



CALIFORNIA ISO

PROPOSED

FY2001 GRID MANAGEMENT CHARGE

Posted 9/28/2000

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APPENDIX A: FY2000/FY2001 ISO DEPARTMENTAL O&M BUDGETSError! Bookmark not defined.

OVERVIEW

- **This Proposed FY2001 Budget is posted in accordance with the ISO Grid Management Charge (GMC) Settlement dated 06/01/98 (the “GMC Settlement”).**
- **This Proposed FY2001 Budget Report will be presented at an ISO Budget Workshop open to all stakeholders on October 19, 2000. At that meeting, members of the ISO Management team will discuss the draft budget with stakeholders and answer questions.**
- **Comments from stakeholders on the preliminary FY2001 Budget Report are to be submitted by November 12, 2000 for inclusion in a summary of comments on the Budget. The comments from Stakeholders will be discussed at the November Board meeting, where the budget will be presented for approval by the Board of Governors.**

EXECUTIVE SUMMARY

Operating Budget

- **On September 21, 2000, Management presented various options and a recommendation for a FY2001⁽¹⁾ Operating Budget to the Finance Committee of the Board of Governors.**
 - ⇒ **Management developed a base budget which represented a continuation of service at the level provided in FY2000, and a recommended budget which included multiple additional programs related to enhanced service and additional capital investment.**
 - ⇒ **Management discussed the impact on levels of service, personnel, and contract negotiating strategies related to the base budget and the recommended budget.**
- **It was the sense of the Finance Committee that Management proceed with the Recommended O&M Budget that provides for the recommended service enhancements as well as funding for the support of the Recommended Capital Budget for FY2001.**
- **The FY2001 Proposed Operating Budget Net Revenue Requirement is \$225,307⁽²⁾, an increase of \$46,024 over the FY2000 Operating Budget Net Revenue Requirement of \$179,283 .**
- **ISO Management recommends a FY2001 Operating & Maintenance Budget of \$171,798 , an increase of \$38,582 or 29% from the FY2000 Filed Operating & Maintenance Budget of \$133,217 .**
- **The bundled GMC for FY2000 is \$0.830/MWh. On a pro forma, bundled basis, the FY2001 GMC would be \$0.988 /MWh based on a FY2001 Forecasted Transmission Volume of 228,000 MWh. This would represent an increase of \$0.158 or 19% from the FY2000 GMC.**

(1) The CAISO fiscal year (FY) is the calendar year.

(2) '000 Omitted except for \$/MWh.

EXECUTIVE SUMMARY

Finance, Expense Recovery, Revenue Credit and Capital Budgets

- The proposed FY2001 Financing Budget of \$63,141 represents an increase of \$15,071 or 31% over the FY2000 Financing Budget of \$48,070 . The financing costs increase as the result of higher principal, interest and operating reserve funding associated with the issuance of additional debt in FY2000 and the planned issuance of new debt in FY2001. Additionally, the FY2001 debt will be amortized over five years, shorter than currently outstanding debt, but consistent with the expected life of ISO assets.
- The proposed FY2001 Operations & Maintenance Expense Recovery Budget (non-GMC revenues) is \$2,402 an increase of \$398 or 20% from the FY2000 Operations & Maintenance Expense Recovery Budget of \$2,004 . The increase is attributable to higher projected interest revenue on operating fund accounts and higher WSCC reimbursements.
- The FY2001 Revenue Credit is available to reduce the revenue requirements of the ISO during FY2001, as the Operating Reserve will be fully funded as of FY2000. This allows for a reduction in the ISO costs collected through the grid management charge of \$7,230.
- The proposed FY2001 Capital Expenditure Budget is \$37,774 compared to \$40,094 in FY2000. Funding sources include an additional bond offering planned for FY2001, and the remaining bond proceeds from borrowing in April 2000. Further details are provided on page 17.

