

# **NYISO 2011 BUDGET and 2012-2013 BUDGET PROJECTIONS**

*(dollars in millions, unless otherwise noted)*

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October 20, 2010

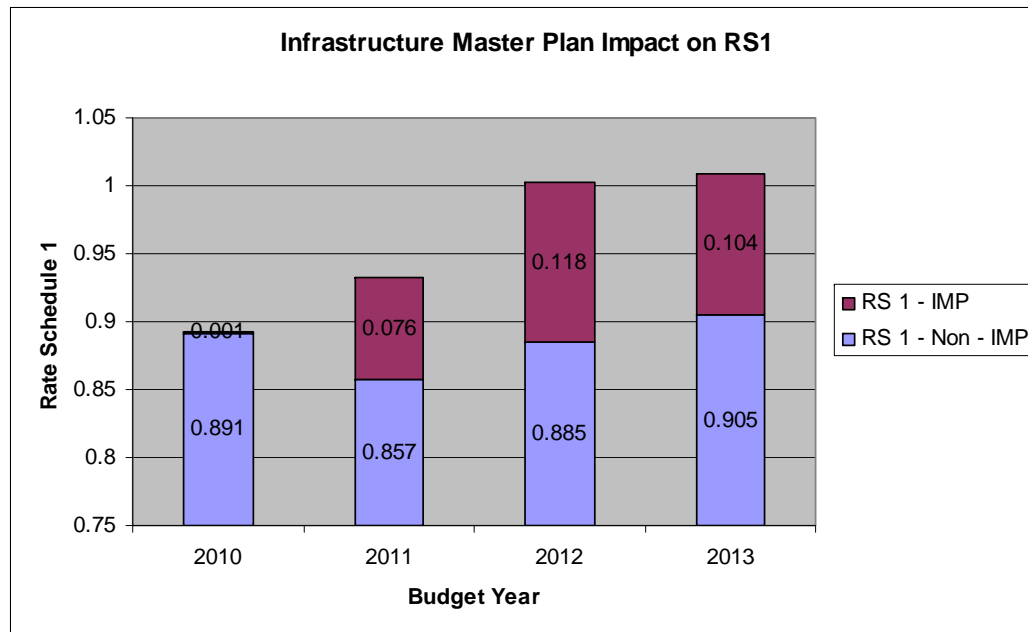
# Schedule

- September 8: BPWG meeting (review 2011 budget)
- September 24: BPWG meeting (review 2012-2013 budget projections)
- September 29: BPWG presentation of 2011 budget to Management Committee
- October 8: BPWG meeting
- October 18: BOD meeting to review 2011 budget and 2012-2013 projections
- October 20: BPWG meeting
- **October 21: MC discussion on 2011 budget and 2012-2013 projections**
- **November 17: MC vote on 2011 budget**
- **Nov/Dec (TBD): BOD approval of final 2011 budget**

*Note: Management Committee vote and BOD approval on 2011 budget have been postponed by one month from original schedule to permit additional discussion on the Infrastructure Master Plan.*

# RS1 Summary

	ANNUAL BUDGETS		BUDGET PROJECTIONS	
	2010 Budget	2011 Draft	2012 Projection	2013 Projection
<i>(\$ in millions, except RS#/MWH)</i>				
Total: Rate Schedule #1 Revenue Requirement in \$\$	\$149.2	\$156.5	\$170.4	\$173.9
Budgeted MWH Hours <i>(in millions)</i>	167.3	167.7	169.9	172.3
Rate Schedule #1 Revenue Requirement in \$/MWH	\$0.892	\$0.933	\$1.003	\$1.009



Listed on this page is a summary of the RS1 revenue requirements for 2011-2013, as presented to Market Participants. These levels assume there is no financing to support the Infrastructure Master Plan (“IMP”).

# Infrastructure Master Plan

- Market Participants have requested NYISO to seek financing to offset the RS1 impact of the Infrastructure Master Plan. NYISO has agreed to pursue such options, although a specific long-term financing vehicle is not yet in place.
  
