

# **NYISO 2012-2014 BUDGET OVERVIEW**

*(dollars in millions, unless otherwise noted)*

Draft – For Discussion Only

Mary McGarvey – Vice President & Chief Financial Officer;  
Cheryl Hussey – Controller & Assistant Treasurer  
Budget & Priorities Working Group  
October 7, 2011

*Additions to September 13 & 23 presentations are noted in red*

# Table of Contents

<u>Topic</u>	<u>Page #</u>
<u>HIGHLIGHTS &amp; SUMMARY INFORMATION:</u>	
➤ Schedule	4
➤ Objectives for Budget Cycle	5
➤ Main Priorities for 2012	6-10
➤ <b>Revision to 2012 Budget</b>	<b>11</b>
➤ Historical Budget Comparisons	12
➤ Budget Highlights	13-14
➤ Summary of Significant Changes	15
➤ 2012 Budget Overview	16
➤ 2011 Budget Overview	17
➤ Peer Comparison	18
<u>ADDITIONAL INFORMATION:</u>	
➤ 2012 Line Item Details	19-34
➤ 2013-2014 Draft Budget Details	33-47
➤ Recap	48
APPENDIX A: ADDITIONAL MATERIALS PREPARED FOR 9/23/11 BPWG	50-52
<b>APPENDIX B: ADDITIONAL MATERIALS PREPARED FOR 10/7/11 BPWG</b>	<b>53-64</b>



**NYISO 2012 BUDGET:**  
**HIGHLIGHTS & SUMMARY INFORMATION**

# Timeline for Budget Cycle

- September 13: NYISO to present draft 2012-2014 budgets to BPWG
- September 19: BOD meeting to review high level budget summary
- September 23: BPWG meeting
- September 27: BPWG to present budget to Management Committee
- **October 7: BPWG meeting**
- **October 17: BOD meeting to review detailed budget**
- **October 26: MC vote on budget**
- **November 15: BOD approval of final budget**

# Objectives for 2012 Budget Cycle

- Obtain Market Participant support and Board of Directors' approval for 2012 budget
- If desired by Market Participants, obtain Market Participant support and Board of Directors' approval for 2013-2014 budgets to support a NYISO three-year commitment on spending levels
- Establish a process to manage variations from forecasted MWh levels over a three-year period (2012-2014)
- What's the same?
  - *Utilize any NYISO spending underruns to reduce NYISO's debt outstanding*
  - *Inclusion of FERC Fees in NYISO budgets [subject is currently related to RS1 appeal to Board of Directors]*
  - *Annual project prioritization process based upon feedback from Market Participants*
  - *Process to develop annual incentive goals using input from Market Participants*
- What's different?
  - *NYISO commitment to maintain spending levels for a three-year period*
  - *Treatment of variations from forecasted MWh levels*

# Main Priorities for 2012

## Reliability & Markets

### Market Evolution:

- Continue progress on high priority market enhancement features, such as Broader Regional Markets initiatives and Capacity Market Enhancements
- Continue to expand the Demand Response program, including DSASP Aggregations and Direct Communications, DSASP Direct Metering, Demand Response in Real-Time Energy Market, and Enhanced Scarcity Pricing
- Continue developing the market design and software platform enhancements to support the evolution of the TCC markets

### Smart Grid:

- Continue multi-year project implementation of statewide Phasor Measurement Unit network that will improve situational awareness and installation of Capacitor Banks that will improve voltage stability on the New York power grid
- Support Smart Grid/Smart Metering industry evolution and provide technology assessment, as necessary
- Support the evolution of Dynamic Pricing; identify potential technology solutions

### Infrastructure Master Plan:

- Continue multi-year Infrastructure Master Plan project with completion of construction for Carman Road data center and initiation of construction for Krey Blvd. control center

# Main Priorities for 2012 (*continued*)

## Regional Focus

### Broader Regional Markets:

- Continue phased implementation of Broader Regional Markets:
  - Interregional Transaction Coordination
  - Market to Market Coordination with PJM

### Expanded Regional Planning:

- Support the Eastern Interconnection Planning Collaborative (EIPC)
- Coordinate Northeastern ISO/RTO interregional planning activities through the Inter-Area Planning Stakeholder Advisory Committee (IPSAC)
- Continue the implementation of Phase II of the Congestion Assessment and Resource Integration Study (CARIS) in accordance with Order 890
- Prepare plans for interconnecting new generation and transmission facilities and related system upgrades through the Interconnection process

# Main Priorities for 2012 (*continued*)

## Authoritative Source Focus

- Continue to support new initiatives in System Planning, including the NYS Energy Planning Board and the study of transmission upgrades and expansion solutions in NY
- Publish *Power Trends* – the NYISO’s annual review of the forces and factors affecting New York State’s electric system
- Sponsor annual energy symposium
- Continue the Congestion Assessment and Resource Integration Study (CARIS) process
- Implement NYISO’s Comprehensive Reliability Planning Process (CRPP) - Reliability Needs Assessment (RNA) and Comprehensive Reliability Plan (CRP)



# Main Priorities for 2012 (*continued*)

## Consumer Focus

### Consumer Outreach Initiatives:

- Establish a broader consumer outreach program
- Continue to support Consumer Advisory Council activities
- Solidify Consumer Liaison position

### Consumer Metric Development:

- Produce consumer impact analyses, as triggered
- Publish Annual Consumer Report (*scheduled for 2013*)

# Main Priorities for 2012 (*continued*)

## Information Management

### Data and Information Management:

- Develop and implement data management strategies to maximize performance and analytics capabilities while minimizing cost
- Provide regional partner data integration to support Broader Regional Market functionality
- Design and develop enhanced analytical tools for demand response performance analysis and phasor data analysis

### Technology:

- Continue technology infrastructure initiatives to optimize and consolidate computer platforms allowing reduction of required footprint and associated costs (Data Warehouse Platform Evolution and Web Posting Enhancements )
- Continue projects to reinforce / enhance cyber security protocols and best practices
- Provide tools and systems to ensure compliance with evolving regulatory security standards, as well as targeted automation of NERC security standards
- Continue technology initiatives to improve system performance in support of advanced / evolving market evolution initiatives

# Revision to 2012 Budget

## **Proposed Revision:**

- NYISO proposes to move additional headcount of 2 FTEs in the Planning department to support a proposed new definition of the Bulk Electric System (BES) from 2012 into 2013.
- All headcount additions to support the potential revised BES definition will now be included in the proposed 2013 draft budget (10 FTEs in Operations and 3 FTEs in Planning).

## **Budget Impact:**

- NYISO's proposed 2012 budget is now reduced by \$0.2M from \$150.8M to \$150.6M.
- The RS1 charge/MWh for 2012 is similarly reduced from \$0.889/MWh to \$0.887/MWh.
- No changes to the 2013-2014 draft budgets, as previously discussed with the BPWG and MC are required due to this proposed revision.
- The details of the 2012 budget have been modified throughout this presentation to reflect this change, and have been notated in red.

# Historical Budget Comparisons

<i>(in millions, excluding RS#1/MWH charges)</i>	2010 <u>Budget</u>	2011 <u>Budget</u>	2012 <u>Draft</u>	<u>% Changes</u>	
				2012 vs. <u>2011</u>	2012 vs. <u>2010</u>
RS#1 Rev. Requirement – in \$\$	\$149.2	\$146.4	<b>\$150.6</b>	<b>2.9%</b>	<b>0.9%</b>
Budgeted MWH Hours	<u>167.3</u>	<u>167.7</u>	<u>169.7</u>	1.2%	1.4%
RS#1 Rev. Requirement - \$/MWH	\$0.892	\$0.873	<b>\$0.887</b>	<b>1.6%</b>	<b>(0.6%)</b>

## **2012 vs. 2010:**

- **0.9%** increase over two-year period \*
- Of **\$1.4M** increase over two-year period, **57%** or \$0.8M relates to FERC Fees
- 2012 debt service costs are \$4.5M higher than 2010, offset by reductions from 2010 in Professional Fees, Building Services, Computer Services, Insurance and Other Expenses

## **2012 vs. 2011:**

- **2.9%** increase \*
- Of **\$4.2M** increase, \$3.4M relates to increased debt service costs attributable to higher repayments of borrowings in recent years to fund Smart Grid Investment Grant and Infrastructure Master Plan

\* As compared to current inflation rate trending at 3.6% (as of July 2011)

# Budget Highlights

## MWh Throughput:

- Budgeted MWh volumes for 2012 reflect only a 1.2% increase from the 2011 budget.

