

# 2018 DRAFT

# Annual Incentive Goals

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Emilie Nelson

VP MARKET OPERATIONS, NYISO

**Budget & Priorities Working Group**

September 27, 2017. Krey Corporate Center, Rensselaer, NY.

# Agenda

- **Background**
- **Objectives**
  - Structural Changes
- **Draft Goals Overview**
  - Draft Gateway Goals
  - Draft Quality Goal
  - Draft Strategic Goals
- **Next Steps and Timeline**

# Background

# Background

- A portion of the NYISO's employee compensation is at-risk and determined by performance in achieving the Annual Incentive Plan
- Each year, annual goals are developed by NYISO management with input from Market Participants
  - NYISO management reviews the proposed goals at the Budget & Priorities Working Group (BPWG) to allow for stakeholder discussion and input
- The Board is responsible for approving the goals identified in the Annual Incentive Plan
- NYISO management, based on significant input from the Board, is seeking certain structural changes to the annual goals for 2018
  - The intent is to simplify the overall structure and provide focus on the organization's strategic objectives

# Objectives

# Objectives

- Communicate the rationale and purpose behind the potential changes
- Review a draft structure for the 2018 annual goals
- Consider the detailed goals
- Encourage discussion and receive feedback from Market Participants on the draft goals
  - We value Market Participant feedback. In addition to today's discussion, we have planned for two additional reviews of this topic at the October 6<sup>th</sup> and October 27<sup>th</sup> BPWG.

# Purpose of Structural Changes

- The Board asked NYISO management to review elements of the annual goal structure as part of the development cycle for the 2018 plan
- The key aspects under review include:
  - Gateway Goals – Review the structure of the gateway goals to consider if it is appropriate to include goals that result in a partial reduction in the corporate incentive. Evaluate having fewer goals and focus on those that result in a 100% reduction in the corporate incentive if not achieved.
  - Quality Goals – Consider merging the gateway and individual quality goals into a single quality objective. Support a culture of compliance by recognizing the importance of self-identified reliability and quality compliance issues.
  - Project Goals – Review the project goals along with the topic of reprioritization.
  - Simplify– Develop a more simple structure. Progress from threshold payout (50%), target payout (100%), to superior payout (150%) across all non-gateway goals.

# Draft Goals Overview



# Overview

- For the purpose of today's discussion, a high level overview of the proposed goals and the changes under consideration will first be provided.
  - This is intended to provide a broad overview of the proposed annual goals and changes and the intent of the proposed structure.
- A more detailed review of each goal will then follow.

# Gateway Goals

- The philosophy for the draft 2018 gateway goals remains the same with a continued focus on the NYISO's core business responsibilities including reliability, markets and planning. These goals continue to be structured to have no potential to increase the incentive payout.

# Gateway Goals – Key Considerations/Changes

- **The number of gateway goals has been reduced to four.**
  - The objectives regarding Maintaining Load (#1), Compliance with Reliability Standards including Planning and Critical Infrastructure Protection (#2) and Functionality (#3) have been retained and remain largely the same.
  - A new objective addressing Excellence in Execution (#4) has been added.
  - All of these goals result in a 100% reduction in the corporate incentive for non-achievement.
- **The structure of the draft gateway goals remains the same with two exceptions.**
  - Compliance with Reliability Standards (#2) – The additional (new) concept of a reduced penalty percentage for self identified issues is included as part of this goal.
  - Excellence in Execution (#4) – A newly proposed goal focused on large magnitude Market Problems, those exceeding \$100M in a 12-month period, has been added.
- **The prior objectives regarding Excellence in Execution and Planning deliverables (as included in the 2017 annual goals) have been incorporated into the newly proposed Quality Goal.**

