

NYISO 2010 BUDGET OVERVIEW

(dollars in millions, unless otherwise noted)

Mary McGarvey – Vice President & Chief Financial Officer;
Patricia Putman – Controller & Assistant Treasurer
Budget & Priorities Working Group
September 18, 2009

Table of Contents

<u>Topic</u>	<u>Page #</u>
<u>HIGHLIGHTS & SUMMARY INFORMATION:</u>	
➤ Schedule	4
➤ Main Priorities for 2010	5-6
➤ Budget Highlights	7
➤ NYISO Cost Consciousness	8-11
➤ Comparisons with Other ISOs/RTOs	12
➤ Historical Budget Comparisons	13
➤ Summary of Significant Changes	14
➤ 2010 Budget – In Context	15
<u>DETAILED LINE ITEM INFORMATION:</u>	
➤ Line Item Details	16-31

NYISO 2010 BUDGET: HIGHLIGHTS & SUMMARY INFORMATION

Schedule

- **September 16:** **Distribution of draft 2010 Budget presentation to BPWG and MC for review**
- **September 18:** **BPWG initial review of draft 2010 budget**
- **September 22:** **BPWG teleconference to review 2011-2014 budget projections**
- **September 30:** **BPWG presentation on draft 2010 budget to Management Committee**
- **October 19:** **BOD Commerce & Compensation Committee review of draft 2010 budget**
- **October 28:** **Management Committee vote on 2010 budget for recommendation to BOD**
- **November 17:** **BOD approval of final 2010 budget**

Note: Additional BPWG meetings can be scheduled during this time period, as needed.

Main Priorities for 2010

Market Evolution:

- Develop and begin phased implementation of Broader Regional Markets
- Implement functionality to facilitate Increasing Bids in Real-Time
- Develop market design concepts for high priority market enhancement features, such as dynamic reserve calculation, energy storage optimization, criteria for new capacity zones and capability period alignment
- Continue to expand the Demand Response program
- Continue project to implement Reference Level Software system
- Continue to institute software for optimal management of wind resources
- Develop expanded rules to encourage market entry for new technologies
- Develop market design for evolution of the TCC market

Broader Regional Planning:

- Support and further develop the Eastern Interconnect Planning Collaborative
- Continue to support new initiatives in System Planning, including the NYS Energy Planning Board and the implementation of transmission upgrades and expansion solutions
- Implement the second phase of the Congestion Assessment and Resource Integration Study (CARIS) in accordance with Order 890 and the new Comprehensive System Planning Process (CSPP)
- Continue to support the interconnection of new facilities and related system upgrades through the Interconnection process

Main Priorities for 2010 (*continued*)

Smart Grid:

- Pending final DOE award, begin multi-year project implementation of Phasor Measurement Units and Capacitor Banks
- Pending final DOE award, begin multi-year project implementation of Statewide Communications Backbone
- Begin implementation of NYSERDA award of five Phasor Measurement Units
- Support Smart Grid/Smart Metering solutions and develop technology assessment
- Support the evolution of Dynamic Pricing; identify potential technology solutions

Compliance:

- Achieve/maintain compliance with FERC/NERC/ERO/CIP/CEII standards
- Develop and file implementation plan in response to the Long-Term Loop Flow Order
- Complete compliance filings for Demand Curve Reset and Non-Historic Fixed Price TCCs
- Complete development, required testing and be prepared to deploy software for FERC E-Tariff project

Infrastructure Improvements / Project Continuations:

- Initiate multi-year project to build new, enhanced Power Control Center
- Continue projects to reinforce cyber security protocols, and targeted automation of NERC security standards
- Complete phased implementation of a new automated Credit Management System
- Continue phased implementation of a new automated Demand Response Information System
- Continue technology infrastructure initiatives to optimize and consolidate computer platforms allowing reduction of required footprint and associated costs (Data Warehouse Platform Evolution and Web Posting Enhancements)
- Continue to realize improved performance from Lean Six Sigma and process/control enhancements

Budget Highlights

In Summary:

- NYISO's draft 2010 budget totals \$149.0M, allocated across a forecast of 167.3 million MWhs for a Rate Schedule 1 charge/MWh of \$0.891. (Comparatively, the 2009 budget was \$144.2M allocated across 177.3 million MWhs for a RS1 charge/MWh of \$0.813.)
- The 2010 budget amounts above do not yet include potential RS1 funding for DOE stimulus applications. The DOE projects are the subject of a separate presentation, with cost details and a budgetary approach outlined in that presentation.

