



NYISO 2003 Budget Proposal Report

BS&P Recommendation to
Management Committee
November 7, 2002



Objective of Today's Report

- Present the Revised 2003 Budget to the Management Committee
- Have the Management Committee vote on an amendment regarding the need for credit insurance in the year 2003 budget
- Have the Management Committee approve a recommendation for a budget to the NYISO Board
- Provide an update on employee 2003 performance goals
- Receive input on management incentive compensation plan



Presentation Overview

- Review of budget changes
- Review of capital budget
- Review of credit insurance issue
- The motion on the budget
- Report on Employee Performance Goals
- Report on Executive Compensation

2003 Budget Approval Process & Schedule

- September 30 - BSP Detailed budget review
- October 16 - Draft Budget Review by MC
- October 24 – Review of revised budget based on ISO Board and MC input by BS&P
- November 1 – Additional BSP review of budget
- November 5 – Credit Policy Task Force review of credit insurance issue
- November 7 – MC Action on Budget
- November 19 – ISO Board acts on 2003 budget

Revised 2003 Budget Proposal Changes from October MC Meeting

- Changes incorporated into budget
 - Overall Expenditures Cut by \$7.1 Million
 - Capital projects financed over 5 years
 - Onsite headcount reduced from 450 to 441 (6 employees and 3 contractors)
- Changes under consideration
 - Need for all strategic projects reviewed by PPT
 - Details of capital project financing
- Credit insurance revision to draft motion

Nov. Draft NYISO 2003 BUDGET Breakdown by Major Category

Amounts in Millions of Dollars					
	Baseline	NYISO Start-Up	Strategic Projects	Other Projects	Total
Capital	\$11.3	\$ 0.0	\$19.0	\$1.6	\$31.9
Expenses	\$84.9	\$13.2	\$29.8	\$7.9	\$135.8
Total Budget	\$96.2	\$13.2	\$48.8	\$9.5	\$167.7
Offset by: Revenue	(\$1.3)	\$0.0	(\$0.3)	(\$0.0)	(\$1.6)
Offset by: Financing	(\$7.1)	-	(\$39.1)	(\$0.9)	(\$47.1)
Funds Needed RS#1	\$87.8	\$13.2	\$9.4	\$8.6	\$119.0
RS#1 Charge \$/MWH	\$0.56	\$0.08	\$0.06	\$0.05	\$0.75

NYISO 2003 BUDGET

Budget Trends

Amounts in Millions of Dollars					
	2003 Nov Draft	2003 Oct Draft	2002 Budget	2001 Budget	2000 Budget
Baseline	\$ 96.2	\$99.6	\$ 91.1	\$ 74.4	\$ 53.9
NYISO Start-Up	\$ 13.2	\$13.2	\$ 13.2	\$ 14.6	\$ 11.8
Strategic Projects	\$ 48.8	\$49.9	\$ 10.9	\$ 0.0	\$ 0.0
Other Projects	\$ 9.5	\$12.1	\$ 7.3	\$ 10.5	\$ 9.3
Total Budget	\$ 167.7	\$174.8	\$ 122.5	\$ 99.5	\$ 75.0
Revenue Offsets	(\$1.6)	(\$1.6)	(\$4.2)	(\$2.2)	(\$0.5)
Financing Impact	(\$47.1)	(\$18.9)	(\$7.3)	(\$1.7)	\$ 0.0
Funds Needed RS#1	\$119.0	\$154.3	\$ 111.0	\$ 95.6	\$ 74.5
RS#1 Charge/ MWH	\$0.75	\$0.98	\$ 0.68	\$ 0.60	\$ 0.44

Financing impacts for 2001 and 2002 are estimated values

NYISO 2003 BUDGET

Budget Reductions - Summary

Budget Reductions by Department	\$ Amount (in millions)
IT reductions	(\$5.8)
Market Services reductions	(\$0.8)
Operations reductions	(\$0.7)
Other department reductions	(\$0.5)
Total Reductions	(\$7.8)
Other Budget Refinements	\$0.7
Net Reductions	(\$7.1)