# Overview: Gateway Goals – 2018 Proposed

GATEWAY GOALS		
1. Maintain Load	100% reduction	No interruption of load because of improper implementation of NYISO operating procedures by the NYISO
2. Reliability Standards Violations	Reduced by financial penalty amount or 10 – 20% reduction based on risk/severity level, 10% for NYSRC up to a max 100% reduction. However, the penalty percentage will be reduced by half for self identified issues.	The NYISO will maintain compliance with NERC Reliability Standards including Planning and Critical Infrastructure Protection Standards
		The NYISO will maintain compliance with NYSRC rules
3. Functionality	100% reduction	DAM schedules are posted 100% of the time
	100% reduction	MIS availability $\geq$ 99.75%
4. Excellence in Execution	100% reduction	The NYISO, through its actions, will not cause a Market Problem with a material, adverse impact on the market > \$100 million in a year (12-month period)

# Quality Goal

- A quality goal is proposed for 2018
- The intent of the quality goal is to combine elements of the 2017 gateway and individual goals into a single, focused quality objective.

# Quality Goal – Key Changes/Considerations

- **The proposed structure for 2018 combines the quality objectives into a single goal that recognizes larger and smaller magnitude issues**
  - Higher impact defects
  - Lower impact defects
- **The quality goal progresses through threshold/target/superior payout**
  - The structure provides comparable, although not identical, exposure to quality issues relative to the 2017 annual goals. A reduced penalty percentage for self identified lower impact defects is included
- **The objectives regarding Excellence in Execution and Planning deliverables (as included in the 2017 annual goals) have been incorporated into the newly proposed Quality Goal**

# Overview: Quality Goal – 2018 Proposed

QUALITY GOAL				
5. Quality Goal – Work will be of a high quality as measured by the number and magnitude of quality defects.				
Definition	Threshold Payout (50%)	Target Payout (100%)	Superior Payout (150%)	Target Weight
<p><b>Higher Impact Defects:</b></p> <ul style="list-style-type: none"> <li>Market Problems/Tariff Violations &gt; \$1M</li> <li>Unplanned outages of critical systems &gt; 8 hours</li> <li>Receipt of a qualified SOC 1 Report</li> </ul> <p><b>Lower Impact Defects:</b></p> <ul style="list-style-type: none"> <li>Market Problems/Tariff Violations with a financial impact &gt;\$100K</li> <li>Unplanned outages of critical systems &gt; 1 hour and &lt; 8 hours</li> <li>Key Planning Deliverables Missed: Gold Book by 4/30, Reliability Needs Assessment by 11/30</li> </ul>	<p><b>High Impact Defects:</b> No more than one occurrence</p> <p><b>Low/ Moderate Impact Defects:</b> 7 to 9 lower impact defects, excluding the market problems/ tariff violations that are self identified</p>	<p><b>High Impact Defects:</b> No occurrences</p> <p><b>Low/ Moderate Impact Defects:</b> 4 to 6 lower impact defects, excluding the market problems/ tariff violations that are self identified</p>	<p><b>High Impact Defects:</b> No occurrences</p> <p><b>Low/ Moderate Impact Defects:</b> 3 or less lower impact defects, excluding the market problems/ tariff violations that are self identified</p>	30%

# Strategic Goals

- Strategic Goals cover the annual project initiatives including the business plan and key project focus, customer satisfaction and performance, and cost management objectives
- Formerly known as “individual goals”



# Strategic Goals–Key Changes/ Considerations

- **The proposed structure for the strategic goals progresses through threshold/target/superior payout across all goals**
  - The structure in 2017 included a variation across the goals regarding the level of potential achievement
  - This allows for a simpler, more easily understood methodology
- **A project focus remains**
  - Consistent with the 2017 annual goals, there remains a recognition of key projects and the major projects included in the business plan
  - Rather than individually weight each key project, the expectation is that achievement be considered based on the number completed
  - Project reprioritization continues to be an option to address emerging work
- **Customer Satisfaction and Performance remains**
  - The customer and performance elements will be consolidated into a single metric
- **Cost Management remains**
  - The focus is expanded beyond hardware and software maintenance and subscription costs to also consider professional fees