- **Potential Financing Timeline:**
  - *November 2010 – Management Committee vote on 2011 budget (including recommendation to support financing of Infrastructure Master Plan)*
  - *Nov/Dec. 2010 – BOD approval of 2011 budget*
  - *Q4 2010 – Negotiate terms & conditions of new financing with lenders*
  - *January 2011 – Draft and file PSC petition seeking financing approval*
  - *April / May 2011 – Initial opportunity for PSC to act on NYISO financing petition*
  - *TBD (likely June 2011) – expiration of financing commitment*
  
- **Impact on 2011 Budget:**
  - Infrastructure Master Plan activities are planned to continue in January 2011 to mitigate risks and meet project timelines, but a new financing petition could not be approved until mid-year (approximate 6-month timing difference):
    - ▶ Cash flow gap
    - ▶ Risk that PSC does not approve financing

# Infrastructure Master Plan *(continued)*

## Interim Solution - Potentially Available Sources of Funds:

<u>\$ Amount</u>	<u>Source of Funds</u>	<u>Details</u>
\$5M-\$6M	2007-2010 Budget Loan	Loan expires in January 2011; 3-year repayment over 2011-2013; Interest is LIBOR plus 65 bps (currently < 1%)
\$1M-\$2M	2010 RS1 overcollections	Budget motions request any overcollections to be used to reduce outstanding debt or new future debt
TBD	2010 Budgetary underspending	Budget motions request any underspending to be used to reduce outstanding debt or new future debt
TBD	Short-term liquidity reserves	\$50M revolver and ~\$50M working capital fund

# Infrastructure Master Plan *(continued)*

## ➤ Recommendation:

- *Use potentially available sources of funds to bridge cash flows needed between January 2011 through approval of new financing petition.*
- *Adjust 2011 budget & RS1 revenue requirements to reflect financing and use of short-term funds.*
- *If PSC does not approve new financing petition by June 2011, RS1 would be increased accordingly.*
- *Management Committee motion on the 2011 budget would reflect these concepts and Market Participant support for the Infrastructure Master Plan financing.*

## ➤ Item for Discussion:

- *Would borrowing on 2007-2010 Budget Loan be repaid upon approval of longer-term financing or repaid on 3-year basis?*
- *Impact on RS1 would vary accordingly – see details on next slide.*

# Scenario Analysis:

Assumes Long-Term Financing in Place by June 2011

A. RS1 Impact if \$5M borrowed on 2007-2010 Loan is repaid entirely during 2011:

	ANNUAL BUDGET	BUDGET PROJECTIONS	
	2011 Draft	2012 Projection	2013 Projection
<i>(\$ in millions, except RS#1/MWH)</i>			
Total: Rate Schedule #1 Revenue Requirement in \$\$	\$144.9	\$152.0	\$158.8
Budgeted MWH Hours <i>(in millions)</i>	167.7	169.9	172.3
Rate Schedule #1 Revenue Requirement in \$/MWH	\$0.864	\$0.895	\$0.922

B. RS1 Impact if \$5M borrowed on 2007-2010 Loan is repaid over 3 years and use of \$2M in 2010 remaining funds:

	ANNUAL BUDGET	BUDGET PROJECTIONS	
	2011 Draft	2012 Projection	2013 Projection
<i>(\$ in millions, except RS#1/MWH)</i>			
Total: Rate Schedule #1 Revenue Requirement in \$\$	\$146.5	\$153.3	\$160.0
Budgeted MWH Hours <i>(in millions)</i>	167.7	169.9	172.3
Rate Schedule #1 Revenue Requirement in \$/MWH	\$0.874	\$0.902	\$0.929

# Scenario Analysis:

**Assumes Long-Term Financing is NOT in Place by June 2011**

- Short-term sources of funds must be utilized to cover spending incurred during 1<sup>st</sup> half of 2011 (~\$6-7M)
- RS1 would be increased, effective July 1, 2011 to fund remaining 2011 project costs
  - *\$12.7M in 2011 Budget less ~\$6M in short-term sources of funds = ~\$6.7M funded via RS1 over remaining 6 months only (\$0.077/MWh)*
  - *RS1 would increase from \$0.874/MWh to \$0.951/MWh during July – December 2011*
- 2012-2013 Budgets would include project funding within RS1

# RS1 Impact Summary

<u>Treatment of Infrastructure Master Plan</u>	<u>RS1 Charge/MWh</u>			
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014+ Impact</u>
\$50M funded in RS1 (no financing)	\$0.933	\$1.003	\$1.009	~\$0.10 reduction
\$50M project financed over 20 years <i>(interest only for 2011-2013)</i>	\$0.864	\$0.895	\$0.922	~\$0.028 per year (2014 – 2030)
\$43M financed over 20 years; \$5M financed over 3 years (2011-2013); \$2M utilized from 2010 RS1 overcoll.	\$0.874	\$0.902	\$0.929	~\$0.024 per year (2014 – 2030)
<i>The latter two options listed above require PSC approval of long-term financing.</i>				

