



NYISO 2004 Budget Report

BS&P Report to
Management Committee
November 12, 2003

Objective of Today's Report

- Provide overview of BS&P 2004 Budget and Budget Targets for 2005 – 2008
- Adopt 2004 Budget Motion
- Adopt 2005-2008 Budget Target Motion
- November 19 BS&P Meeting plans

NYISO 2004 Budget Schedule

- ☑ September 26: Draft 1 presented to BSP
- ☑ October 1: PPT reviews projects
- ☑ October 10: BS&P reviews revised draft budget
- ☑ October 10: PPT reviews updated projects
- ☑ October 17: BSP presents draft 2 to MC
- ☑ October 20: Detailed summary of draft 2 to NYISO Board
- ☑ October 28: BS&P reviews Draft 3, develops Draft 4 alternative
- ☑ October 28: PPT reviews project priorities
- November 12: MC vote on proposed 2004 Budget
MC vote on proposed 2005 – 2008 Targets
- November 18: BOD approves 2004 Budget
- Post December 31: Finalize 2004 financing for budget

Budget Actions

- NYISO prepared Draft 3 Budget
 - Removed \$4.4M in non-labor Blackout costs for 2004 and 2005. This treatment is contingent upon:
 - MC motion including ability to recover such costs as needed
 - Corporate Incentive Goal to provide incentive for avoiding RS1 increases during 2004
 - Reduced 2004 Budget (Baseline) by \$1.1
 - Reduced 2004 RS#1 increase from 14% to 8.9%
 - Reduced 2005-2008 to reflect approximately 3% annual increases in RS#1
 - Developed budget model for use in BS&P
- BS&P 10/28 meeting prepared Draft 4 Budget
 - Reduced project budgets by \$3.5 million in 2004.
 - Reduced 2005 – 2008 project budgets to \$20.0 million per year.
 - Deferred \$6.7 million of 2004 debt payments from 2004 to later years
 - Reduced 2005-2008 baseline costs by \$3.0 million per year
 - Developed draft motions for Management Committee action.

Budget Trends and Projections

Impact of Recommended Budget

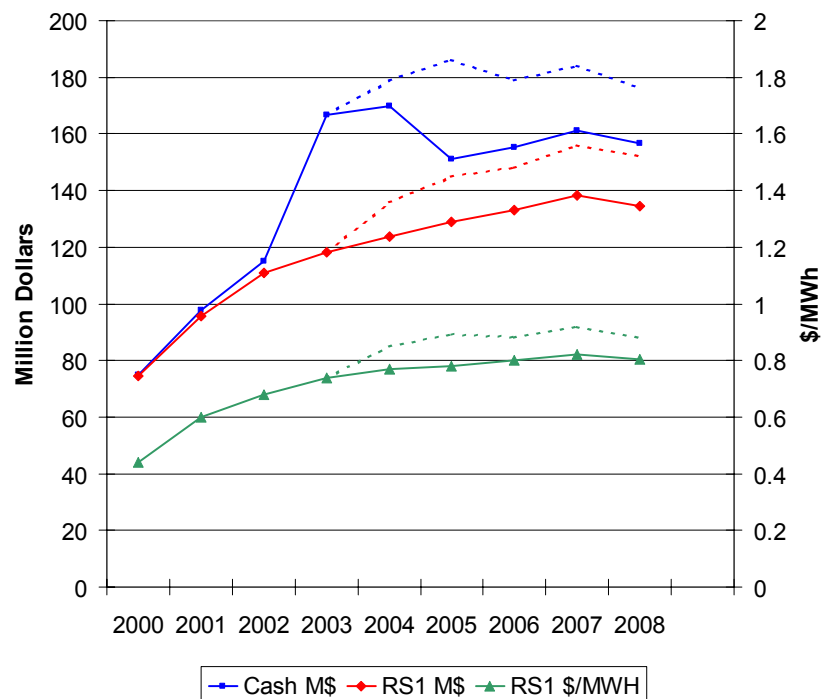
■ Qualifiers

- Dependent upon banks and NYISO Board willingness accept financing approach
- Based on assumed \$20 million per year project budget

■ Result is

- 3.3% increase in 2004
- 2.6% increase in 2005
- Average of a 0% change in 2006 and beyond