# Overview: Strategic Goals – Proposed 2018

STRATEGIC GOALS				
Goal Description	Threshold Payout (50%)	Target Payout (100%)	Superior Payout (150%)	Target Weight %
6. Project Initiatives*				
a) Business Plan: Deliver Market Projects on schedule – Major projects identified in Business Plan will be timely completed.	No more than 5 missed projects	No more than 4 missed projects	No more than 2 missed projects	25%
b) Key Project Initiatives - (Eight Key Projects – See detailed slides for specifics)	No more than 2 missed Key Projects	No more than 1 missed Key Project	No missed Key Projects	30%

# Overview: Strategic Goals – Proposed 2018

STRATEGIC GOALS				
Goal Description	Threshold Payout (50%)	Target Payout (100%)	Superior Payout (150%)	Target Weight %
7. Customer Satisfaction and Performance Index	83.5%	84.5%	86%	10%
8. Cost Management  Reduce significant organizational cost drivers (\$) as follows: Hardware and Software Maintenance and Subscription Costs/ Professional Fees	\$500K Savings	\$750K Savings	\$1M Savings	5%
<i>Preliminary Thresholds: Under Review</i>				

# Draft Gateway Goals

## Detailed Goals for Consideration

# Gateway Goals

## ■ Gateway goals

- Built around NYISO's core business responsibilities
  - Reliability
  - Markets
  - Planning

## ■ Have no potential to increase the incentive payout

- Can only have a negative impact – if they are not achieved

# Reliability Gateway Goals

## GOAL 1

- **Maintain Load**
  - No interruption of load because of improper implementation of NYISO operating procedures by the NYISO.
  - The successful achievement of this goal is based upon the NYISO staff operating the bulk power system in compliance with NERC, NPCC, and related NYISO operating procedures.
- **Consequences:**
  - Failure to achieve this goal will result in a 100% reduction to the corporate incentive payout.

# Reliability Gateway Goals

## GOAL 2

### ■ Reliability Standards Violations

- The NYISO will maintain compliance with NERC Reliability Standards including Planning and Critical Infrastructure Protection Standards.

### ■ Consequences:

- Failure to achieve this goal will result in an annual incentive amount decrease equal to any financial penalty. (For example, if the NYISO is penalized \$50k for a reliability violation, the bonus pool for corporate goals and objectives will be reduced by such amount. If penalties exceed the total bonus pool amount then there will be no bonus payout in that year.)
- Consequences Continued on Next Slide

# Reliability Gateway Goals

## GOAL 2 continued

### ■ Consequences Continued:

- Formal notification of non-compliance with a NERC standard with a violation severity level of medium, high or severe and a medium to high risk factor will result in an incentive payout reduction with higher reductions for higher severity levels or risk factors. However, the penalty percentage will be reduced by half for self identified issues.

	Violation Severity Level			
Violation Risk Factor	Lower	Moderate	High	Severe
Lower	N/A	N/A	N/A	N/A
Medium	N/A	10% Reduction	10% Reduction	10% Reduction
High	N/A	10% Reduction	20% Reduction	20% Reduction



# Reliability Gateway Goals

## GOAL 2 continued

- **Reliability Standards Violations**
  - The NYISO will maintain compliance with NYSRC Rules.
  
- **Consequences:**
  - NYSRC Rule non-compliance will result in a 10% reduction to the corporate incentive payout. However, the penalty percentage will be reduced by half for self identified issues. (This metric is based on the NYSRC maintaining its current policies. Should the NYSRC change its policies, the NYISO reserves the option of changing this metric.)

# Market Gateway Goals

## GOAL 3a & 3b

### ■ Functionality

- DAM Schedules are posted 100% of the time, and
- MIS Availability is greater than or equal to 99.75%

### ■ Consequences:

- Failure to achieve either of these goals will result in a 100% reduction in the corporate incentive payout.

# Market Gateway Goals

## GOAL 4

- **Excellence in Execution**

- The NYISO, through its actions, will not cause a Market Problem with a material, adverse impact on the market greater than \$100M in a year (12-month period).

- **Consequences:**

- Failure to achieve this goal will result in a 100% reduction in the corporate incentive payout.

