

Calculation of Financial & Capital Operating Reserve Credit for 2005

\$ in '000

Factors affecting the reserve credit for 2006 are calculated in two parts:

- Part 3

 Items affecting the reserve balance as of 12/31/2004. The analysis shows the reserve balance at 12/31/2004 based on the assumptions used in our last GMC filing (for 2004), updates to those assumptions based on actual experience, and also incorporates new items affecting the reserve as of that date. Appendix A-Part 2
- Part 2

 2005 events affecting the reserve, including 2005 revenues, expenses and other reserve uses and credits. Appendix A-Part 3

		(Left-most columns on Part 2)	(Right-most columns on Part 2)	
SUMMARY OF RESERVE CREDIT		<u>Plan</u>	<u>Forecast/Actual</u>	Difference from Plan
Part 3, Line 16	Available as credit for 2005	18,709	43,627	24,918
Part 2	2005 Events			
	Reserve Balance at 1/2005	40,729	65,647	24,918
	Net Changes for 2005	(1,796)	(15,261)	(13,465)
	Ending Reserve Balance	38,933	50,386	11,453
	Calculation of Available 2006 Credit:			
	2006 O&M Budget	146,803	133,936	
	Less: Reserve Requirement= 15% of 2006 O&M Budget	(22,020)	(20,090)	
	2006 Credit (See Line 15 of Part 2)	<u>16,912</u>	<u>30,296</u>	13,383

Notes:
 "Plan" : Assumes 2005 expenses and revenues were equal to budgeted amounts, and that no other factors affected the reserve balance.
 "Revised" reflects the updated reserve balance as of 12/31/2004, and the items that affected the reserve in 2005.

SUMMARY OF RESERVE (Alternative Reconciliation)			
	Available as credit for 2006 based on 25% of debt service in 2005		16,912
Part 3	Items that Affected Prior Years (Positive = more funds for Operating Reserve)		
	Reverse reserve for previous billing issue	3,842	
	Updated 2004 Revenue and Expenses (previous estimate was prior to close of the 2004 year)	5,623	
	Additional Amendment 33 Fines recognized in 2004	10,046	
	Reverse reserves affecting 2004 Operating Reserve Balance (Legal and billing matters)	<u>5,408</u>	
	Subtotal		24,918
Part 2	Items Affecting Reserve Balance from Year 2005		
	Revenue and Other Reimbursements: Difference from Budget	158	
	Expenses: Difference from Budget	<u>(999)</u>	
	Subtotal		(841)
	Establish reserves for Legal, Billing & Other matters (SWPL, Enron, Reorg., potential capital project write-offs to O&M)		(12,623)
	Reduced O&M Budget for 2006 results in a lower 15% reserve requirement		1,930
	Grand Total: Available Credit		<u>30,296</u>

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Calculation of Available
Operating Reserve Credit for 2006