Primary Driver - Reduced MWh volumes:

- The primary reason for an increase in RS1 from 2009 to 2010 is the 7% decrease in forecasted MWh volume for 2010 from 179.1 million to 167.3 million.
- If 2009-2010 MWh volumes had remained consistent with historical levels and projections made during 2008, the 2010 RS1 charge/MWh would have been \$0.804 - representing a 1% decrease from 2009 and consistent with NYISO's RS1 levels during 2006.

Peer Comparison:

- NYISO's Rate Schedule 1 revenue requirement in dollars, amount of debt outstanding, and number of full-time equivalent employees remain the lowest of all ISOs/RTOs.
- Also, the trend in NYISO's RS1 charge/MWh is generally consistent with or below the 2010 trends of other ISOs/RTOs.

NYISO Cost Consciousness

2009 to 2010 Comparison:

- NYISO's RS1 revenue requirement increased \$4.8M from 2009 to 2010. This entire increase occurs because during 2009, NYISO had included \$5.0M in RS1 carryovers from 2008 overcollections on MWh volume into the 2009 budget. If this carryover were not included in the 2009 budget, then NYISO's spending would be flat from 2009 to 2010.
- In the 2010 draft budget, every line item (excluding Capital & Debt, which tend to offset each other) reflects a decrease in spending from the 2010 projections made during the 2009 budget cycle.
- Virtually all NYISO budget line items are reflecting decreases or no increase in spending from 2009 to 2010. The only line items reflecting increases impacting NYISO's 2010 budget are based on economic/external factors or are based on input from Market Participants:
 - FERC Fees: expected 11% increase in FERC assessment
 - Miscellaneous Revenue: reduction in interest income on NYISO investments
 - Capital: based on the hardware/software requirements for 2010 proposed projects
 - Salaries & Benefits: driven by a reduction in the budgeted number of FTE vacancies.

NYISO Cost Consciousness

Economic Climate:

- NYISO recognizes the current economic conditions are difficult on the operations of all Market Participants.
- NYISO continues to focus its spending on initiatives and investments that improve overall operations (e.g. staff additions and processes to drive reductions to uplift costs), are responsive to Market Participant feedback, and represent prudent investments.
- During 2010, NYISO must meet a variety of increasing compliance requirements, thereby placing additional pressure on NYISO's spending levels. One example centers around Broader Regional Markets, alone a \$2M-\$3M impact on the NYISO 2010 budget. (See details on mandatory compliance projects in separate presentation on 2010 project prioritization).
- NYISO, like its Market Participants, has been proactively taking many steps to reduce expenses, particularly in light of recent economic conditions.
 - *In some cases, these are "permanent" savings to the NYISO budget, whereas others are temporary in nature and cannot be sustained in perpetuity.*
- In preparing the 2010 budget, there were numerous spending requests deferred to future years or eliminated entirely to minimize the impact on the 2010 Rate Schedule 1. Examples are listed on the following slide.

NYISO Cost Consciousness

Avoided Costs in 2010:

- Achieved economies of scale by developing a Master Infrastructure Project and financing required infrastructure improvements over 20 years to permit repayment matching long-term nature of investment – avoided costs in 2010 approximate \$3-4M;
- Deferred to 2011 additional headcount to support NYISO as the reliability coordinator under NPCC's proposed definition of the bulk electric system – avoided costs in 2010 approximate \$3M;
- Deferred to post-2010 a proposed project to improve Human Resource processes via an integrated Human Resources Information System project – avoided costs in 2010 approximate \$0.5M - \$1M;
- Eliminated and reduced several employee benefit & recognition programs – savings in 2010 equal \$1.1M;
- Reduced average level of merit increases from 4% historical level to 2% in 2009 and 3% for 2010 – avoided costs in 2010 approximate \$0.3M;
- Significantly reduced employee travel, training and meeting costs to austerity levels – avoided costs in 2010 of \$1.0M.

NYISO Cost Consciousness

Efficiencies & Cost Savings:

- Eliminated the use of external consultants to support the Lean Six Sigma program- savings in 2010 equal \$0.7M;
- Achieved efficiencies & productivity improvements. 140 process improvement projects have been completed that have decreased errors, improved performance, reduced cycle time, etc. 49 additional projects are currently ongoing;
- Projected savings from renegotiations on insurance renewals, resulting in \$0.2M in 2010 savings as well as the 7th consecutive year with reductions to NYISO's insurance expense;
- Eliminated 17 FTE positions in various NYISO departments to reflect recent efficiencies gained and to offset new positions needed in departments with expanding roles/responsibilities (Operations, Planning, etc.);
- Reduced 2010 professional fees by 16% from 2009. Reductions are expected in external legal fees, internal audit co-sourcing costs, staff augmentation within IT and Operations, and various other departments.

