



Decision on FY2019 budget

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Director, Financial Planning and Procurement

Board of Governors Meeting

General Session

December 13, 2018

The budget development timeline extends from July through December.

| Previous Events | Date |
|---|----------------|
| Introduction of budget process to stakeholders | July 24 |
| Internal budgeting process | July – October |
| Preliminary draft budget posted to public website | October 26 |
| Stakeholder budget workshop | November 13 |
| Preliminary budget reviewed by Board of Governors | November 14-15 |

| Upcoming Events | Date |
|--|----------------|
| Board decision on budget (General Session) | December 12-13 |
| 2019 grid management charge rates posted | December 31 |

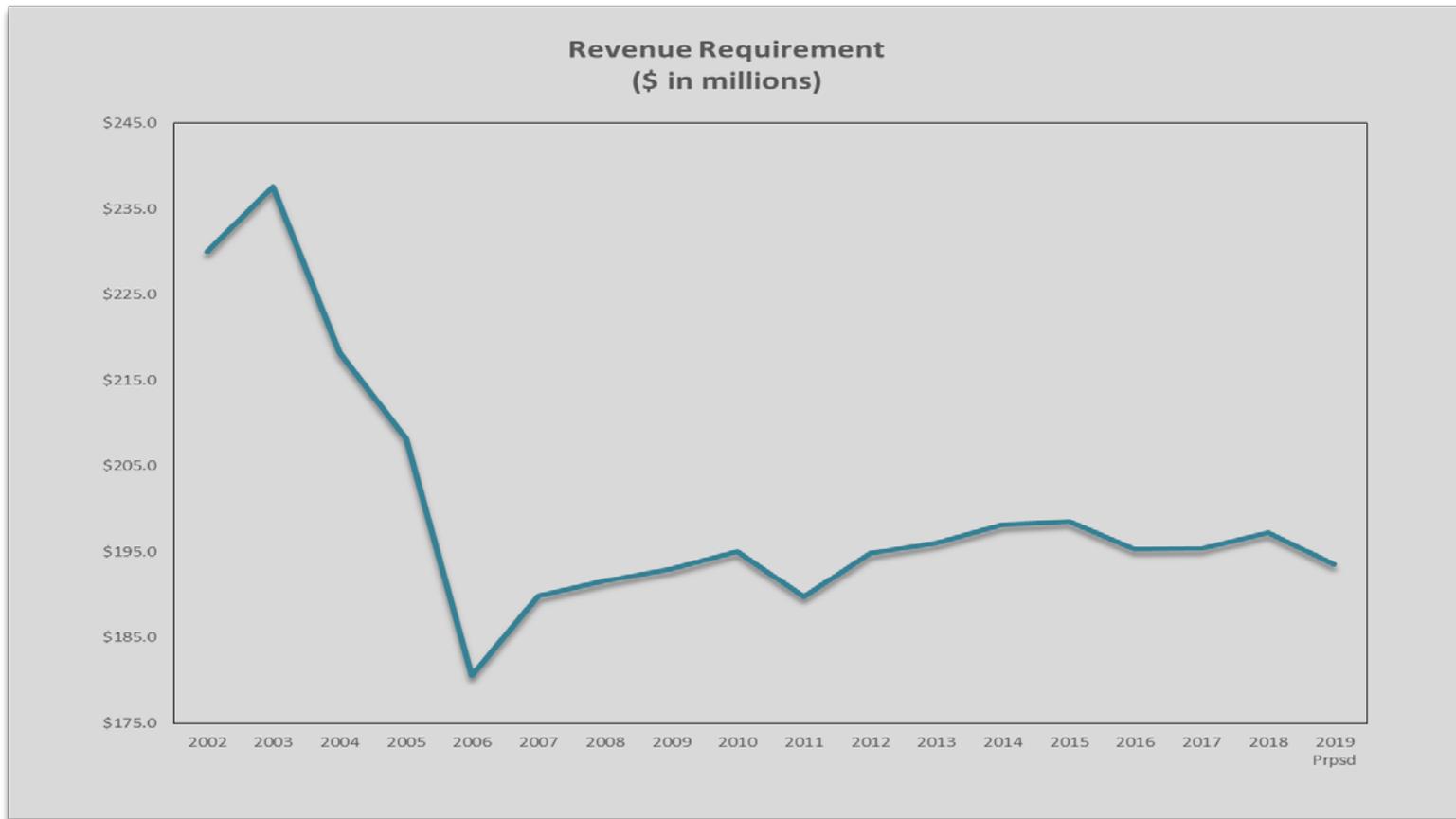
Despite increasing operating costs, higher offsets lead to a lower projected revenue requirement.

- O&M budget increases by \$10.5M primarily driven by additional personnel expenses
- Revenue increase of \$7.2M primarily driven by **NEW** RC services revenue and additional EIM activity
- Operating cost reserve adjustment increases to \$13.5M due to over collection of revenue and effective spend management in 2017

The proposed revenue requirement is \$3.7M less than 2018.

| Revenue Requirement Components (\$ in millions) | 2019 Proposed Budget | 2018 Budget | Change \$ |
|--|---|----------------|------------------|
| Operations & Maintenance Budget | \$189.0 | \$178.5 | \$10.5 |
| Debt Service (including 25% reserve) | 16.9 | 16.9 | 0.0 |
| Cash Funded Capital | 25.0 | 22.0 | 3.0 |
| Other Costs and Revenues | (23.9) | (16.7) | (7.2) |
| Operating Costs Reserve Adjustment | (13.5) | (3.5) | (10.0) |
| Total Revenue Requirement |  \$193.5 | \$197.2 | (\$3.7) |
| Transmission Volume in TWh | 239.7 | 241.3 | (1.6) |
| Pro-forma bundled cost per MWh | \$0.807 | \$0.817 | (\$0.010) |

Management remains committed to a stable revenue requirement.



