

Draft NYISO  
2004 Budget Report

SSOP Report to  
Management Committee  
October 17, 2003

**Rough Draft**  
*Note: Numbers will be updated*



# Objective of Today's Report

- Provide background information to MC for November 12 budget vote
- Get MC feedback on BS&P recommendations
- Receive further MC input on draft 2004 budget



# NYISO 2004 Budget Schedule

- ☑ September 26: Draft 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 is presented to BOD
- October ?? BS&P reviews draft 3
- October ?? PPT finalizes project priorities
- November 12: MC vote on draft 3
- November 18: BOD approves 2004 Budget



# Budget Actions

- NYISO Process
  - Consistent with last year's projections
  - Transition from contractors to employees while reducing combined head count
  - Eliminated \$15 million from budget before coming to BS&P
  - Complied with key principals of BSP project financing guidelines
- NYISO response to 9/26 meeting BS&P concerns
  - Financing of Blackout costs – Draft 2 doesn't finance
  - Increase legal headcount –
  - Eliminate credit insurance –
  - Restructure debt –

# SUMMARY OF BUDGET TRENDS & PROJECTIONS

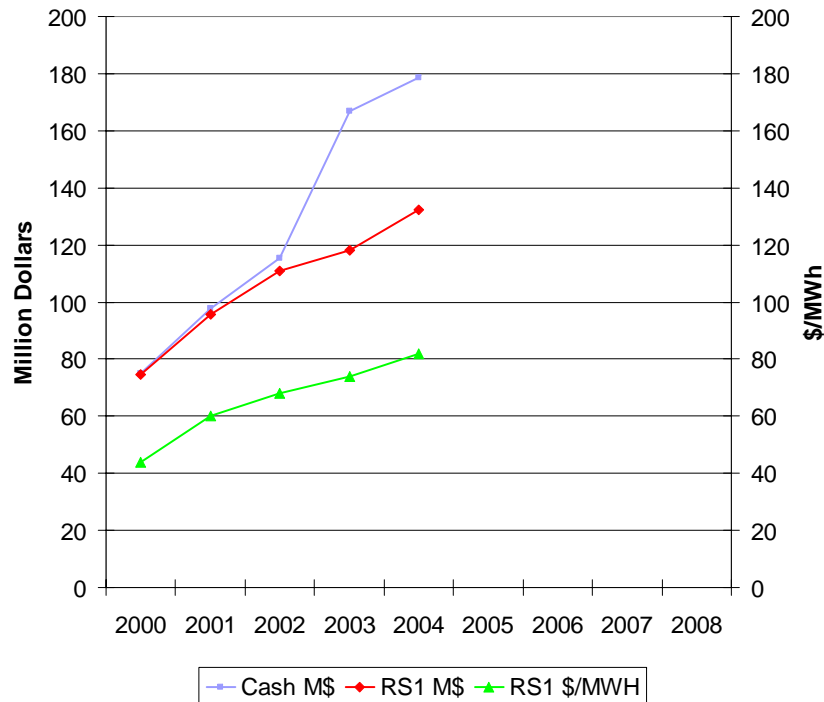
*(\$ in millions, except RS#1)*

	<b>2003 <u>Final</u></b>	<b>2004 <u>Draft 1</u></b>	<b>2004 <u>Draft 2</u></b>	<b>2005 <u>Target</u></b>	<b>2006 <u>Target</u></b>	<b>2007 <u>Target</u></b>	<b>2008 <u>Target</u></b>
Baseline <i>(current year needs)</i>	\$99.2	\$98.3					
Projects <i>(current year needs)</i>	\$50.0	\$45.2					
Debt Service <i>(prior year financings)</i>	\$17.6	\$30.2					
Blackout costs	<u>\$ 0.0</u>	<u>\$5.0</u>					
Cash Budget	\$166.8	\$178.7					
Less: Net proceeds on CY financings	(47.0)	(\$45.4)					
Less: Misc. Revenues	(1.6)	(\$1.1)					
RS#1 Revenue Requirement	<u>\$118.2</u>	<u>\$132.2</u>					
<b>Rate Schedule #1 (\$/MWH)</b>	<b><u>\$0.74</u></b>	<b><u>\$0.82</u></b>					

