



2004 Budget vs. Actual Variance Explanations as of December 2004

Capital Assets

Space and power limitations at the NYISO facilities limited the ability to purchase additional hardware in 2004. Additionally, certain hardware originally budgeted for 2004 was actually acquired during 2003. This line item underran by approximately \$6.1M, and available funds in this line item were transferred to other budgetary line items. \$3.7M in SMD costs was reclassified from capital to Computer Services (ABB project development costs). \$2.8M was also transferred from capital to consultants for facility and security improvements. Finally, \$0.7M in assets that previously would have been capitalized under NYISO's prior capitalization policy and were budgeted under capital, were actually recorded under Computer Services.

Salaries and Benefits

Salaries and benefits were under budget \$1.7M due primarily to the delay in converting onsite contractors to FTEs associated with the postponed deployment of SMD. Medical insurance was renewed at a lower cost than anticipated, for a savings of \$0.5M.

Consultants

Items included in this cost category are both consultants and onsite contractors. Overall, consultants were slightly under budget (2%), with overruns of \$1.7M in IT offset by underruns in Internal Audit, Customer Settlements and Market Monitoring. The IT overrun was due primarily to the delay in converting onsite contractors to FTEs associated with the postponed deployment of SMD.

Legal

Significant steps were taken in 2004 to reduce outside legal costs. An additional FTE was added in July, which helped lower outside legal costs. The legal budget absorbed additional costs related to the TCC issue, plus costs for an interim CFO, and still incurred expenses 5% below budget.

Building Services

Utility costs were \$.5M overbudget due to increasing rates. The remaining overage was due to increased general repairs and maintenance.

Computer Services

The \$8.5M overrun in Computer Services is driven by \$5.5M in Project Development costs, \$1.5 in software maintenance, \$0.5M in PC purchases, and \$0.8M in computer supplies. Dollars were transferred from Capital to cover the majority of these costs.

Insurance

Insurance renewals during 2004 were below the amount projected in the 2004 budget. Annual savings were approximately \$1.3M.



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Telecommunications

Telecommunication costs exceeded the budget at year-end by \$1.7M. The 2004 budget was understated as additional capacity data lines were added in late 2003 to handle computer and phone transmissions, but were mistakenly omitted in the 2004 budget planning.

Board of Directors

The Board and its committees have been meeting less frequently in 2004 as compared to prior years. An annual underrun of \$0.1M occurred.

Meetings, Travel and Training

Certain internal and market participant training courses were under budget by \$0.3M.

NPCC and FERC Fees

Actual NPCC fees were slightly less than budgeted. Actual FERC fees for 2004 were significantly less than budget (\$6.7M 2004 assessment less a \$1.4M refund on 2003 FERC fees for a net charge of \$5.3M).

Debt Service & Bank Fees

Interest rates paid on the Hardware Financing Debt and 2003 Debt Facility loans were significantly below the budgeted rate of 5%. Rates gradually increased to around 3.7% by year-end. Using the savings on these items as well as the overall underrun on the 2004 budget, NYISO, in accordance with Market Participant recommendations, prepaid \$2.4M remaining on the Hardware Financing debt by the end of 2004.

Miscellaneous Revenues

Interest revenues have exceeded budget by \$.1M, as rates have slowly risen. Planning studies and training income are below budget, approximately \$.1M.

Proceeds and Interest on 2004 Bank Financing

NYISO has borrowed \$42M on this facility. Originally, borrowings on this facility were expected to be \$46M, but were lowered to coincide with an expected overall underrun on the 2004 budget (which is due to be applied to reduce 2004 debt). Approximately \$0.7M was saved on interest, due to rates being lower than budgeted and borrowings drawn later than planned.

RS #1

Currently, Rate Schedule 1 charges have exceeded the budget by \$2.0M due to the load being approximately 2.5M MWH higher than forecasted. This amount will be refunded to market participants after the financial audit is complete.