

NYISO Compensation Program

This document describes the process by which the New York Independent System Operator (“NYISO”) determines the compensation for its executives. Specifically, this document describes (i) the NYISO’s independent governance bodies that determine executive compensation, (ii) the NYISO’s executive compensation philosophy, (iii) the structural components of the NYISO’s executive compensation, and (iv) the outside independent review of the executive compensation program.

Governance Bodies that Determine Executive Compensation

BOARD OF DIRECTORS

The NYISO’s independent Board of Directors (“Board”) is responsible for determining the compensation for NYISO executives. This responsibility is set forth in the NYISO’s Corporate Charter and By-Laws. It is also specified in the Independent System Operator Agreement.

COMMERCE AND COMPENSATION COMMITTEE

The Board makes determinations regarding executive compensation after reviewing the recommendations of its Commerce and Compensation Committee (“Committee”). The Committee is a committee of the Board comprised of four (4) non-employee directors. The Committee oversees and periodically re-evaluates targets for executive base salary and incentive compensation in light of changing compensation market conditions and makes recommendations to the Board. The Committee reviews and makes recommendations to the Board regarding the NYISO’s Long-Term Incentive Plan, the Annual Incentive Plan, and any proposed plan modifications. The Committee also reviews the annual corporate goals and objectives associated with the incentive compensation plans and recommends their adoption by the Board.

As detailed below, the Committee engages a professional executive compensation consulting firm to assist the Committee and the Board in determining executive compensation.

Compensation Philosophy

The NYISO's overall executive compensation philosophy is designed to provide competitive levels of compensation that advance the NYISO's annual and long-term performance objectives, pay executives for their performance, and 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. These core functions include the reliable operation of New York's bulk power system, the administration and monitoring of New York's wholesale electricity markets, and the planning of New York's bulk transmission system for long-term reliability and economic efficiency. This mission requires the development and management of large complex information technology systems and work processes. All of the NYISO activities entail numerous legal and regulatory compliance requirements.

The NYISO Executive Compensation program is designed to provide compensation to its executives that (i) is commensurate with the Total Compensation (TC) provided at similarly-situated ISOs, RTOs, medium to large utilities, and other companies within the broader electric industry and/or information technology markets in which the NYISO competes for executive talent, (ii) aligns the interests of the NYISO's executives with the successful performance of the NYISO's core functions, and (iii) pays executives for their individual performance and for the overall performance by the NYISO. The timing of payouts to Executives is designed to serve as a retention tool, incentivizing the incumbents to perform and to remain at the NYISO over a set period of time in order to receive the "at risk" portion of their TC.

Benchmarking Total Compensation (TC)

To ensure that it offers competitive compensation, the NYISO applies the following process, drawing on the professional expertise of independent executive compensation consultants. First, the NYISO identifies the market of similarly situated companies with which it competes for managerial talent, such as other ISOs, RTOs, and other comparable companies within the broader electric industry. The NYISO then uses survey data to identify a range of TC for each executive's position within this market. The NYISO targets TC for each position at the 50th percentage of each range of compensation. The NYISO determines each executive's actual compensation in relation to the targeted amount for the executive's position on the basis of the executive's particular experience, performance, and specific skill set, ensuring that the actual

compensation with both market and individual factors. Of course, when the executive is recruited, the current job market (available talent with the requisite skills and experience, etc.) is a dominant factor in establishing the starting TC for the newly hired individual.

Structural Components of Program

After determining the appropriate TC range for the executive position through benchmarking, the Board determines the appropriate “at risk” portion of the TC based on the company policy and design of the program. The “at risk” portion varies by position (i.e., the higher the position is in the company, the greater the “at risk” portion of the TC).

The NYISO’s executive compensation philosophy is reflected in the structure of the compensation program for executives. The TC structure consists of three basic components: base salary, short-term incentive compensation, and long-term incentive compensation. These components are described in greater detail below. The NYISO places a significant emphasis on the at-risk incentive elements of the TC, which are based upon the achievement of performance objectives by the NYISO organization and the individual executives. These incentive elements of compensation operate to further align the interests of the executives with the performance of the core functions of the NYISO.

In developing its compensation structure, the NYISO was mindful of certain recruitment and retention challenges resulting from the NYISO’s status as a not-for-profit corporation. The NYISO competes for a limited pool of managerial 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.

Figure 1 illustrates the make up of the three components of Total Compensation (TC) for the NYISO Executive Compensation Program using a Vice President position as an example.

