



# Compensation Philosophy & Practices

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# Core Functions



## Reliable operation of the bulk electricity grid

- *Managing the flow of power nearly 11,000 circuit-miles of transmission lines from more than 300 generating units*



## Administration of open and competitive wholesale electricity markets

- *Bringing together buyers and sellers of energy and related products and services*



## Planning for New York's energy future

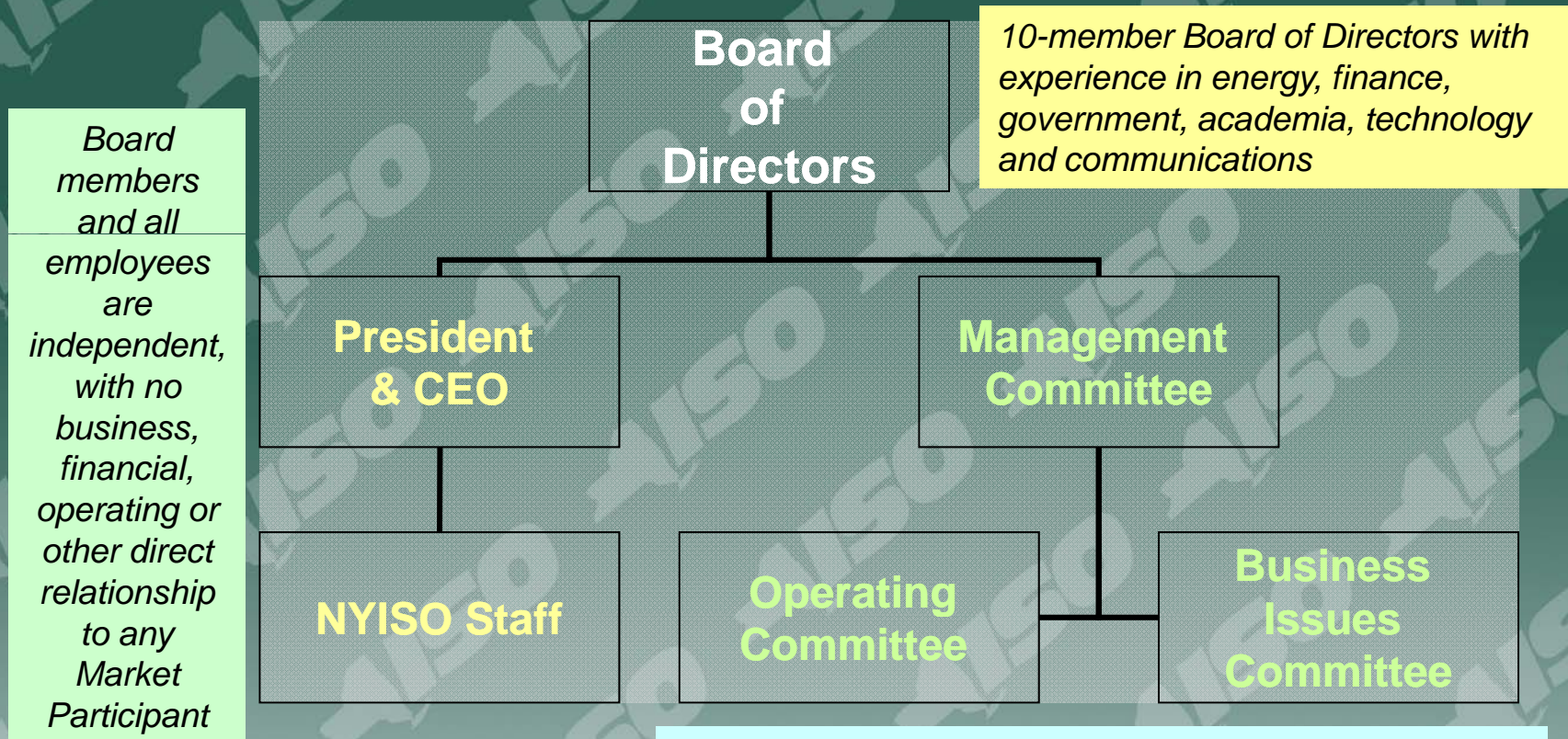
- *Assessing needs over a 10-year horizon and evaluating the feasibility of projects proposed to meet those needs*



## Advancing the technological infrastructure of the electric system

- *Developing and deploying information technology and tools to make the grid smarter*

# NYISO Governance



*Market Participant stakeholder committees of individuals from market sectors: Transmission Owners, Generation Owners, Other Suppliers, End-Use Consumers, and Public Power & Environmental Parties*