Comparison with Other ISOs/RTOs

<i>(\$ in millions)</i>					
	<u>REVENUE REQUIREMENT</u>			<u>OTHER INFORMATION</u>	
ISO/RTO	2010 Revenue Requirement: in \$\$ <small>(excludes FERC Fees)</small>	2010 Revenue Requirement: in \$/MWh <small>(excludes FERC Fees)</small>	% Change in Rate/MWh (2009 vs. 2010)	Debt Outstanding at 12/31/10	FTEs at 12/31/10
MISO	\$264.5	\$0.357	-2.5%	\$196.3	829
PJM	Not available until October	Not available until October	Not available until October	Not available until October	Not avail. until October
CAISO	\$195.1	\$0.780	0.5%	\$326.9	569
ERCOT	\$143.4	\$0.449	7.6%	TBD	TBD
ISO-NE	\$138.3	\$1.10	16.7%	\$77.7	485
NYISO	\$137.8	\$0.824	8.4%	\$68.2	452

These amounts are draft, and may be subject to change as each ISO/RTO completes their 2010 approval process.

Historical Budget Comparisons

					<u>% Changes</u>	
<i>(in millions, excluding RS#1/MWH charges)</i>	<u>2007 Budget</u>	<u>2008 Budget</u>	<u>2009 Budget</u>	<u>2010 Draft</u>	<u>2010 vs. 2009</u>	<u>2010 vs. 2007</u>
RS#1 Rev. Requirement – in \$\$	\$139.7	\$136.3	\$144.2	\$149.0	3.3%	6.7%
Budgeted MWH Hours	<u>170.1</u>	<u>173.2</u>	<u>177.3</u>	<u>167.3</u>	(5.6%)	(1.6%)
RS#1 Rev. Requirement - \$/MWH	\$0.821	\$0.787	\$0.813	\$0.891	9.6%	8.5%
<p><i>Despite a 37% increase in FERC Fees and increased costs associated with NYISO's assumption of additional responsibilities (DOE administration, planning processes, etc.), NYISO's RS1 charge/MWh increased an average of 2% annually over the four-year period 2007-2010, which does not keep pace with inflation rates for this time period.</i></p>						
<p><u>Supplemental Information – RS1 Charge/MWH by MP Type</u></p>						
Total RS#1 Rev. Requirement - \$/MWH	\$0.821	\$0.787	\$0.813	\$0.891	9.6%	8.5%
<i>RS#1 Charge/MWH: Purchasers @ 80%</i>	<i>\$0.657</i>	<i>\$0.630</i>	<i>\$0.650</i>	<i>\$0.668</i>	<i>2.8%</i>	<i>1.7%</i>
<i>RS#1 Charge/MWH: Sellers @ 20%</i>	<i>\$0.164</i>	<i>\$0.157</i>	<i>\$0.163</i>	<i>\$0.169</i>	<i>3.7%</i>	<i>3.0%</i>
<i>RS#1 Charge/MWH: Non-physical transactions</i>	-	-	-	<i>\$0.054</i>	<i>n/a</i>	<i>n/a</i>

Summary of Significant Changes

2009 Rate Schedule 1 Revenue Requirement		\$144.2
➤ <u>Less: Efficiencies and reductions</u>		
Reduction in Professional Fees	(\$6.1)	
Reduction in BOD/Travel & Training	(\$1.6)	
Reduction in Telecommunications	(\$0.3)	
Reduction in Insurance	(\$0.2)	
	<u>(\$8.2)</u>	
➤ <u>Plus: Budget increases</u>		
Reduction in RS1 Carryover (<i>2009 MWh shortfall</i>)	\$5.0	
Increase in Capital (<i>projects spending</i>)	3.1	
Increase in FERC Fees (<i>11% proj. increase</i>)	1.8	
Increase in Salaries & Benefits (<i>vacancies</i>)	1.8	
Reduction in Misc. Revenue (<i>interest income</i>)	0.8	
Miscellaneous other increases	<u>0.5</u>	
	\$13.0	
➤ Subtotal: Increase in Rate Schedule 1 Revenue Req.		<u>\$ 4.8</u>
Equals: 2010 Rate Schedule 1 Revenue Requirement		\$149.0