# 2011 BUDGET: HIGHLIGHTS & SUMMARY INFORMATION

*(as presented at the 9/29/10 Management Committee Meeting)*

# Budget Highlights

## *In Summary:*

- NYISO's draft 2011 budget totals \$156.5M, allocated across a forecast of 167.7 million MWhs, for a Rate Schedule 1 charge/MWh of \$0.933. Comparatively, the 2010 budget was \$149.2M allocated across 167.3 million MWhs for a RS1 charge/MWh of \$0.892.

## *Primary Drivers:*

- The primary reason for an increase in RS1 from 2010 to 2011 is the inclusion of \$12.7M in Infrastructure Master Plan costs, primarily those associated with completing the facility maintenance upgrades at the PCC, in Rate Schedule 1 without the benefit of long-term financing to offset the short-term impact of these capital improvements.
- Additionally, the 2011 budgeted MWh volumes reflect only a 0.2% increase from the 2010 budget.
- In an effort to mitigate these rate impacts, and in recognition of NYISO's ongoing cost consciousness efforts, NYISO has reduced spending or held budgets flat in various 2011 budget categories.
- Net of the Infrastructure Master Plan, NYISO's 2011 budget reflects a \$5.4M or 4% reduction from the 2010 budget, indicative of NYISO's ongoing focus to reduce spending where possible.

## *Peer Comparison:*

- NYISO's amount of debt outstanding, and number of full-time equivalent employees, continue to be among the lowest of all ISOs/RTOs.

# Budget Highlights

## *Cost Consciousness:*

- NYISO continues to focus its spending on initiatives and investments that: improve overall operations and reliability (e.g. staff additions and facility improvements); are responsive to Market Participant feedback; and represent prudent investments (e.g. Broader Regional Markets).
- NYISO recognizes that ongoing economic conditions are difficult for all Market Participants and has taken feasible steps to implement cost reductions in 2011.
- One significant example of NYISO's efforts to reduce costs relates to a change in business model from utilizing external consultants to relying upon internal NYISO employees. This shift has resulted in an increase to Salaries and Benefits, which is offset by a reduction in Professional Fees, for net annual savings of approximately \$2.4M.
- NYISO also reduced legal fees by \$1.1M from the 2010 budget by hiring additional staff to shift legal matters from outside counsel.
- NYISO reduced budgetary spending for Debt Service costs, Building Service costs, and ongoing Insurance renewals. NYISO also maintained spending on baseline Computer Service costs, BOD/Travel & Training costs, and ongoing Telecommunication costs.

# Historical Budget Comparisons

				<u>% Changes</u>	
<i>(in millions, excluding RS#1/MWH charges)</i>	<u>2009 Budget</u>	<u>2010 Budget</u>	<u>2011 Draft</u>	<u>2011 vs. 2010</u>	<u>2011 vs. 2009</u>
RS#1 Rev. Requirement – in \$\$	\$144.2	\$149.2	\$156.5	4.9%	8.5%
Budgeted MWH Hours	<u>177.3</u>	<u>167.3</u>	<u>167.7</u>	0.2%	(5.4%)
RS#1 Rev. Requirement - \$/MWH	\$0.813	\$0.892	\$0.933	4.6%	14.8%
<u>Supplemental Information – RS1 Charge/MWH by MP Type</u>					
Total RS#1 Rev. Requirement - \$/MWH	\$0.813	\$0.892	\$0.933	4.6%	14.8%
<i>RS#1 Charge/MWH: Purchasers @ 80%</i>	<i>\$0.650</i>	<i>\$0.669</i>	<i>\$0.703</i>	5.1%	8.2%
<i>RS#1 Charge/MWH: Sellers @ 20%</i>	<i>\$0.163</i>	<i>\$0.169</i>	<i>\$0.176</i>	4.1%	7.9%
<i>RS#1 Charge/MWH: Non-physical transactions</i>	-	<i>\$0.054</i>	<i>\$0.054</i>	-	n/a