EXECUTIVE SUMMARY

Unbundling and Rates

- **Effective January 1, 2001, the Grid Management Charge will be unbundled, and will consist of three separate charges:**
 - ⇒ **Control Area Services** **Billed per MWh of Gross Control Area Load**
 - ⇒ **Interzonal Scheduling** **Billed per MWh of Net Interzonal Scheduled Load**
 - ⇒ **Market Operations** **Billed per MWh of purchases & sales of A/S & RT Energy**

- **The rates for these new charges are not directly comparable to the current bundled GMC in effect from 1998 to 2000, as different billing determinants (denominators) are used in calculating the rates.**
 - ⇒ **Had the FY2001 revenue requirement continued to be collected through a bundled GMC, the rate would have been based on transmission volume of 228,000 MWh, calculated in accordance with the 1998 GMC Settlement. This figure represents an increase of 12,000 MWh or 6% from FY2000 Transmission Volume of 216,000 MWh, or an increase of 3.6% from the current forecast for FY2000 volume.**

FY2001 BUDGET TIMELINE

- | | |
|--|-----------------------------|
| 1. FY2001 Budget Process Rollout to CAISO departments | June 19, 2000 |
| 2. Initial Review of Proposed Divisional Budgets with Officers | August 7, 2000 |
| 3. Final Proposed Budget Decisions | September 5, 2000 |
| 4. Final Officer Review of Proposed Budget | September 13, 2000 |
| 5. Proposed Budget Package Sent to Finance Committee for Review | September 14, 2000 |
| 6. Finance Committee Review of Preliminary Budget | September 21, 2000 |
| 7. Budget Posting on Internet | September 28, 2000 |
| 8. Public Budget Workshop | October 19, 2000 |
| 9. Report on FY2001 Budget to Board | October 26, 2000 |
| 10. FERC GMC Unbundling Filing | By October 31, 2000 |
| 11. Stakeholder Comments on Budget Due | November 10, 2000 |
| 12. Board Approval of FY2001 Budget | November 29-30, 2000 |
| 13. Section 35.13 Informational Filing with FERC | December 15, 2000 |

FY2000/FY2001 OPERATING & MAINTENANCE BUDGET COMPARISONS

	FY2000 Operating Budget	FY2001 Proposed Budget	Amount Change	Percentage Change
Salaries and Benefits	\$ 54,749	\$ 73,208	\$ 18,459	34%
Bldg, Lease & Facility Costs	10,946	15,453	4,508	41%
Insurance	899	1,031	132	15%
Third Party Vendor Contracts	46,481	49,730	3,249	7%
Professional & Consulting Services	6,868	8,362	1,494	22%
Audit, Legal & Regulatory	6,200	10,385	4,185	67%
Training and Travel	4,508	7,637	3,130	69%
Miscellaneous	2,536	5,960	3,424	135%
Other	30	30	-	0%
Total O&M Budget	\$ 133,217	\$ 171,798	\$ 38,582	29%

FY2000/FY2001 OPERATING & MAINTENANCE BUDGET COMPARISONS

	Total Change FY2000 vs. FY2001	Maintaining FY2000 Service Level	Additional Requirements & Recommendation s
Salaries and Benefits	\$ 18,459	\$ 15,139	\$ 3,320
Bldg, Lease & Facility Costs	4,508	1,882	2,626
Insurance	132	132	-
Third Party Vendor Contracts	3,249	704	2,545
Professional & Consulting Services	1,494	194	1,301
Audit, Legal & Regulatory	4,185	4,185	-
Training and Travel	3,130	365	2,765
Miscellaneous	3,424	1,504	1,920
Other	-	-	-
Total O&M Budget	\$ 38,582	\$ 24,106	\$ 14,476

PROPOSED FY2001 OPERATING & MAINTENANCE BUDGET COMMENTS BY DIVISION

See Appendix A for Proposed O&M Budgets by Division:

OPERATIONS

- In addition to Operations support for new FY2000 programs, including Automated Dispatch System (ADS) and Ten-Minute Settlements, budget includes increased provision for callout program for grid operators, enhanced training programs and preparation for CMR and EMS changes.

IT

- Increased staffing and infrastructure costs (hardware, leases, software licenses, network changes, etc.) associated with the growing number of systems and staffing put in place in 2000 and planned for 2001.

GENERAL COUNSEL

- Increased funding for required outside counsel support, increased staffing for governmental relations and staffing to meet the investigative responsibilities of Department of Market Analysis

FINANCE

- Staffing to implement GMC Unbundling, Accelerated Payment Calendar, and Ten-Minute Settlements.

