

New York Independent System Operator

Schedule 1 Evaluation Project
Business Issues Committee Presentation

May 19, 2004
Agenda 11



Overview

- Background
- Project Methodology
- Service Categories and Cost Allocations
- Results and Comparison to other ISOs/RTOs
- Recommendation

Background

Project Purpose

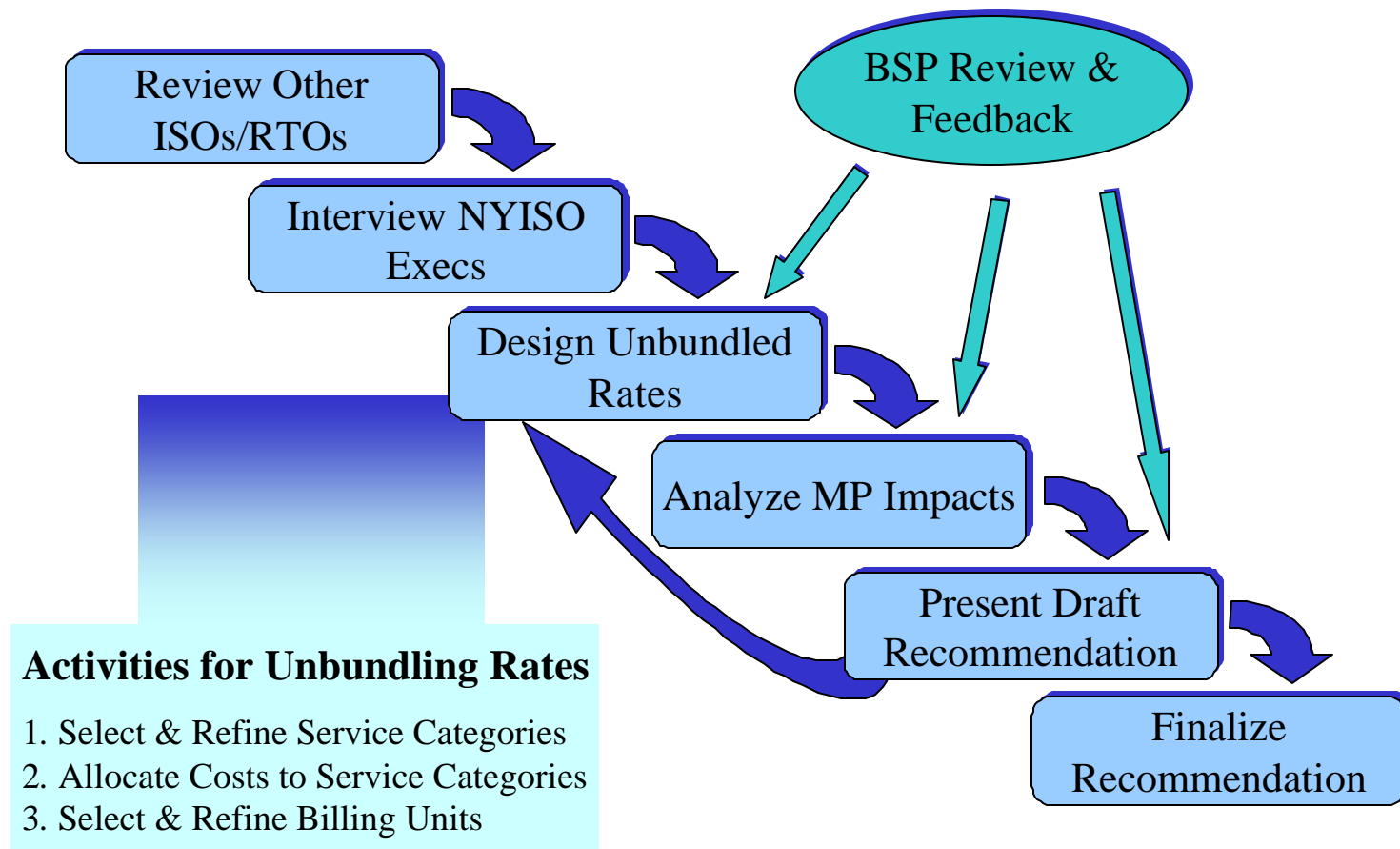
Market Participants requested an independent assessment to unbundle Schedule 1 costs and to review the allocation of the costs of NYISO Schedule 1 services to Market Participants