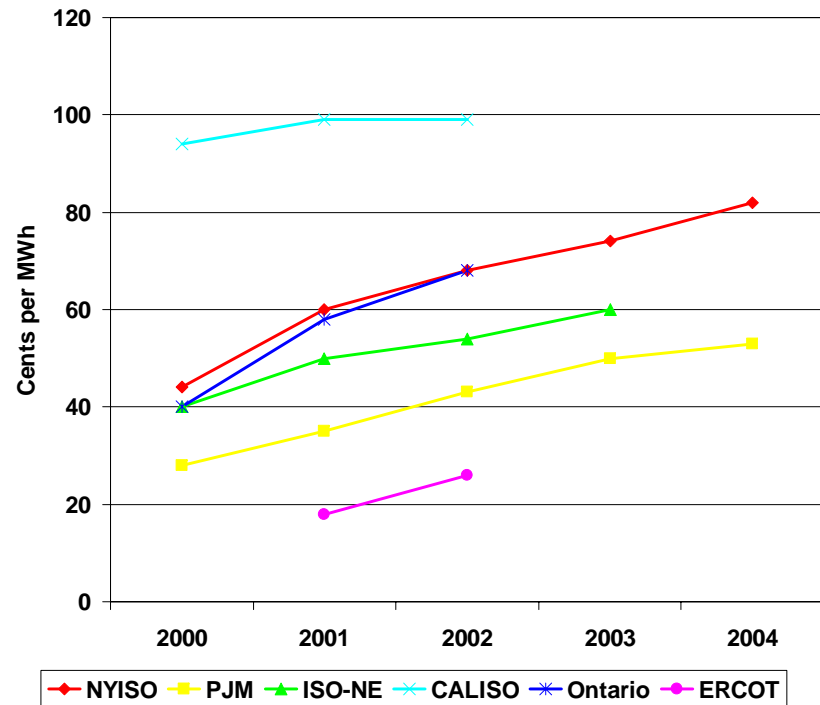
# Draft 2003 Budget Proposal

## Budget Trends

NYISO Budget Trends



Comparison with other ISOs



# NYISO 2004 Budget Overview

## DETAIL BUDGET TRENDS BY COST CATEGORY

(\$ in millions)

Line Item	Baseline	Projects	Debt Serv.	Blackout	2004 Draft Budget	2004 Projected Budget	2003 Final Budget
Capital	\$8.3	\$12.4	\$ -	\$ -	\$20.7	\$17.7	\$31.9
Salaries & Benefits	\$33.8	\$9.5	\$ -	\$0.6	\$43.9	\$42.0	\$38.0
Consultants	\$16.0	\$9.3	\$ -	\$1.3	\$26.6	\$22.0	\$28.7
Legal	\$6.0	\$ -	\$ -	\$3.1	\$9.1	\$6.0	\$6.5
Building Services	\$3.5	\$ -	\$ -	\$ -	\$3.5	\$4.1	\$3.8
Computer Services	\$6.9	\$13.9	\$ -	\$ -	\$20.8	\$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
<b>TOTAL CASH BUDGET</b>	<b>\$98.3</b>	<b>\$45.2</b>	<b>\$30.2</b>	<b>\$5.0</b>	<b>\$178.7</b>	<b>\$166.5</b>	<b>\$166.8</b>
Less: Net Proceeds from CY financing	(\$8.3)	(\$45.2)	\$13.1	(\$5.0)	(\$45.4)	(\$27.0)	(\$47.0)
Less: Misc. Revenues	(\$1.1)	\$ -	\$ -	\$ -	(\$1.1)	(\$1.4)	(\$1.6)
<b>TOTAL CASH BUDGET, NET OF FIN'GS</b>	<b>\$88.9</b>	<b>\$ -</b>	<b>\$43.3</b>	<b>\$ -</b>	<b>\$132.2</b>	<b>\$138.1</b>	<b>\$118.2</b>
<b>RATE SCHEDULE #1 (\$/MWH)</b>	<b>\$0.55</b>	<b>\$0.00</b>	<b>\$0.27</b>	<b>\$0.00</b>	<b>\$0.82</b>	<b>\$0.87</b>	<b>\$0.74</b>