## Spending Levels:

The primary reasons for a **\$4.2M** and **1.6%** increase in RS1 from 2011 to 2012 are as follows:

➤ *Increased debt service costs:*

Higher levels of borrowings during 2010-2011 to finance Smart Grid Investment Grant and Infrastructure Master Plan spending (principal borrowings of \$30M and \$25M in 2010 and 2011, respectively, vs. historical levels ranging between \$15M-\$20M)

➤ *Additional headcount:*

Primarily required in Information Technology and Operations to support reliability and markets initiatives (Smart Grid project, Broader Regional Markets, and expanding cyber security compliance obligations)

➤ *Additional Professional Fees (new efforts / scopes of work):*

- Management audit planned by the NYPSC;
- Study of capacity market requested by Market Participants;
- Study of gas/electric coordination requested by Market Participants

# Budget Highlights (*continued*)

## *Cost Consciousness:*

- NYISO recognizes that ongoing economic conditions are difficult for all Market Participants and has taken feasible steps to implement cost containment and reductions in 2012.
- NYISO continues to focus its spending on initiatives and investments that improve overall operations and reliability (e.g. staff additions and facility improvements); are responsive to Market Participant feedback; and represent prudent investments (e.g. Broader Regional Markets).
- One example of cost reduction efforts relates to a \$2.1M reduction in the cost of Computer Services through the continuation of favorable negotiations on hardware and software maintenance agreements and other purchasing strategies.
- Additionally, NYISO has reduced budgetary spending on a variety of budgetary line items from 2011, including Insurance, external Legal Fees, Building Services, and Other Expenses (BOD/NPCC/Travel & Training).

# Summary of Significant Changes

2012 Rate Schedule 1 Revenue Requirement	\$150.6
2011 Rate Schedule 1 Revenue Requirement	<u>\$146.4</u>
Increase in Rate Schedule 1 Revenue Requirement	\$ 4.2 **

## ➤ Efficiencies and Reductions

Reduction in Computer Services ( <i>baseline</i> )	(\$2.2)
Reduction in Insurance	(0.6)
Increase in Miscellaneous Revenue ( <i>baseline</i> )	(0.3)
Reduction in External Legal Fees	(0.2)
Reduction in Building Services	(0.1)
Reduction in Other Expenses (BOD/NPCC/Travel)	(0.1)
Proceeds from RS1 Carryover	<u>(1.5)</u>
	(\$5.0)

## ➤ Budget Increases

Increase in Debt Service Costs	3.4
Increase in Capital ( <i>baseline</i> )	2.6
Increase in Salaries & Benefits ( <i>baseline</i> )	1.8
Increase in Professional Fees ( <i>baseline</i> )	1.2
Increase in Telecommunications ( <i>baseline</i> )	<u>0.2</u>
	\$9.2

\*\* While individual line items for Projects, the Infrastructure Master Plan, and Grants experienced changes from 2011 to 2012, there is not a significant net change for the total of these initiatives due to the financing proceeds for each.

# 2012 Budget Overview

(\$ in millions, except RS#1/MWH)	2012 Draft Budget				
	Baseline	Projects	IMP	Grants	Total
Capital	\$4.8	\$1.9	\$18.1	\$2.4	\$27.2
Less: Proceeds from Infrastructure Master Plan Financing	-	-	(18.1)	-	(18.1)
Capital – net of Proceeds from Infrastructure Master Plan Financing	4.8	1.9	-	2.4	9.1
Salaries & Benefits	59.4	10.9	-	1.4	71.7
Professional Fees (including Legal)	19.6	7.2	-	7.0	33.8
Building Services	4.9	-	-	-	4.9
Computer Services	13.6	-	-	0.3	13.9
Insurance	2.9	-	-	-	2.9
Telecommunications	4.3	-	-	0.7	5.0
Other Expenses (BOD, Travel/Training, NPCC Fees)	3.1	-	-	-	3.1
<b>Subtotal: Current Year Needs (excl. FERC Fees)</b>	<b>112.6</b>	<b>20.0</b>	<b>\$-</b>	<b>11.8</b>	<b>144.4</b>
Debt Service	29.1	-	-	-	29.1
<b>Subtotal: Cash Budget</b>	<b>141.7</b>	<b>20.0</b>	<b>\$-</b>	<b>11.8</b>	<b>173.5</b>
Less: Miscellaneous Revenues	(2.5)	-	-	(6.0)	(8.5)
Less: Proceeds from Current Year Budget Debt	-	(20.0)	-	(5.8)	(25.8)
Less: Proceeds from RS1 Overcollection & Budget Underspend	(1.5)	-	-	-	(1.5)
Add: Interest on Current Year Budget Debt	-	0.4	0.4	0.1	0.9
<b>Subtotal: Net Budget Needs</b>	<b>137.7</b>	<b>\$0.4</b>	<b>\$0.4</b>	<b>\$0.1</b>	<b>138.6</b>
FERC Fees	12.0	-	-	-	12.0
<b>Total: Rate Schedule #1 Revenue Requirement in \$\$</b>	<b>149.7</b>	<b>\$0.4</b>	<b>\$0.4</b>	<b>\$0.1</b>	<b>150.6</b>
<b>Budgeted MWH Hours (in millions)</b>					<b>169.7</b>
<b>Rate Schedule #1 Revenue Requirement in \$/MWH (budget)</b>					<b>\$0.887</b>



# 2011 Budget Overview

(\$ in millions, except RS#1/MWH)	2011 Budget				
	Baseline	Projects	IMP	Grants	Total
Capital	\$2.2	\$5.1	\$12.1	\$1.7	\$21.1
Less: Proceeds from Infrastructure Master Plan Financing	-	-	(5.1)	-	(5.1)
Capital – net of Proceeds from Infrastructure Master Plan Financing	2.2	5.1	7.0	1.7	16.0
Salaries & Benefits	57.6	9.3	-	1.4	68.3
Professional Fees (including Legal)	18.6	5.6	-	7.0	31.2
Building Services	5.0	-	-	-	5.0
Computer Services	15.8	-	-	0.2	16.0
Insurance	2.9	-	0.6	-	3.5
Telecommunications	4.1	-	-	-	4.1
Other Expenses (BOD, Travel/Training, NPCC Fees)	<u>3.2</u>	-	-	-	<u>3.2</u>
<b>Subtotal: Current Year Needs (excl. FERC Fees)</b>	<b>\$109.4</b>	<b>\$20.0</b>	<b>\$7.6</b>	<b>\$10.3</b>	<b>\$147.3</b>
Debt Service	<u>24.3</u>	-	<u>1.6</u>	-	<u>25.9</u>
<b>Subtotal: Cash Budget</b>	<b>\$133.7</b>	<b>\$20.0</b>	<b>\$9.2</b>	<b>\$10.3</b>	<b>\$173.2</b>
Less: Miscellaneous Revenues	(2.2)	-	-	(5.3)	(7.5)
Less: Proceeds from Current Year Budget Debt	-	(20.0)	(5.0)	(5.0)	(30.0)
Less: Proceeds from RS1 Overcollection & Budget Underspend	-	-	(2.0)	-	(2.0)
Add: Interest on Current Year Budget Debt	-	<u>0.4</u>	<u>0.2</u>	<u>0.1</u>	<u>0.7</u>
<b>Subtotal: Net Budget Needs</b>	<b>\$131.5</b>	<b>\$0.4</b>	<b>\$2.4</b>	<b>\$0.1</b>	<b>\$134.4</b>
FERC Fees	<u>12.0</u>	-	-	-	<u>12.0</u>
<b>Total: Rate Schedule #1 Revenue Requirement in \$\$</b>	<b>\$143.5</b>	<b>\$0.4</b>	<b>\$2.4</b>	<b>\$0.1</b>	<b>\$146.4</b>
<b>Budgeted MWH Hours (in millions)</b>					<b>167.7</b>
<b>Rate Schedule #1 Revenue Requirement in \$/MWH (budget)</b>					<b>\$0.873</b>

# Peer Comparison

(\$ in millions)				
	<u>REVENUE REQUIREMENT</u>		<u>OTHER INFORMATION</u>	
ISO/RTO	2012 Revenue Requirement: in \$\$ (excludes FERC Fees)	2012 Revenue Requirement: in \$/MWh (excludes FERC Fees)	Debt Outstanding at 12/31/12	Authorized FTEs at 12/31/12
PJM	\$269.0M	\$0.316	\$72.8M	645
MISO	\$255.0M	\$0.39	\$151.0M	770
CAISO	\$194.8M	\$0.804	\$256.0M	601
ERCOT	\$168.1M	\$0.417	\$100.0M	573
ISO-NE	\$146.9M	\$1.06	\$74.0M	552
NYISO	<b>\$138.6M</b>	\$0.817	\$95.4M	<b>547</b>
<i>These amounts are draft, and may be subject to change as each ISO/RTO completes its 2012 approval process.</i>				
<i>NYISO Revenue Requirements are net of FERC Fees in order to compare with other ISO/RTO budgets, which exclude FERC Fees.</i>				



**NYISO 2012 BUDGET:**  
**DETAILED LINE ITEM INFORMATION**

# Line Item Details - CAPITAL

<i>(\$ in millions)</i>	<u>2012 Draft</u>	<u>2011 Budget</u>	<u>\$ Change</u>
Facility Improvements - Infrastructure Master Plan	\$18.1	\$12.1	\$6.0
Facility Improvements - other	0.2	0.3	(0.1)
Less: Proceeds from Debt/Prior Year overcollections & underspend	<u>(18.1)</u>	<u>(12.1)</u>	<u>(6.0)</u>
Subtotal: Facility Improvements, net of Mortgage/Renovations Debt	\$0.2	\$0.3	(\$0.1)
Replacement of Existing Hardware	4.4	5.4	(1.0)
Smart Grid Investment Grant Hardware & Software	2.5	1.7	0.8
Software Licenses (capitalized)	<u>2.0</u>	<u>1.6</u>	<u>0.4</u>
<b>Total Capital Costs, net of Mortgage/Renovations Debt</b>	<b>\$9.1</b>	<b>\$9.0</b>	<b>\$0.1</b>

## Facility Improvements:

The Infrastructure Master Plan is designed to address deficiencies in NYISO's aging infrastructure, as well as to provide suitable operating environments in support of evolving business requirements. 2012 Infrastructure Master Plan activities relate to construction of the new KCC control center. Other capital costs included within the 2012 budget include \$0.2M for minor KCC improvements.