CLIENT SERVICES

- Staffing to maintain the client support levels established in 2000, which has included hosting more than 100 teleconferences and 100 stakeholder meetings so far this year.

STRATEGIC DEVELOPMENT & COMMUNICATIONS

- Funding for strategic planning staff, enhanced Board support, and proactive media relations effort.

HR/CEO

- Increased recruiting effort necessitated by growth and turnover, and provision for RTO developments.

STAFFING CHANGES IN THE FY2001 O&M BUDGET

CAISO Division	FY2000 Operating Budget	Transfers during FY2000	Additional Staff Added During FY2000	FY2000 Current Staffing	FY2001 Contractor Con- versions	FY2001 New Rqmts. (Base Budget)	FY2001 New Rqmts. (Incre- mental Prgs)	FY2001 Proposed Budget
HR/CEO	22.5	(2.0)	5.0	25.5	4.0	1.0	-	30.5
CFO	45.5	2.0	-	47.5	-	6.5	1.0	55.0
CIO	98.5	-	-	98.5	8.0	14.0	1.0	121.5
Chief Operations Officer	215.5	-	17.5	233.0	-	3.0	15.0	251.0
General Counsel	33.5	(5.0)	2.5	31.0	-	-	4.0	35.0
Client Services	36.5	-	0.5	37.0	2.0	2.0	3.0	44.0
Strategic Dev. & Com.	-	5.0	1.5	6.5	-	1.0	-	7.5
Total FTE	452.0	-	27.0	479.0	14.0	27.5	24.0	544.5

- (1) Salaries & Benefits cost increase for FY2001 for all staff is shown in Appendix A in the Other column, in the Salaries & Benefits line item. This cost is isolated to allow for comparison of staff costs by Division exclusive of salary & benefit rate changes for FY2001. The total change of \$5,351 provides for a 6% funding pool for staff salary adjustments, a payroll benefit cost increase of 2% of base salary costs (from 30 to 32%), and other adjustments.

FY2000/FY2001 FINANCING BUDGET COMPARISONS

	FY2000 Budget	FY2001 Proposed Budget	Amount Change	Percentage Change
Principal Reserve Funding-Current Debt	\$ 26,800	\$ 30,233	\$ 3,433	13%
Interest Reserve Funding-Current Debt	11,656	11,785	129	1%
Operating Reserve Funding-Current Debt (1)	9,614	10,505	891	9%
Total Debt Service 2001 Debt		8,494	8,494	
Operating Reserve Funding-2001 Debt		2,123	2,123	
Total Financing Budget	\$ 48,070	\$ 63,141	\$ 15,071	31%

(1) Operating Reserve funding is at 25% of scheduled debt service payments.

FY2000/FY2001 EXPENSE RECOVERY BUDGET COMPARISONS

	FY2000 Budget	FY2001 Proposed Budget	Amount Change	Percentage Change
Interest Earned on Operating Funds (1)	\$ 1,100	\$ 1,350	\$ 250	23%
SC Application & Training Fees	0	0	-	0%
WSCC Security Coordinator Fees	904	1,052	148	16%
Total O&M Expense Recovery Budget	\$ 2,004	\$ 2,402	\$ 398	20%

(1) Based on a 5% return on full operating reserve and additional operating reserve collection.

FY2001 REVENUE CREDIT CALCULATION

	FY2001 Proposed Budget
Forecast Operating Reserve Balance, 12/31/2000	\$ 33,000
Operating Reserve Requirement (15% of Operating Budget)	25,770
Excess Operating Reserve/Available as Revenue Credit	\$ 7,230