NYISO 2003 BUDGET

Budget Reductions - Detail

\$ Amount	Dept.	Description	Concerns/Ramifications
\$1.5M Proj. Dev. Costs; \$0.3M HW (1/3 incl. in 2003); \$0.5M HW (2/3 deferred); <u>\$0.1M Software</u> \$2.4M Subtotal	IT	Billing system simulator	This functionality allows NYISO to simulate billing issues in a separate environment and understand the impacts of such issues. Without such an environment, it is difficult to estimate the impacts of billing issues, etc. NYISO maintained funds in the 2003 budget for a consultant. The consultant would evaluate the proposed functionality & requirements to further understand current risk exposure & feasibility of development. If feasible/desired, NYISO would undertake this initiative in 2004.
\$0.5M Proj. Dev. Costs; \$0.3M Onsite contractors (2); <u>\$0.1M Salaries&Ben (1 FTE)</u> \$0.9M Subtotal	IT	Data warehouse (DSS)	NYISO has delayed the staffing and consultancy funds associated with migrating MMU data to the data warehouse. In doing so, MMU staff will need to use alternate means to access data. NYISO recommends delaying this portion of the DSS project to 2004.
\$0.8M HW (1/3 incl. in 2003); \$1.6M HW (2/3 deferred); <u>\$0.1M Software</u> \$2.5M Subtotal	IT	IT storage & server upgrades	These upgrades were needed to accommodate retention of significant amounts of data. With the Strategic Projects scheduled for development/implementation in 2003-4, this need is lessened. As an interim alternative until deployment of the Strategic Projects, NYISO will revisit its' archiving practices & may purchase storage planning software to assist with retention requirements.

NYISO 2003 BUDGET

Budget Reductions - Detail (*cont.*)

\$ Amount	Dept.	Description	Concerns/Ramifications
\$0.5M Consultants; \$0.2M Salaries & Ben. (2 FTE's); <u>\$0.1M Meetings/Training/etc.</u> \$0.8M Subtotal	Market Services	Mkt Services consultants; MMU staffing; MP meeting costs	<u>Market Services consultants & MMU staffing:</u> Certain tasks, such as reporting, benchmarking, regulatory compliance / assistance will be reduced and/or managed with fewer staff. <u>MP meeting costs:</u> This assumes MC meetings will be held either at ConEd or in Albany. Other MP meetings will have reduced budgets.
\$0.3M Building Improvements <u>\$0.4M Consultants</u> \$0.7M Subtotal	Operations	Security issues	NYISO will address these issues in a phased approach. Funds that were maintained in the 2003 Budget will be used to perform the preliminary phases of these efforts. Additional efforts, if required, would likely be undertaken in 2004.
\$0.1M Software <u>\$0.4M Consultants</u> \$0.5M Subtotal	Strat. Initiatives; Fin. & Comp.; Communications	Several	Certain functionality desired for these departments on new initiatives will have to be deferred or eliminated.
\$7.8 Total			

Projected Budgets

Projected Cash Cost of Projects

		Anticipated Cash Costs (Millions of Dollars)				
		2002	2003	2004	2005	Total
SMD 2.0	Hardware		\$ 9.0	\$ 9.0	\$ -	\$ 18.0
	Other	\$ 5.5	\$ 24.6	\$ 9.5	\$ 3.0	\$ 42.6
	Total	\$ 5.5	\$ 33.6	\$ 18.5	\$ 3.0	\$ 60.6
OSS	Hardware		\$ -	\$ -	\$ -	\$ -
	Other	\$ 3.6	\$ 3.4	\$ 3.6	\$ 3.1	\$ 13.7
	Total	\$ 3.6	\$ 3.4	\$ 3.6	\$ 3.1	\$ 13.7
DSS	Hardware	\$ 6.0	\$ 1.8	\$ -	\$ -	\$ 7.8
	Other	\$ 2.7	\$ 1.5	\$ 4.2	\$ 2.0	\$ 10.4
	Total	\$ 8.7	\$ 3.3	\$ 4.2	\$ 2.0	\$ 18.2
EAI	Hardware		\$ 4.5	\$ 0.5	\$ 1.0	\$ 6.0
	Other	\$ 1.2	\$ 4.1	\$ 1.6	\$ 1.5	\$ 8.4
	Total	\$ 1.2	\$ 8.6	\$ 2.1	\$ 2.5	\$ 14.4
Other Hardware		\$ 2.7	\$ 9.9	\$ 5.8	\$ 5.0	\$ 23.4
Total	Hardware	\$ 8.7	\$ 25.2	\$ 15.3	\$ 6.0	\$ 55.2
	Other	\$ 13.0	\$ 33.6	\$ 18.9	\$ 9.6	\$ 75.1
	Total	\$ 21.7	\$ 58.8	\$ 34.2	\$ 15.6	\$ 130.3

Projected Budgets

Proposed Project Financing Costs

	Anticipated Financing Payments (Millions of Dollars)								
	2001	2002	2003	2004	2005	2006	2007	2008	Total
Start-Up Costs	\$ 14.6	\$ 13.2	\$ 13.2	\$ 12.1	\$ -	\$ -	\$ -	\$ -	\$ 53.1
2001 & 2002 Hardware	\$ 0.1	\$ 1.4	\$ 4.0	\$ 3.7	\$ 2.7	\$ -	\$ -	\$ -	\$ 11.9
2003 Hardware & Strategic Projects	\$ -	\$ -	\$ 11.7	\$ 15.0	\$ 13.8	\$ 13.1	\$ 12.7	\$ -	\$ 66.3
2004 Hardware & Strategic Projects	\$ -	\$ -	\$ -	\$ 6.7	\$ 8.3	\$ 7.9	\$ 7.5	\$ 7.1	\$ 37.5
Total	\$ 14.7	\$ 14.6	\$ 28.9	\$ 37.5	\$ 24.8	\$ 21.0	\$ 20.2	\$ 7.1	\$ 168.8