# 2011 Budget Overview

(\$ in millions, except RS#1/MWH)	2011 Draft Budget					2010 Budget	\$ Variance	
	Baseline	Projects	Infrast. Master Plan	Grants	Total			
Capital	\$2.2	\$5.1	\$12.1	\$1.7	\$21.1	\$18.6	\$2.5	
Less: Proceeds from Infrastructure Master Plan Financing	-	-	-	-	-	(10.0)	10.0	
Capital – net of Proceeds from Infrastructure Master Plan Financing	2.2	5.1	12.1	1.7	21.1	8.6	12.5	
Salaries & Benefits	57.6	9.3	-	1.4	68.3	63.1	5.2	
Professional Fees (including Legal)	18.6	5.6	-	7.0	31.2	37.0	(5.8)	
Building Services	5.0	-	-	-	5.0	5.1	(0.1)	
Computer Services	15.8	-	-	0.2	16.0	15.8	0.2	
Insurance	2.9	-	0.6	-	3.5	3.0	0.5	
Telecommunications	4.1	-	-	-	4.1	4.0	0.1	
Other Expenses (BOD, Travel/Training, NPCC Fees)	3.2	-	-	-	3.2	3.2	-	
<b>Subtotal: Current Year Needs (excl. FERC Fees)</b>	<b>\$109.4</b>	<b>\$20.0</b>	<b>\$12.7</b>	<b>\$10.3</b>	<b>\$152.4</b>	<b>\$139.8</b>	<b>\$12.6</b>	
Debt Service	24.1	-	-	-	24.1	24.6	(0.5)	
<b>Subtotal: Cash Budget</b>	<b>\$133.5</b>	<b>\$20.0</b>	<b>\$12.7</b>	<b>\$10.3</b>	<b>\$176.5</b>	<b>\$164.4</b>	<b>\$12.1</b>	
Less: Miscellaneous Revenues	(2.2)	-	-	(5.3)	(7.5)	(2.3)	(5.2)	
Less: Proceeds from Current Year Budget Debt	-	(20.0)	-	(5.0)	(25.0)	(25.0)	-	
Add: Interest on Current Year Budget Debt	0.5	-	-	-	0.5	0.7	(0.2)	
Add: Principal & Interest on Infrastructure Master Plan Financing	-	-	-	-	-	0.2	(0.2)	
<b>Subtotal: Net Budget Needs</b>	<b>\$131.8</b>	<b>-</b>	<b>\$12.7</b>	<b>-</b>	<b>\$144.5</b>	<b>\$138.0</b>	<b>\$6.5</b>	
FERC Fees	12.0	-	-	-	12.0	11.2	0.8	
<b>Total: Rate Schedule #1 Revenue Requirement in \$\$</b>	<b>\$143.8</b>	<b>-</b>	<b>\$12.7</b>	<b>-</b>	<b>\$156.5</b>	<b>\$149.2</b>	<b>\$7.3</b>	
<b>Budgeted MWH Hours (in millions)</b>						<b>167.7</b>	<b>167.3</b>	<b>0.4</b>
<b>Rate Schedule #1 Revenue Requirement in \$/MWH (budget)</b>						<b>\$0.933</b>	<b>\$0.892</b>	<b>\$0.041</b>
<i>For presentation purposes 2010 DOE costs of \$5M have been included in Professional Fees, offset by \$5M in Debt Proceeds.</i>								