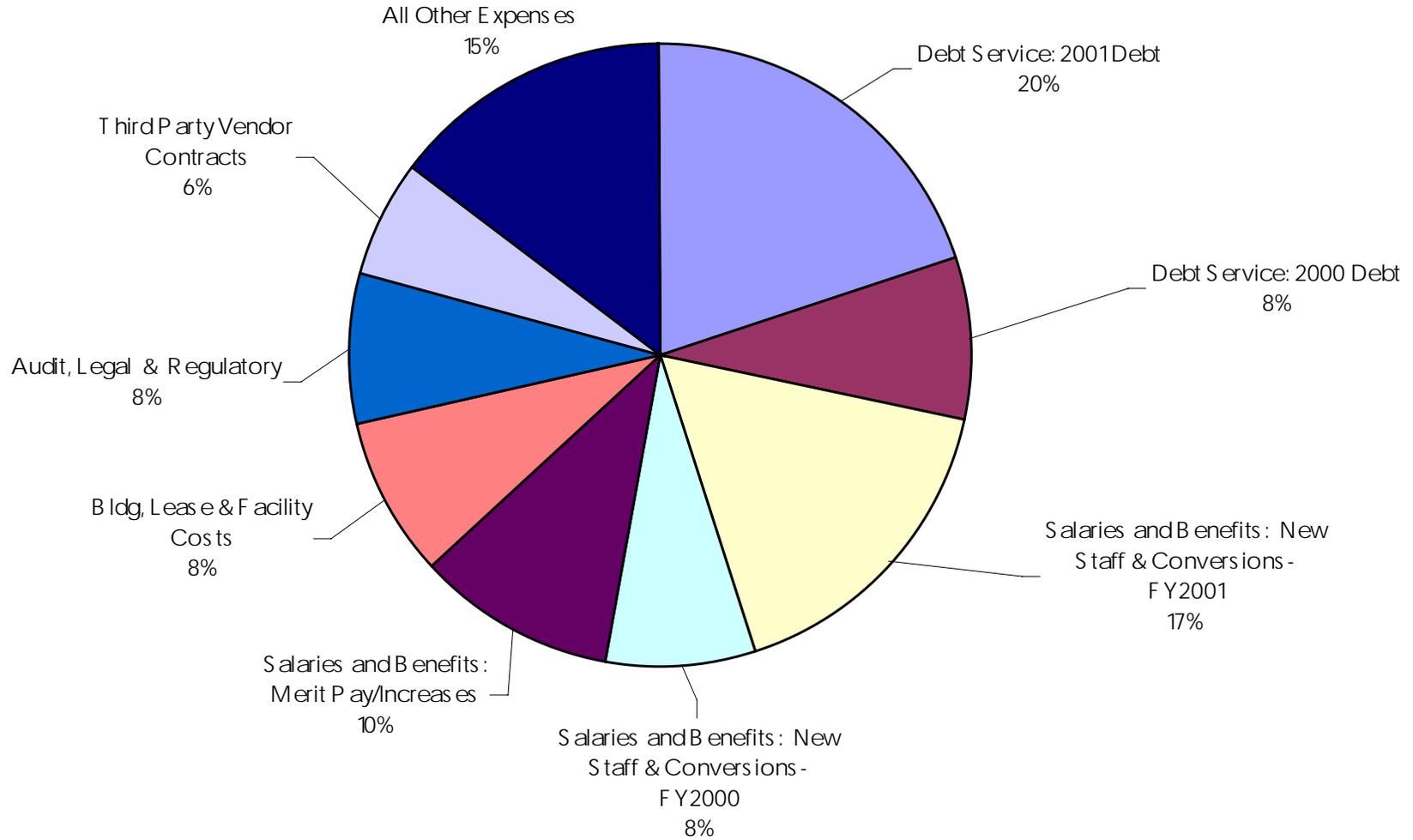
Note:
 From the inception of the ISO's operations, funds collected above and beyond those needed to cover budgeted operating expenses have been used to build up the operating reserve. These funds are collected every year at the rate of 25% of budgeted debt service (consisting of principal and interest payments.) The operating reserve is targeted to build to a level equal to 15% of overall budgeted operating expenses (excluding debt service).

As of December 31, 2000, it is anticipated that the ISO operating reserve will be "full", in that it has reached a level in excess of 15% of the subsequent year's budgeted operating expenses. As the reserve balance is fully funded, any excess funds can be used as an offset to the subsequent year's revenue requirement, resulting in a lower grid management charge. The credit will be applied on a pro-rata basis to each of the three ISO services. Thereafter, the operating reserve will be tracked separately based on cost and volume experience of each of the three ISO Services.