NYISO Budget Trends - Draft 4 vs. Draft 2



Note: Dashed lines indicate Draft 2 Budget

Budget Trends & Projections

Cost in millions of dollars except Rate Schedule #1

	2003 Final	2004 Draft4	2005 Target	2006 Target	2007 Target	2008 Target
Baseline (<i>current year needs</i>)	\$99.2	97.8	101.5	102.5	103.5	105.4
Projects (<i>current year needs</i>)	\$50.0	\$41.7	\$20.0*	\$20.0*	\$20.0*	\$20.0*
Debt Service (<i>prior year financings</i>)	\$17.6	\$30.2	\$29.7	\$32.8	\$37.7	\$31.2
Cash Budget	\$166.8	169.7	151.2	155.2	161.2	156.6
Less: Net proceeds on CY financings	(\$47.0)	(\$44.8)	(\$21.1)	(\$21.1)	(\$22.0)	(\$21.1)
Less: Misc. Revenues	<u>(\$1.6)</u>	<u>(\$1.1)</u>	<u>(\$1.0)</u>	<u>(\$1.0)</u>	<u>(\$1.0)</u>	<u>(\$1.0)</u>
RS#1 Revenue Requirement	<u>\$118.2</u>	<u>\$123.8</u>	<u>\$129.1</u>	<u>\$133.2</u>	<u>\$138.2</u>	<u>\$134.5</u>
Rate Schedule #1 (\$/MWH)	<u>\$0.74</u>	<u>\$0.769</u>	<u>\$0.789</u>	<u>\$0.802</u>	<u>\$0.821</u>	<u>\$0.787</u>
Rate Schedule #1 (% Inc.)		<u>3.3%</u>	<u>2.6%</u>	<u>1.7%</u>	<u>2.3%</u>	<u>-4.1%</u>

•The \$20 million project budget is a target budget objective. If required, the BS&P Project Financing Guidelines would be used to justify and receive stakeholder input on any increase the projects budget.

Draft 4 Budget Trends by Category

Costs in millions of dollars except Rate Schedule #1

Line Item	Baseline	Projects	Debt Service	2004 Draft 4 Budget	2004 Projected Budget*	2003 Final Budget
Capital	\$8.3	\$9.8	\$ -	\$18.1	\$17.7	\$31.9
Salaries & Benefits	\$34.4	\$9.5	\$ -	\$43.9	\$42.0	\$38.0
Consultants	\$16.0	\$9.0	\$ -	\$25.0	\$22.0	\$28.7
Legal	\$6.0	\$ -	\$ -	\$6.0	\$6.0	\$6.5
Building Services	\$3.5	\$ -	\$ -	\$3.5	\$4.1	\$3.8
Computer Services	\$5.8	\$13.3	\$ -	\$19.1	\$21.9	\$20.5
Insurance	\$7.7	\$ -	\$ -	\$7.7	\$8.2	\$6.1
Telecommunications	\$2.9	\$ -	\$ -	\$2.9	\$2.9	\$3.3
BOD / Training, Meetings, etc. / NPCC Fees	\$5.2	\$0.1	\$ -	\$5.3	\$5.7	\$5.5
FERC Fees	\$8.0	\$ -	\$ -	\$8.0	\$5.2	\$5.0
Debt Service (from prior years)	\$ -	\$ -	\$30.2	\$30.2	\$30.8	\$17.5
TOTAL CASH BUDGET	\$97.8	\$41.7	\$30.2	\$169.7	\$166.5	\$166.8
Less: Net Proceeds from CY financing	(\$8.3)	(\$41.7)	\$5.2	(\$44.8)	(\$27.0)	(\$47.0)
Less: Misc. Revenues	(\$1.1)	\$ -	\$ -	(\$1.1)	(\$1.4)	(\$1.6)
TOTAL CASH BUDGET, NET OF FIN'GS	\$88.4	\$ -	\$35.4	\$123.8	\$138.1	\$118.2
RATE SCHEDULE #1 (\$/MWH)	\$0.549	\$0.00	\$0.220	\$0.769	\$0.87	\$0.74

* Fall 2002 of projection of 2004 budget

Major cost shifts 2003 to 2004

- Completion of RTS project
 - Strategic Projects down \$20.5 million to \$27.8 million. Further reductions to \$2.5 million planned for 2005
 - Other projects up \$8.8 million to \$13.9 million.
- Transition from contractors to staff
 - Staff up \$5.9 million as they replace contractors
 - Contractors down from 89 to 17. Costs down from \$12.9 million to \$7.4 million in 2004. Further decreases to \$2.5 million in 2005.
- \$3 million FERC fee increase
- \$12.7 million debt service cost increase from 2003 financing

Project Budget Comparison

Projects costs in millions of dollars

2004 Budget	Pre 03	2003	2004	2005	2006	2007	2008
Strategic Initiatives	14.7	48.3	27.8	2.5	0.0	0.0	0.0
Funded 2003 Projects		4.1	3.9	0.5	0.0	0.0	0.0
Funded 2004 Projects			7.7	11.0	0.0	0.0	0.0
Flexible 2004 Projects			2.3	0.0	0.0	0.0	0.0
Future Projects				6.0	20.0	20.0	20.0
Total	14.7	52.4	41.7	20.0	20.0	20.0	20.0

- Draft 4 project target for 2005 + is much lower than Draft 3 budget.
- NYISO staff is accessing the ability work within the target. NYISO had identified several big 2005 projects including:
 - Consolidated NYISO offices
 - Billing system replacement
- If these projects cannot be deferred or fit into the target budget, the BS&P Project Financing Guideline Process and annual budget process can be used to increase target.