## Replacement of Existing Hardware:

Replacement of computing hardware fluctuates from year to year and is driven by technology refresh schedules, planned obsolescence, and the specific mix of new computing requirements identified in the current year project schedule.

## Smart Grid Investment Grant Hardware & Software:

The NYISO was awarded a Smart Grid Investment Grant (SGIG) from the DOE to implement improved situational awareness of the New York power grid. The project started on July 1, 2010 and will proceed for 36 months. The hardware included in the 2012 budget represents planned equipment purchases that were part of the DOE-approved project scope. There is a 50% Federal match of allowable costs under the grant.

## Software Licenses (Capitalized):

Procurement of new software licenses fluctuates from year to year and is driven by technology refresh schedules, planned obsolescence, and the specific mix of new computing requirements identified in the current year project schedule.

# Line Item Details – SALARIES & BENEFITS

<i>(\$ in millions)</i>	2012 <u>Draft</u>	2011 <u>Budget</u>	\$ <u>Change</u>
Base Salaries	\$51.2	\$48.2	\$3.0
Benefit Programs / At-Risk Compensation	\$16.3	\$16.1	\$0.2
Payroll Taxes	<u>\$4.2</u>	<u>\$4.0</u>	<u>\$0.2</u>
<b>Total Salaries &amp; Benefits</b>	<b>\$71.7</b>	<b>\$68.3</b>	<b>\$3.4</b>

The increase in Salaries & Benefits is primarily driven by:

- 16 Additional FTE positions added during 2011 primarily to support the introduction of new hardware and software from Smart Grid projects, to support expanding compliance obligations for cyber security, and to support Broader Regional Markets initiatives,
- **10** Additional FTE positions planned for 2012 primarily to accommodate Broader Regional Markets initiatives and Gas/Electric Coordination support,
- Estimated 5% increase in cost of employee medical insurance benefits driven by projected premium increases (no changes to benefit plan design),
- Average 3% annual merit increase for NYISO employee compensation.

*See additional details on Salaries & Benefits on the following slides.*

# Line Item Details – SALARIES & BENEFITS

<u>HEADCOUNT SUMMARY:</u>	
Total Authorized FTE Positions for 2011	521
Add: Positions Added during 2011	16
Add: New Positions for 2012	<u>10</u>
Total Authorized FTE Positions for 2012	<b>547</b>
Less: Assumed Vacancies	<u>(33)</u>
<b>Equals: Total Budgeted FTE Positions</b>	<b>514</b>

<u>HEADCOUNT SUMMARY BY YEAR:</u>			
	<u>2012</u>	<u>2011</u>	<u>Change</u>
Total Authorized FTE Positions	<b>547</b>	521	<b>26</b>
Less: Assumed Vacancies	<u>(33)</u>	<u>(30)</u>	<u>(3)</u>
<b>Total Budgeted FTE Positions</b>	<b>514</b>	491	<b>23</b>

# Line Item Details – SALARIES & BENEFITS

Department	FTE Positions			Rationale for Additional Positions
	Added in 2011	New for 2012	Total Additions	
Information Technology	12	-	12	To support expanding compliance obligations for cyber security (3 positions), to support introduction of new hardware and software from Smart Grid projects (5), and to manage increased staff levels (4)
Operations	-	7	7	To accommodate Broader Regional Markets initiatives (3 positions – 1 trainer and 2 Ops Performance & Analysis), to support verification processes in TMO (1), to support Gas/Electric coordination (1), to assist in Energy Market Operations (1), and to assist in Grid Operations (1)
Planning	-	2	2	To assist with interconnection studies (2 positions with cost offset by \$0.3M in increased revenues)
Market Structures	3	-	3	To assist in Market Design initiatives (1), to manage Operations & Reliability projects (1) and to focus on consumer matters (1)
Legal	-	1	1	To offset cost of external legal support (\$0.2M has been reduced from the Professional Fees line item)
Executive	1	-	1	To provide strategic input to the CEO for the long-term focus of the NYISO
<b>Totals</b>	<b>16</b>	<b>10</b>	<b>26</b>	

# Line Item Details – SALARIES & BENEFITS

## ➤ Merit Raises:

- NYISO's 2012 draft budget includes an average merit increase to employee compensation of 3%, which was based upon the following rationale:
  - Concerns about increased local competition for talent and the cost of employee turnover,
  - Mid-point of planned 2012 merit increases of other ISOs ranging between 2.0% - 4.6%,
  - Consistent with 3% median planned increases indicated by national salary surveys,
  - Consistent with NYISO's 2011 average merit increase levels

Year	General Industry *	Utility Industry *	ISO/RTO	NYISO Budget
2012	2.8% - 3.2%	3.0%	2.0% - 4.6%	3.0%

\*Source: Surveys conducted by Hay Group, Mercer HR Consulting, Towers Watson, WorldatWork, and Conference Board.



# Line Item Details – PROFESSIONAL FEES

<i>(\$ in millions)</i>	<u>2012 Draft</u>	<u>2011 Budget</u>	<u>\$ Change</u>
Product Enhancement consultants ( <i>several vendors</i> )	\$7.1	\$5.6	\$1.5
DOE Grant Consulting	\$7.0	\$7.0	\$-
External legal fees	\$6.1	\$6.3	(\$0.2)
Misc. Professional Fees (all individually < \$500K)	\$3.8	\$3.7	\$0.1
Market advisor & related consulting	\$2.6	\$2.4	\$0.2
Reliability & Economic Planning	\$1.9	\$1.4	\$0.5
Ranger support & enhancements	\$1.5	\$1.5	\$-
Security guards	\$1.3	\$1.5	(\$0.2)
Market design & related consulting	\$1.1	\$1.1	\$-
External audits and Internal Audit co-sourcing	\$0.6	\$0.7	(\$0.1)
PSC Management Audit	\$0.5	\$-	\$0.5
Capacity Market Study	\$0.3	\$-	\$0.3
<b>Total Professional Fees</b>	<b>\$33.8</b>	<b>\$31.2</b>	<b>\$2.6</b>

**Product Enhancement Consultants:** The expected increase is due to higher cost in 2012 than 2011 for Broader Regional Markets initiatives. See details on 2012 product enhancements in a separate presentation.

**Reliability & Economic Planning:** The expected increase is due to the inclusion of a Gas/Electric Coordination Study in 2012 to re-examine the use of natural gas for electric generation and the increased use of variable resources.

**Market advisor & related consulting:** The expected increase in such costs is driven by the increased reporting structure / scope of responsibilities for the external market advisor and ongoing assistance with market review & monitoring efforts.

**PSC Management Audit:** The PSC has notified the NYISO that a Management Audit will be conducted in 2012. The PSC has provided an approximation of the cost estimate for this initiative.

**Capacity Market Study:** The study will examine the current market design for capacity markets in the Northeast.

## Line Item Details – BUILDING SERVICES

<i>(\$ in millions)</i>	<u>2012 Draft</u>	<u>2011 Budget</u>	<u>\$ Change</u>
Total Building Services	\$4.9	\$5.0	(\$0.1)

### Building Services:

NYISO includes building service contracts, repairs & maintenance, and membership dues & subscriptions within this budget category. It is planned that the 2012 budget will remain consistent with 2011 through negotiations on a variety of service contracts to maintain these levels.

## Line Item Details – COMPUTER SERVICES

<i>(\$ in millions)</i>	2012 <u>Baseline</u>	2012 <u>Grants</u>	2012 <u>Draft</u>	2011 <u>Budget</u>	\$ <u>Change</u>
Total Computer Services Costs	\$13.6	\$0.3	\$13.9	\$16.0	(\$2.1)

### Computer Services:

The decrease is primarily due to the expiration of two hardware operating leases, partially offset by new maintenance contracts on purchased replacement hardware. Although NYISO continues to experience increased costs for hardware/software maintenance and software licenses due to growth in the number of software products and escalating vendor increases, NYISO continues to offset such increases by savings realized during aggressive contract renegotiations.

## Line Item Details - INSURANCE

<i>(\$ in millions)</i>	<u>2012 Draft</u>	<u>2011 Budget</u>	<u>\$ Change</u>
Insurance	\$2.9	\$3.5	(\$0.6)

Insurance:

The decrease in Insurance is due to continued favorable outcomes of policy renewal negotiations .

## Line Item Details - TELECOMMUNICATIONS

<i>(\$ in millions)</i>	2012 <u>Baseline</u>	2012 <u>Grants</u>	2012 <u>Draft</u>	2011 <u>Budget</u>	\$ <u>Change</u>
Total Telecommunications	\$4.3	\$0.7	\$5.0	\$4.1	\$0.9

### Telecommunications:

The increase is primarily due to Telecommunication charges to connect TO control centers related to the SGIG grant project. These costs are 50% reimbursed by DOE.