Project Methodology

Rudden designed the project methodology to include:

- Review of unbundling efforts at both NYISO and other ISOs/RTOs
- Input from NYISO personnel
- Input from MPs
- Refinements to results based on NYISO and MP review and input

Project Methodology



Project Methodology

- Designing unbundling recommendations included:
 - Developing draft service categories
 - Allocating time and costs among categories
 - Identifying MP group causing or benefiting from each service category
 - Defining billing determinants for each category
 - Reviewing rate designs and implementation issues

Service Category and Cost Allocations

- Rudden developed the the following service categories with consideration for input from the BSP and NYISO
- All costs incurred by the NYISO were assigned to one or more of the five following service categories

1. System Reliability
2. Real-Time Operations
3. Energy & Ancillary Service Markets
4. Capacity Market
5. Transmission Congestion Contracts (TCC) Market

Service Category and Cost Allocations

Service Category Definitions

1. System Reliability

Ensure reliable transmission system operations including activities that do not change with specific energy flows

2. Real-Time Operations

Manage energy flows & congestion management, including activities that do change with specific energy flows

Service Category and Cost Allocations

Service Category Definitions

3. Energy & Ancillary Service Markets

Conduct and administer Energy and Ancillary Service Markets, including financial and pricing aspects

4. Capacity Market

Conduct and administer the ICAP market including studies and planning to determine capacity requirements and ensure sufficient capacity

Service Category and Cost Allocations

Service Category Definitions

5. TCC Market

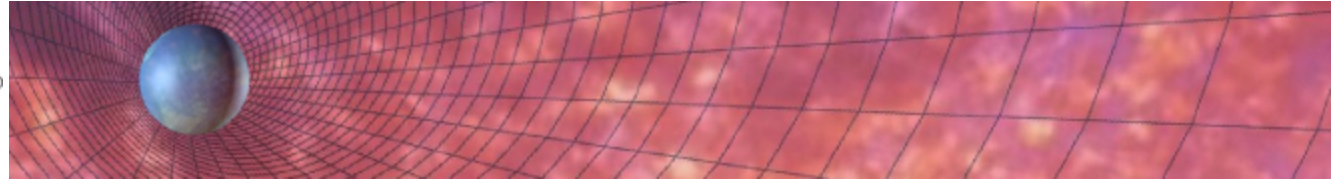
*All activities necessary to conduct and administer the
TCC Market*

Service Category and Cost Allocations

Service Category Definitions

Additional categories were also used to collect costs that were then allocated among the five final categories

- Billing Projects
- Billing & Customer Services
- Management Services



Service Category and Cost Allocations

Cost Allocations to Service Categories

Group	Total	System Reliability	Real-Time Operations	Energy & Ancillary Svcs Mkts	Capacity Markets	TCC Markets	Billing and Customer Service	Mgmt Services	Billing Projects
Finance & Compliance	100%	3%	10%	26%	2%	2%	17%	33%	7%
Market Monitoring & Business Planning	100%	4%	2%	80%	1%	-	-	13%	-
Communications	100%	-	2%	2%	-	-	-	96%	-
Operations & Reliability	100%	10%	72%	10%	-	-	-	8%	-
Market Services	100%	3%	4%	17%	7%	10%	1%	58%	-
Executive	100%	-	-	-	-	-	-	100%	-
Legal / Regulatory	100%	1%	2%	2%	-	1%	4%	90%	-
Planning	100%	61%	1%	2%	1%	-	4%	31%	-
Information Technology	100%	-	25%	27%	-	-	3%	35%	10%
Administration & Compliance	100%	1%	5%	7%	1%	-	1%	78%	7%
Human Resources	100%	-	-	-	-	-	-	100%	-
Corporate	100%	5%	-	-	-	-	-	95%	-
Category Shares Before Allocations	100%	3.2%	15.6%	19.1%	0.8%	0.9%	3.2%	51.9%	5.3%
Category Shares After Allocations / Financing	100%	7.8%	34.6%	53.3%	1.8%	2.5%	-	-	-

