

2008-2011 BUDGET TARGETS

Prepared for:

Budget, Standards & Performance Subcommittee

September 27, 2006

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NYISO 2008-2011 BUDGET TARGETS:

History of NYISO Budget Targets

- NYISO's first set of five-year budget targets were set by MPs in 2003 for the period 2004 – 2008.
- These initial budget targets were created by MPs in summary format to determine a bottom-line RS#1 Revenue Requirement. No underlying details were created (either by line item, department, initiative, etc.) to determine feasibility of meeting budget targets.
- Although set by MPs, NYISO agreed to produce annual budgets that were within the established targets for the five-year period 2004 – 2008.
- To date, NYISO's annual budgets for 2004 - 2007 have been within the budget targets.
- NYISO has provided MPs with updated budget targets for 2009-2011 to illustrate expected future Rate Schedule 1 charges. Such amounts are subject to annual budget reviews by MPs and approvals by the BOD.

NYISO 2008-2011 BUDGET TARGETS: Target Levels - As Originally Established in 2003

<i>(\$ in millions, except RS#1/MWH)</i>	2004 Budget	2005 Target	2006 Target	2007 Target	2008 Target
Baseline (<i>current year needs</i>)	\$97.8	\$101.5	\$102.5	\$103.5	\$105.4
Projects (<i>current year needs</i>)	\$41.7	\$20.0	\$20.0	\$20.0	\$20.0
Debt Service (<i>prior year financings</i>)	<u>\$30.2</u>	<u>\$29.7</u>	<u>\$32.8</u>	<u>\$37.7</u>	<u>\$31.2</u>
Subtotal: Cash Budget	\$169.7	\$151.2	\$155.3	\$161.2	\$156.6
Less: Net proceeds on CY financings	(\$44.8)	(\$21.1)	(\$21.1)	(\$22.0)	(\$21.1)
Less: Misc. Revenues	<u>(\$1.1)</u>	<u>(\$1.0)</u>	<u>(\$1.0)</u>	<u>(\$1.0)</u>	<u>(\$1.0)</u>
Equals: RS#1 Revenue Requirement	\$123.8	\$129.1	\$133.2	\$138.2	\$134.5
Annual MWHs	<u>161.0</u>	<u>163.7</u>	<u>166.0</u>	<u>168.5</u>	<u>171.0</u>
Equals: Rate Schedule #1 (\$/MWH)	<u>\$0.769</u>	<u>\$0.789</u>	<u>\$0.802</u>	<u>\$0.821</u>	<u>\$0.787</u>
<i>Status of Budget Target</i>	<i>Target Met</i>	<i>Target Met</i>	<i>Target Met</i>	<i>Target Met</i>	<i>Committed to Meet</i>

NYISO 2008-2011 BUDGET TARGETS:

Major Assumptions

<u>Cost Category</u>	<u>Major Assumptions</u>
Capital	<ul style="list-style-type: none"> ➤ ~\$1M annual investment in new technology investments for product enhancements ➤ Existing hardware will be replaced every three years at ~\$4M annually ➤ Software licenses of \$2M will be needed annually ➤ \$1M in anticipated improvements annually are expected for the PCC (additional improvements are being considered, but are not quantified yet)
Salaries & Benefits	<ul style="list-style-type: none"> ➤ Headcount will remain flat at 425 FTEs through 2011 ➤ No new benefit programs or significant changes to existing programs ➤ Average annual salary increases of 4% ➤ 10% annual increases in benefit costs
Professional Fees (including Legal)	<ul style="list-style-type: none"> ➤ 5% annual reduction in Consultants ➤ ~\$0.1M annual increase in external legal costs
Building Services	<ul style="list-style-type: none"> ➤ 3% annual increases in facilities costs
Computer Services	<ul style="list-style-type: none"> ➤ 5% annual increases in hardware and software maintenance costs
Insurance	<ul style="list-style-type: none"> ➤ 5% annual increases in insurance
Telecommunications	<ul style="list-style-type: none"> ➤ 2% annual increases in telecom costs
Other Expenses (BOD, Travel/Trng, NPCC Fees)	<ul style="list-style-type: none"> ➤ 3% annual increases in Board of Directors' costs ➤ 3% annual increases in NPCC Fees (NERC ERO funding is billed directly by NERC) ➤ \$0.4M reduction in Meeting Costs beginning in 2008 (after complete migration to Phoenix building)
Debt Service	<ul style="list-style-type: none"> ➤ Annual borrowings (4-year terms) to supplement RS#1 recoveries (and to mirror funding for capital and product enhancements) will be \$20M ➤ Interest costs for such borrowings will approximate 7% ➤ No reductions for "early payments" on debt from potential savings on annual budget or load overcollections have been included
FERC Fees	<ul style="list-style-type: none"> ➤ 7% annual increases in FERC Fees

