



California ISO

Briefing on Draft FY2019 Revenue Requirement

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Stakeholder Meeting

November 13, 2018

The revenue requirement development timeline extends from July through December.

Previous Events	Date
Introduction of revenue requirement process to stakeholders	July 24
Internal budgeting process	July – October
Preliminary draft revenue requirement posted to public website	October 26

Upcoming Events	Date
Stakeholder revenue requirement workshop	November 13
Preliminary draft revenue requirement reviewed by Board of Governors (executive session)	November 14-15
Board decision on revenue requirement (general session)	December 12-13
2019 grid management charge rates posted	December 31

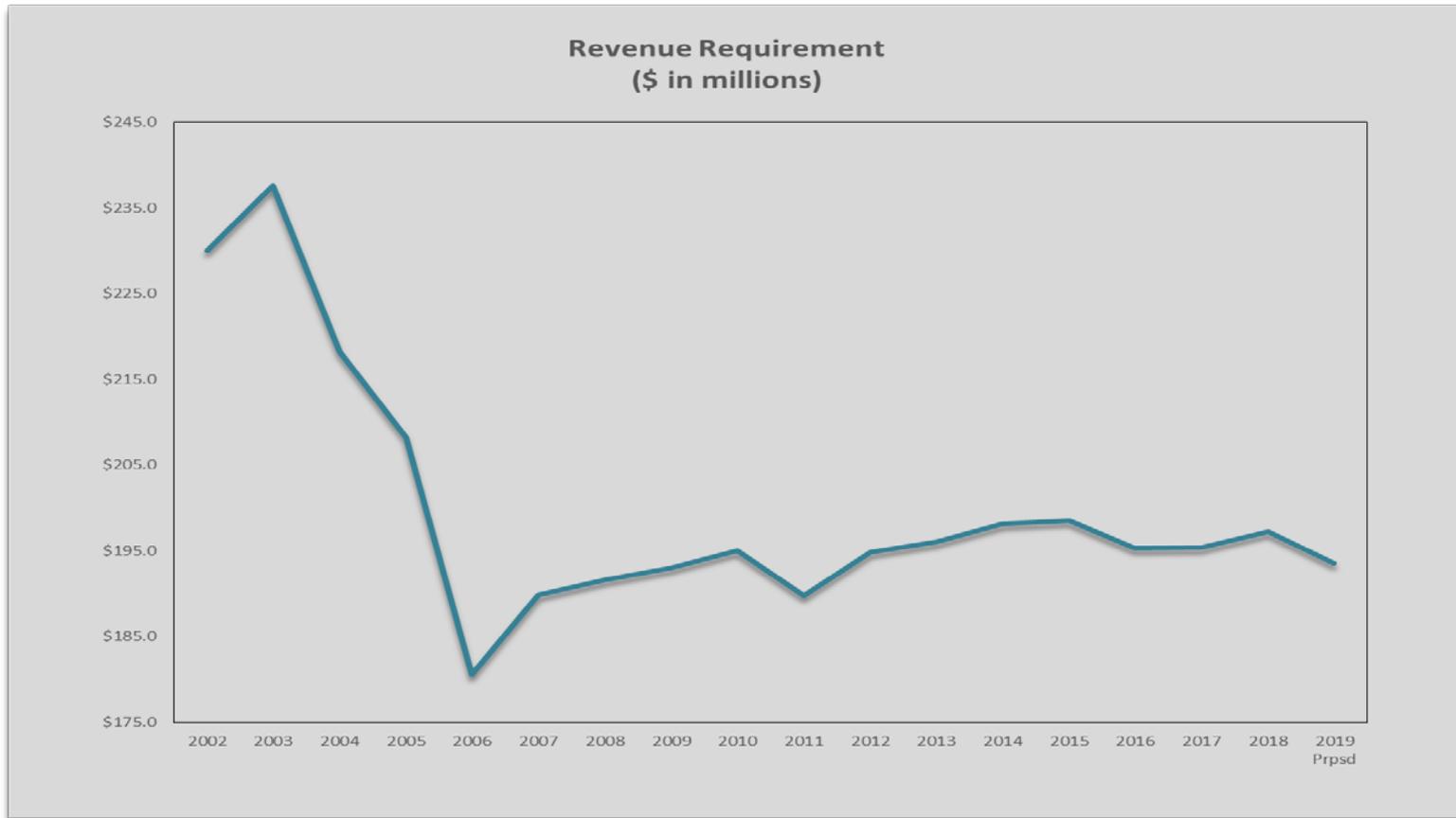
Despite increasing operating costs, higher offsets lead to a lower projected revenue requirement.

- O&M budget increases primarily driven by additional personnel expenses
- Revenue increase primarily driven by **NEW** RC services revenue and additional EIM activity
- Operating cost reserve credit increases 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 \$	Change %
Operations & Maintenance Budget	\$189.0	\$178.5	\$10.5	5.9%
Debt Service (including 25% reserve)	16.9	16.9	0.0	0.0%
Cash Funded Capital	25.0	22.0	3.0	13.6%
Other Costs and Revenues	(23.9)	(16.7)	(7.2)	43.1%
Operating Costs Reserve Adjustment	(13.5)	(3.5)	(10.0)	285.7%
Total Revenue Requirement	 \$193.5	\$197.2	(\$3.7)	-1.9%
Transmission Volume Estimate in TWh	239.7	241.3	(1.6)	-0.7%
Pro-forma bundled cost per MWh	\$0.807	\$0.817	(\$0.010)	-1.2%

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.

