



2004 BUDGET OVERVIEW

Budget, Standards & Performance Subcommittee
September 26, 2003

For Discussion Only

NYISO 2004 Budget Overview

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SCHEDULE

- August 28: Sr. Mgt. reviews draft 1
- Early September: Finance incorporates Sr. Mgt. changes into draft 2
- September 15: High-level summary of draft 2 is presented to BOD
- September 26: Draft 2 is presented to BSP
- October 17: BSP presents draft 2 to MC
- October 20: Detailed summary of draft 2 is presented to BOD
- Late October: Finance incorporates BOD & MP changes into draft 3
- November 12: BSP presents draft 3 to MC; MC votes on draft 3
- November 18: BOD approves 2004 Budget

Notes:

1. During Q4, Finance will be working with financial institutions to procure desired financing. Ideally, the specific financing will be completed (with PSC approval) by December 31.
2. Timing of the 2004- 2008 Budget Targets is not reflected above & will be based on BOD guidance.

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GUIDING PRINCIPLES

As part of NYISO's 2004 Budget preparation efforts, NYISO has strived to achieve the following objectives:

Sensitivity to Rate Schedule #1 level:

- Achieve cash budget and revenue requirement totals generally consistent with the 2004 Budget projections previously distributed
- Minimize increases from 2003 to 2004 - most increases were beyond NYISO control (i.e. FERC Fees) or were previously anticipated, (i.e. Debt Service)
- Reduce headcount levels by amount of additional contractors hired during SMD2.0 implementation
- Improve upon 2003 budget approval process by eliminating \$15M in internal budget requests prior to initial BSP discussions
- Continue to consider possible financing opportunities for capital and project costs allowing mitigation of current Rate Schedule #1 charges and assessment of capital investment charges to applicable market participants
- Address implications of the 8/14/03 blackout & include appropriate level of funds to address anticipated follow-up activities

Responsiveness to MP requests:

- Adhere to key principles included in BSP guidelines document for capital & projects budgeting
- Continue providing market participants with detailed budget presentations for consideration when recommending an annual budget to the Board of Directors
- Provide market participants with greater visibility to certain line items requested by the BSP and to projects details

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KEY ASSUMPTIONS & HIGHLIGHTS

General:

- The \$12.2M increase in the 2004 Cash Budget from the previously projected 2004 Cash Budget (\$178.7M vs. \$166.5M) resulted primarily from \$7.1M in unforeseen increases (\$2.8M in FERC Fees and \$4.3M in non-labor costs associated with the 8/14/03 Blackout).
- Projected headcount at 12/31/04 totals 409 staff (392 FTEs and 17 contractors) as compared to the 12/31/03 total of 447 (358 FTEs and 89 contractors)
- RS#1 denominator (millions of MWhs) will increase from 158.8 in 2003 to 161.0 in 2004.

Baseline:

- Significant increases from 2003: \$3.0M in FERC Fees, \$1.6M in Insurance premiums, offset by decreases in several other line items

Projects:

- Composition of \$45.2M Project costs: \$13.3 labor, \$12.3M capital, \$19.6M consultants & other
- Of the \$45.2M in total project costs, SMD2.0 comprises \$23.8M or 53%
- Primary reason for decrease from 2003 is a ~\$10M reduction in SMD2.0 project

Debt Service:

- All Capital and Projects costs would continue to be financed over five years
- Blackout costs would also be financed over five years
- Consists of principal and interest payments for financings done in prior years
- \$12.6M increase is due to 2004 scheduled payments on loan taken in 2003

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SUMMARY OF BUDGET TRENDS & PROJECTIONS

(\$ in millions, except RS#1)

	2003 Final	2004 Draft	2005 Target	2006 Target	2007 Target	2008 Target
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	<u>(1.6)</u>	<u>(\$1.1)</u>				
RS#1 Revenue Requirement	<u>\$118.2</u>	<u>\$132.2</u>				
Rate Schedule #1 (\$/MWH)	<u>\$0.74</u>	<u>\$0.82</u>				

*2005 – 2008 Budget
Targets will be
finalized & presented at
a future BSP meeting.*