2010 Budget – In Context

<i>(\$ in millions, except RS#1/MWH)</i>	2010 Draft	2009 Budget	\$ Variance	2010 Draft	2010 Projection	\$ Variance
Capital	\$18.6	\$8.1	\$10.5	\$18.6	\$17.8	\$0.8
Less: Proceeds from Mortgage/Renovations Debt	(10.0)	(3.0)	(7.0)	(10.0)	(13.0)	3.0
Capital – net of Proceeds from Mortgage/Renovations Debt	\$8.6	\$5.1	3.5	\$8.6	4.8	3.8
Salaries & Benefits	63.1	61.3	1.8	63.1	64.5	(1.4)
Professional Fees (including Legal)	32.0	38.1	(6.1)	32.0	36.8	(4.8)
Building Services	5.1	5.1	-	5.1	5.3	(0.2)
Computer Services	15.8	15.7	0.1	15.8	16.7	(0.9)
Insurance	3.0	3.2	(0.2)	3.0	3.4	(0.4)
Telecommunications	4.0	4.3	(0.3)	4.0	4.4	(0.4)
Other Expenses (BOD, Travel/Training, NPCC Fees)	3.2	4.8	(1.6)	3.2	4.9	(1.7)
Subtotal: Current Year Needs (excl. FERC Fees)	\$134.8	\$137.6	(\$2.8)	\$134.8	\$140.8	(\$6.0)
Debt Service	24.6	23.0	1.6	24.6	25.0	(0.4)
Subtotal: Cash Budget	\$159.4	\$160.6	(\$1.2)	\$159.4	\$165.8	(\$6.4)
Less: Miscellaneous Revenues	(2.3)	(3.1)	0.8	(2.3)	(4.0)	1.7
Less: Proceeds from Current Year Budget Debt	(20.0)	(18.3)	(1.7)	(20.0)	(20.0)	-
Less: Proceeds from Annual RS1 Carryovers	-	(5.0)	5.0	-	-	-
Add: Interest on Current Year Budget Debt	0.5	0.5	-	0.5	0.4	0.1
Add: Principal & Interest on Mortgage/Renovations Debt	0.2	0.1	0.1	0.2	0.1	0.1
Subtotal: Net Budget Needs	\$137.8	\$134.8	\$3.0	\$137.8	\$142.3	(\$4.5)
FERC Fees	11.2	9.4	1.8	11.2	9.8	1.4
Total: Rate Schedule #1 Revenue Requirement in \$\$	\$149.0	\$144.2	\$4.8	\$149.0	\$152.1	(\$3.1)
Budgeted MWH Hours (in millions)	167.3	177.3	(10.0)	167.3	179.1	(11.8)
Rate Schedule #1 Revenue Requirement in \$/MWH (budget)	\$0.891	\$0.813	\$0.078	\$0.891	\$0.849	\$0.042

Every 2010 budget line item (excluding Capital & Debt, which tend to offset each other) reflects a decrease in spending from the 2010 projections made during the 2009 budget cycle.

NYISO 2010 BUDGET: DETAILED LINE ITEM INFORMATION

Historical Budget Information by Line Item

<i>(\$ in millions, except RS#1/MWH)</i>	<u>2007 Budget</u>	<u>2008 Budget</u>	<u>2009 Budget</u>	<u>2010 Draft</u>	<u>Details Page Ref.</u>
Capital	\$4.4	\$4.3	\$8.1	\$18.6	Page 18
Less: Proceeds from Mortgage/Renovations Debt	-	-	(3.0)	(10.0)	Page 18
Capital – net of Proceeds from Mortgage/Renovations Debt	\$4.4	\$4.3	\$5.1	\$8.6	Page 18
Salaries & Benefits	50.6	57.6	61.3	63.1	Page 19-20
Professional Fees (including Legal)	32.2	34.7	38.1	32.0	Page 21
Building Services	4.0	4.3	5.1	5.1	Page 22
Computer Services	13.0	12.5	15.7	15.8	Page 23
Insurance	3.7	3.6	3.2	3.0	Page 24
Telecommunications	5.0	4.3	4.3	4.0	Page 25
Other Expenses (BOD, Travel/Training, NPCC Fees)	5.0	4.0	4.8	3.2	Page 26
Subtotal: Current Year Needs (excl. FERC Fees)	\$117.9	\$125.3	\$137.6	\$134.8	
Debt Service	35.4	27.8	23.0	24.6	Pages 27-28
Subtotal: Cash Budget	\$153.3	\$153.1	\$160.6	\$159.4	
Less: Miscellaneous Revenues	(2.3)	(3.8)	(3.1)	(2.3)	Page 29
Less: Proceeds from Current Year Budget Debt	(15.0)	(16.7)	(18.3)	(20.0)	Pages 27-28
Less: Proceeds from Annual RS1 Carryovers	(5.0)	(5.0)	(5.0)	-	Pages 27-28
Add: Interest on Current Year Budget Debt	0.5	0.4	0.5	0.5	Pages 27-28
Add: Principal & Interest on Mortgage/Renovations Debt	-	-	0.1	0.2	Pages 27-28
Subtotal: Net Budget Needs	\$131.5	\$128.0	\$134.8	\$137.8	
FERC Fees	8.2	8.3	9.4	11.2	Pages 30-31
Rate Schedule #1 Revenue Requirement in \$\$	\$139.7	\$136.3	\$144.2	\$149.0	
Budgeted MWH Hours (in millions)	170.1	173.2	177.3	167.3	
Rate Schedule #1 Revenue Requirement in \$/MWH (budget)	\$0.821	\$0.787	\$0.813	\$0.891	