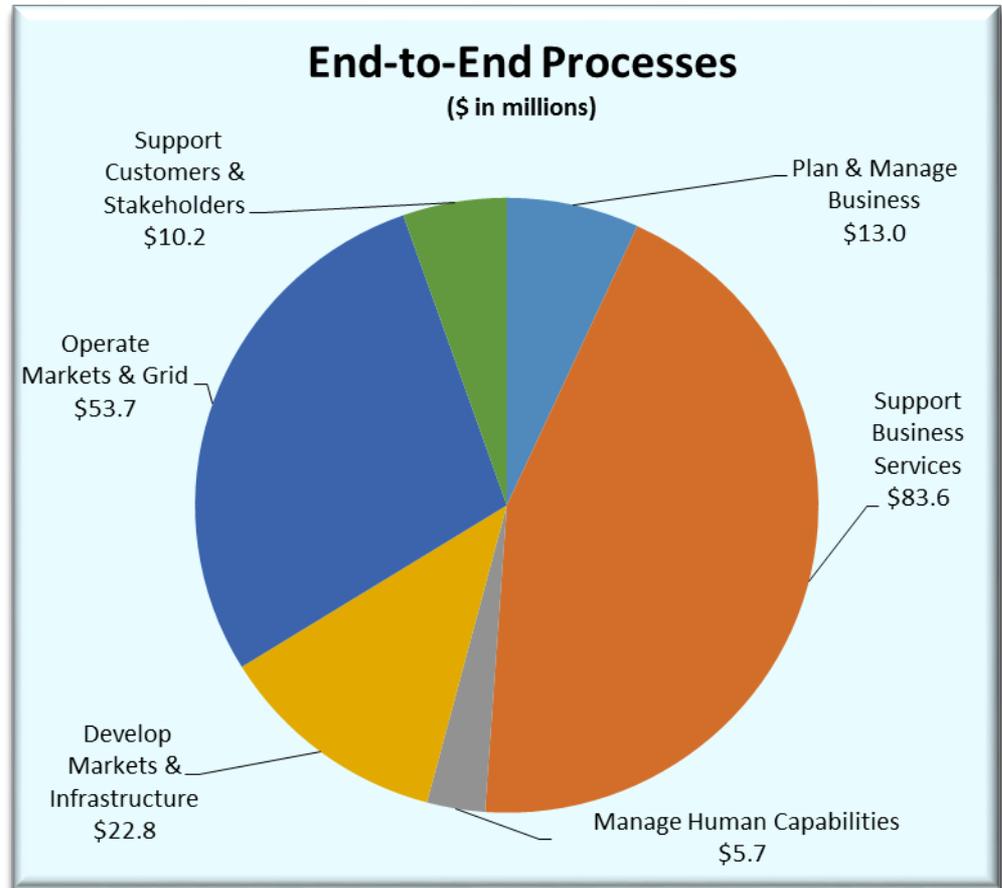
O&M Budget by Resource (\$ in millions)	2019 Proposed Budget	2018 Budget	Change
Salaries and Benefits	\$141.2	\$132.0	\$9.2
Occupancy Costs and Equipment Leases	3.0	3.1	(0.1)
Telecom, HW/SW Maintenance Costs	14.5	14.0	0.5
Consultants and Contract Staff	11.8	11.3	0.5
Outsourced Contracts and Professional 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

O&M Budget: The divisional changes are primarily driven by personnel costs and additional system costs.

O&M Budget by Division (\$ in millions)	2019 Proposed Budget	2018 Budget	Change
Corporate Service Divisions	\$21.2	\$20.6	\$0.6
Market and Infrastructure Development	16.6	16.4	0.2
Technology	69.1	65.7	3.4
Operations	48.2	43.2	5.0
General Counsel	14.0	13.6	0.4
Market Quality and Renewables Integration	8.6	8.0	0.6
Customer and State Affairs	8.5	8.2	0.3
Regional and Federal Affairs	2.8	2.8	---
Total	\$189.0	\$178.5	\$10.5

O&M Budget: We leverage an activity based costing structure for further transparency.

- Six summary activities identified at the first level
- Tracking time by level II activities
- ABC utilized to develop 2018 GMC update with stakeholder support
- ABC provides further insight into resource utilization



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 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*
<i>* Projected volumes and rates will be included in the 2019 final budget book.</i>	

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	Change
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 Proposed Amount Per Unit	2018 Amount Per Unit	Change \$
Grid Management Charges			
Market Service Charge	\$0.1062	\$0.1100	(\$0.0038)
Systems Operations Charge	\$0.2774	\$0.2964	(\$0.0190)
CRR Services Charge	\$0.0040	\$0.0038	\$0.0002
Supplemental Services Rates			
EIM Market Service	\$0.0839	\$0.0869	(\$0.0030)
EIM System Operations	\$0.1082	\$0.1156	(\$0.0074)
RC Service Rate	TBD*	N/A	N/A
* RC Service Rate will be included in the 2019 final budget book.			

Key calendar dates and next steps.

Upcoming Events	Date
Preliminary draft revenue requirement reviewed by Board of Governors (executive session)	November 14-15
Stakeholder comments due to ISO Send to initiativecomments@caiso.com	November 20
ISO response to comments and meeting minutes posted to ISO website	November 27
Board decision on revenue requirement (general session)	December 12-13
2019 rates and revenue requirement documentation posted to ISO website	December 31