

NYISO 2010 BUDGET OVERVIEW

(dollars in millions, unless otherwise noted)

**Management Committee
September 30, 2009**

Draft – For Discussion Only

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 (*additional details on 2010 Budget and Projects are available under meeting materials for this meeting*)
- **September 22:** BPWG teleconference to review 2011-2014 budget projections
- **September 30:** BPWG presentation on draft 2010 budget to Management Committee
- **October 7:** BPWG meeting to continue discussions on 2010 budget
- **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 may 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 draft 2010 budget includes a total of \$0.2M in RS1 funding for the Infrastructure Master Plan (see details in separate MC presentation). To match the long-term nature of this investment, NYISO has secured financing with a 20-year term to minimize the RS1 impact on Market Participants. If this project and associated financing are not pursued during 2010, NYISO's capital spending would increase during 2010 by ~\$5M.
- The draft 2010 budget and RS1 charge/MWh listed above do not include any provisions to address the RS1 shortfall in MWhs experienced during 2009. The current BPWG recommendation for addressing the 2009 shortfall may add \$1M and \$0.01 to 2010's RS1.
- The draft 2010 budget and RS1 charge/MWh listed above also do not include funding for DOE stimulus applications, which is addressed at the end of this presentation. The proposed budgetary approach to finance the DOE projects during 2010 would add \$0.2M to the budget and \$0.001 to the 2010 RS1 charge/MWh, for a total of \$0.892/MWh.

Budget Highlights

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.
- 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 \$3-5M;
- 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

<i>(in millions, excluding RS#1/MWH charges)</i>	2007 <u>Budget</u>	2008 <u>Budget</u>	2009 <u>Budget</u>	2010 <u>Draft</u>	<u>% Changes</u>	
					2010 vs. <u>2009</u>	2010 vs. <u>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>						
<u>Supplemental Information – RS1 Charge/MWH by MP Type</u>						
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: PROPOSED PROJECTS BUDGET

2010 Proposed Projects Budget Summary

	(\$ in millions)		
Product Area	Capital	Prof. Fees	Total
Auxiliary Markets	N/A	1,525	\$1,525
Business Intelligence	0.116	1,030	\$1,146
Energy Markets	N/A	2,825	\$2,825
Finance	N/A	2,150	\$2,150
Infrastructure	2,885	1,275	\$4,160
Operations and Reliability	1,243	2,747	\$3,990
Planning and TCC	0.108	0.675	\$0.783
2010 Total	\$4,352	\$12,227	\$16,579
2009 Total	\$900	\$12,400	\$13,300

- Capital spending on Projects varies widely from year to year, depending on the nature of the specific Projects included in each year's budget.
- The Projects included in the 2009 budget did not have a significant Capital component. The 2010 Projects do require a capital investment, primarily to replace aging infrastructure ensuring the availability and performance of the Customer Settlements datamart, Pricing datamart, and Market Monitoring datamart.

NYISO 2010 BUDGET: PROPOSED DOE BUDGET

Budget Considerations

- 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, prior to including any potential costs for the DoE stimulus applications.
- NYISO's involvement in administering federal grants clearly represents a new scope of responsibilities, affecting numerous NYISO departments, and will require funding through Rate Schedule 1.
- Unlike most other projects/tasks which can be reasonably quantified or approximated when the NYISO budget is prepared, the 2010 implications of the DoE stimulus applications are difficult to quantify with accuracy at this time, given the following uncertainties:
 - *Will the NYISO's submitted applications be granted? If so, for how much?*
 - *How much should NYISO assume for the cost of the Statewide Communications Network application to be filed in November?*
 - *Will there be DoE funds remaining for the Statewide Communications Backbone application? If so, will the application be granted, and for how much?*
 - *Specifically, when will the costs be incurred over the three-year period 2010-2012?*
 - *Of the costs quantified in the DoE applications, how much can be absorbed with existing NYISO resources vs. new resources?*

Budgetary Approach

- Given the uncertainties involving the potential costs for the proposed DoE projects, NYISO asked Market Participants to consider whether the Rate Schedule 1 funding should be evaluated separately from the 2010 budget timeline.
- Market Participants expressed a preference to include the funding for the DoE projects within the 2010 budget to permit a single budget cycle and Rate Schedule 1 charge effective January 1, 2010.
- To match the capital nature of the proposed projects, NYISO would assume debt borrowings with repayment payable over three years (year of borrowing is interest only, followed by three years of principal and interest payments).
- Financing of capital projects allocates cost over subsequent three years, thereby mitigating Rate Schedule 1 impact in year of acquisition.

Summary of DoE Applications

				NYISO Share of Project Costs *			
Application	DoE Cost-Sharing %	Date Submitted	Est. Date of Funding	2010 Cost	2011 Cost	2012 Cost	Total Cost
PMUs/Capacitor Banks	50%	8/09	11/09?	\$5.1M	\$5.8M	\$4.5M	\$15.4M
Statewide Communications Backbone	50%	12/09 (Target)	2010?	\$0.5M	\$0.5M	\$0.5M	\$1.5M
Eastern Interconnect Planning Coll.	100%	9/09	11/09?	\$ -	\$ -	\$ -	\$ -
Total				\$5.6M	\$6.3M	\$5.0M	\$16.9M

* The NYISO share of project costs represents the amounts included in the DoE application for the PMU / Capacitor bank project, and the most current estimate for the Statewide Communications Backbone project. It should be noted that the cost structure of the Statewide Communications Backbone project remains under discussion, and deviations from the current approach could significantly impact NYISO's RS1.

NYISO 2010 BUDGET: SUMMARY

2010 Budget / Rate Schedule 1 Totals

	<u>Baseline & Project Costs</u>	<u>DoE Stimulus</u>	<u>Total</u>
Revenue Requirement – in \$	\$149.0M	\$0.2M	\$149.2M
Forecasted MWhs	167.3M	167.3M	167.3M
RS1 Charge/MWh	\$0.891	\$0.001	\$0.892
<p><i>The \$0.2M for DoE Stimulus in 2010 represents the estimated interest cost of financing \$5.6M in 2010 DoE costs, with principal and interest repayment scheduled for 2011-2013.</i></p>			