Appendix A-Part 2

Budget

Actual/Forecast for Year 2005, as of October 2005

	CRS	ETS	Forward Scheduling	Congestion Management	Market Usage	Customer Service	Total	CRS	ETS	Forward Scheduling	Congestion Management	Market Usage	Customer Service	Total	
1 BEGINNING RESERVE BALANCE, 1/1/2005	\$ 12,915	\$ 9,666	\$ 2,571	\$ 3,667	\$ 7,115	\$ 14,317	\$ 40,729	\$ 19,236	\$ 10,230	\$ 6,921	\$ 2,861	\$ 10,456	\$ 15,943	\$ 65,647	
CALCULATION OF CONTRIBUTION TO RESERVE FROM OPERATIONS															
Revenue:															
2a GMC Rates: 2005 Calendar Year Revenue (as settled)	50,763	91,823	13,459	18,281	33,295	540	208,160	48,422	86,083	13,290	20,137	37,661	630	206,223	
2b Reversal of reassignments per Settlement	27,334	(66,872)	10,800	(9,476)	(12,046)	50,261	-	26,129	(62,824)	11,208	(10,439)	(13,626)	49,552	-	
2c GMC Rates: 2005 Calendar Year Revenue (as filed) = Sum of 2a+2b	78,097	24,951	24,259	8,804	21,249	50,801	208,160	74,551	23,258	24,499	9,698	24,035	50,182	206,223	
3 Other (Interest Income, WECC reimbursement, COI Path Operator fee)	3,141	698	113	51	122	373	4,498	4,604	1,023	165	75	179	546	6,593	
Expenses:															
4 O&M	(61,867)	(24,436)	(9,101)	(5,947)	(14,255)	(31,199)	(146,803)	(62,288)	(24,602)	(9,163)	(5,987)	(14,352)	(31,411)	(147,803)	
5 Debt Service	(17,413)	(3,714)	(12,555)	(4,266)	(10,113)	(19,591)	(67,651)	(17,413)	(3,713)	(12,555)	(4,266)	(10,113)	(19,590)	(67,651)	
6 Cash Funded CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
7 Contribution to Operating Reserve (Sum lines 2-7)	1,958	(2,500)	2,716	(1,357)	(2,997)	385	(1,796)	(645)	(4,034)	2,946	(480)	(251)	(274)	(2,638)	
OTHER RESERVE USES															
8 Interest on Excess Collections of Amendment 33 Fines	-	-	-	-	-	-	-	(14)	(12)	(5)	(3)	(13)	(25)	(72)	
9 Interest on 2001 GMC Case: Incentive Comp.	-	-	-	-	-	-	-	(34)	(23)	(5)	(6)	(14)	(28)	(109)	
10 Redacted Items: Matters Pending Dispute Resolution, Litigation or Appeal Including Interest on potential awards or judgment.	-	-	-	-	-	-	0	(5,822)	(2,854)	(424)	(357)	(770)	(2,215)	(12,442)	
11 Net Increase in Operating Reserve	1,958	(2,500)	2,716	(1,357)	(2,997)	385	(1,796)	(6,416)	(6,923)	2,513	(845)	(1,048)	(2,541)	(15,261)	
12 Ending Reserve Balance	14,873	7,166	5,287	2,309	4,117	14,702	38,933	12,821	3,307	9,433	2,016	9,408	13,401	50,386	
13 Less: Reserve Requirement (15% of subsequent year Budget)							22,020	8,463	3,344	1,246	814	1,951	4,272	20,090	
14 <i>FY2006 Operating Budget</i>							146,803	56,421	22,294	8,307	5,426	13,007	28,480	133,936	
15 Equals: Revenue Credit Available							\$ 16,912	\$ 4,357	\$ (37)	\$ 8,187	\$ 1,202	\$ 7,457	\$ 9,129	\$ 30,296	

25% of 2005 Debt Service

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Calculation of Available
Operating Reserve Credit for 2006

