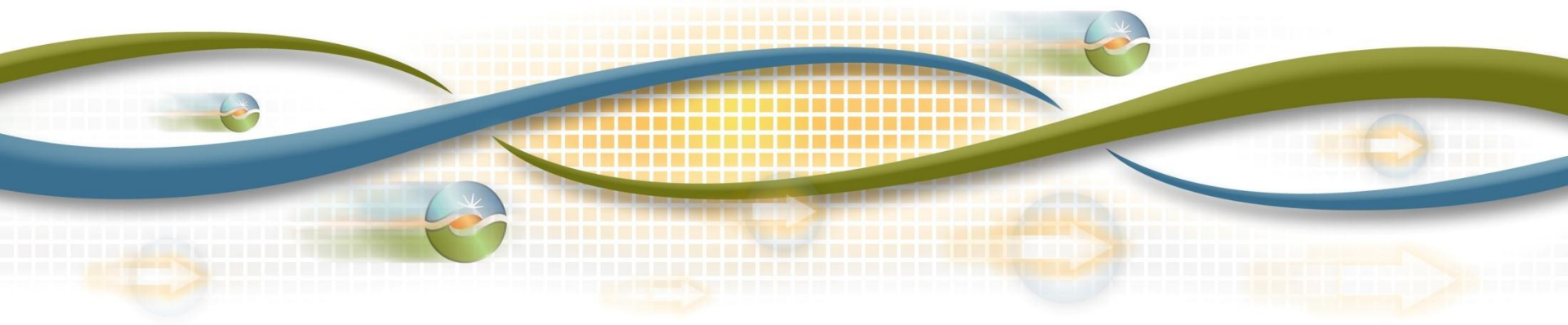
Budget Calendar & Next Steps

Charles Snay
Assistant Treasurer



Key calendar dates and next steps

- Stakeholder comments due — Jun 28
  - Send to csnay@caiso.com
- Internal budget process — Jun - Aug
- Board of Governors meeting — Sep 13-14
  - Present preliminary 2013 budget
- Post 2013 budget information for stakeholders — Sep 19
- Stakeholder call or meeting to review preliminary budget — Oct 10
- Written Stakeholder comments due to ISO — Oct 17
- Board of Governors Meeting — Nov 1-2
  - Public comments to board on 2013 budget
- Board of Governors Meeting - Approval of 2012 budget — Dec 13-14
- Post rates and budget documentation to ISO website — Dec 19