DRAFT - For Discussion Only

Line Item Details - CAPITAL

<i>(\$ in millions)</i>	<u>2010 Draft</u>	<u>2009 Budget</u>	<u>\$ Change</u>
Facility Improvements	\$10.3	\$4.3	\$6.0
Less: Proceeds from Mortgage/Renovations Debt	<u>(10.0)</u>	<u>(3.0)</u>	<u>(7.0)</u>
Facility Improvements, net of Mortgage/Renovations Debt	\$0.3	\$1.3	(\$1.0)
Replacement of Existing Hardware	\$6.3	\$2.3	\$4.0
Software Licenses (capitalized)	<u>\$2.0</u>	<u>\$1.5</u>	<u>\$0.5</u>
Total Capital Costs, net of Mortgage/Renovations Debt	\$8.6	\$5.1	\$3.5

Facility Improvements:

A significant renovation is planned to upgrade aging infrastructure and machinery & equipment for the PCC facility that opened in 1969. This initiative is expected to span 2010-2012 and would add a new data center, upgrade control room facilities, and address seating issues caused by NERC/CIP security requirements. The total project cost is expected to approximate \$46M with \$10M borrowed in 2010. NYISO is in the process of securing long-term financing for this project, and for budget purposes, has assumed a total cost of \$50M to be financed over 20 years. The financing terms are interest-only for 24 months, with principal & interest repayment over 18 subsequent years. Additional details will be provided in a separate presentation.

Other capital costs included within the 2010 budget include \$0.3M for minor KCC and PCC improvements.

Replacement of Existing Hardware:

The increase in this line item is primarily attributable to:

- 1) a \$2.4M increase in hardware requirements for project enhancements planned in 2010 (\$2.7M) vs. 2009 (\$0.3M),
- 2) a \$1.0M increase to replace UNIX servers that are currently leased,
- 3) \$0.6M for server capacity upgrades.

Software Licenses (Capitalized):

The increase in this line item is primarily attributable to:

- 1) \$1.1M increase in software licenses for project enhancements planned in 2010 (\$1.7M) vs. 2009 (\$0.6M),
- 2) partially offset by: a reduction of \$0.9M for non-projects software licenses from 2009 to 2010.

Line Item Details – SALARIES & BENEFITS

<i>(\$ in millions)</i>	2010 Draft	2009 Budget	\$ Change
Base Salaries	\$43.2	\$42.1	\$1.1
Benefit Programs	\$16.5	\$15.9	\$0.6
Payroll Taxes	<u>\$3.4</u>	<u>\$3.3</u>	<u>\$0.1</u>
Total Salaries & Benefits	\$63.1	\$61.3	\$1.8

The 3% increase in Salaries & Benefits is primarily driven by:

- \$1.6M increase in expected retirement plan costs primarily to meet contribution requirements,
- \$1.4M related to a reduction in the assumed level of FTE vacancies for 2010 than for 2009 (10 vs. 23) - see details on headcount statistics on the next slide.
- (\$1.1M) for elimination/reductions to employee benefit programs (non-retirement plan)
- (\$0.3M) reflecting a decrease in average merit increase in employee salaries from 4% in the 2009 budget to 3% in the 2010 budget. It should be noted that the 3% 2010 level is consistent with industry surveys and other ISOs/RTOS. Additionally, during 2009, NYISO's actual merit increases were 2% rather than 4%.
- \$0.2M for all other salary & benefit costs, including the annual change in medical benefit costs, etc.