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# Key Budget Changes

- Total cash expenses increase xx million or ww%
- Rate schedule 1 increases \$0.yy or zz%
- Major cost shifts
  - Completion of RTS project
    - RTS Project down \$X million – further reductions in 2005
    - Other projects up \$Y million
  - Transition from contractors to staff
    - Staff up \$5.9 million
    - Contractors down \$
  - \$3 million FERC fee increase
  - \$5 million Blackout costs
  - \$12.7 million debt service cost increase from 2003 financing



# NYISO 2004 Budget Overview

## LINE ITEM DETAILS: SALARIES & BENEFITS

(\$ in millions)

<b>HEADCOUNT SUMMARY</b>	<b><u>FTEs</u></b>	<b><u>Contractors</u></b>	<b><u>Total</u></b>
<b>12/31/02 Totals</b>	<b>312</b>	<b>34</b>	<b>346</b>
Staff additions in 2003	<u>46</u>	<u>55</u>	<u>101</u>
<b>12/31/03 Totals (projected)</b>	<b>358</b>	<b>89</b>	<b>447</b>
Conversions of contractors to FTEs in 2004	34	(34)	-
Reduction of contractors in 2004 (SMD-related)	-	<u>(38)</u>	<u>(38)</u>
<b>12/31/04 Totals</b>	<b>392</b>	<b>17</b>	<b>409</b>



# NYISO 2004 Budget Overview

## LINE ITEM DETAILS: Projects Budget Comparison

*(\$ in millions)*

<b>2004 Budget</b>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Total</u>
SMD 2.0					
Other Strategic Initiative					
2003 Funded Projects					
Funded 2004 Projects					
Flexible 2004 Project Budget					
Total					

<b>2003 Budget</b>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Total</u>
SMD 2.0					
Other Strategic Initiative					
2003 Funded Projects					
Funded 2004 Projects					
Flexible 2004 Project Budget					
Total					

# NYISO 2004 Budget Overview

## DEBT SERVICE SUMMARY

(\$ in millions)

	<b>Scheduled Annual Repayments (p&amp;i)</b>				
	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>
Term Loan re: Start-Up Costs (2000)	\$12.1	\$ -	\$ -	\$ -	\$ -
Hardware Financings (2001-2002)	\$3.6	\$2.2	\$ -	\$ -	\$ -
Budget Financing (2003)	\$13.8	\$13.2	\$12.7	\$12.1	\$ -
Budget Financing (2004)	\$ -	\$13.8	\$13.2	\$12.6	\$12.0
Bank Fees	<u>\$0.7</u>	<u>\$0.7</u>	<u>\$0.7</u>	<u>\$0.7</u>	<u>\$0.7</u>
<b>Subtotal: Debt Service Payments (prior year financings)</b>	<b>\$30.2</b>	<b>\$29.9</b>	<b>\$26.6</b>	<b>\$25.4</b>	<b>\$12.7</b>
Initial year funding (current year financing)	<u>\$13.1</u>	<u>TBD</u>	<u>TBD</u>	<u>TBD</u>	<u>TBD</u>
<b>Total: Debt Service</b>	<b>\$43.3</b>	<b>\$29.9</b>	<b>\$26.6</b>	<b>\$25.4</b>	<b>\$12.7</b>
<b>RS#1 Impact per Year</b>	<b>\$0.27</b>	<b>\$0.18</b>	<b>\$0.16</b>	<b>\$0.15</b>	<b>\$0.07</b>