# Line Item Details – OTHER EXPENSES

<i>(\$ in millions)</i>	<u>2012 Draft</u>	<u>2011 Budget</u>	<u>\$ Change</u>
Travel, Meetings, Training Costs	\$1.9	\$1.8	\$0.1
BOD Fees and Expenses	\$1.0	\$1.1	(\$0.1)
NPCC Fees	<u>\$0.2</u>	<u>\$0.3</u>	<u>(\$0.1)</u>
<b>Total Other Expenses</b>	<b>\$3.1</b>	<b>\$3.2</b>	<b>(\$0.1)</b>

### Travel, Meetings, Training Costs:

NYISO plans to continue austerity spending for travel, meetings & training costs during 2012. The amounts funded for 2012 vs. 2011 budgets consist of:

	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>
Employee travel/mtgs/training	1.4M	1.4M	-
MP meetings	0.3M	0.2M	\$0.1
MP training courses	0.1M	0.1M	-
Dispatcher training courses	0.1M	0.1M	-

### BOD Fees and Expenses:

The decrease above reflects the 2012 estimate of BOD compensation and meeting costs.

### NPCC Fees:

The 2012 budget is an estimate based upon NYISO's 2011 actual allocation.

# Line Item Details – DEBT SERVICE

ANNUAL PRINCIPAL AND INTEREST REPAYMENTS **									
(\$ in millions)									
Debt Facility & Repayment Period	Borrowings	2009	2010	2011	2012	2013	2014	2015	2016
2005 KCC Bldg Mortgage & Renov. (20 yrs)	\$24.8M	\$2.1	\$2.1	\$2.1	\$2.1	\$2.1	\$2.1	\$2.1	\$2.1
Infrastructure Master Plan Mortgage	~\$40.0M	\$-	\$-	\$0.2	\$0.6	\$1.7	\$2.7	\$4.2	\$4.2
2005 Budget Loan (4 yrs)	\$18.0M	\$4.6	\$-	\$-	\$-	\$-	\$-	\$-	\$-
2006 Budget Loan (4 yrs)	\$15.5M	\$3.9	\$4.0	\$-	\$-	\$-	\$-	\$-	\$-
2007 Budget Loan (3 yrs)	\$15.0M	\$5.4	\$5.1	\$-	\$-	\$-	\$-	\$-	\$-
2008 Budget Loan (3 yrs)	\$16.7M	\$6.3	\$6.0	\$5.7	\$-	\$-	\$-	\$-	\$-
2009 Budget Loan (3 yrs)	\$18.3M	\$0.4	\$6.8	\$6.6	\$6.3	\$-	\$-	\$-	\$-
2010 Budget Loan (3 yrs)	\$30.0M	\$-	\$0.4	\$11.0	\$10.9	\$10.5	\$-	\$-	\$-
2011 Budget Loan (3 yrs)	\$25.0M Est.	\$-	\$-	\$0.5	\$7.2	\$8.6	\$8.4	\$-	\$-
2012 Budget Loan (3 yrs)	\$25.8M Est.	\$-	\$-	\$-	\$2.3	\$9.3	\$9.0	\$8.8	\$-
2013 Budget Loan (3 yrs)	\$23.3M Est.	\$-	\$-	\$-	\$-	\$1.0	\$8.7	\$8.5	\$8.0
2014 Budget Loan (3yrs est.)	\$20.0M Est.	\$-	\$-	\$-	\$-	\$-	\$0.9	\$7.6	\$7.2
Bank Fees	n/a	\$0.6	\$0.4	\$0.5	\$0.6	\$0.4	\$0.5	\$0.6	\$0.6
<b>Total Debt Service Payments</b>		<b>\$23.3</b>	<b>\$24.8</b>	<b>\$26.6</b>	<b>\$30.0</b>	<b>\$33.6</b>	<b>\$32.3</b>	<b>**</b>	<b>**</b>

**\*\* Note: Totals after 2014 are not presented as additional loans after 2014 are not factored into this table.**

## Line Item Details – DEBT SERVICE (cont'd)

PRINCIPAL BALANCE OUTSTANDING AT DECEMBER 31, (\$ in millions)								
Debt Facility	2009	2010	2011	2012	2013	2014	2015	2016
2005 KCC Bldg Mortgage & Renov.	\$21.2	\$20.4	\$19.5	\$18.7	\$17.7	\$16.7	\$15.7	\$14.4
Infrastructure Master Plan Mortgage	\$-	\$-	\$5.8	\$23.9	\$40.0	\$39.2	\$36.9	\$34.5
2006 Budget Loan	\$3.6	\$-	\$-	\$-	\$-	\$-	\$-	\$-
2007 Budget Loan	\$5.0	\$-	\$-	\$-	\$-	\$-	\$-	\$-
2008 Budget Loan	\$11.1	\$5.6	\$-	\$-	\$-	\$-	\$-	\$-
2009 Budget Loan	\$18.3	\$12.2	\$6.1	\$-	\$-	\$-	\$-	\$-
2010 Budget Loan	\$-	\$23.0	\$20.6	\$10.3	\$-	\$-	\$-	\$-
2011 Budget Loan	\$-	\$-	\$25.0	\$16.7	\$8.3	\$-	\$-	\$-
2012 Budget Loan	\$-	\$-	\$-	\$25.8	\$17.1	\$8.5	\$-	\$-
2013 Budget Loan	\$-	\$-	\$-	\$-	\$23.3	\$15.5	\$7.7	\$-
2014 Budget Loan	\$-	\$-	\$-	\$-	\$-	\$20.0	\$13.4	\$6.7
<b>Total Principal Outstanding</b>	<b>\$59.2</b>	<b>\$61.2</b>	<b>\$77.0</b>	<b>\$95.4</b>	<b>\$106.4</b>	<b>\$99.9</b>	<b>**</b>	<b>**</b>
<i>** Note: Totals after 2014 are not presented as additional loans after 2014 are not factored into this table.</i>								



# Line Item Details – MISC. REVENUE

<i>(\$ in millions)</i>	<u>2012 Baseline</u>	<u>2012 Grants</u>	<u>2012 Draft</u>	<u>2011 Budget</u>	<u>\$ Change</u>
<b>Total Miscellaneous Revenues</b>	<b>\$2.5</b>	<b>\$6.0</b>	<b>\$8.5</b>	<b>\$7.5</b>	<b>\$1.0</b>

<u>Miscellaneous Revenues:</u>	<u>2012</u>	<u>2011</u>	<u>\$ Change</u>
SGIG & EIPC Grant Revenue	\$6.0M	\$5.3M	\$0.7M
Interconnection Studies Revenue	\$1.6M	\$1.3M	\$0.3M
Governance Fees	\$0.4M	\$0.4M	-
MP Training Revenue	\$0.3M	\$0.3M	-
Economic Planning Studies	\$0.1M	\$0.1M	-
Interest Income	\$-	\$0.1M	(\$0.1M)
<b>Total</b>	<b>\$8.5M</b>	<b>\$7.5M</b>	<b>\$1.0M</b>

The increase in miscellaneous revenues reflected above is attributable to SGIG and EIPC grant revenues. The majority of revenue related to the SGIG grant is 50% Federal reimbursement of allowable costs. \$0.5M in revenue is related to the EIPC grant and is 100% Federal reimbursement of allowable costs.

In 2012, increases in expected revenue from interconnection studies total \$0.3M.

These increases are partially offset by \$0.1M decrease in interest income earned on NYISO's investments caused by continued low interest rates.

## Line Item Details – FERC FEES

<i>(\$ in millions)</i>	<u>2012 Draft</u>	<u>2011 Budget</u>	<u>\$ Change</u>
<b>Total FERC Fees</b>	<b>\$12.0</b>	<b>\$12.0</b>	<b>\$-</b>

### FERC Fees:

For purposes of this draft 2012 budget, NYISO has continued to include FERC Fees within its annual RS#1 budget revenue requirements. None of the other ISOs do this, and instead, assess FERC Fees as a direct pass-through to MPs. The NYISO has recently proposed transitioning to a direct pass-through of FERC Fees similar to the treatment of other ISOs, but has not made this change to the 2012 budget since this subject is referenced in an appeal current pending before the NYISO BOD.

NYISO's 2012 budget for FERC Fees is \$12.0M, which represents a corresponding ~6% increase from the 2011 actuals. In 2011, FERC's annual program costs increased 7.2%, compared to increases of 6.2% and 11.8% in 2010 and 2009, respectively.