Line Item Details – SALARIES & BENEFITS

<u>HEADCOUNT SUMMARY BY YEAR:</u>			
	<u>2010</u>	<u>2009</u>	<u>Change</u>
Total Authorized FTE Positions	463	465	(2)
Less: Assumed Vacancies	(10)	(23)	13
Total Budgeted FTE Positions	453	442	11

<u>HEADCOUNT SUMMARY:</u>	
Total Authorized FTE Positions for 2009	465
Add: Positions Added during 2009	15
Less: Eliminated Positions	(17)
Add: New Positions for 2010	0
Total Authorized FTE Positions for 2010	463
Less: Assumed Vacancies	(10)
Equals: Total Budgeted FTE Positions	453

<u>Department</u>	<u>Positions Added</u>	<u>Positions Eliminated</u>
Operations	7	5
Planning	3	1
External Affairs	2	1
IT	1	3
HR, Risk Mgt. & Compliance	1	3
Market Structures	1	2
Other	0	2
Totals	15	17

Line Item Details – PROFESSIONAL FEES

<i>(\$ in millions)</i>	<u>2010 Draft</u>	<u>2009 Budget</u>	<u>\$ Change</u>
Product Enhancement consultants (<i>several vendors</i>)	\$12.2	\$12.4	(\$0.2)
External legal fees	\$7.4	\$8.3	(\$0.9)
Market advisor & related consulting	\$1.8	\$1.4	\$0.4
Ranger support & enhancements	\$1.6	\$1.7	(\$0.1)
Staff augmentation to support various IT processes	\$1.2	\$2.8	(\$1.6)
Security guards	\$1.2	\$1.2	-
Market design & related consulting	\$0.9	\$0.9	-
External audits and Internal Audit co-sourcing	\$0.5	\$0.8	(\$0.3)
Consultants assisting with TCC auction support	\$0.3	\$0.6	(\$0.3)
Lean Six Sigma quality initiative consultants	-	\$0.7	(\$0.7)
Other Misc. Professional Fees (all individually < \$500K)	<u>\$4.9</u>	<u>\$7.3</u>	<u>(\$2.4)</u>
Total Professional Fees	\$32.0	\$38.1	(\$6.1)

Product Enhancement Consultants: See details on 2010 product enhancements in a separate presentation.

External Legal Fees: During 2009, two employees were included in the budget and added to the General Counsel's staff to offset external legal fees. The majority of the expected 2010 decrease is due to the shifting of legal work from external to internal resources.

Market advisor & related consulting: The expected increase in such costs is driven by the increased reporting structure / scope of responsibilities for the external market advisor pursuant to FERC Order 719.

Others: Due to recent staff efficiency/productivity gains and to minimize the 2010 RS1 impact to MPs, NYISO reduced consulting services within IT, the LSS program, Internal Audit, TCC Operations, and numerous other departments – resulting in a 16% decrease in the Professional Fees budget from 2009 to 2010.

Line Item Details – BUILDING SERVICES

<i>(\$ in millions)</i>	<u>2010 Draft</u>	<u>2009 Budget</u>	<u>\$ Change</u>
Total Building Services	\$5.1	\$5.1	-

Building Services:
NYISO includes building service contracts, repairs & maintenance, and membership dues & subscriptions within this budget category. The 2010 budget is being held to 2009 levels. Significant negotiations in a variety of service contracts will be pursued to meet these levels.

Line Item Details – COMPUTER SERVICES

<i>(\$ in millions)</i>	2010 <u>Draft</u>	2009 <u>Budget</u>	\$ <u>Change</u>
Total Computer Services Costs	\$15.8	\$15.7	\$0.1

Computer Services:

The 2010 budget is consistent with the 2009 budget, although \$0.9M less than the projection for 2010 made during the 2009 budget cycle. NYISO continues to experience increased costs for hardware/software maintenance and software licenses due to growth in the number of software products and escalating vendor increases. NYISO continues to offset such increases by savings realized during aggressive contract renegotiations.

Line Item Details - INSURANCE

<i>(\$ in millions)</i>	2010 Draft	2009 Budget	\$ Change
Total Insurance	\$3.0	\$3.2	(\$0.2)

Insurance:

In mid-2005, NYISO hired a new insurance broker to review existing insurance coverages, limits, etc. and to aggressively educate insurers regarding the NYISO risk climate. Since that time, NYISO's insurance premiums have been reduced significantly from historical levels of ~\$7M. The 2010 budget reflects an 6% decrease from the 2009 budget (as noted above), and a slight increase from the projected 2009 actuals of \$2.8M.

Line Item Details - TELECOMMUNICATIONS

<i>(\$ in millions)</i>	2010 Draft	2009 Budget	\$ Change
Total Telecommunications	\$4.0	\$4.3	(\$0.3)

Telecommunications:

The 2010 budget reflects a 7% decrease from the 2009 budget. Telecom savings continue to be achieved by combining and renegotiating services with various carriers, removing unused telecom lines, etc.