# Budget Review

- ◆ **Overall compensation costs are reviewed through the NYISO's annual budget, which is developed and approved through the shared governance process.**
- ◆ **The stakeholder Management Committee affirmatively votes to recommend a budget to the Board of Directors for approval. The approval of more than any two sectors is required to achieve the needed 58 percent majority.**

# Compensation Philosophy

- ◆ **The NYISO's overall compensation philosophy is designed to provide competitive levels of compensation that:**
  - *assist the NYISO in attracting, retaining, and motivating the highly skilled employees required to lead the organization and to proficiently manage the performance of the NYISO's core functions;*
  - *advance the NYISO's annual and long-term performance objectives, and*
  - *pay NYISO employees for their performance and provide incentives for excellence.*
- ◆ **The NYISO's responsibilities require the development and management of large complex information technology systems and work processes. All of the NYISO's activities entail numerous legal and regulatory compliance requirements.**

# Not-for-Profit

- ◆ In developing its compensation structure, the NYISO was mindful of certain recruitment and retention challenges resulting from its status as a not-for-profit corporation.
- ◆ The NYISO competes for a limited pool of talent directly with numerous energy-related and other companies, including for-profit companies.
- ◆ The NYISO cannot offer certain benefits that for-profit companies can offer, such as stock options or equity compensation. In addition, as a not-for-profit corporation that is exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code, the total compensation that the NYISO pays to its officers must meet a standard of reasonableness required by the Internal Revenue Code and related Treasury Department regulations that for-profit companies are not required to meet.

# Benchmarking

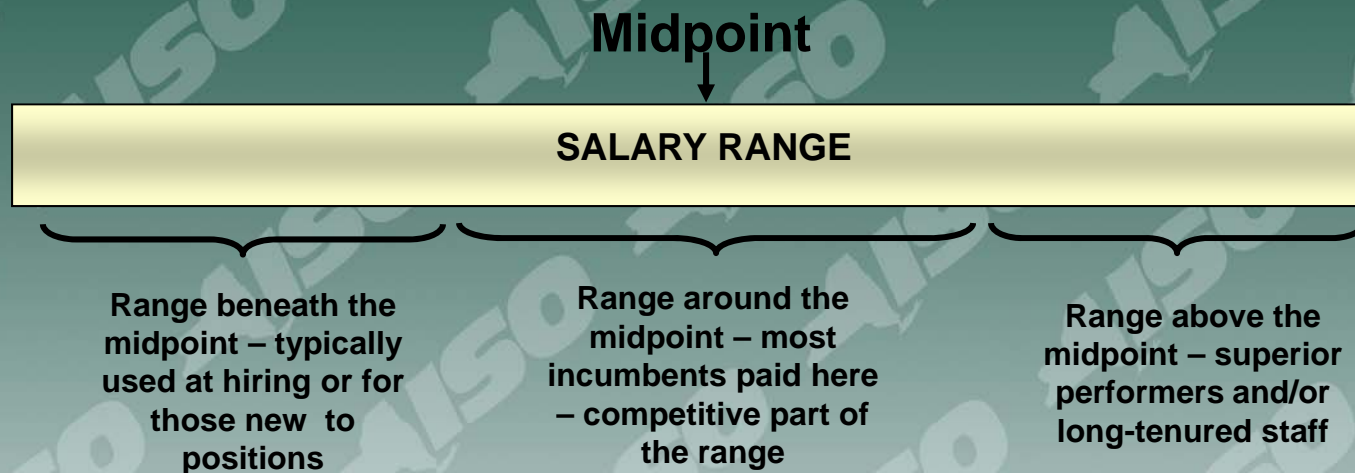
- ◆ **The process of benchmarking compensation:**
  - *identifies the market of similarly situated companies with which the NYISO competes for talent, such as other ISOs, RTOs, and other comparable companies within the broader electric industry;*
  - *uses survey data to identify a range of compensation for each job position within the market. The NYISO targets compensation for each position at the 50th percentage of each range of compensation; and*
  - *determines each employee's actual compensation in relation to the targeted amount for the position on the basis of the individual's particular experience, performance, and specific skill set.*

# Benchmarking

- ◆ **The NYISO uses survey data to identify a range for the base salary and “at risk” components for each position. In addition, the Board selects an outside consulting firm for an independent survey of executive compensation and an evaluation of the reasonableness of NYISO executive compensation.**
- ◆ **This survey data reflects the pay practices of comparable companies comprising the market in which the NYISO competes for talent.**
- ◆ **The NYISO targets base salary at the 50th percentile of each range for each position and adjusts that figure to reflect the specific experience, skills, and performance of each individual.**

# Benchmarking

- ◆ The compensation program goal is to pay incumbents at “the market” with consideration for experience and education among other factors
- ◆ The midpoint represents the median salary of all base salary data reported for a position