Service Category and Cost Allocations

Cost Allocations

- Allocated costs to Service Categories based on activity time recording, project descriptions, consultations with NYISO managers and Rudden's judgment

	Total	System Reliability	Real-Time Operations	Energy & Ancillary Services Markets	Capacity Market	TCC Market
Total Costs After New Financings (\$000)	\$111,422	\$8,706	\$38,494	\$59,407	\$2,014	\$2,801
Share of Total	100.0%	7.8%	34.6%	53.3%	1.8%	2.5%

Note: Total of \$111.4 million equals NYISO 2004 budget net of expected new financings, less the Term Loan which expires in 2004.

Service Category and Cost Allocations

Cost Recovery

- Assigned Service Category costs for recovery to Load and Supply based on cost causation and/or benefits received as determined by activity time recording, project descriptions, consultations with NYISO managers and Rudden's judgment

	System Reliability	Real-Time Operations	Energy & Ancillary Services Markets	Capacity Market	TCC Market
Portion Allocated to Load	100.0%	100.0%	60.5%	50.0%	60.5%
Portion Allocated to Supply	-	-	39.5%	50.0%	39.5%

Service Category and Cost Allocations

Billing Units

- Evaluated and selected billing units for each service category
- Billing units use to create a billing rate or unit rate for each service category
- Billing units do not impact allocations to MP groups since cost allocations are determined prior to application of billing units

Results and Comparison to Other ISO/RTOs

Results

- Study results can be presented by service category or on a composite basis
- Composite Results are:

ISO/RTO	Load Share	Supply Share
NYISO Results	77.0%	23.0%

Results and Comparison to Other ISO/RTOs

Results

- Other unbundled ISOs have similar results

ISO/RTO	Load Share	Supply Share
<u>NYISO Results</u>	<u>77.0%</u>	<u>23.0%</u>
PJM (2003 data)	79.1%	20.9%
PJM (2004 data)	80.5%	19.5%
ISO NE	67.9%	32.1%
CAL ISO	89.1%	10.9%

Results and Comparison to Other ISO/RTOs

Results

- Refinements in results based on BSP inputs and discussions have yielded only small changes

Recommendation	Load Share	Supply Share	% Change
May 12 - BSP Conference Call	77.04%	22.96%	1.28%
May 5 – BSP Meeting	75.76%	24.24%	0.08%
April 16 – BSP Meeting	75.84%	24.16%	3.57%
March 19 – After Corrections	72.27%	27.73%	1.60%
March 19 – BSP Meeting	70.67%	29.33%	-

Recommendation

NYISO Billing System

- NYISO indicates current billing system cannot support multiple service categories and an unbundled rate design
- Billing system changes would require months of work, millions of dollars and could not be implemented until sometime in 2006 or later

Recommendation

Rudden's Recommendation

- Implement composite results of study, 77% to Load and 23% to Supply
 - *Rudden could support a compromise reasonably close to 77/23 if MPs cannot agree on the allocation recommended by Rudden*
- Implement study results as a simple change to the existing 85/15 allocation rather than as unbundled service categories (*Note: This recommendation results in an identical cost allocation to MP groups as the unbundled rates*)
- Use existing billing units and true-up process
- Seek FERC approval to implement rates January 2005