Comparison of Non-Strategic Initiative Projects		
Year	Draft 3	Draft 4
2003	4.1	4.1
2004	17.4	13.9
2005	41.5	17.5
2006	31.0	20.0
2007	26.0	20.0
2008	23.0	20.0

Projects Detail

Costs in millions of dollars

Project Name	Labor	Capital	Other	Draft 4 Total	Draft 3 Total
SMD 2.0	\$4.6	\$8.8	\$9.6	\$23.0	\$23.0
DSS	\$0.9	\$0.3	\$1.3	\$2.5	\$ 2.5
Facilitated Checkout	\$0.8	\$0.0	\$1.5	\$2.3	\$ 2.3
Market Data Ex. Enhancements (Portal)	\$0.7	\$0.3	\$0.3	\$1.3	\$ 2.1
Billing Simulator	\$0.4	\$0.0	\$1.3	\$1.7	\$ 1.9
Computer System Availability Monitoring	\$0.4	\$0.3	\$0.3	\$1.0	\$ 1.6
TCC & UCAP Automation	\$0.7	\$0.0	\$0.8	\$1.5	\$ 1.5
New Technology Initiatives	\$0.7	\$0.0	\$0.0	\$0.7	\$ 1.0
Billing Projects	\$0.9	\$0.0	\$0.1	\$1.0	\$ 1.0
Controllable External Tie Scheduling	\$0.4	\$0.0	\$0.5	\$0.9	\$ 0.9
Software Dev. Lifecycle Tools (Rational)	\$0.3	\$0.0	\$0.0	\$0.3	\$ 0.8
Operational Information to the Marketplace	\$0.2	\$0.0	\$0.0	\$0.2	\$ 0.8
Documentum Implementation	\$0.3	\$0.1	\$0.3	\$0.7	\$ 0.7
Enhanced Market Access & Security (LDAP / SSO)	\$0.0	\$0.0	\$0.0	\$0.0	\$ 0.6
Inter-ISO Standards for Market Messages	\$0.3	\$0.0	\$0.3	\$0.6	\$ 0.6
Develop a Virtual Regional Dispatch	\$0.1	\$0.0	\$0.5	\$0.6	\$ 0.6
Assess Options to Shorten Billing Cycle	\$0.1	\$0.0	\$0.4	\$0.5	\$ 0.5
Consolidated NYISO Offices	\$0.1	\$0.0	\$0.4	\$0.5	\$ 0.5
Flexible Projects	\$1.4	\$0.0	\$1.0	\$2.4	\$ 2.3
Total	\$13.3	\$9.8	\$18.6	\$41.7	\$45.2

Draft 3 of BS&P Budget Report to
Management Committee

Flexible Projects Budget

- Flexible projects should receive special treatment
 - Listed projects to be funded according to priorities set by PPT
 - In the event new needs come up, resources could be redirected using the Project Financing Guidelines Process
 - Subject to limits of project amount thresholds
 - Subject to exceptions to emergencies and orders or regulations issued by jurisdictional agencies
 - In the event that a new project cannot be completed without eliminating or significantly impacting a project currently listed as a flexible project, or otherwise increasing the 2004 budget, the ISO shall request BS&P approval and shall request the new project be prioritized by the PPT

Flexible Projects

Project Numbers: A564, A625, A630, A668, A676, A687, A690, TBD

(Bi-Directional Modeling of Generators, Direct Generator Communications, Automate Voltage Support Billing Calculation, Scheduling & Pricing Non-Competitive Proxy interfaces, Automate DAM Congestion Billing Calculation, Automate Local Black Start Billing Calculation, Separate Grouped Units Billing Data)

This category, Other Projects, is meant to capture 1) new projects that may potentially arise during 2004 and 2) existing projects that have not been otherwise detailed throughout this presentation. A pool of resources, totaling approximately 20,000 hours and 11 FTEs is available for assignment to such projects, which would be prioritized through the Projects Priority Team (PPT) process.

However, NYISO anticipates that new initiatives arising during 2004 will consume this entire resource allocation. Therefore, the projects listed above are not likely to be undertaken during 2004, unless the level of new 2004 initiatives is significantly lower than previous years.