*Note: This schedule does NOT include the impact of any additional financings beyond 2004. To the extent such debt is incurred for future year budgets, those repayments would need to be added to this schedule.*

# Other Projects

**Project Number(s):** A564, A625, A630, A668, A675, A676, A687, A690, TBD

(Bi-Directional Modeling of Generators, Direct Generator Communications, Automate Voltage Support Billing Calculation, Scheduling & Pricing Non-Competitive Proxy interfaces, Billing Simulator, 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.*

<i>(\$ in millions)</i>	<u>Labor</u>	<u>Capital</u>	<u>Other</u>	<u>Total</u>
<b>2004</b>	\$1.4	\$0.0	\$0.9	\$2.3
<b>Post-2004</b>	<u>TBD</u>	<u>TBD</u>	<u>TBD</u>	<u>TBD</u>
<b>Total</b>	TBD	TBD	TBD	TBD

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# Summary of 2004 Project Costs

(\$ in millions)

<u>Project Name</u>	<u>Labor</u>	<u>Capital</u>	<u>Other</u>	<u>Total</u>
SMD 2.0	\$4.6	\$8.9	\$10.3	\$23.8
Market Data Ex. Enhancements (Portal)	\$0.8	\$0.7	\$ 1.0	\$ 2.5
DSS	\$0.9	\$0.3	\$ 1.3	\$ 2.5
Facilitated Checkout	\$0.8	\$0.0	\$ 1.5	\$ 2.3
Computer System Availability Monitoring	\$0.4	\$0.7	\$ 0.5	\$ 1.6
TCC & UCAP Automation	\$0.7	\$0.0	\$ 0.8	\$ 1.5
New Technology Initiatives	\$0.7	\$0.2	\$ 0.3	\$ 1.2
LDAP / SSO	\$0.3	\$0.5	\$ 0.2	\$ 1.0
Billing Projects	\$0.9	\$0.0	\$ 0.1	\$ 1.0
Software Dev. Lifecycle Tools (Rational)	\$0.3	\$0.6	\$ 0.0	\$ 0.9
TransEnergie Cross Sound Cable	\$0.4	\$0.0	\$ 0.5	\$ 0.9
Operational Information to the Marketplace	\$0.2	\$0.3	\$ 0.3	\$ 0.8
Documentum Implementation	\$0.3	\$0.1	\$ 0.3	\$ 0.7
Inter-ISO Standards	\$0.3	\$0.0	\$ 0.3	\$ 0.6
VRTO Support	\$0.1	\$0.0	\$ 0.5	\$ 0.6
Evaluate Options to Shorten Billing Cycle	\$0.1	\$0.0	\$ 0.4	\$ 0.5
New Facilities (Office Space)	\$0.1	\$0.0	\$ 0.4	\$ 0.5
Other Projects	<u>\$1.4</u>	<u>\$0.0</u>	<u>\$ 0.9</u>	<u>\$ 2.3</u>
<b>Total</b>	<b>\$13.3</b>	<b>\$12.3</b>	<b>\$19.6</b>	<b>\$45.2</b>

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# BS&P Recommendations

- Blackout Recommendation
  - Blackout costs be segregated from rest of budget. Funds cannot be shifted to other uses. Any surplus refunded to market participants. Performance incentive should not count savings from under spending blackout budget, but should have penalties for overspending.
- Flexible projects budget
  - Funds cannot be shifted to other approved projects. Use of funds for new projects reviewed and approved by BS&P Project Financing process and approved by PPT.
- Consulting Costs
- Further refinements on debt structure
- Guidelines for what gets financed



# MC Discussion of Issues

1. Input on conditions for blackout funding
2. Input on conditions for flexible project funding
3. Is a \_\_\_% rate increase acceptable to the MC or should we recommend cutting additional projects?
4. If the MC recommends cutting projects, which projects should be eliminated or deferred?
5. Is the long term trend acceptable?