# Draft Quality Goal

Detailed Goals for Consideration

# Quality Goal

## GOAL 5 Quality Focus (30%)

- **The NYISO will demonstrate a strong commitment to quality. The NYISO's work will be of a high quality as measured by a minimal number and magnitude of quality defects.**

Higher Impact Defects Include:

- A market problem or a tariff violation with an impact greater than \$1M
- Unplanned outages of critical systems greater than eight hours
- A qualified audit opinion on the Service Organization Controls (SOC 1) Report

Lower Impact Defects Include:

- A market problem or a tariff violation with an impact greater than \$100K, excluding those that are self identified
- Unplanned outages of critical systems greater than 1 hour and less than 8 hours
- Failure to timely provide key Planning deliverables including posting the Gold Book for stakeholders no later than 4/30 and providing the Reliability Needs Assessment to the NYISO Board by 11/30



# Quality Goal

## GOAL 5 Quality Focus Continued

- Achievement will be assessed based on the following:

	Threshold Payout (50%)	Target Payout (100%)	Superior Payout (150%)
Higher Impact Defects	No more than one <i>and</i>	None <i>and</i>	None <i>And</i>
Lower Impact Defects	7-9	4-6	Less than 3
Possible Achievement	<b>15%</b>	<b>30%</b>	<b>45%</b>

*Note: If there is one Higher Impact Defect then Threshold is the maximum achievement possible and can only be achieved if there are less than 9 Lower Impact Defects.*

# Draft Strategic Goals

Detailed Goals for Consideration

# Strategic Goals

## GOAL 6 – Goal 6A Business Plan Projects (25%)

- The NYISO will deliver the major projects identified in the Business Plan during 2018.
- Achievement will be assessed based on the following:

	Threshold Payout (50%)	Target Payout (100%)	Superior Payout (150%)
Possible Achievement	No more than 5 missed projects	No more than 4 missed projects	No more than 2 missed projects
	12.5%	25%	37.5%



# Strategic Goals

## GOAL 6 Project Initiatives

- **Goal 6B – Key Project Initiatives (30%)**
  - Achievement will be assessed based on the following:

	<b>Threshold Payout (50%)</b>	<b>Target Payout (100%)</b>	<b>Superior Payout (150%)</b>
<b>Possible Achievement</b>	No more than 2 missed Key Projects	No more than 1 missed Key Project	No missed Key Projects
	15%	30%	45%

# Strategic Goals

## GOAL 6 - Goal 6B Key Project Initiatives (30%)

- **(#1) EMS/BMS System Upgrade** – This is a multi-year project to upgrade both the Energy Management System (EMS) and the Business Management System (BMS). The EMS encompasses the core reliability functions used by the system operators such as load flow and contingency analysis. The BMS encompasses the day ahead and real time energy market functionality.
  - In this phase for 2018, the NYISO will complete the following deliverables:
  - *Specific deliverables still under review/development*

# Strategic Goals

## GOAL 6 - Goal 6B Key Project Initiatives Continued (30%)

- **(#2) Alternative Methods for Determining Locational Capacity Requirements – Development Complete**
  - The NYISO will complete development to support implementation of an alternative method for calculating the Locational Minimum Installed Capacity Requirements (LCRs). The 2018 project will complete any required tariff revisions and/or changes to methodology documentation and internal processes in order to implement the alternative methodology effective May 1, 2019.

# Strategic Goals

## GOAL 6 - Goal 6B Key Project Initiatives Continued (30%)

- **(#3) Granular Pricing and Market Price Delivery - Deploy**
  - The NYISO will deploy a graphical pricing map along with an interface to provide query access to the pricing data within the map. This structure will provide access to the data without having to access the existing “csv” pricing files. This effort will support greater ease of access to pricing data for downstream applications.
- **(#4) Energy Storage Integration & Optimization – Market Design Complete**
  - The NYISO will continue to develop the concepts developed in the 2017 Energy Storage Integration and Optimization effort, to further define the energy storage participation model, associated market rules and tariff language. Additionally, the NYISO would consider ways to improve the optimization of energy storage resources on a least cost basis by leveraging Energy Storage Resources’ flexibility through more sophisticated energy constraint modeling.