(\$ in millions)	Labor	Capital	Other	Total
2004	\$1.4	\$0.0	\$1.0	\$2.4
Post-2004	<u>TBD</u>	<u>TBD</u>	<u>TBD</u>	<u>TBD</u>
Total	TBD	TBD	TBD	TBD

Debt Structure Recommendation

- MC should honor the commitment made for the 2003 Budget and previous year financing.
 - Recommendation made by MC and accepted by NYISO Board to finance projects in 2003 to defer rate increase with the understanding that this would place upward rate pressure in future years
 - Rational was that the strategic initiatives would have a multi-year payback for future market participants
- The one-shot benefit of the completion of start-up financing payments should be used to manage impact of 2004 project debt.
 - The repayment of 2004 debt principal should be budgeted for \$4.0 million instead of \$10.7 million.
 - If there are cost savings beyond those used to fund blackout costs, these savings should be used to accelerate 2004 deferred debt repayment.

Debt Structure Recommendation

	2003	2004	2005	2006	2007	2008
	Annual Financing					
Baseline Capital Financing	8.8	8.3	7.2	7.1	8.3	7.1
Project Financing	50.0	41.7	20.0	20.0	20.0	20.0
Amount Financed within year	58.8	50.0	27.2	27.1	28.3	27.1
	Scheduled Annual Repayments					
Term Loan re: Start-Up Costs (2000)	\$13.2	\$12.1	\$ -	\$ -	\$ -	\$ -
Hardware Financings (2001-2002)	\$4.0	\$3.6	\$2.2	\$ -	\$ -	\$ -
Budget Financing (2003)	\$ -	\$13.8	\$13.2	\$12.7	\$12.1	\$ -
Budget Financing (2004)	\$ -	\$ -	\$13.6	\$13.0	\$12.4	\$11.8
Budget Financing (2005)	\$ -	\$ -	\$ -	\$6.4	\$6.1	\$5.9
Budget Financing (2006)	\$ -	\$ -	\$ -	\$ -	\$6.4	\$6.1
Budget Financing (2007)	\$ -	\$ -	\$ -	\$ -	\$ -	\$6.7
Bank Fees	\$0.4	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7
Total Prior Year Debt Service Payments	\$17.6	\$30.2	\$29.7	\$32.8	\$37.7	\$31.2
Initial year funding (current year financing)	\$11.7	\$5.2	\$6.1	\$6.0	\$6.3	\$6.0
Total: Debt Service	\$29.3	\$35.4	\$35.8	\$38.8	\$44.0	\$37.2
RS#1 Impact per Year	\$0.18	\$0.22	\$0.22	\$0.23	\$0.26	\$0.22

Blackout Funding Recommendation

- Blackout costs are a large unknown.
 - Current rate of spending is \$250,000 per month
 - Future costs driven by FERC, NERC and other external entities
 - \$5.0 million breakdown in Draft 1 & 2 of 2004 budget – 0.6 internal labor, 3.1 external legal, 0.5 transmission studies, 0.5 reliability studies, 0.3 public relations
- BS&P Developed alternative recommendation agreed to by NYISO Management
 - Incremental blackout costs (excluding labor costs) are not included in the budgeted amounts for cash expenditures and Rate Schedule #1.
 - Cash expenditures related to the August 14, 2003 blackout should, to the degree possible, be managed within the above budget.
 - To the degree it is not possible to manage the expenditures within the above budget, a surcharge should be placed on Schedule 1 charges to recover the costs.
 - As an incentive to control costs, the NYISO Board performance incentives for employees and executive annual goals should include a budget target.
 - This budget target should be measured on cash expenditures and make superior performance contingent upon completing the funded projects and paying for all blackout related costs without the use of a surcharge.

Insurance Recommendation

- Recommend that NYISO to look at reducing insurance costs.
Suggests looking at:
 - Reducing insurance costs to levels similar to other ISOs
 - Whether new credit policy can reduce or eliminate the need for credit coverage

2004 Insurance Comparison	
Region	Cost Million \$
NYISO	\$7.7
ISO-NE	\$2.9
Cal ISO	\$2.2

Note: It is not clear that number are on a consistent basis

NYISO INSURANCE COMPOSITION	<u>2004</u>	<u>2003</u>	<u>\$ Diff.</u>
Property & Liability Insurance	\$4.6	\$3.8	\$0.8
Credit Insurance	\$2.1	\$1.7	\$0.4
Directors & Officers Insurance	<u>\$1.0</u>	<u>\$0.6</u>	<u>\$0.4</u>
Total Insurance	\$7.7	\$6.1	\$1.6

The increase in Insurance is primarily driven by an average increase of 20% on NYISO's annual insurance premiums (most will renew by 10/15/03).

BS&P Next Steps

Next meeting – November 19, 9:30 am – 4 pm

- Review of BS&P 2003 objectives
 - Look at Objectives
 - Discuss refinements to process for next year
- Status of 2003 budget
- Further employee goal input and review
- Implementation of project financing process
- BS&P Chair transition
- Executive incentive goal (long term and annual) discussion with Bill Museler (pm)