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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)	<u>\$ -</u>	<u>\$ -</u>	<u>\$30.2</u>	<u>\$ -</u>	<u>\$30.2</u>	<u>\$30.8</u>	<u>\$17.5</u>
TOTAL CASH BUDGET	\$98.3	\$45.2	\$30.2	\$5.0	\$178.7	\$166.5	\$166.8
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)
TOTAL CASH BUDGET, NET OF FIN'GS	\$88.9	\$ -	\$43.3	\$ -	\$132.2	\$138.1	\$118.2
RATE SCHEDULE #1 (\$/MWH)	\$0.55	\$0.00	\$0.27	\$0.00	\$0.82	\$0.87	\$0.74

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OTHER ISOs COMPARISON

(\$ in millions)

<u>ISO</u>	<u>2004 Budget</u> <i>(Revenue Requirement)</i>
California ISO	\$217M
PJM Interconnection	<i>TBD</i>
ISO New England	<i>TBD</i>
Midwest ISO	<i>TBD</i>
ERCOT	<i>TBD</i>
New York ISO	\$132M

Comparisons between ISOs are difficult to make without a detailed understanding of the components of each ISO's budget, including the amount of financing undertaken. For example,

1. NYISO's 2004 Budget Revenue Requirement includes ~\$12M for repayment of start-up costs (which some other ISOs do not include as part of their budget revenue requirements) and \$8M in FERC Fees (which not all ISOs are subject to, etc.).
2. Historically, NYISO has financed a lower portion of its annual budget than other ISOs.

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HEADCOUNT SUMMARY at 12/31/04

<u>Department</u>	<u>FTEs</u>	<u>Contractors</u>	<u>Total</u>
IT	131	11	142
Operations	71	0	71
Market Services	46	1	47
Finance	35	4	39
Risk Mgt.	38	0	38
Admin & Compl.	19	0	19
HR & Training	16	0	16
Strategic Plng.	15	0	15
Legal & Reg.	12	1	13
Communications	6	0	6
Executive	<u>3</u>	<u>0</u>	<u>3</u>
Total	392	17	409

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LINE ITEM DETAILS: SALARIES & BENEFITS

(\$ in millions)

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

S&B COMPOSITION	2004	2003	\$ Diff.
Salaries	\$29.7	\$25.2	\$4.5
Incentive Bonuses (Corporate & Exec.)	\$4.0	\$3.4	\$0.6
Payroll Taxes	\$2.4	\$2.0	\$0.4
Benefit Programs	\$7.8	\$7.4	\$0.4
Total Salaries & Benefits	\$43.9	\$38.0	\$5.9
<i>Note: The increase in S&B is primarily driven by a higher average headcount in 2004 than 2003 (average of 428 in 2004 vs. 397 in 2003).</i>			

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LINE ITEM DETAILS: CONSULTANTS

(\$ in millions)

	<u>Baseline</u>		<u>Projects</u>		<u>Blackout</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Consultants	\$12.4	\$10.7	\$5.5	\$5.1	\$1.3	\$ -	\$19.2	\$15.8
Contractors	\$3.6	\$5.4	\$3.8	\$7.5	\$ -	\$ -	\$7.4	\$12.9
Total	\$16.0	\$16.1	\$9.3	\$12.6	\$1.3	\$ -	\$26.6	\$28.7

The \$3.4M increase in Consultants is primarily due to the following:

- \$1.3M in Blackout-related consultants in 2004 vs. \$0 in 2003
- \$1.0M increase in IT consultants to maintain systems deployed in 2003-4
- \$0.6M increase in internal audit co-sourcing consultants to mirror audit plan

The \$5.5M decrease in Contractors is due to the reduction in total onsite contractors from 89 at 12/31/03 to 17 at 12/31/04.

For additional details on the composition of these totals, refer to the following:

Baseline: separate handout detailing list of significant individual Consulting charges

Projects: NYISO 2004 Projects Summary presentation

Blackout: slide 16 of this presentation

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LINE ITEM DETAILS: LEGAL

(\$ in millions)

2004 Budget for external Legal services (excluding Blackout) is \$6.0M:

- Reduction of \$0.5M from 2003 Budget of \$6.5M
- Reduction of \$1.3M from 2003 Projected Actual of \$7.3M

Key Assumptions for 2004 Legal Budget:

- Increasing internal staff of attorneys from 4 to 5
- Assigning more work to internal staff, particularly regulatory matters
- Expecting similar level of filings, litigation and support activities as 2003

Cost Control Measures:

- No fee increases from external legal firm in three years
- Average hourly fee in 2003 (and expected for 2004) has actually decreased 3% from 2002, despite several specialized efforts in 2003 re: litigation and bankruptcy matters
- Increased use of local external counsel on various issues including labor, contracts, and real estate matters
- Detailed monthly review of legal budget vs. actual status performed
- Central coordination of assignments and schedules & routine monitoring of external counsel staffing

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LINE ITEM DETAILS: CAPITAL & COMP. SERVICES

(\$ in millions)

CAPITAL COMPOSITION	<u>2004</u>	<u>2003</u>	<u>\$ Diff.</u>
Baseline	\$8.3	\$11.3	(\$3.0)
Projects	<u>\$12.4</u>	<u>\$20.6</u>	(\$8.2)
Total Capital	\$20.7	\$31.9	(\$11.2)

COMPUTER SERVICES COMPOSITION	<u>2004</u>	<u>2003</u>	<u>\$ Diff.</u>
Project Development Costs (<i>Projects</i>)	\$13.7	\$11.9	\$1.8
Hardware & Software Maintenance (<i>Baseline</i>)	\$ 6.7	\$ 8.2	(\$1.5)
Computer & Electronics Supplies (<i>Baseline</i>)	<u>\$ 0.4</u>	<u>\$ 0.4</u>	<u>\$0.0</u>
Total Computer Services	\$20.8	\$20.5	\$0.3

Baseline: Reductions to NYISO's annual budget were made in both Capital and Hardware & Software Maintenance.

Projects: When considered jointly, the decrease in Capital and Project Dev. Costs is \$6.4M (\$8.2M decrease in Capital less \$1.8M increase in Proj. Dev. Costs). This is primarily due to the reduction in the cost of the SMD 2.0 Project from 2003 to 2004.

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LINE ITEM DETAILS: INSURANCE

(\$ in millions)

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
<i>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).</i>			

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PROJECTS SUMMARY

(\$ in millions)

<u>Project</u>	<u>Labor Costs</u>	<u>Capital Costs</u>	<u>Other Costs</u>	<u>Total Costs</u>
SMD 2.0 & related	\$4.6	\$8.9	\$10.3	\$23.8
Other Projects – specific costs per project are individually < \$2.5M	\$7.3	\$3.4	\$8.4	\$19.1
Other Projects – specific costs per project not yet determined	<u>\$1.4</u>	<u>\$0.0</u>	<u>\$0.9</u>	<u>\$ 2.3</u>
Total Projects	\$13.3	\$12.3	\$19.6	\$45.2

See further details on Project costs & deliverables in separate handout ("NYISO 2004 Projects Summary").

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BLACKOUT COSTS SUMMARY

(\$ in millions)

To address anticipated ramifications of the August 14, 2003 Blackout, NYISO anticipates the following budgetary needs:

<u>Line Item</u>	<u>Description</u>	<u>\$ Amount</u>
Legal	External legal services	\$3.1
Salaries & Ben.	Internal staff hours	\$0.6
Consultants	Transmission planning analyses/studies	\$0.5
Consultants	Reliability analyses/studies	\$0.5
Consultants	Public relations	<u>\$0.3</u>
Total		\$5.0

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DEBT SERVICE SUMMARY

(\$ in millions)

	<u>Scheduled Annual Repayments (p&i)</u>				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
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>
Subtotal: Debt Service Payments (prior year financings)	\$30.2	\$29.9	\$26.6	\$25.4	\$12.7
Initial year funding (current year financing)	<u>\$13.1</u>	<u>TBD</u>	<u>TBD</u>	<u>TBD</u>	<u>TBD</u>
Total: Debt Service	\$43.3	\$29.9	\$26.6	\$25.4	\$12.7
RS#1 Impact per Year	\$0.27	\$0.18	\$0.16	\$0.15	\$0.07

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.

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RECAP

- 2004 Budget, as proposed, represents the funding level required to meet NYISO's key objectives & projects scheduled for 2004
- Significant internal review processes have occurred to prepare the 2004 Budget
- NYISO is considering adding a budget compliance goal to its 2004 Corporate Incentive Goals program
- Since inception, NYISO has never exceeded its annual budget
- Refer to the "NYISO 2004 Projects Summary" for Project details
- Market Participant Questions / Comments??
- Next Steps to Prepare for 10/17 MC meeting...