Line Item Details – OTHER EXPENSES

<i>(\$ in millions)</i>	<u>2010 Draft</u>	<u>2009 Budget</u>	<u>\$ Change</u>
Travel, Meetings, Training Costs	\$1.7	\$2.7	(\$1.0)
BOD Fees and Expenses	\$1.2	\$1.8	(\$0.6)
NPCC Fees	<u>\$0.3</u>	<u>\$0.3</u>	-
Total Other Expenses	\$3.2	\$4.8	(\$1.6)

Travel, Meetings, Training Costs:

NYISO plans to continue austerity spending for travel, meetings & training costs during 2010. The amounts funded for 2010 vs. 2009 budgets consist of:

	<u>2010</u>	<u>2009</u>	<u>\$ Change</u>
Employee travel/mtgs/training	1.3M	2.3M	(1.0)
MP meetings	0.2M	0.2M	-
MP training courses	0.1M	0.1M	-
Dispatcher training courses	0.1M	0.1M	-

BOD Fees and Expenses:

The decrease above reflects the 2010 estimate of BOD compensation and meeting costs, which assumes 11 BOD meetings rather than the historical level of 12. Additionally, the 2009 budget had assumed an increase in BOD fees that did not materialize. The 2010 draft is equivalent to the expected 2009 level of BOD costs.

NPCC Fees:

The 2010 budget is based upon information provided by NPCC for annual budget funding allocations.

Line Item Details – DEBT SERVICE

ANNUAL PRINCIPAL AND INTEREST REPAYMENTS **									
(\$ in millions)									
Debt Facility & Repayment Period	Borrowings	2008	2009	2010	2011	2012	2013	2014	2015
2004 Budget Loan (4 yrs)	n/a	\$10.7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2005 KCC Bldg Mortgage & Renov. (20 yrs)	n/a	\$1.7	\$2.1	\$2.1	\$2.1	\$2.1	\$2.1	\$2.1	\$2.1
2005 Budget Loan (4 yrs)	n/a	\$4.7	\$4.6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2006 Budget Loan (4 yrs)	n/a	\$4.3	\$3.9	\$4.0	\$ -	\$ -	\$ -	\$ -	\$ -
2007 Budget Loan (3 yrs)	\$15.0M	\$5.7	\$5.4	\$5.1	\$ -	\$ -	\$ -	\$ -	\$ -
2008 Budget Loan (3 yrs)	\$16.7M	\$0.5	\$6.3	\$6.0	\$5.7	\$ -	\$ -	\$ -	\$ -
2009 Budget Loan (3 yrs)	\$18.3M	\$ -	\$0.4	\$7.0	\$6.6	\$6.3	\$ -	\$ -	\$ -
2010 Master Infrastructure Mortgage (20 yrs – est.)	\$50.0M Est.	\$ -	\$ -	\$0.2	\$1.8	\$4.1	\$5.0	\$5.0	\$5.0
2010 Budget Loan (3 yrs)	\$20.0M Est.	\$ -	\$ -	\$0.5	\$7.7	\$7.3	\$6.9	\$ -	\$ -
2011 Budget Loan (3 yrs – estimated)	\$20.0M Est.	\$ -	\$ -	\$ -	\$0.6	\$7.8	\$7.3	\$6.9	\$ -
2012 Budget Loan (3 yrs – estimated)	\$20.0M Est.	\$ -	\$ -	\$ -	\$ -	\$0.6	\$7.8	\$7.3	\$6.9
2013 Budget Loan (3 yrs – estimated)	\$20.0M Est.	\$ -	\$ -	\$ -	\$ -	\$ -	\$0.6	\$7.8	\$7.3
Bank Fees	n/a	\$0.6	\$0.6	\$0.4	\$0.6	\$0.5	\$0.5	\$0.5	\$0.5
Total Debt Service Payments		\$28.2	\$23.3	\$25.3	\$25.1	\$28.7	\$30.2	**	**

**** Note: Totals after 2013 are not presented as additional loans after 2013 are not factored into this table.**

Line Item Details – DEBT SERVICE (cont'd)