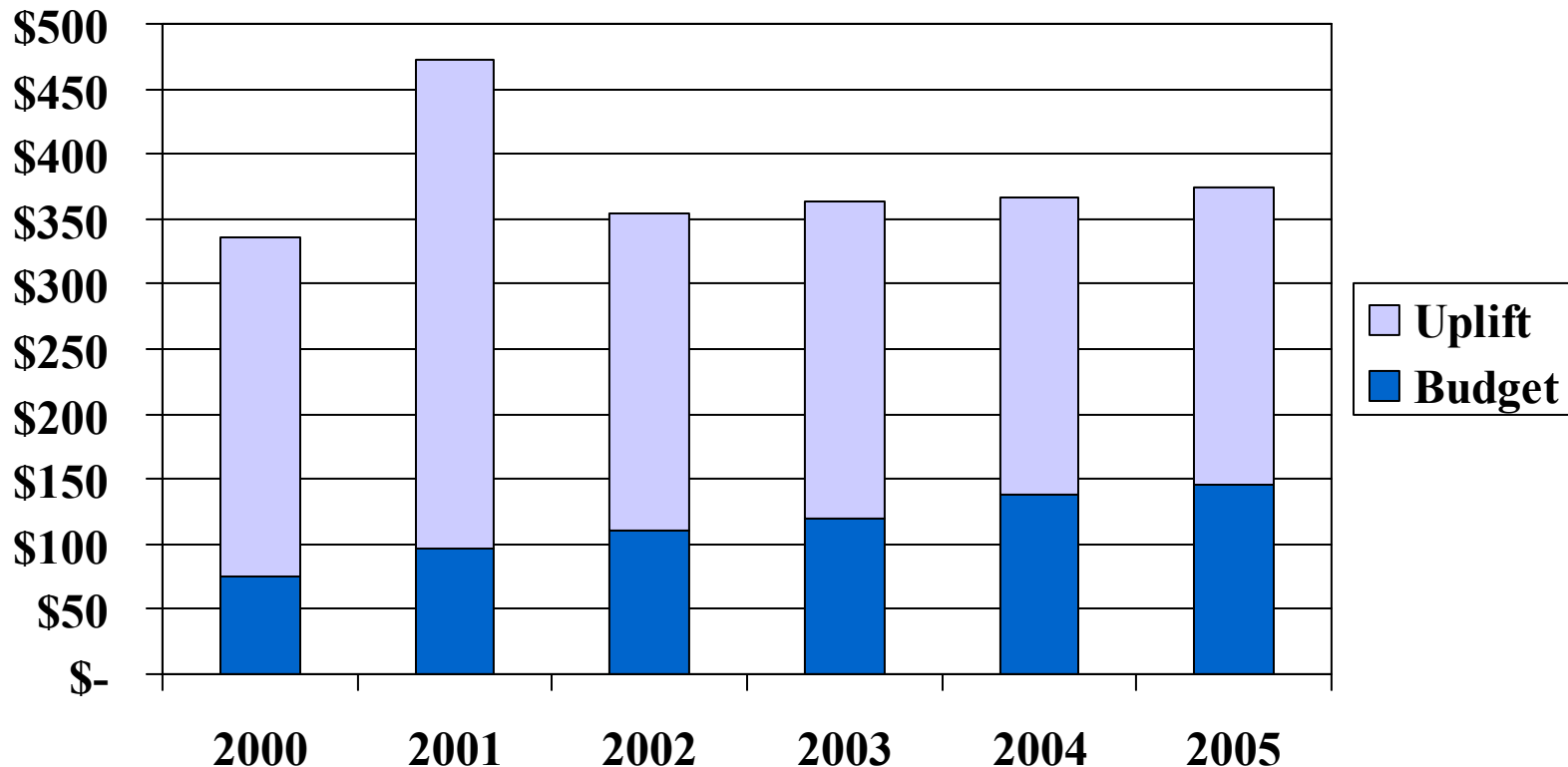
Projected Budgets

Budget Trends

	2002	2003	2004	2005
Baseline	\$ 91.1	\$ 96.2	\$99.8	\$102.6
NYISO Start-Up	\$ 13.2	\$ 13.2	\$12.1	\$0.0
Strategic Projects	\$ 10.9	\$ 48.8	\$28.4	\$10.6
Other Projects	\$ 7.3	\$ 9.5	\$11.2	\$12.2
Total Budget	\$ 122.5	\$ 167.7	\$151.5	\$125.4
Revenue Offsets	(\$4.2)	(\$1.6)	(\$1.4)	(\$1.4)
Financing Impact	(\$7.3)	(\$47.1)	(\$12.0)	\$22.1
Funds Needed RS#1	\$ 111.0	\$119.0	\$138.1	\$146.1
RS#1 Charge/ MWH	\$ 0.68	\$0.75	\$0.87	\$0.92