# 2013-2014 DRAFT BUDGETS

Draft – For Discussion Only

## Objectives for 2013-2014 Budget Cycles

- **Three-Year Commitment:**

If desired by Market Participants, obtain Market Participant support and Board of Directors' approval for 2013-2014 budgets to support a NYISO three-year commitment on spending levels

- **Treatment of Variations from Budgeted MWhs:**

Establish a process to manage variations from forecasted MWh levels over a three-year period (2012-2014)

# Objectives for 2013-2014 Budget Cycles

(continued)

- **Three-Year Budget Commitment:**

- *NYISO is willing to enter into three-year budget commitment for 2012-2014, consisting of detailed budget for 2012 and spending limits for 2013-2014 revenue requirements (measured in \$)*
  - *Note: If NYISO receives an order/mandate to significantly adjust NYISO's scope, then NYISO reserves the right to adjust the spending limits & will discuss with Market Participants accordingly*
- *Proposed RS1 revenue requirements for each year are as follows (see remainder of presentation for details supporting these proposed revenue requirements):*
  - *2012: **\$150.6M***
  - *2013: \$158.8M*
  - *2014: \$165.3M*
- *NYISO would continue to work with Market Participants in the governance process to prioritize spending and to produce detailed annual budgets for 2013 and 2014*
  - *2013 and 2014 budgets would be at or below the proposed commitments above (although individual budget line items likely to change)*
  - *Management Committee would continue to vote on annual budgets*

# Objectives for 2013-2014 Budget Cycles

(continued)

- **Treatment of Variations from Budgeted MWhs:**
  - *All ISOs/RTOs, other than NYISO, have the ability to true-up over/under-collections in MWh throughput into subsequent year(s) rates*
  - *Given the significance of the seasonal nature of NYISO's revenues, limited time remains in NYISO's budget year to react to over/under-collections following peak summer season (applies to both over and under-collections)*
  - *In conjunction with 3-year budget commitment, NYISO proposes to manage variations from the 2012-2014 budgeted MWhs as a grand total over this period*
  - *In summary:*
    - *If the grand total for the three-year period is a surplus, then this amount could be used to reduce debt balances, incorporated into the 2015 budget, or refunded to Market Participants*
    - *If the grand total for the three-year period is trending toward a significant deficit by mid-year 2014, then NYISO will revisit options/treatment with Market Participants during 2014*

# Budget Summary: 2011 - 2014

<i>(\$ in millions, except RS#1/MWH)</i>	2011 <u>Budget</u>	BUDGET DRAFTS		
		2012 <u>Draft</u>	2013 <u>Draft</u>	2014 <u>Draft</u>
Total: Rate Schedule #1 Revenue Requirement in \$\$	\$146.4	<b>\$150.6</b>	\$158.8	\$165.3
Budgeted MWH Hours <i>(in millions)</i>	167.7	169.7	170.6	<b>168.1</b>
Rate Schedule #1 Revenue Requirement in \$/MWH	\$0.873	<b>\$0.887</b>	\$0.931	<b>\$0.983</b>

# Major Assumptions

<u>Cost Category</u>	<u>Major Assumptions for 2013-2014</u>
Capital	<ul style="list-style-type: none"> <li>➤ Purchases of Hardware and Software are estimated as follows: (2013 = \$6.2M, 2014 = \$6.5M);</li> <li>➤ Infrastructure Master Plan costs are estimated to be \$16.1M in 2013;</li> <li>➤ Non- Infrastructure Master Plan Facility Improvements are estimated as follows: (2013 = \$0.3M, 2014 = \$1.9M)</li> </ul>
Salaries & Benefits	<ul style="list-style-type: none"> <li>➤ Headcount is budgeted as follows: (2013 = 561 FTEs, 2014 = 558 FTEs). Estimated vacancy factor is ~6% in 2013 and 2014.</li> <li>➤ No new benefit programs or significant changes to existing programs;</li> <li>➤ Average annual salary increases of 3%;</li> <li>➤ 10% annual increases in medical insurance costs</li> </ul>
Professional Fees (including Legal)	<ul style="list-style-type: none"> <li>➤ Consultant costs are being reduced by \$4.5M in 2013 and by \$4.4M in 2014. These reductions are primarily due to the conclusion of the DOE SGIG grant in mid-2013.</li> </ul>
Building Services	<ul style="list-style-type: none"> <li>➤ ~2% annual increase in overall Facilities costs</li> </ul>
Computer Services	<ul style="list-style-type: none"> <li>➤ Assumes no annual increase in 2013 and an increase of ~4% by 2014</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>➤ 3% annual increase in 2013 and no further increase in 2014</li> </ul>
Telecommunications	<ul style="list-style-type: none"> <li>➤ Assumes no annual increases</li> </ul>
Other Expenses (BOD, Travel/Trng, NPCC Fees)	<ul style="list-style-type: none"> <li>➤ Assumes no annual increases in Board of Directors' costs;</li> <li>➤ Assumes no annual increase in Travel/Training/Meetings; \$0.1M decrease from 2012 draft budget</li> <li>➤ 33% increase in NPCC Fees 2013, 25% increase 2014</li> </ul>
Debt Service	<ul style="list-style-type: none"> <li>➤ Assumes mortgage proceeds for the Infrastructure Master Plan of \$16.1M in 2013</li> <li>➤ Annual borrowings (with 3-year repayment terms) to fund capital and product enhancements will be ~\$20.0M;</li> <li>➤ All Federal match DOE costs are fully financed: \$3.3M in 2013</li> <li>➤ Interest rates for most borrowings through 2012 are between 4.0% – 6.0% and will approximate an average of 5.0% for borrowings following 2012;</li> <li>➤ No reductions for "early payments" on debt from potential savings on annual budget or load overcollections have been included</li> </ul>
FERC Fees	<ul style="list-style-type: none"> <li>➤ 4% annual increases in FERC Fees</li> </ul>
MWH Hours	<ul style="list-style-type: none"> <li>➤ Estimating load as follows: 2013 = 170.6 Million MWh, 2014 = 168.1 Million MWh</li> </ul>



# SALARIES & BENEFITS – Headcount Summary

<u>HEADCOUNT SUMMARY - 2013:</u>	
Total Budgeted FTE Positions for 2012	547
Add: New Positions for 2013	14
Total Budgeted FTE Positions for 2013	561
Less: Assumed Vacancies	(33)
<b>Equals: Total Budgeted FTE Positions</b>	<b>528</b>

<u>HEADCOUNT SUMMARY - 2014:</u>	
Total Budgeted FTE Positions for 2013	561
Add: New Positions for 2014	1
Less: Eliminated Positions for 2014	(4)
Total Budgeted FTE Positions for 2014	558
Less: Assumed Vacancies	(33)
<b>Equals: Total Budgeted FTE Positions</b>	<b>525</b>

<u>HEADCOUNT SUMMARY BY YEAR:</u>				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total Authorized FTE Positions	558	561	547	521
Less: Assumed Vacancies	(33)	(33)	(33)	(30)
<b>Total Budgeted FTE Positions</b>	<b>525</b>	<b>528</b>	<b>514</b>	<b>491</b>

# SALARIES & BENEFITS – Headcount Details

Department	FTE Positions			Rationale for Additional/Eliminated Positions
	New for 2013	New/Eliminated for 2014	Total Additions/ Eliminations	
Operations	10	-	10	To support modified NERC definition of Bulk Electric System
Planning	4	1	5	2013 - To accommodate increased planning support for modified NERC definition of Bulk Electric System (3 positions), to assist with Transmission studies (1 position) 2014 - To assist with Reliability & Economic Planning (1 position)
To Be Determined	-	(4)	(4)	To recognize efficiencies from Infrastructure Master Plan project
<b>Totals</b>	<b>14</b>	<b>(3)</b>	<b>11</b>	

# Detailed Draft Budgets by Cost Category

(\$ in millions, except RS#1/MWH)	2011 Budget	BUDGET PROJECTIONS		
		2012 Draft	2013 Draft	2014 Draft
Capital	\$21.1	\$27.2	\$22.6	\$8.4
Less: Proceeds from Mortgage/Renovations Debt	(\$5.1)	(\$18.1)	(\$16.1)	-
Capital – net of Proceeds from Mortgage/Renovations Debt	\$16.0	\$9.1	\$6.5	\$8.4
Salaries & Benefits	\$68.3	\$71.7	\$76.0	\$78.5
Professional Fees (including Legal)	\$31.2	\$33.8	\$29.3	\$24.9
Building Services	\$5.0	\$4.9	\$5.1	\$5.2
Computer Services	\$16.0	\$13.9	\$13.8	\$14.4
Insurance	\$3.5	\$2.9	\$3.0	\$3.0
Telecommunications	\$4.1	\$5.0	\$5.0	\$5.0
Other Expenses (BOD, Travel/Training, NPCC Fees)	\$3.2	\$3.1	\$3.0	\$3.1
<b>Subtotal: Current Year Needs (excl. FERC Fees)</b>	<b>\$147.3</b>	<b>\$144.4</b>	<b>\$141.7</b>	<b>\$142.5</b>
Debt Service	\$25.9	\$29.1	\$32.4	\$31.7
<b>Subtotal: Cash Budget</b>	<b>\$173.2</b>	<b>\$173.5</b>	<b>\$174.1</b>	<b>\$174.2</b>
Less: Miscellaneous Revenues	(\$7.5)	(\$8.5)	(\$5.7)	(\$2.5)
Less: Proceeds from Current Year Budget Debt	(\$25.0)	(\$25.8)	(\$23.3)	(\$20.0)
Less: Proceeds from 2010 Facility Year Budget Debt	(\$5.0)	-	-	-
Less: Proceeds from Annual RS1 Carryovers	(\$2.0)	(\$1.5)	-	-
Add: Interest on Current Year Budget and Mortgage Debt	\$0.7	\$0.9	\$1.2	\$0.6
<b>Subtotal: Net Budget Needs</b>	<b>\$134.4</b>	<b>\$138.6</b>	<b>\$146.3</b>	<b>\$152.3</b>
FERC Fees	\$12.0	\$12.0	\$12.5	\$13.0
<b>Total: Rate Schedule #1 Revenue Requirement in \$\$</b>	<b>\$146.4</b>	<b>\$150.6</b>	<b>\$158.8</b>	<b>\$165.3</b>
<b>Budgeted MWH Hours (in millions)</b>	<b>167.7</b>	<b>169.7</b>	<b>170.6</b>	<b>168.1</b>
<b>Rate Schedule #1 Revenue Requirement in \$/MWH</b>	<b>\$0.873</b>	<b>\$0.887</b>	<b>\$0.931</b>	<b>\$0.983</b>

# 2013 Budget Highlights

## In Summary:

- NYISO's draft 2013 budget totals \$158.8M, allocated across a forecast of 170.6 million MWhs, for a Rate Schedule 1 charge/MWh of \$0.931. Comparatively, the 2012 budget was \$150.8M allocated across 169.7 million MWhs for a RS1 charge/MWh of \$0.889.