FY2000/FY2001 REVENUE REQUIREMENT COMPARISONS

	FY2000 Budget	Proposed FY2001 Budget	Amount Change	Percentage Change
Total O&M Budget	\$ 133,217	\$ 171,798	38,582	29%
Total Finance Budget	\$ 48,070	\$ 63,141	15,071	31%
Total Expense Recovery Budget	\$ (2,004)	\$ (2,402)	(398)	20%
Available Revenue Credit		\$ (7,230)	(7,230)	
Net Revenue Requirement	\$ 179,283	\$ 225,307	\$ 46,024	26%

FY2000 vs. FY2001: Source of Change in Revenue Requirement (\$53 million Exclusive of Revenue Credit, \$46 million after Revenue Credit)



**FY2000/FY2001 BUNDLED GRID MANAGEMENT CHARGE COMPARISONS
(BASED ON 1998 SETTLEMENT, AS EXTENDED)**

	FY2000 Budget	Proposed FY2001 Budget	Amount Change	Percentage Change
Net Revenue Requirement	\$ 179,283	\$ 225,307	46,024	26%
Transmission Volume (MWh)	216,000	228,000	12,000	6%
Grid Management Charge	\$ 0.830	\$ 0.988	\$ 0.158	19%

Note:
Effective January 1, 2001, the ISO will recover its costs through three separate charges, as detailed on the following page. The above FY2001 bundled rate information is provided for comparative purposes only.

FY2000/FY2001 UNBUNDLED GRID MANAGEMENT CHARGE COMPARISONS

	FY2000 Budget	Proposed FY2001 Budget	Amount Change	Percentage Change
Allocation Factors:	<i>Pro forma</i>			
Control Area Services	45.0%	49.4%		
Interzonal Scheduling	7.0%	7.9%		
Market Operations	48.0%	42.7%		
Net Revenue Requirement	\$ 179,283	\$ 225,307	\$ 46,024	26%
Net Revenue Requirement By Service				
Control Area Services	\$ 80,677	\$ 111,331	\$ 30,654	38%
Interzonal Scheduling	12,550	17,833	5,283	42%
Market Operations	86,056	96,146	10,090	12%
Billing Determinant Forecast '000 MWh				
Control Area Services	260,679	269,803	9,124	3.5%
Interzonal Scheduling	79,534	80,941	1,407	1.8%
Market Operations	113,709	116,015	2,306	2.0%
Net Revenue Requirement - \$/MWh				
Control Area Services	\$ 0.309	\$ 0.413	\$ 0.103	33%
Interzonal Scheduling	\$ 0.158	\$ 0.220	\$ 0.063	40%
Market Operations	\$ 0.757	\$ 0.829	\$ 0.072	10%

Note:
Supporting documentation for GMC unbundling will be released subsequently. Billing determinants volumes may change based on market redesign and Ten-minute Settlements.

FY2000/FY2001 CAPITAL EXPENDITURE BUDGET COMPARISONS

	FY2000 Capital Budget	FY2000 Forecast of Capital Spending	FY2001 Proposed Capital Budget
ISO Systems, including Operations, EMS, MDAS/GCP/PLP, SA/SI/BBS, CMR	\$ 27,003	\$ 27,055	\$ 31,634
IT, and Other Systems	10,129	11,439	5,395
Facilities	2,962	1,600	745
Total Capital Budget	\$ 40,094	\$ 40,094	\$ 37,774

- (1) Excludes new ISO Facility costs, which will be brought to the Board for consideration and approval in November 2000.
 (2) Detail on allocation of costs of first four categories above has been masked to avoid releasing sensitive bid related data to potential vendors.

FY2001 CAPITAL EXPENDITURE BUDGET FUNDING AND OTHER ISSUES

Funding Sources & Uses:

Sources:		
	Remaining Funds on Hand from FY2000 Bond Issuance	\$2,000
	Proceeds from Anticipated Bond Issuance, 2001	<u>\$35,774</u>
	Total Sources:	<u>\$37,774</u>
Uses:		
	Capital Expenditures	<u>\$37,774</u>

Capital Budget Notes:

- Individual projects over \$1 million will be initiated after each project has been reviewed and approved by the Board. The Board will be provided specific cost/benefit and GMC impact analyses, and funding plans on a project specific basis. Management will follow an identical internal process for smaller projects.
- We have been advised by our financial advisors that they are confident that CAISO can successfully issue debt during FY2001. Based on current expectations, this debt issuance appears likely in the first quarter of FY2001. It is likely that in any debt issuance, we would also provide for funding for some portion of FY2002 capital requirements.