NYISO 2003 BUDGET

Rate Schedule 1 Comparison



Note: The 2002 uplift amount is a projected actual based on the first 9 months of 2002. The 2003 uplift approximates the 2002 level, while the 2004 & 2005 uplift projections assume annual savings of \$16M from the SMD 2.0 projects.

Revisions to Draft Motion Credit Insurance Review

- The draft motion circulated on 11/5 reflected BS&P input as of 11/1.
 - Motion included review of need for credit insurance by the Credit Policy Task Force
- Task Force had conference call on 11/5
 - Discussed issue and circulated a 3 question survey
 - Is existing credit insurance needed?
 - If we have existing, do we need supplemental?
 - If we have neither should something else be done?

Revisions to Draft Motion Credit Insurance Review (cont.)

Person	Company	Existing	More	Something Else
Aaron Breidenbaugh	PRLC	No	No	If limits aren't good. Adjust
Bob Stelben	Con Ed	No	No	None
Bradford Radimer	PSEG	No	No	If limits aren't good. Adjust
Jeff Dryja	Constellation	No	No	None
Jim Parmelee	LIPA	No	No	None
Kay Spellane	RGE	No	No	None
Tom Rudebush	MEUA	No	No	None

Revisions to Draft Motion Credit Insurance Review (cont.)

- Budget with insurance \$119.0 million
- Credit insurance amount \$2.6 million
- Budget without insurance \$116.4 million
- Approximate Rate Schedule 1 rate \$0.73/MWh
- Net rate schedule 1 revenue increase is \$5.4 million or an increase of 4.8%.
 - Of this about half is due to reduced revenues,
 - The remainder is due to increased net expenditures after financing

Employee Incentive Goals

Draft 2003 Goals

Reliability Gateway Goal:	Market Gateway Goal:		
Maintain reliable service to the NYCA by achieving no loss of load or deliberate load shedding >300 MW for > 15 minutes	Successfully post Day-ahead Market schedules and forward contracts by achieving daily posting 99% of the time		
Individual Goals:	Threshold	Target	Superior
Prepare accurate day ahead super load forecasts based upon the most accurate weather predictions available: a) NYCA Peak Forecast MAPE b) Days with 5% or greater absolute forecast error	<=2.2% <=21	<=2.0% <=17	<=1.8% <=15
Comply with NERC/NAERO Operating Standards CPS-1 100% CPS-2 90%	12 of 12 10 of 12	12 of 12 11 of 12	12 of 12 12 of 12
Achieve Timely posting of DAM Schedules and forward contracts. Post by 11 AM:	>=85%	>=90%	>=95%
Improve the certainty and accuracy of real-time prices a) Hours reserved: b) Intervals corrected:	<=12% <=0.6%	<=10% <=0.5%	<=8% <=0.4%

Employee Incentive Goals

Draft 2003 Goals (Cont.)

Individual Goals:		Threshold	Target
Improve the billing and true-up process: a) Deliverables associated with Data Warehouse Project b) Deliverables associated with Billing System Improvement Project Phase II c) Turn-Around on Billing issues d) Achieve a 4 Month Final Bill with 2 Month challenge period	tbd tbd 90 days	tbd tbd 75 days	tbd tbd 60 days
Provide timely resolution of customer inquiries, measured via a direct reply customer survey	80%	85%	95%
Improve Customer Satisfaction with NYISO services as determined via surveying three times annually	4%	6%	8%
Improve project management deliverables (weighted 20%) a) On-time completion of high profile, high priority projects b) Deliverables associated with SMD2.0 Project	80% tbd	85% tbd	95% tbd

ISO Management Incentive Compensation

Short and Long Term Goals

- Meeting set for November 22, 2002 for Market Participant input for goals for Executive Officers
- Management Committee input requested on November 7, 2002
- Potential subject areas under consideration:
 - Budget (Overall Cost Control)
 - Reducing Uplift
 - Resolving Seams Issues
 - Implementation of Strategic Projects (RTS & SMD 2.0)
 - Total Cost
 - Projected Benefits
 - Reduction in Outside Services Costs