- Revenue requirement is 18.5% lower than its peak in 2003
- Average annual growth rate is less than 1% since 2007

O&M Budget: The proposed O&M budget increases by \$10.5 million to \$189 million.

| O&M Budget by Resource (\$ in millions) | 2019 Proposed Budget | 2018 Budget | Chang e |
|--|-------------------------------------|------------------------|--------------------|
| Salaries and Benefits | \$141.2 | \$132.0 | \$9.2 |
| Occupancy Costs and Equipment Leases | 3.0 | 3.1 | (0.1) |
| Telecom, HW/SW Maintenance Costs | 14.5 | 14.0 | 0.5 |
| Consultants and Contract Staff | 11.8 | 11.3 | 0.5 |
| Outsourced Contracts and Professional Fees | 11.0 | 10.1 | 0.9 |
| Training, Travel, and Other costs | 7.5 | 8.0 | (0.5) |
| Total | \$189.0 | \$178.5 | \$10.5 |

Debt Service: Annual requirement remains at \$16.9 million on outstanding 2013 bonds.

- \$173.5 million of bond principal outstanding
- \$16.9 million requirement consists of:
 - \$13.5 million in debt payments due to bondholders, and
 - \$3.4 million to be collected for required reserve
- Level annual debt service until February 2039
 - Bonds are callable February 2023

Capital/Project: The proposed annual capital/project budget is currently targeted at \$22 million.

- Proposed revenue requirement contains a \$25 million cash funded capital component
- Total project approvals are targeted at \$22 million for further market and technology enhancements as well as for other capital projects
- \$3 million difference will add to capital reserves
- List of proposed projects is contained within the budget book, which ultimately will be prioritized down to the final budgeted amount

Other Costs and Revenues: New revenue for Reliability Coordinator services.

| Other Costs and Revenue (\$ in millions) | 2019 Proposed Budget | 2018 Budget | Change |
|---|----------------------------|----------------|--------------|
| Energy Imbalance Market Administrative Charges | \$8.6 | \$7.4 | \$1.2 |
| Reliability Coordinator Funding Requirement | 4.3 | - | 4.3 |
| Intermittent Resource (wind and solar) Forecasting Fees | 3.8 | 3.2 | 0.6 |
| Interest Earnings | 3.3 | 2.5 | 0.8 |
| California-Oregon Intertie Path Operator Fees | 2.0 | 2.0 | - |
| Generator Interconnection Project Fees | 1.5 | 1.2 | 0.3 |
| Scheduling Coordinator Application and Other Fees | 0.4 | 0.4 | 0.0 |
| Total | \$23.9 | \$16.7 | \$7.2 |

Other Costs and Revenues: Reliability Coordinator Funding Requirement and Rate

| Reliability Coordinator Funding Requirement (\$ in millions) | RC % | 2019 Budget |
|---|-----------------|------------------------|
| Revenue Requirement (prior to RC Funding Requirement) | | \$ 197.8 |
| Prorated RC Funding Requirement for July 2019 - October 2019 | 2% | \$ (1.3) |
| Sub-Total | | \$ 196.5 |
| Prorated RC Funding Requirement for November - December 2019 | 9% | \$ (2.9) |
| Total Revenue Requirement | | \$193.5 |
| Prorated RC Funding Requirement for July 2019 - December 2019 | | \$ (4.3) |

| Reliability Coordinator Service Rate | |
|---|----------|
| Prorated RC Funding Requirement for July 2019 - December 2019 (\$ in millions) | \$ (4.3) |
| Projected Prorated Volumes in MWh | TBD |
| Projected RC Service Rates per MWh | TBD |

Note: The 2019 RC Service Rates will be released in the first quarter of 2019, at which time the ISO will know the projected volumes to use to set the rates.

Operating Cost Reserve Adjustment: FY2017 over collections and under spend contributes to \$13.5 million reduction in revenue requirement.

| Operating Cost Reserve Adjustment (\$ in millions) | 2019 Proposed Budget | 2018 Budget | Chang e |
|---|-------------------------------------|------------------------|--------------------|
| Increase in 15% reserve for O&M budget | \$(1.6) | \$(0.7) | (\$0.9) |
| 25% debt service collection from prior year | 3.4 | 3.4 | - |
| True-up of actual to forecast revenues and expenses | 11.7 | 0.8 | 10.9 |
| Total | \$13.5 | \$3.5 | \$10.0 |

Rates: Majority of forecasted rates decrease from 2018 rates.

| Comparison of Charges, Fees, and Rates | 2019 Amount Per Unit | 2018 Amount Per Unit | Change \$ |
|--|----------------------------|----------------------------|--------------|
| Grid Management Charges | | | |
| Market Service Charge | \$0.1065 | \$0.1100 | (\$0.0035) |
| Systems Operations Charge | \$0.2797 | \$0.2964 | (\$0.0167) |
| CRR Services Charge | \$0.0050 | \$0.0038 | \$0.0012 |
| Supplemental Services Rates | | | |
| EIM Market Service | \$0.0841 | \$0.0869 | (\$0.0028) |
| EIM System Operations | \$0.1091 | \$0.1156 | (\$0.0065) |
| RC Service Rate | TBD | N/A | N/A |

Notes:

- All miscellaneous fixed fees remain the same.
- The 2019 RC Service Rates will be released in the first quarter of 2019, at which time the ISO will know the projected volumes to use to set the rates.