

BUDGET, STANDARDS AND PERFORMANCE COMMITTEE

March 20, 2003

**Management Committee
Report**

Overview

- Review Estimated 2002 Surplus
- Employee Performance Goals 2003 and 2004
- Capital and Project Budget Process

Review of Estimated Surplus

The Estimated Surplus

- Revenues \$1.8 million less than projected (Lower sales portion \$1.1 million)
- Expenses \$3.5 million less than projected
- Net 2002 surplus \$1.7 million
- Also surplus of \$3.0 million of 2001 revenues held for possible 2002 shortfall
- Total surplus \$4.7 million

Possible Disposition

- Reserve fund for future revenue variance
 - Alternative 85/15 method to be reviewed also
- Refund to 2001 Schedule 1 payees
- Refund to 2002 Schedule 1 payees

Employee Performance Goals

2003 Goals

- NYISO Board approved employee incentive goals
- Performance standards were tightened in a number of areas including
 - Forecast accuracy
 - Market Availability
 - Billing and True up process
 - Timely Customer Inquiries

2004 Goals

- BS&P has targeted three performance standards for Enhancement
 - April Meeting – Timely resolution of customer inquiries
 - May Meeting – Compliance with operating standards
 - June Meeting – Improved project management delivery

Capital and Project Budget Process Purpose and Objective

Purpose of Today's Briefing:

- Present revised process incorporating comments received at February 20 Management Committee meeting and discussion at March 14 BS&P meeting.
- Further input from Management Committee
- No action today.

Objective of Process:

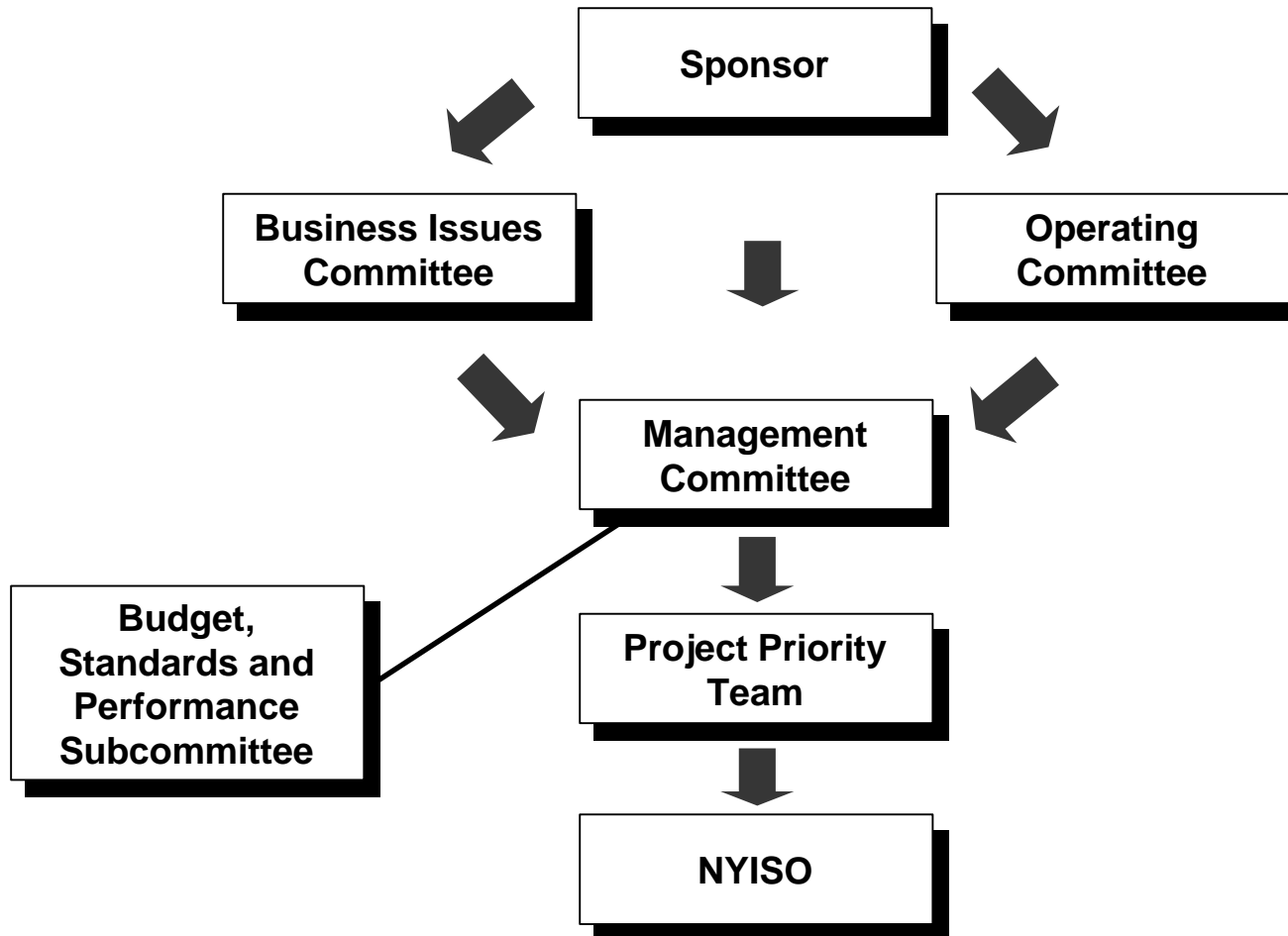
- To develop a NYISO Staff/Market Participant process that provides for long-term cost control of the NYISO budget while providing the flexibility to respond to changing conditions and needs.