Appendix A-Part 2.continued

				Allocation Percentages						
				CRS	ETS	Forward Scheduling	Congestion Management	Market Usage	Customer Service	Total
1	BEGINNING RESERVE BALANCE, 1/1/2005	Difference: Plan vs. Forecast	24,918							
CALCULATION OF CONTRIBUTION TO RESERVE FROM OPERATIONS										
Revenue:										
2a	GMC Rates: 2005 Calendar Year Revenue (as settled)	(1,937)	Revenues are estimated actuals for January - August, and forecast through December. Actual billing using the Settled rates started in June 2005.	Budget: Per 2005 Informational Rate Filing. Forecast: Per Finance's forecast of 2005 rates.						
2b	Reversal of reassignments per Settlement		Reversal of Settlement reassignments necessary to calculate revenues by filed rate categories							
2c	GMC Rates: 2005 Calendar Year Revenue (as filed) = Sum of 2a+2b	(1,937)	Revenues are estimated actuals for January - August, and forecast through December. Actual billing using the Settled rates started in June 2005.	Revenues by charge type were assigned to specific rate categories and then aggregated. Assignment includes reversal of SMCR assignment to other rate categories and assignments done under 2004 GMC Settlement.	36.2%	11.3%	11.9%	4.7%	11.7%	24.3%
3	Other (Interest Income, WECC reimbursement, COI Path Operator fee)	2,095	Based on available data through August 2005.	Allocation of actual/forecast costs follows budget, per 2005 Rate Filing.	69.8%	15.5%	2.5%	1.1%	2.7%	8.3%
Expenses:										
4	O&M	(1,000)	Forecast of spending for year is projected to be about at budget. Capitalized labor that would be subtracted from this line is offset by incremental O&M from the MRTU budget. Incremental O&M from MRTU may exceed capitalized labor by \$1 million.	Allocation of actual/forecast costs follows budget, specified in 2005 Rate filing.	42.1%	16.6%	6.2%	4.1%	9.7%	21.3%
5	Debt Service	0	Debt Service: Principal of \$58,300, plus budgeted interest of \$9,351	Allocation of actual/forecast costs follows budget, specified in 2005 Rate filing.	25.7%	5.5%	18.6%	6.3%	14.9%	29.0%
6	Cash Funded CapEx	-	None for 2005							
7	Contribution to Operating Reserve (Sum lines 2-7)	(841)								
OTHER RESERVE USES										
8	Interest on Excess Collections of Amendment 33 Fines	72	Interest for year 2005 on Amend 33 fines likely to be returned.	Allocated in same proportion as total Amend 33 Fines collected. Items are mapped to new GMC structure using translation tables.	20.1%	16.8%	6.4%	4.2%	17.9%	34.6%
9	Interest on 2001 GMC Case: Incentive Comp.	109	Calculated using FERC interest rates on 2001 GMC overassessment of \$1.8 million. Interest is for year 2005.	Allocated with 2001 GMC O&M budget factors. Items are mapped to new GMC structure using translation tables.	31.2%	21.1%	4.5%	5.4%	12.4%	25.4%
10	Redacted Items: Matters Pending Dispute Resolution, Litigation or Appeal Including Interest on potential awards or judgment.	12,442	The outcome of several matters is pending, and until such time as a final determination is made, amounts potentially payable are to be recorded as a liability, and excluded from the reserve calculation. Includes \$7.3 million for SWPL refund.	Allocation is detailed for each item. Items are mapped to new GMC structure using translation tables.	46.8%	22.9%	3.4%	2.9%	6.2%	17.8%
11	Net Increase in Operating Reserve	(13,465)								
12	Ending Reserve Balance	11,453								
13	Less: Reserve Requirement (15% of subsequent year Budget)									
14	<i>FY2006 Operating Budget</i>			Allocated based on 2005 O&M budget cost	42.1%	16.6%	6.2%	4.1%	9.7%	21.3%
15	Equals: Revenue Credit Available	13,383								

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Calculation of Available
Operating Reserve Credit for 2005