# Strategic Goals

## GOAL 6 - Goal 6B Key Project Initiatives Continued (30%)

- **(#5) Model 100+ kV Transmission Constraints – Market Design Complete**
  - The NYISO will fully develop the market rules and tariff language required to reflect 115kV constraints in the day-ahead commitment and real-time dispatch market scheduling processes. The design effort will address, among other things, mitigation measures for resources that are committed or dispatched to manage 115kV constraints.
- **(#6) Comprehensive System Planning Process Review – Concept Proposed**
  - This effort will review NYISO's separate planning processes and consider whether it may be beneficial to revise and/or further integrate the reliability, economic, and public policy planning processes. The recommended approach will be developed and presented to stakeholders for discussion and consideration.

# Strategic Goals

## GOAL 6 - Goal 6B Key Project Initiatives Continued (30%)

- **(#7) Interconnection Project Queue (Portal) Automation - Requirements**
  - The NYISO will develop requirements to support the implementation of an interconnection portal to manage the interconnection processes. The NYISO currently uses a manual process to manage the Interconnection Project requests and queue. Automation will help NYISO manage the sustained increase in the number of requests received.
- **(#8) Buyer Side Mitigation: Repowering – Concept Proposed**
  - While there exists a competitive entry exemption to buyer-side mitigation, that exemption may not be adequate to facilitate the replacement of an existing generating unit with a new unit (sometimes referred to as “repowering”). The NYISO will evaluate and develop a proposal for a buyer-side mitigation exemption that specifically address the concerns with replacement (repowered) generation projects and encourages private investment. The exemption would be compatible with market-based principles and would not seek to support or encourage subsidized new entry.

# Strategic Goals

## GOAL 7 – Customer Satisfaction and Performance Index (10%)

- The Customer Satisfaction and Performance Index is comprised of multiple survey feedback channels (Annual Customer Survey, Customer Inquiry Survey, Ongoing Performance Assessment, and the CEO Strategic Outreach Survey). The feedback we receive from our customers is aggregated into a real-time, 12-month rolling average index to assure transparency and inform our stakeholders.
  - Achievement will be assessed for the customer satisfaction and performance objective as follows:

	Threshold Payout (50%)	Target Payout (100%)	Superior Payout (150%)
Possible Achievement	83.5% Result	84.5% Result	86% Result
	5%	10%	15%

# Strategic Goals

## GOAL 8 – Cost Management (5%)

- **The focus of the cost management goal is to reduce significant cost drivers (\$).**
  - Hardware and Software Maintenance and Subscription Costs: Achieve reductions in existing contracts that will help offset new software and hardware maintenance costs due to project delivery of new services and annual vendor increases.
  - Professional Fees: Achieve reductions in actual consultant costs as compared to 2018 budget.
  - Achievement will be assessed for the cost management objective by the combined reductions as follows:

*Preliminary \$ Savings Thresholds: Still Under Review*

	Threshold Payout (50%)	Target Payout (100%)	Superior Payout (150%)
Possible Achievement	\$500K Savings	\$750K Savings	\$1M Savings
	2.5%	5%	10%



# Next Steps and Timeline

# Timeline

- **October 2017**
  - Continued discussion with stakeholders at October 6<sup>th</sup> and 27<sup>th</sup> BPWG meetings
- **November 2017**
  - Board review and approval of goals

\*Subject to Stakeholder, NYISO Board of Directors, and FERC approval



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# Feedback

- The NYISO seeks feedback on the materials presented today
- Email additional feedback to: Emilie Nelson, [enelson@nyiso.com](mailto:enelson@nyiso.com)

# Questions?

We are here to help. Let us know if we can add anything.

# The Mission of the New York Independent System Operator is to:

- Serve the public interest and
- Provide benefit to stakeholders by
  - Maintaining and enhancing regional reliability
  - Operating open, fair and competitive wholesale electricity markets
  - Planning the power system for the future
  - Providing factual information to policy makers, stakeholders and investors in the power system



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