NYISO 2008-2011 BUDGET TARGETS: Debt Summary

ANNUAL PRINCIPAL AND INTEREST REPAYMENTS ** (\$ in millions)									
Debt Facility	Repayment Period	2006	2007	2008	2009	2010	2011	2012	2013
2003 Budget Loan	4 years	\$12.7	\$12.2	\$2.0	\$ -	\$ -	\$ -	\$ -	\$ -
2004 Budget Loan	4 years	12.0	11.5	10.7	-	-	-	-	-
2005 KCC Bldg Mortgage & Renov.	20 years	0.9	1.7	1.7	2.1	2.1	2.1	2.1	2.1
2005 Budget Loan	4 years	5.2	5.0	4.8	4.6	-	-	-	-
2006 Budget Loan	4 years	0.3	4.5	4.3	4.1	4.0	-	-	-
2007 Budget Loan	3 years	-	0.5	5.9	5.5	5.2	-	-	-
2008 Budget Loan	3 years	-	-	0.6	7.8	7.3	6.9	-	-
2009 Budget Loan	3 years	-	-	-	0.6	7.8	7.3	6.9	-
2010 Budget Loan	3 years	-	-	-	-	0.6	7.8	7.3	6.9
Bank Fees	n/a	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Total		\$31.5	\$35.9	\$30.5	\$25.2	\$27.6	**	**	**

** Note: Totals after 2010 are not presented as additional loans after 2010 are not factored into this table.

NYISO 2008-2011 BUDGET TARGETS: Debt Summary - *continued*

PRINCIPAL BALANCE OUTSTANDING AT DECEMBER 31, (\$ in millions)									
<u>Debt Facility</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
2003 Budget Loan	\$25.5	\$13.7	\$2.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2004 Budget Loan	31.5	21.0	10.5	-	-	-	-	-	-
2005 Phoenix Bldg Mortgage & Renov.	13.6	22.5	22.3	22.0	21.2	20.4	19.6	18.7	17.7
2005 Budget Loan	18.8	14.1	9.4	4.7	-	-	-	-	-
2006 Budget Loan	-	15.5	11.6	7.7	3.9	-	-	-	-
2007 Budget Loan	-	-	15.0	10.0	5.0	-	-	-	-
2008 Budget Loan	-	-	-	20.0	13.3	6.7	-	-	-
2009 Budget Loan	-	-	-	-	20.0	13.3	6.7	-	-
2010 Budget Loan	-	-	-	-	-	<u>20.0</u>	<u>13.3</u>	<u>6.7</u>	-
Total	\$89.4	\$86.8	\$70.8	\$64.4	\$63.4	\$60.1	**	**	**
<i>** Note: Totals for 2011 – 2013 are not presented as no additional loans that may occur after 2010 are factored into this table.</i>									

NYISO 2008-2011 BUDGET TARGETS: Detail Projections by Cost Category

(\$ in millions, except RS#1/MWH)	2006 Budget	2007 Draft	2008 Projection	2009 Projection	2010 Projection	2011 Projection
Capital	\$21.0	\$4.4	\$8.1	\$9.0	\$6.0	\$7.5
Salaries & Benefits	49.3	50.6	53.1	56.2	58.8	61.4
Professional Fees (including Legal)	29.2	32.2	29.7	28.6	27.7	26.7
Building Services	4.4	4.0	3.8	3.9	4.0	4.2
Computer Services	10.5	13.0	13.7	14.3	15.0	15.8
Insurance	4.6	3.7	3.9	4.1	4.3	4.5
Telecommunications	5.1	5.0	5.1	5.2	5.3	5.4
Other Expenses (BOD, Travel/Trng, NPCC Fees)	<u>6.0</u>	<u>5.0</u>	<u>4.6</u>	<u>4.9</u>	<u>4.9</u>	<u>5.1</u>
Current Year Needs (excl. FERC Fees)	\$130.1	\$117.9	\$122.0	\$126.2	\$126.1	\$130.6
Debt Service	<u>31.2</u>	<u>35.4</u>	<u>29.9</u>	<u>24.6</u>	<u>26.9</u>	<u>24.7</u>
Cash Budget	\$161.3	\$153.3	\$151.9	\$150.8	\$153.0	\$155.3
Less: Revenues	(2.5)	(2.3)	(2.3)	(2.4)	(2.4)	(2.4)
Less: Proceeds from Current Year Budget Debt / Carryovers	(28.0)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)
Less: Proceeds from Mortgage/Renov.	(8.5)	-	-	-	-	-
Add: Interest on Current Year Budget Debt	0.5	0.5	0.6	0.6	0.6	0.6
Add: Principal & Interest on Mortgage/Renov.	<u>0.4</u>	-	-	-	-	-
Net Budget Needs	\$123.2	\$131.5	\$130.2	\$129.0	\$131.2	\$133.5
FERC Fees	<u>9.9</u>	<u>8.2</u>	<u>8.8</u>	<u>9.4</u>	<u>10.0</u>	<u>10.7</u>
RS#1 Revenue Requirement in \$\$	\$133.1	\$139.7	\$139.0	\$138.5	\$141.2	\$144.2
MWH Hours	166.0	170.1	172.7	174.7	176.6	178.6
RS#1 Revenue Requirement in \$/MWH	\$0.802	\$0.821	\$0.805	\$0.793	\$0.800	\$0.807