Appendix A-Part 3

		Per 12/2004 Filing							Actual (updated in October 2005)							
		CRS	ETS:	Forward Scheduling	Congestion Management	Market Usage	Customer Service	Total	CRS	ETS:	Forward Scheduling	Congestion Management	Market Usage	Customer Service	Total	Difference: 2004 Forecast vs. Actual
1	BEGINNING RESERVE BALANCE, 1/1/2004	\$ 12,915	\$ 9,866	\$ 2,571	\$ 3,667	\$ 7,115	\$ 14,317	\$ 50,251	\$ 12,915	\$ 9,666	\$ 2,571	\$ 3,667	\$ 7,115	\$ 14,317	\$ 50,251	-
1a	Adjustments to beginning balance								1,445	887	150	98	408	852	3,842	3,842
CALCULATION OF CONTRIBUTION TO RESERVE FROM OPERATIONS																
2a	Revenue: GMC Rates: 2004 Calendar Year Revenue (as settled) including revenue requirement reduction under 2004 Settlement Adjustment to Revenue, not previously recognized	81,664	26,874	19,810	10,969	27,376	52,829	219,522	51,939	92,094	12,214	20,069	43,841	534	220,691	
2b	Reversal of reassignments per Settlement								600						600	
2c	GMC Rates: 2004 Calendar Year Revenue (as filed) including revenue requirement reduction under 2004 Settlement	81,664	26,874	19,810	10,969	27,376	52,829	219,522	80,319	24,926	23,924	9,665	27,979	54,477	221,291	1,769
3	Recognize Additional Generator Fines								2,999	2,072	467	602	1,285	2,621	10,046	10,046
4	Other (Interest Income, WECC reimbursement)	2,032	130	98	52	121	418	2,851	2,594	165	126	67	154	533	3,640	789
5	Expenses: O&M	(61,970)	(24,107)	(9,951)	(6,107)	(14,646)	(32,484)	(149,265)	(59,982)	(23,333)	(9,632)	(5,911)	(14,176)	(31,442)	(144,476)	4,789
6	Debt Service	(14,494)	(3,433)	(6,606)	(2,248)	(4,087)	(12,417)	(43,284)	(14,019)	(3,320)	(6,390)	(2,174)	(3,953)	(12,011)	(41,867)	1,417
7	Cash Funded CapEx	(6,044)	(459)	(3,799)	(2,797)	(7,297)	(11,603)	(32,000)	(6,638)	(504)	(4,172)	(3,071)	(8,014)	(12,742)	(35,141)	(3,141)
8	Contribution to Operating Reserve (Sum lines 2-7)	1,189	(995)	(448)	(131)	1,467	(3,258)	(2,176)	5,274	5	4,323	(822)	3,276	1,436	13,492	15,668
OTHER RESERVE USES																
9	Interest on Excess Collections of Amendment 33 Fines	(373)	(311)	(119)	(77)	(332)	(643)	(1,856)	(373)	(311)	(119)	(77)	(332)	(643)	(1,856)	-
10	Interest on 2001 GMC Case: Incentive Comp.	(25)	(17)	(4)	(4)	(10)	(21)	(81)	(25)	(17)	(4)	(4)	(10)	(21)	(81)	-
11	Matters Pending Dispute Resolution, Litigation or Appeal Including Interest on potential awards or Judgment.	(2,035)	(1,249)	(211)	(138)	(575)	(1,200)	(5,408)	-	-	-	-	-	-	-	5,408
12	Net Increase in Operating Reserve (Line 1a+8+9to11)	(1,245)	(2,573)	(782)	(351)	550	(5,121)	(9,621)	6,321	564	4,350	(806)	3,341	1,625	15,396	24,918
13	Ending Reserve Balance	11,671	7,094	1,789	3,316	7,664	9,196	40,729	19,236	10,230	6,921	2,861	10,456	15,943	65,647	24,918
14	Less: Reserve Requirement (15% of subsequent year Budget)	9,276	3,665	1,366	892	2,139	4,682	22,020	9,276	3,665	1,366	892	2,139	4,682	22,020	
15	FY2005 Operating Budget	61,842	24,435	9,106	5,948	14,257	31,216	146,803	61,842	24,435	9,106	5,948	14,257	31,216	146,803	
16	Equals: Revenue Credit Available	\$ 2,394	\$ 3,429	\$ 423	\$ 2,424	\$ 5,526	\$ 4,513	\$ 18,709	\$ 9,960	\$ 6,565	\$ 5,555	\$ 1,969	\$ 8,317	\$ 11,260	\$ 43,627	24,918

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Calculation of Available
Operating Reserve Credit for 2005