PRINCIPAL BALANCE OUTSTANDING AT DECEMBER 31, (\$ in millions)									
Debt Facility	2008	2009	2010	2011	2012	2013	2014	2015	2016
2004 Budget Loan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2005 KCC Bldg Mortgage & Renov.	\$22.0	\$21.2	\$20.4	\$19.6	\$18.7	\$17.7	\$16.7	\$15.6	
2005 Budget Loan	\$4.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2006 Budget Loan	\$7.4	\$3.6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2007 Budget Loan	\$10.0	\$5.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2008 Budget Loan	\$16.7	\$11.1	\$5.6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2009 Budget Loan	\$ -	\$18.3	\$12.2	\$6.1	\$ -	\$ -	\$ -	\$ -	\$ -
2010 Master Infrastructure Mortgage	\$ -	\$ -	\$10.0	\$40.0	\$49.3	\$47.9	\$46.3	\$44.7	\$42.9
2010 Budget Loan	\$ -	\$ -	\$20.0	\$13.3	\$6.7	\$ -	\$ -	\$ -	\$ -
2011 Budget Loan	\$ -	\$ -	\$ -	\$20.0	\$13.3	\$6.7	\$ -	\$ -	\$ -
2012 Budget Loan	\$ -	\$ -	\$ -	\$ -	\$20.0	\$13.3	\$6.7	\$ -	\$ -
2013 Budget Loan	\$ -	\$ -	\$ -	\$ -	\$ -	\$20.0	\$13.3	\$6.7	\$ -
Total Principal Outstanding	\$60.6	\$59.2	\$68.2	\$99.0	\$108.0	\$105.6	**	**	**

*** Note: Totals after 2013 are not presented as additional loans after 2013 are not factored into this table.*

Line Item Details – MISC. REVENUE

<i>(\$ in millions)</i>	<u>2010 Draft</u>	<u>2009 Budget</u>	<u>\$ Change</u>
Total Miscellaneous Revenues	\$2.3	\$3.1	(\$0.8)

Miscellaneous Revenues:

The reduction in miscellaneous revenues reflected above is attributable to a \$1.2M decrease in interest income earned on NYISO's investments caused by declines in interest rates. The 2010 draft budget reflects interest income of \$0.5M as compared to \$1.7M in the 2009 budget and \$0.1M in projected 2009 actual interest income.

The decrease in interest income is partially offset by increases in expected revenue from interconnection studies of \$0.3M and MP training of \$0.1M.

Line Item Details – FERC FEES

<i>(\$ in millions)</i>	<u>2010 Draft</u>	<u>2009 Budget</u>	<u>\$ Change</u>
Total FERC Fees	\$11.2	\$9.4	\$1.8

FERC Fees:

NYISO includes FERC Fees within its annual RS#1 budget revenue requirements. None of the other ISOs do this, and instead, assess FERC Fees as a direct passthrough to MPs.

NYISO's 2010 budget for FERC Fees is \$11.2M, which represents a corresponding ~11% increase from the 2009 actuals. In 2009, FERC's program costs increased 11% annually.

While FERC issued a Notice of Inquiry in 2008 as to the allocation of FERC Fees (and NYISO submitted comments in that proceeding), ISOs/RTOs continue to pay >80% of total FERC costs. See charts on next slide for additional information.

Line Item Details – FERC FEES

NYISO History of FERC Fees							
<i>(\$ in millions)</i>	2003	2004	2005	2006	2007	2008	2009
Annual Budget	\$5.0	\$8.0	\$7.0	\$9.9	\$8.2	\$8.3	\$9.4
FERC Annual Assessment	\$7.7	\$6.7	\$8.3	\$7.8	\$7.9	\$8.9	\$10.1
FERC Adj. to Prior Year	\$0.2	(\$1.4)	\$0.3	\$ -	(\$0.1)	(\$0.2)	(\$0.4)
Total Annual FERC Fees	\$7.9	\$5.3	\$8.6	\$7.8	\$7.8	\$8.7	\$9.7
% Change in FERC Fees	27%	(31%)	62%	(9%)	0%	12%	11%

High degree of annual variation

ISO/RTO History of FERC Fees							
<i>(\$ in millions)</i>	2003	2004	2005	2006	2007	2008	2009
CAISO	\$11.3	\$7.8	\$12.3	\$10.8	\$11.3	\$12.0	\$13.0
ISO-NE	\$ -	\$ -	\$ -	\$6.3	\$6.3	\$6.7	\$7.2
MISO	\$1.4	\$30.0	\$30.0	\$29.2	\$28.9	\$30.9	\$33.1
NYISO	\$7.7	\$5.3	\$8.6	\$7.8	\$7.8	\$8.7	\$9.7
PJM	\$25.2	\$14.1	\$21.4	\$32.7	\$33.3	\$36.7	\$39.7
SPP	\$ -	\$ -	\$ -	\$8.3	\$8.7	\$9.1	\$10.5
ISO/RTO % of Total FERC Fees	54%	66%	65%	83%	84%	82%	81%