NYISO Projects Budgeting and Financing Process

Refinements from Last Time:

- BS&P define reporting format for reporting cost, budget impacts and justification for MC approval
- NYISO staff perform analysis with input from project proponent
- Definition of process to allow the MC to consider stopping a project when it exceeds certain thresholds
- BS&P to perform ongoing monitoring of aggregate impacts of project proposals on long term budget
- BS&P to respond to assignments from MC

NYISO Projects Budgeting and Financing Process



NYISO Projects Budgeting and Financing Process

Process:

- BS&P, MC and NYISO Board adopt a Long-term (5 year) Budget Target.
- BS&P develops proposed cost and justification guidelines for adoption by MC.
- Project process applied to projects projected to have a cost of \$500,000 or more.
- Projects can be proposed by anyone; Market Participants, NYISO, Committee, Subcommittee or Working Group actions, Regulations, FERC orders, PSC actions, SEAMS Issues resolution.

NYISO Projects Budgeting and Financing Process

Process (continued):

- Projects presented to BIC or OC for approval. (If not a BIC or OC item, may be sent directly to MC).
- After BIC or OC approval, NYISO staff with input from project proponent will use MC guidelines to develop an estimate of the cost and the justification, as well as an evaluation of potential budget impacts.
- Projects exempt in event of major emergency.

NYISO Projects Budgeting and Financing Process

Process (continued):

- Project along with cost and justification report presented to MC for approval.
- MC may refer projects to BS&P for further study or consideration.
- Approved projects forwarded to PPT for prioritization.

NYISO Projects Budgeting and Financing Process

Process (continued):

- Upon completion of an FRS the MC will be notified of any projects that are projected to exceed their initial cost estimate by the lesser of 10% or \$500,000. The MC may choose to stop a project with a 58% vote.
- Projects forwarded to NYISO Staff for implementation.
- During implementation, MC will be notified by the NYISO Staff of any projects that are projected to exceed their initial or subsequently approved FRS cost estimate by the greater of 10% or \$500,000. The MC may choose to stop a project with a 58% vote.

NYISO Projects Budgeting and Financing Process

Key Procedural Changes:

- Establishing a long-term budget target.
- BS&P development of cost and justification report guidelines
- Requires items with major budget impacts (even those otherwise not requiring MC action) to come before MC.
- Requires NYISO Staff to prepare and develop estimates of costs and justification.

NYISO Projects Budgeting and Financing Process

Key Procedural Changes (continued):

- BS&P to perform periodic long-term budget review for MC.
- Establishes two check points with voting on projects where costs are projected to exceed initial estimates. A vote of 58% required to stop a project once approved.

NYISO Projects Budgeting and Financing Process

Next Steps:

- Input from MC at this meeting.
- BS&P and ISO development of long term budget.
- Further BS&P and ISO development of reporting guideline.
- Tariff and By-Law assessment and development of refinements by ISO and By-Laws Committee.
- Possible MC Vote on proposal at May meeting.