## Primary Drivers:

- The primary reasons for a \$8.2M increase in RS1 from 2012 to 2013 are as follows:
  - \$4.3M increase in Salaries & Benefits driven primarily by 14 additional headcount positions, 13 of which are required to support a revised NERC definition of Bulk Electric System (BES) (10 BES positions in Operations and 3 BES positions in Planning, along with 1 additional Planning position to support Transmission Studies)
  - \$3.3M increase in debt service costs driven by higher levels of borrowings to fund the Smart Grid Investment Grant and Infrastructure Master Plan during 2010-2012
  - \$0.5M increase in the expected FERC Fees assessment
  - \$0.1M increase in all other budget line items combined, reflecting NYISO's cost consciousness and commitment to limit cost increases where possible

# 2013 Budget Overview

(\$ in millions, except RS#1/MWH)	2013 Draft Budget				
	Baseline	Projects	IMP	Grants	Total
Capital	\$3.0	\$2.0	\$16.1	\$1.5	\$22.6
Less: Proceeds from Infrastructure Master Plan Financing	-	-	(16.1)	-	(16.1)
Capital – net of Proceeds from Infrastructure Master Plan Financing	3.0	2.0	-	1.5	6.5
Salaries & Benefits	64.3	11.0	-	0.7	76.0
Professional Fees (including Legal)	18.8	7.0	-	3.5	29.3
Building Services	5.1	-	-	-	5.1
Computer Services	13.7	-	-	0.1	13.8
Insurance	3.0	-	-	-	3.0
Telecommunications	4.3	-	-	0.7	5.0
Other Expenses (BOD, Travel/Training, NPCC Fees)	3.0	-	-	-	3.0
<b>Subtotal: Current Year Needs (excl. FERC Fees)</b>	<b>\$115.2</b>	<b>\$20.0</b>	<b>\$-</b>	<b>\$6.5</b>	<b>\$141.7</b>
Debt Service	32.4	-	-	-	32.4
<b>Subtotal: Cash Budget</b>	<b>\$147.6</b>	<b>\$20.0</b>	<b>\$-</b>	<b>\$6.5</b>	<b>\$174.1</b>
Less: Miscellaneous Revenues	(2.5)	-	-	(3.2)	(5.7)
Less: Proceeds from Current Year Budget Debt	-	(20.0)	-	(3.3)	(23.3)
Less: Proceeds from RS1 Overcollection & Budget Underspend	-	-	-	-	-
Add: Interest on Current Year Budget Debt	-	0.6	0.5	0.1	1.2
<b>Subtotal: Net Budget Needs</b>	<b>\$145.1</b>	<b>\$0.6</b>	<b>\$0.5</b>	<b>\$0.1</b>	<b>\$146.3</b>
FERC Fees	12.5	-	-	-	12.5
<b>Total: Rate Schedule #1 Revenue Requirement in \$\$</b>	<b>\$157.6</b>	<b>\$0.6</b>	<b>\$0.5</b>	<b>\$0.1</b>	<b>\$158.8</b>
<b>Budgeted MWH Hours (in millions)</b>					<b>170.6</b>
<b>Rate Schedule #1 Revenue Requirement in \$/MWH (budget)</b>					<b>\$0.931</b>

# 2014 Budget Highlights

## *In Summary:*

- NYISO's draft 2014 budget totals \$165.3M, allocated across a forecast of **168.1 million** MWhs, for a Rate Schedule 1 charge/MWh of **\$0.983**. Comparatively, the 2013 budget was \$158.8M allocated across 170.6 million MWhs for a RS1 charge/MWh of \$0.931.

## *Primary Drivers:*

- The primary reasons for a \$6.5M increase in RS1 from 2013 to 2014 are as follows:
  - \$3.3M decrease in current year Debt Proceeds as compared to prior years
  - \$2.5M increase in Salaries & Benefits driven primarily by annual merit raises and increases in benefit plan costs, offset by a net reduction of 3 headcount positions
  - \$0.5M increase in the expected FERC Fees assessment
  - \$0.2M increase in all other budget line items combined, reflecting NYISO's cost consciousness and commitment to limit cost increases where possible

# 2014 Budget Overview

(\$ in millions, except RS#1/MWH)	2014 Draft Budget		
	Baseline	Projects	Total
Capital	\$5.4	\$3.0	\$8.4
Less: Proceeds from Infrastructure Master Plan Financing	-	-	-
Capital – net of Proceeds from Infrastructure Master Plan Financing	5.4	3.0	8.4
Salaries& Benefits	67.5	11.0	78.5
Professional Fees (including Legal)	18.9	6.0	24.9
Building Services	5.2	-	5.2
Computer Services	14.4	-	14.4
Insurance	3.0	-	3.0
Telecommunications	5.0	-	5.0
Other Expenses (BOD, Travel/Training, NPCC Fees)	<u>3.1</u>	-	<u>3.1</u>
<b>Subtotal: Current Year Needs (excl. FERC Fees)</b>	<b>\$122.5</b>	<b>\$20.0</b>	<b>\$142.5</b>
Debt Service	<u>31.7</u>	-	<u>31.7</u>
<b>Subtotal: Cash Budget</b>	<b>\$154.2</b>	<b>\$20.0</b>	<b>\$174.2</b>
Less: Miscellaneous Revenues	(2.5)	-	(2.5)
Less: Proceeds from Current Year Budget Debt	-	(20.0)	(20.0)
Less: Proceeds from RS1 Overcollection & Budget Underspend	-	-	-
Add: Interest on Current Year Budget Debt	-	0.6	0.6
<b>Subtotal: Net Budget Needs</b>	<b>\$151.7</b>	<b>\$0.6</b>	<b>\$152.3</b>
FERC Fees	<u>13.0</u>	-	<u>13.0</u>
<b>Total: Rate Schedule #1 Revenue Requirement in \$\$</b>	<b>\$164.7</b>	<b>\$0.6</b>	<b>\$165.3</b>
<b>Budgeted MWH Hours (in millions)</b>			<b>168.1</b>
<b>Rate Schedule #1 Revenue Requirement in \$/MWH (budget)</b>			<b>\$0.983</b>

## Recap

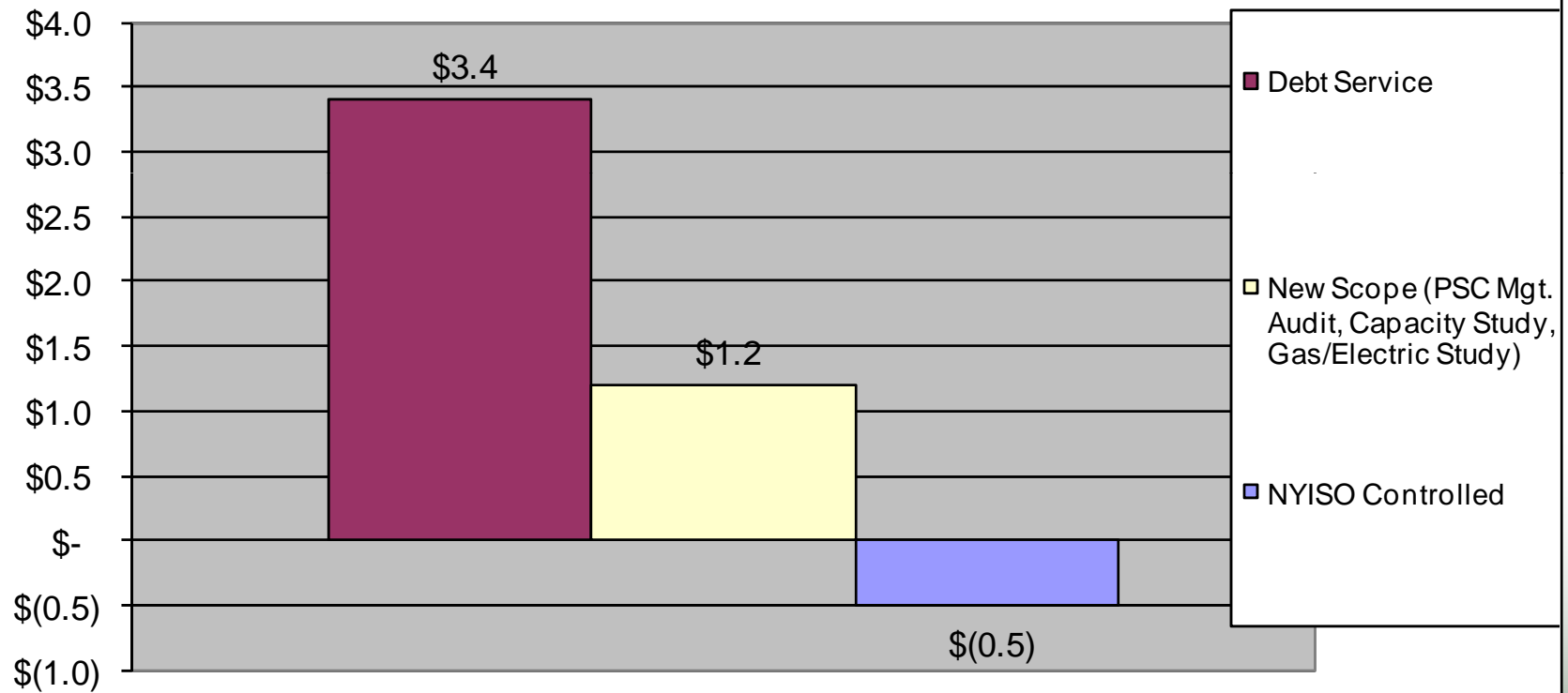
- Market Participant questions?
- 2012 Budget totals **\$150.6M** with RS1 charge of **\$0.887/MWh**
- NYISO willing to enter into budget commitments for 2013-2014 of \$158.8M and \$165.3M, respectively
- NYISO to manage MWh over/undercollections for 2012-2014 as a collective sum