Draft - For Discussion Only

2008 projected Rate Schedule 1 charge/MWH is currently \$4.5M or \$0.018/MWH above the target set in 2003.

NYISO 2008-2011 BUDGET TARGETS: Average Change over 2004 - 2011 Period

<i>(\$ in millions, except RS#1/MWH)</i>	2004 Actuals	2005 Actuals	2006 Budget	2007 Target	2008 Target	2009 Target	2010 Target	2011 Target	2004 - 2011 Total Change		
									\$	%	Avg. % Increase
Current Year Needs (excl. FERC Fees)	\$132.1	\$130.5	\$130.1	\$117.9	\$122.0	\$126.2	\$126.1	\$130.6	(\$1.5)	(1.1%)	(0.2%)
Debt Service from Prior Year Financings	<u>\$29.0</u>	<u>\$25.7</u>	<u>\$31.2</u>	<u>\$35.4</u>	<u>\$29.9</u>	<u>\$24.6</u>	<u>\$26.9</u>	<u>\$24.7</u>	<u>(\$4.3)</u>	(14.8%)	(2.1%)
Cash Budget	\$161.1	\$153.1	\$161.3	\$153.3	\$151.9	\$150.8	\$153.0	\$155.3	(\$5.8)	(3.6%)	(0.5%)
Net Budget Needs	\$118.5	\$117.6	\$123.2	\$131.5	\$130.2	\$129.0	\$131.2	\$133.5	\$15.0	12.7%	1.8%
FERC Fees	<u>\$5.3</u>	<u>\$8.9</u>	<u>\$9.9</u>	<u>\$8.2</u>	<u>\$8.8</u>	<u>\$9.4</u>	<u>\$10.0</u>	<u>\$10.7</u>	<u>\$5.4</u>	101.9%	14.6%
RS#1 Revenue Requirement in \$\$	\$123.8	\$126.5	\$133.1	\$139.7	\$139.0	\$138.5	\$141.2	\$144.2	\$20.4	16.5%	2.4%
RS#1 Revenue Requirement in \$/MWH	\$0.769	\$0.788	\$0.802	\$0.821	\$0.787	\$0.793	\$0.800	\$0.807	\$0.038	4.9%	0.7%
<i>Annual Change in RS1/MWH</i>	<i>n/a</i>	<i>2.5%</i>	<i>1.8%</i>	<i>2.4%</i>	<i>(4.1%)</i>	<i>0.8%</i>	<i>0.9%</i>	<i>0.9%</i>			

Notes:

1. Current Year Budget Needs (controllable spending) reflects a slight decrease over an 8-year period from 2004 to 2011.
2. Primarily due to debt levels (peak year for repayment of SMD-related financings), Rate Schedule 1 will peak in 2007 at \$0.821.
3. Over this 8 year period, Rate Schedule 1 increases less than \$0.04/MWH or <5%. Following a 4% decrease in 2008, projected RS1 levels increase <1% annually.

NYISO 2008-2011 BUDGET TARGETS:

Recap

- NYISO will meet budget target for 2008 within level previously established by MPs in 2003
- NYISO has provided budget projections (and underlying assumptions) for 2009 – 2011. Such amounts are subject to further review by MPs and approval by BOD during each annual budget process.
- MP Questions / Concerns ???