# Components of Compensation

- ◆ NYISO compensation includes base salary and “at-risk” performance-based compensation (annual incentives and long-term incentives)
- ◆ The “at-risk” portion of compensation is larger for executives with significant responsibility for the successful achievement of both annual and long-term corporate goals. *(The table below illustrates components of compensation for various position categories.)*

Total Compensation		
	Base	At-Risk
Individual Contributor	93%	7% Annual Incentive
Manager	91%	9% Annual Incentive
Vice President	60%	40% Annual & Long-Term Incentive

# Annual Incentive

- ◆ **The NYISO Annual Incentive Plan (AIP) is designed to provide variable at-risk, performance-based compensation opportunities to those employees who contribute to the NYISO's success. Its primary purpose is to motivate employees to achieve superior performance on critical annual goals.**
- ◆ **With input from the Market Participants, these annual goals are developed by NYISO management to support the achievement of significant enterprise-wide objectives and are ultimately reviewed and approved by the Committee and the Board.**
- ◆ **The Board is responsible for approving the annual goals and for approving the calculation of the extent to which such goals have been met.**
- ◆ **The Board's decision regarding the extent to which annual goals have been met is supported by a report on performance conducted by the Internal Auditor. The Internal Auditor has a separate and distinctly different set of annual goals to avoid any conflict of interest issues with this evaluation process.**

# Annual Incentive

- ◆ **Each year, eligible employees may receive an annual incentive award based upon a formula that takes into account the employee's position, the value of the AIP goals, the extent to which the AIP goals set by the Board have been achieved, and the individual employee's performance rating.**
- ◆ **To be eligible to receive an annual incentive award, the employee must achieve a performance rating for the applicable calendar year that at least meets the NYISO's expectations for individual performance. An employee who receives an overall performance rating that finds the employee needs improvement is not eligible. In addition, to be eligible, the employee must be on the NYISO's payroll as an active employee through December 31 of the applicable calendar year and continuously remain an active employee through the date of payment. These eligibility criteria ensure that annual incentive awards go only to individuals who have performed satisfactorily, contributed throughout the year, and have not left the NYISO for other employment.**

# Long-Term Incentive

- ◆ **The NYISO cannot offer certain benefits that for-profit companies can offer, such as stock options or equity compensation. As an alternative, the NYISO adopted a Long-Term Incentive Plan (LTIP) to provide incentive awards to eligible executive employees who contribute materially to the achievement of certain NYISO objectives established by the Board of Directors that are tied to the implementation of the NYISO's corporate vision, its strategic plan, its strategic objectives and initiatives, and its annual business plan.**
- ◆ **The Board designates the employees that are eligible to participate in the LTIP, which include NYISO executives and other key employees who are responsible for or contribute to the management and success of the NYISO. Presently, eligible employees include: the CEO, Senior Vice Presidents, Vice Presidents, and Directors (i.e., management employees, not Board members).**

# Long-Term Incentive

- ◆ **It is based upon the achievement of long-term goals established by the Board of Directors. These goals are established for three-year performance cycles. At the conclusion of a cycle, the Board determines the extent to which the goals have been achieved and determines the employee's award based on factors established by the Board to measure the achievement of the specific goal, the employee's individual performance, and the employee's annual base salary.**
- ◆ **It provides for the payout of awards by installments made over a period of three years following the end of the performance cycle, provided that the employee continues to be employed by the NYISO at the date of each installment payment. This payout eligibility requirement is designed to help the NYISO retain the key employees. Payments are not made for the first year of performance for three years – serving as a retention incentive for the company. These eligibility criteria ensure that awards go only to individuals who have performed satisfactorily, contributed throughout the year, and have not left the NYISO for other employment.**

# Summary

- ◆ **The NYISO’s compensation philosophy and practices for developing and implementing compensation programs are designed to encourage excellence and are built around the concept of performance-based and “at risk” compensation.**
- ◆ **Base salary, annual incentives, and long-term incentives are the components of total compensation.**
- ◆ **The NYISO utilizes data from external sources and, in the case of executive compensation, engages an outside independent consulting firm to benchmark positions and to evaluate the NYISO’s compensation program. These benchmarking efforts assist the NYISO to:**
  - *attract and retain highly qualified individuals to staff and manage the organization and fulfill its vital mission;*
  - *meet the regulatory requirements for reasonableness of compensation.*



NEW YORK INDEPENDENT SYSTEM OPERATOR

**The New York Independent System Operator (NYISO) is a not-for-profit corporation responsible for operating the state's bulk electricity grid, administering New York's competitive wholesale electricity markets, conducting comprehensive long-term planning for the state's electric power system, and advancing the technological infrastructure of the electric system serving the Empire State.**

**[www.nyiso.com](http://www.nyiso.com)**