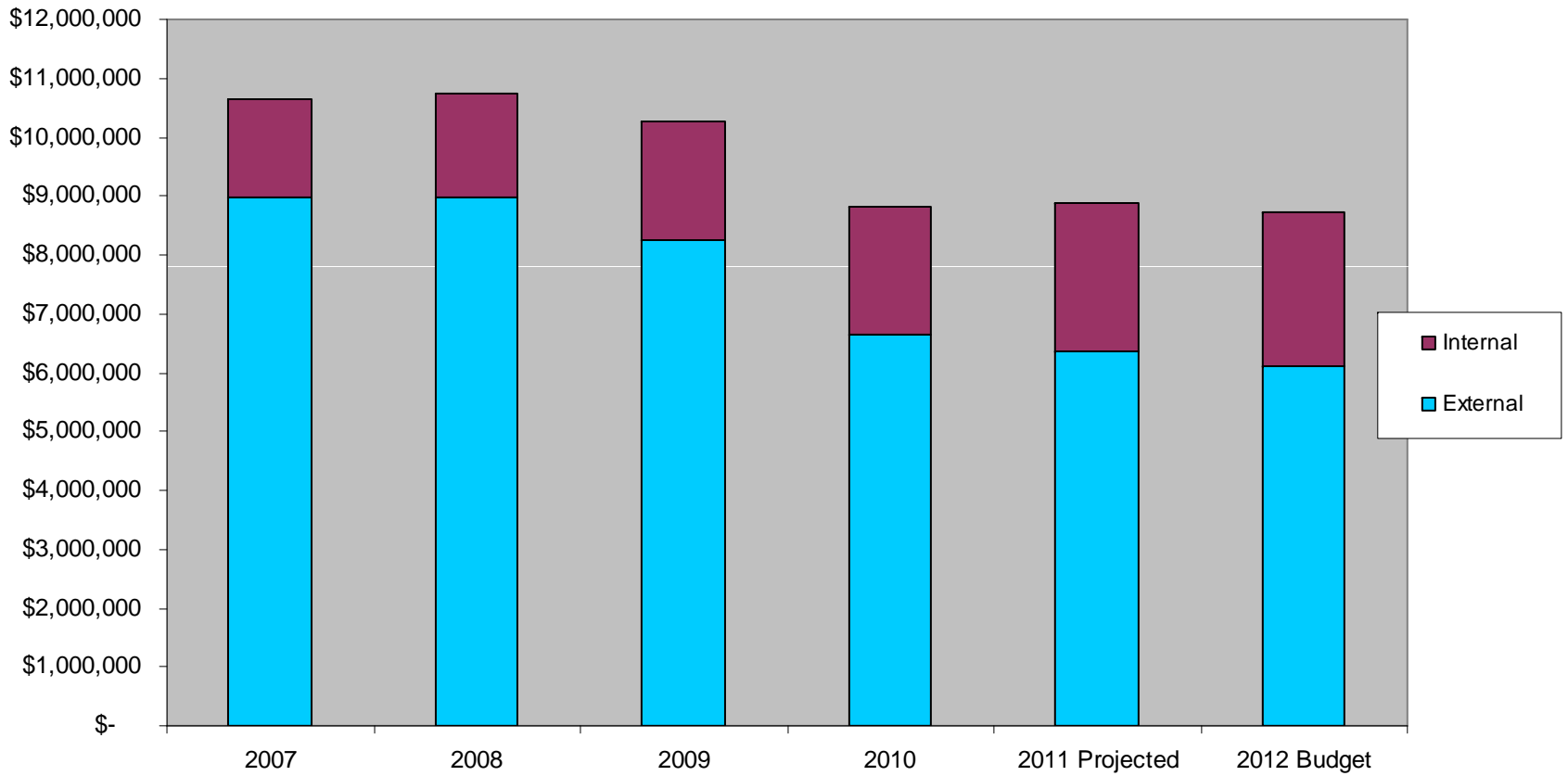
## **APPENDIX A:**

### ***Additional Materials Prepared for 9/23/11 BPWG Meeting***

## 2012 Budget - Summary of Significant Changes Components of \$4.2M Increase in RS1 Revenue Requirement



### NYISO LEGAL EXPENSES



# DOE DEBT SERVICE DETAILS

ANNUAL PRINCIPAL AND INTEREST REPAYMENTS **							
<i>(\$ in millions)</i>							
<u>Debt Facility &amp; Repayment Period</u>	<u>Borrowings</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
2010 Budget Loan (3 yrs)	\$2.0M	\$0.7	\$0.7	\$0.7	\$ -	\$ -	\$-
2011 Budget Loan (3 yrs)	\$3.9M Est.	\$0.1	\$1.4	\$1.4	\$1.4	\$ -	\$-
2012 Budget Loan (3 yrs)	\$5.8M Est.	\$ -	\$0.5	\$2.1	\$2.0	\$2.0	\$-
2013 Budget Loan (3 yrs)	\$3.3M Est.	\$ -	\$ -	\$0.1	\$1.2	\$1.2	\$1.2
<b>Total Debt Service Payments</b>		<b>\$0.8</b>	<b>\$2.6</b>	<b>\$4.3</b>	<b>\$4.6</b>	<b>\$3.2</b>	<b>\$1.2</b>

PRINCIPAL BALANCE OUTSTANDING AT DECEMBER 31,					
<i>(\$ in millions)</i>					
<u>Debt Facility</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
2010 Budget Loan	\$1.4	\$0.7	\$ -	\$ -	\$ -
2011 Budget Loan	\$3.9	\$2.7	\$1.3	\$ -	\$ -
2012 Budget Loan	\$ -	\$5.8	\$3.8	\$1.9	\$ -
2013 Budget Loan	\$ -	\$ -	\$3.3	\$2.2	\$1.1
<b>Total Principal Outstanding</b>	<b>\$5.3</b>	<b>\$9.2</b>	<b>\$8.4</b>	<b>\$4.1</b>	<b>\$1.1</b>

**APPENDIX B:**

***Additional Materials Prepared for  
10/7/11 BPWG Meeting***

# Revision to 2012 Budget

## **Proposed Revision:**

- NYISO proposes to move additional headcount of 2 FTEs in the Planning department to support a proposed new definition of the Bulk Electric System (BES) from 2012 into 2013.
- All headcount additions to support the potential revised BES definition will now be included in the proposed 2013 draft budget (10 FTEs in Operations and 3 FTEs in Planning).

## **Budget Impact:**

- NYISO's proposed 2012 budget is now reduced by \$0.2M from \$150.8M to \$150.6M.
- The RS1 charge/MWh for 2012 is similarly reduced from \$0.889/MWh to \$0.887/MWh.
- No changes to the 2013-2014 draft budgets, as previously discussed with the BPWG and MC are required due to this proposed revision.
- The details of the 2012 budget have been modified throughout this presentation to reflect this change, and have been notated in red.