Total Compensation		
Base Compensation	Annual Incentive Plan	Long Term Incentive
60% of total potential compensation	40% of total compensation “at-risk”	

BASE SALARY

Only a portion of each executive’s TC is paid in the form of base salary. **In other words, executives are not paid 100% of their TC based on satisfactory performance.** Instead, a significant portion of their TC is placed “at risk”. The NYISO uses TC survey data compiled by professional executive compensation consultants to identify a range for the base salary and “at risk” components for each executive position. This survey data reflects the pay practices of comparable companies comprising the market in which the NYISO competes for managerial talent. The NYISO targets executive 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.

SHORT-TERM INCENTIVE COMPENSATION

The NYISO has adopted an annual incentive plan to serve as one segment of the “at risk” portion of the TC. The NYISO Annual Incentive Plan (“AIP”) is designed to provide variable at-risk, performance based compensation opportunities each calendar year to those employees who contribute to the NYISO’s success. The primary purpose of the AIP is to motivate executives and other 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.

Each year, eligible employees may receive an AIP 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 AIP 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 for an AIP award. In addition, to be eligible to receive an AIP award, 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 of the AIP award. An exception to these requirements exists for certain employees who retire during the applicable calendar year. These eligibility criteria ensure that AIP 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 COMPENSATION

A second and final segment of the "at risk" portion of TC for executives is the Long Term Incentive compensation program. The NYISO adopted a long-term incentive plan ("LTIP") to provide incentive awards to eligible employees who contribute materially to the achievement of certain NYISO objectives established by the Board 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, growth, 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).

The LTIP is based upon the achievement of long-term goals established by the Board. 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. The LTIP provides for the payout of LTIP 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 who participate in the LTIP. Payments are not made for the first year of performance for three years – serving as a retention incentive for the company. In other words, if the executive is no longer an employee at the time of the installment payout date due to an involuntary separation or because the employee has left the company to take other employment, the payment is not made. An exception to this requirement exists for executives who retire or pass away prior to the payout date. These eligibility criteria ensure that AIP awards go only to individuals who have performed satisfactorily, contributed throughout the year, and have not left the NYISO for other employment.

BENEFITS

Executives are offered the same benefits plans as those available to all employees. These include medical, dental, vision, life insurance, disability coverage; dependent care flexible spending accounts, paid time-off for vacation and holidays, and participation in a 401(k) plan.

Outside Independent Review

As noted above, the compensation paid by the NYISO to its executives must be reasonable according to the Internal Revenue Code and related Treasury Department regulations. The Internal Revenue Code allows a tax-exempt organization to establish a rebuttable presumption that its compensation is reasonable. For a tax-exempt organization to establish the rebuttable presumption, the organization must show that its compensation arrangements were approved in advance by independent individuals. The organization must also show that in determining compensation its decision-making body obtained and relied upon appropriate compensation data on comparable positions within similarly situated organizations, both taxable and tax-exempt. Finally, the organization must show that its decision-making body adequately documented the basis for its compensation determination.

The NYISO Executive Compensation Program meets all of these requirements. The Board selects an executive compensation consulting firm for a) an independent survey of compensation paid by similarly-situated entities - taxable and tax-exempt - for executive positions with a

similar scope of responsibility, and b) an evaluation of the reasonableness of the proposed NYISO executive compensation. The Committee, consisting entirely of independent directors, reviews this survey data and takes into account other relevant factors such as actual written offers from similar institutions competing for an executive's services and its own knowledge of the current industry compensation and trends. Based on this information, the Committee makes recommendations to the Board regarding the compensation package of each executive. The independent members of the Board consider those recommendations and set all executive compensation on an annual basis. .

Summary

To summarize, the NYISO's practices for developing and implementing executive compensation are administered by the Commerce and Compensation Committee of its independent Board of Directors. The TC package is designed to incentivize performance and is built around the concept of "at risk" compensation. Base salary, annual incentives and long term incentives are the three (3) components of total executive compensation. The NYISO's Board Commerce and Compensation committee engages an outside executive compensation consulting firm to benchmark executive positions and to evaluate the NYISO's executive compensation program. This independent firm's task is to assist the Board in ensuring that the NYISO program a) meets the regulatory requirements for reasonableness, and b) attracts and retains highly qualified executives to run the organization, the power grid and the wholesale electricity markets.

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