# 2012-2013 BUDGET PROJECTIONS

*(as presented at the 9/24/10 BPWG Meeting)*

# Major Assumptions

Cost Category	Major Assumptions for 2012-2013
Capital	<ul style="list-style-type: none"> <li>➤ Purchases of Hardware and Software are estimated as follows: (2012 = \$8.0M, 2013 = \$8.0M)</li> <li>➤ Infrastructure Master Plan costs are estimated as follows: (2012 = \$20.0, 2013 = \$18.0)</li> <li>➤ Non- Infrastructure Master Plan Facility Improvements are estimated as follows: (2012 = \$0.3M, 2013 = \$0.3M)</li> </ul>
Salaries & Benefits	<ul style="list-style-type: none"> <li>➤ Headcount will be budgeted at 491 FTEs annually (521 total less assumed 30 vacancies)</li> <li>➤ No new benefit programs or significant changes to existing programs</li> <li>➤ Average annual salary increases of 3%</li> <li>➤ 10% annual increases in medical insurance costs</li> </ul>
Professional Fees (including Legal)	<ul style="list-style-type: none"> <li>➤ Consultant costs, excluding DOE, are being held consistent with 2011 levels.</li> </ul>
Building Services	<ul style="list-style-type: none"> <li>➤ 2% annual increase in overall Facilities costs</li> </ul>
Computer Services	<ul style="list-style-type: none"> <li>➤ Hardware &amp; Software maintenance is increasing 3% per year. All other components of Computer Services are being held consistent with 2011 levels.</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>➤ 5% annual increases in insurance</li> </ul>
Telecommunications	<ul style="list-style-type: none"> <li>➤ Assumes increase of \$0.2M in 2012 and \$0.5M in 2013 for ongoing costs associated with the DOE Smart Grid project</li> </ul>
Other Expenses (BOD, Travel/Trng, NPCC Fees)	<ul style="list-style-type: none"> <li>➤ Assumes no annual increases in Board of Directors' costs;</li> <li>➤ Assumes 1.5% annual increases in Travel/Training/Meetings;</li> <li>➤ 10% annual increases in NPCC Fees</li> </ul>
Debt Service	<ul style="list-style-type: none"> <li>➤ Assumes no financing of costs associated with the Infrastructure Master Plan</li> <li>➤ Annual borrowings (with 3-year repayment terms) to fund capital and product enhancements will be ~\$25M;</li> <li>➤ All Federal match DOE costs are fully financed: \$5.0M in 2012 and \$2.6M in 2013;</li> <li>➤ Interest rates for most borrowings through 2011 are between 3.3% – 6.0% and will approximate an average of 4.5% for borrowings following 2011;</li> <li>➤ No reductions for “early payments” on debt from potential savings on annual budget or load overcollections have been included</li> </ul>
FERC Fees	<ul style="list-style-type: none"> <li>➤ 5% annual increases in FERC Fees</li> </ul>
MWH Hours	<ul style="list-style-type: none"> <li>➤ Estimating load as follows: 2012 = 169.9Million MWh, 2013 = 172.3Million MWh – Refer to Appendix for further details</li> </ul>

# Detail Projections by Cost Category

	ANNUAL BUDGET	BUDGET PROJECTIONS	
	2011 <u>Draft</u>	2012 <u>Projection</u>	2013 <u>Projection</u>
<i>(\$ in millions, except RS#1/MWH)</i>			
Capital	\$21.1	\$30.0	\$27.3
Less: Proceeds from Mortgage/Renovations Debt	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Capital – net of Proceeds from Mortgage/Renovations Debt	\$21.1	\$30.0	\$27.3
Salaries & Benefits	\$68.3	\$70.1	\$72.8
Professional Fees (including Legal)	\$31.2	\$31.3	\$28.0
Building Services	\$5.0	\$5.1	\$5.2
Computer Services	\$16.0	\$14.7	\$15.1
Insurance	\$3.5	\$3.7	\$3.9
Telecommunications	\$4.1	\$4.3	\$4.9
Other Expenses (BOD, Travel/Training, NPCC Fees)	<u>\$3.2</u>	<u>\$3.3</u>	<u>\$3.4</u>
<b>Subtotal: Current Year Needs (excl. FERC Fees)</b>	<b>\$152.4</b>	<b>\$162.5</b>	<b>\$160.5</b>
Debt Service	<u>\$24.1</u>	<u>\$27.0</u>	<u>\$29.2</u>
<b>Subtotal: Cash Budget</b>	<b>\$176.5</b>	<b>\$189.5</b>	<b>\$189.7</b>
Less: Miscellaneous Revenues	(\$7.5)	(\$7.3)	(\$4.8)
Less: Proceeds from Current Year Budget Debt	(\$25.0)	(\$25.0)	(\$25.0)
Add: Interest on Current Year Budget and Mortgage Debt	<u>\$0.5</u>	<u>\$0.6</u>	<u>\$0.7</u>
<b>Subtotal: Net Budget Needs</b>	<b>\$144.5</b>	<b>\$157.8</b>	<b>\$160.7</b>
FERC Fees	<u>\$12.0</u>	<u>\$12.6</u>	<u>\$13.2</u>
<b>Total: Rate Schedule #1 Revenue Requirement in \$\$</b>	<b>\$156.5</b>	<b>\$170.4</b>	<b>\$173.9</b>
<b>Budgeted MWH Hours (in millions)</b>	<b>167.7</b>	<b>169.9</b>	<b>172.3</b>
<b>Rate Schedule #1 Revenue Requirement in \$/MWH</b>	<b>\$0.933</b>	<b>\$1.003</b>	<b>\$1.009</b>