# Summary of Headcount & Professional Fees

## HEADCOUNT SUMMARY BY YEAR:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Total Authorized FTE Positions	425	447	465	463	521	547	561	558
Less: Assumed Vacancies	<u>(20)</u>	<u>(20)</u>	<u>(23)</u>	<u>(10)</u>	<u>(30)</u>	<u>(33)</u>	<u>(33)</u>	<u>(33)</u>
Total Budgeted FTE Positions	405	427	442	453	491	514	528	525

## PROFESSIONAL FEES BY YEAR:

*(in \$ millions)*

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Total Professional Fees	\$32.2	\$34.7	\$38.1	\$32.0	\$31.2	\$33.8	\$29.3	\$24.9

ISO/RTO	Authorized FTEs at 12/31/12
PJM	645
MISO	770
CAISO	601
ERCOT	573
ISO-NE	552
NYISO	547

# Headcount Justifications: Information Technology

<u>Year</u>	<u>Rationale for Additional Positions</u>	<u># of FTEs</u>	<u>Justification</u>	<u>Impact if Delayed</u>
2011	To support expanding compliance obligations for cyber security	3	Compliance obligations due to NERC Critical Infrastructure Protection (CIP) are increasing, and new Dept. of Energy requirements related to Smart Grid have driven higher workload. Additionally, greater levels of participation in security standards processes and regulatory working groups necessitate additional time commitment.	Risk of non-compliance with regulatory standards and / or failure to provide security architecture consistent with industry expectations.
2011	To support introduction of new hardware and software from Smart Grid and BRM projects	5	New Broader Regional Market (BRM) and Smart Grid features / systems have driven IT infrastructure expansion that require build-out of existing IT systems and addition of new technology.	Risk of inadequate IT infrastructure improvements to support important new applications; risk of deployment for new market features without appropriate technology support structure for new tools and platforms.
2011	To manage increased staff levels	4	Increased employee headcount in 2010 (contractor conversion) and 2011 have created team sizes too large to effectively manage without adding additional Supervisory staff.	Decreased team efficiency and organizational risk of inadequate management oversight.



# Headcount Justifications: Operations

<u>Year</u>	<u>Rationale for Additional Positions</u>	<u># of FTEs</u>	<u>Justification</u>	<u>Impact if Delayed</u>
2012	To accommodate Broader Regional Markets, BRM	3	The BRM initiatives will include significant market changes to hour-ahead interchange evaluations with HQ, ISO-NE, and PJM. This will result in modifications to hour-ahead interchange scheduling processes, congestion management, dispatch, settlements, operational evaluations, and price verifications. These processes require design, functional requirements, detailed specifications, software, QA testing verification Operations. Operations will need resources to be involved throughout the entire development cycle.	Customer benefits of Broader Regional Markets initiatives would be delayed.
2012	To assist with Operator Training	1	New NERC Standard, PER-005, requires the ISO to identify all operator job tasks, provide training to all operators on each task, and certify that each operator was trained for all tasks associated by "desk". NERC compliance for PER-005 is required by April 2013. Over 300 existing job tasks have been identified. In addition to existing job tasks, the ISO needs to identify the BRM job tasks, provide training, and certify operators in order to meet compliance with NERC PER-005.	FERC & NERC Compliance Risk

# Headcount Justifications: Operations

<u>Year</u>	<u>Rationale for Additional Positions</u>	<u># of FTEs</u>	<u>Justification</u>	<u>Impact if Delayed</u>
2012	To support Gas/Electric coordination	1	NY's generation portfolio is becoming more reliant on natural gas as a primary fuel. Natural gas deliverability is dependent upon physical gas pipeline capability and nominations. To ensure electric transmission reliability, the ISO needs a stronger awareness of pre-scheduled pipeline availability, real time pipeline capability, gas nominations and implications on pressures and flexibility for real time electric security. This position would also be involved with gas-electric coordination initiatives & gas studies.	Risk to reliability if gas curtailments, under nominations, or physical gas pipeline capability results in loss of electric generation
2012	To assist in Energy Market Operations	1	This position is needed for the design, development, and maintenance of the new control center Video Map Board. This includes the significant "one-line" diagram of the NY transmission system, the display of real time transmission data, and other operator awareness visuals such as PMU results, weather, gas pipeline, wind, etc.	Operator awareness crucial as markets are effectively expanded through the BRM initiatives, increased intermittent generation, expanded responsibility as a NERC Reliability Coordinator for an expanded list BES, and as PMU visibility becomes available.

# Headcount Justifications: Operations

<u>Year</u>	<u>Rationale for Additional Positions</u>	<u># of FTEs</u>	<u>Justification</u>	<u>Impact if Delayed</u>
2012	To assist in Grid Operations	1	As BRM initiatives are implemented, along with an expected FERC order for an expanded Bulk Electric System definition (hence resulting in all of the NERC Reliability Coordinator Standards applicable to all transmission assets over 100 kV) and the projected integration of additional intermittent resources, the number of real time operator positions (desks) will need to increase. In addition, existing operator supervision is expected to be more involved with review, implementation, and procedure-writing for all the real time operational aspects of BRM, the expanded BES, and increased intermittent generation.	Supervision of expanded real time operations functions and personnel will be diluted without additional supervision support.
2013	To support modified NERC definition of Bulk Electric System	10	To meet NERC Reliability Coordinator Standards, the ISO will need 6 Operators, 2 day-ahead Scheduling Engineers, 1 System Operator Trainer, and 1 Operations Engineer.	FERC & NERC compliance risk

# Headcount Justifications: Planning

<u>Year</u>	<u>Rationale for Additional Positions</u>	<u># of FTEs</u>	<u>Justification</u>	<u>Impact if Delayed</u>
2012	To assist with interconnection studies	2	Planning Engineers will work on reimbursable projects. These positions will increase incoming revenue by \$0.3M (offsetting FTE costs). Through Interconnection studies, these staff will be trained in NYCA power systems and serve as a feeder program for other positions in Planning.	Loss of revenue potential and strategic loss in creating a System and Resource Planning training and development program.
2013	To assist with transmission studies	1	This Sr. Planning Engineer would accommodate FERC Order 1000 requirements for the significant amount of coordination and joint studies across Control Areas.	Current staff are already stretched working on studies and inter-regional coordination requirements of Tariff, NERC/NPCC/PSC/NYSRC and governmental and regulatory bodies.
2013	To support modified NERC definition of Bulk Electric System	3	As registered Planning Coordinator, these Sr. Planning Engineer positions are necessary to coordinate with NYTOs on planning activities as NERC reliability compliance standards are expanded to include facilities at 100kV and above.	There would be exposure to gaps and non-compliance in order for all registered entities in NY to perform their reliability compliance planning studies.
2014	To assist with Reliability & Economic Planning	1	Sr. Planning Engineer to work on IRM and LCRs particularly with the expected new capacity zone(s) and broader regional market activities.	Failure to meet the requirements from NYSRC and NYISO ICAP auction schedules.

# Headcount Justifications: BES

- **Bulk Electric System (BES) definition:**
  - *On September 3, 2011, the NERC Drafting Team posted a proposed a Bulk Power Electric System definition for comments and balloting.*
  - *FERC Order 743 requires the ERO (NERC) to file a Bulk Electric System definition by January 24, 2012.*
  - *It is possible that the new Bulk Electric System definition could become effective two quarters after the FERC accepts the ERO filing.*
  - *Until FERC issues its final order, it is unclear what the compliance expectations will be during the filed transition periods.*

# Follow-Up Items

## ➤ MWh assumptions / BRM impact:

- *The proposed market design for implementing Inter-Regional Interchange Scheduling (IRIS) with ISO-NE would eliminate RS1 charges on imports and exports at the NY/NE border. This project is currently scheduled for deployment in the second half of 2013. Therefore, the forecasted MWhs for 2014 have been reduced by 3.56 million MWhs. For further details on this initiative, please refer to [http://www.nyiso.com/public/webdocs/committees/bic\\_miwg/meeting\\_materials/2011-03-07/a1\\_a8\\_iso\\_ne\\_nyiso\\_presentation\\_03\\_07\\_11.pdf](http://www.nyiso.com/public/webdocs/committees/bic_miwg/meeting_materials/2011-03-07/a1_a8_iso_ne_nyiso_presentation_03_07_11.pdf)*
- *The proposed market designs for implementing Interregional Transaction Coordination with PJM (both Intra-Hour Scheduling and Coordinated Transaction Scheduling) do not currently impact the forecasted MWh recoveries for RS1 over the 2012-2014 period.*

# Follow-Up Items

## Summary of ABB Expenditures:

<u>Category</u>	<u>Amount</u>	<u>Description</u>
Computer Services	\$1.5M	Services covered under the Software Maintenance portion of the ABB contract include license to use the software products, rights to use periodic upgrade versions of the core products, and standard product support (including tiered help desk support for software issues).
Professional Fees	\$1.5M	Services covered under the Consultancy portion of the ABB contract include on-site continuous support provided by ABB staff and support services provided by ABB factory staff for implementation of planned software upgrades and product version releases, and other minor efforts included in the 2012 NYISO budget (\$0.5M).
Professional Fees (Projects)	\$2.1M	Software development services tied to planned project implementations of Broader Regional Market (BRM) projects.

Total	\$5.1M	The non-project budgets for ABB services tied to the ABB Maintenance Agreement (\$2.5M) reflects support commitments initiated in 2004 (5-year agreement) and extended in 2009 (3-year agreement). The NYISO costs for this agreement have remained flat for the duration of the period.
-------	--------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

# Follow-Up Items

## ➤ Management Committee Motion:

- *NYISO is seeking Market Participant input as to the structure of the October 26<sup>th</sup> Management Committee vote on the 2012 budget & 2013-2014 budget commitments*
  - ▶ A. One comprehensive motion to recommend the 2012 budget and 2013-2014 budget commitments (with process to manage variations from forecasted MWs); OR
  - ▶ B. Two motions. One motion to recommend the 2012 budget and a separate motion to recommend the 2013-2014 budget commitments (with process to manage variations from forecasted MWs).