Appendix A-Part 3.continued

		General Notes	Allocation Notes	Allocation Percentages							
				CRS	ETS	Forward Scheduling	Congestion Management	Market Usage	Customer Service	Total	
1	BEGINNING RESERVE BALANCE, 1/1/2004										
1a	Adjustments to beginning balance	Changes in amounts set aside for billing matters affecting prior years.									
CALCULATION OF CONTRIBUTION TO RESERVE FROM OPERATIONS											
Revenue:											
2a	GMC Rates: 2004 Calendar Year Revenue (as settled) including revenue requirement reduction under 2004 Settlement Adjustment to Revenue, not previously recognized	Actual billed amounts under CT 579 on April 28 February 2005 for trade month Additional revenue from rebilling 2004 year, in conformance with 2004 GMC Settlement.	Revenues by charge type were assigned to specific rate categories and then aggregated.								
2b	Reversal of reassignments per Settlement	Reversal of Settlement reassignments necessary to calculate revenues by filed rate categories	Assignment includes reversal of SMCR assignment to other rate categories and assignments done under 2004 GMC Settlement.								
2c	GMC Rates: 2004 Calendar Year Revenue (as filed) including revenue requirement reduction under 2004 Settlement	Sum of Lines 2a and 2b.	Revenues by charge type were assigned to specific rate categories and then aggregated. Assignment includes reversal of SMCR assignment to other rate categories and assignments done under 2004 GMC Settlement.	36.3%	11.3%	10.8%	4.4%	12.6%	24.6%	100.0%	
3	Recognize Additional Generator Fines	Per 12/31/2004 Accounting Trial Balance	Allocated in same proportions as earlier fine proceeds.								
4	Other (Interest Income, WECC reimbursement)	Per 12/31/2004 Accounting Trial Balance	Allocation of actual/forecast costs follows budget, specified in 2004 GMC filing.	71.3%	4.5%	3.4%	1.8%	4.2%	14.6%	100.0%	
Expenses:											
5	O&M	Per 12/31/2004 Trial Balance. Excludes capitalized labor for ISO staff on capital projects, which is included in the capital spending amount below (Line 7).	Allocation of actual/forecast costs follows budget, specified in 2004 GMC filing.	41.5%	16.2%	6.7%	4.1%	9.8%	21.8%	100.0%	
6	Debt Service	Principal: payments to trustee in 2004: \$34,800. Interest: \$9,132 budgeted. Actual: \$34,800 and \$7,067 (interest on bonds only)	Allocation of actual/forecast costs follows budget, specified in 2004 GMC filing.	33.5%	7.9%	15.3%	5.2%	9.4%	28.7%	100.0%	
7	Cash Funded CapEx	Expectation for 2004 capital spending is \$32,027, plus \$4622 in capitalized labor for ISO employees. Deductions from those amounts are MRTU funded from bond draws totaling \$1,508.	Allocation of actual/forecast costs follows budget, specified in 2004 GMC filing.	18.9%	1.4%	11.9%	8.7%	22.8%	36.3%	100.0%	
8	Contribution to Operating Reserve (Sum lines 2-7)										
OTHER RESERVE USES											
9	Interest on Excess Collections of Amendment 33 Fines	As initially estimated. Adjustment is recognized in 2005 schedule.	Allocated in same proportion as total Amend 33 Fines collected. Items are mapped to new GMC structure using translation tables.	20.1%	16.8%	6.4%	4.2%	17.9%	34.6%	100.0%	
10	Interest on 2001 GMC Case: Incentive Comp.	Calculated using FERC interest rates on 2001 GMC overassessment of \$1.8 million. Interest is for year 2004.	Allocated with 2001 GMC O&M budget factors. Items are mapped to new GMC structure using translation tables.	31.2%	21.1%	4.5%	5.4%	12.4%	25.4%	100.0%	
11	Matters Pending Dispute Resolution, Litigation or Appeal Including Interest on potential awards or Judgment.	The outcome of several matters is pending, and until such time as a final determination is made, amounts potentially payable are to be recorded as a liability, and excluded from the reserve calculation.	Allocation is detailed for each item. Items are mapped to new GMC structure using translation tables.	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	
12	Net Increase in Operating Reserve (Line 1a+8+9to11)										
13	Ending Reserve Balance										
14	Less: Reserve Requirement (15% of subsequent year Budget)										
15	FY2005 Operating Budget		Allocated based on 2005 O&M budget cost	42.1%	16.6%	6.2%	4.1%	9.7%	21.3%	100.0%	
16	Equals: Revenue Credit Available										