

NYISO 2006 BUDGET OVERVIEW

Prepared for:

Budget, Standards & Performance Subcommittee

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NYISO 2006 BUDGET OVERVIEW:

Table of Contents

<u>Topic</u>	<u>Page #</u>
<u>BUDGET SUMMARY INFORMATION:</u>	
➤ Highlights	4
➤ Summary Budget	5
<u>BUDGET DETAIL INFORMATION:</u>	
➤ Detail Budget by Cost Category	7
➤ Summary of Significant Changes	8
➤ Line Item Details	9
<u>SUPPLEMENTAL INFORMATION:</u>	
➤ Other ISOs Comparison	20
➤ Recap	21

BUDGET SUMMARY INFORMATION

NYISO 2006 BUDGET OVERVIEW: Highlights

THEMES:

- *Within Budget Target:* Draft 2006 budget is within the budget target established in 2003 (despite certain costs exceeding inflationary increases);
- *Overall Focus:* Like 2005, 2006 will continue NYISO's focus on Excellence in Execution initiatives;
- *RTO Cost Consciousness:* NYISO's annual spending levels reflect a decrease from 2005 (excluding FERC Fees)

MAIN 2006 PRIORITIES:

1. Elimination of pricing errors (using existing resources / budget)
2. Eliminate backlog of most final bill closeout invoices by July 2006
3. Continue TCC and UCAP automation / enhancement initiatives
4. Continue automation efforts for manual billing processes
5. Begin process to replace Billing & Accounting System
6. Begin process to replace Market Information System
7. Begin to realize effectiveness and efficiencies from Lean Six Sigma quality initiative
8. Continue transition plan to migrate to new headquarters facility (expected completion is Q1 2007)

NYISO 2006 BUDGET OVERVIEW:

Summary Budget

<u>Cost Category</u> <i>(\$ in millions, excluding RS#1/MWH)</i>	<u>2006 Draft</u>	<u>2005 Budget</u>	<u>2004 Actuals</u>	<u>2003 Actuals</u>
Current Year Needs (excl. FERC Fees)	\$130.0	\$130.5	\$132.1	\$139.8
Plus: Debt Service from Prior Year Financings	<u>\$31.5</u>	<u>\$26.5</u>	<u>\$29.0</u>	<u>\$15.9</u>
Cash Budget	\$161.5	\$157.0	\$161.1	\$155.7
Less: Miscellaneous Revenues	(\$2.5)	(\$1.9)	(\$1.1)	(\$1.0)
Less: Net Proceeds on Current Year Financings	<u>(\$35.8)</u>	<u>(\$33.1)</u>	<u>(\$41.5)</u>	<u>(\$45.8)</u>
Net Budget Needs – in \$\$	\$123.2	\$122.0	\$118.5	\$108.9
FERC Fees – in \$\$	<u>\$9.9</u>	<u>\$7.0</u>	<u>\$5.3</u>	<u>\$7.9</u>
Total RS#1 Rev. Requirement – in \$\$	\$133.1	\$129.0	\$123.8	\$116.8
Net Budget Needs – in \$/MWH	\$0.742	\$0.745	\$0.736	\$0.686
FERC Fees – in \$/MWH	<u>\$0.060</u>	<u>\$0.043</u>	<u>\$0.033</u>	<u>\$0.050</u>
Total RS#1 Rev. Requirement - \$/MWH	\$0.802	\$0.788	\$0.769	\$0.736
RS#1 Charge/MWH: Purchasers @ 80% (85% pre-2005)	\$0.642	\$0.630	\$0.654	\$0.626
RS#1 Charge/MWH: Sellers @ 20% (15% pre-2005)	\$0.160	\$0.158	\$0.115	\$0.110

For Discussion Only



BUDGET DETAIL INFORMATION



NYISO 2006 BUDGET OVERVIEW:

Detail Budget by Cost Category

<i>(\$ in millions, except RS#1/MWH)</i>	<u>2006 Draft</u>	<u>2005 Budget</u>	<u>2004 Actuals</u>	<u>2003 Actuals</u>	<u>Details Page Ref.</u>
Capital	\$22.4	\$21.8	\$12.1	\$30.3	<i>Page 9</i>
Salaries & Benefits	50.3	47.4	42.1	37.6	<i>Page 10</i>
Professional Fees (including Legal)	26.6	29.2	49.2	49.2	<i>Page 11</i>
Building Services	4.4	4.2	4.2	3.3	<i>Page 12</i>
Computer Services	10.5	11.5	8.7	4.2	<i>Page 13</i>
Insurance	4.6	6.8	6.4	6.7	<i>Page 14</i>
Telecommunications	5.1	4.2	4.5	3.1	<i>Page 15</i>
Other Expenses (BOD, Travel/Training, NPCC Fees)	6.1	5.4	4.9	5.4	<i>Page 16</i>
Current Year Needs (excl. FERC Fees)	\$130.0	\$130.5	\$132.1	\$139.8	
Debt Service	<u>31.5</u>	<u>26.5</u>	<u>29.0</u>	<u>15.9</u>	<i>Page 17</i>
Cash Budget	\$161.5	\$157.0	\$161.1	\$155.7	
Less: Miscellaneous Revenues	(2.5)	(1.9)	(1.1)	(1.0)	
Less: Proceeds from Current Year Budget Debt	(28.0)	(20.4)	(42.0)	(47.0)	<i>Page 17</i>
Less: Proceeds from Mortgage/Renovations Debt	(9.0)	(15.9)	-	-	<i>Page 17</i>
Add: Interest on Current Year Budget Debt	0.8	0.5	0.5	1.2	<i>Page 17</i>
Add: Principal & Interest on Mortgage/Renovations Debt	<u>0.4</u>	<u>2.7</u>	-	-	<i>Page 17</i>
Net Budget Needs	\$123.2	\$122.0	\$118.5	\$108.9	
FERC Fees	9.9	7.0	5.3	7.9	<i>Page 18</i>
Rate Schedule #1 Revenue Requirement in \$\$	\$133.1	\$129.0	\$123.8	\$116.8	
MWH Hours	166.0	163.7	161.0	158.8	
Rate Schedule #1 Revenue Requirement in \$/MWH	\$0.802	\$0.788	\$0.769	\$0.736	

For Discussion Only

NYISO 2006 BUDGET OVERVIEW: Summary of Significant Changes

2005 Net Budget Needs		\$130.5
➤ <u>Less: Efficiencies and reductions</u>		(4.6)
Elimination of credit insurance program	(\$1.7)	
Reduction in use of consultants	(\$1.4)	
Savings on HW & SW maintenance/licenses	(\$1.0)	
Savings on annual insurance premiums	(\$0.5)	
➤ <u>Plus: Budget increases</u>		4.1
Net increase in staffing (FTEs and contractors)	\$1.2	
Increase in telecommunication costs	\$0.9	
Increase in annual Capital acquisitions	\$0.6	
Increase in external legal costs	\$0.5	
Increase in misc. other costs	\$0.9	
➤ <u>Subtotal: Decrease in Net Budget Needs</u>		<u>(\$0.5)</u>
Equals: 2006 Net Budget Needs		\$130.0

NYISO 2006 BUDGET OVERVIEW:

Line Item Details - CAPITAL

<i>(\$ in millions)</i>	<u>2006 Draft</u>	<u>2005 Budget</u>	<u>\$ Change</u>
Acquisition and Renovation of New Headquarters Facility	\$11.6	\$15.9	(\$4.3)
Replacement of Existing Hardware	\$4.8	\$1.2	\$3.6
Additional Hardware/Software for Product Enhancements	\$3.0	\$0.1	\$2.9
Additional Software Licenses (capitalized)	\$2.4	\$2.4	\$ -
Renovations to Power Control Center	\$0.6	\$2.1	(\$1.5)
Replacement of Existing Furniture	\$ -	<u>\$0.1</u>	(\$0.1)
Total Capital Costs	\$22.4	\$21.8	\$0.6

Acquisition and Renovation of New Headquarters Facility:

Such costs are being financed over a 20-year term, and are reflected as part of the Capital line item, although a corresponding offset to RS#1 occurs in the Proceeds from Debt portion of the RS#1 Revenue Requirement calculation.

Replacement of Existing Hardware:

To maintain current technology, NYISO's strategy is to replace existing hardware every three years. The 2006 level of capital spending on upgrading existing hardware is consistent with historical levels. The 2005 budget is low in comparison to such levels as NYISO was limited in space and power capacity for hardware during 2005.

Hardware/Software for Product Enhancements:

None of the product enhancements during 2005 required a capital investment. During 2006, NYISO anticipates beginning the process to replace the BAS and MIS systems. Funds reserved in the 2006 Capital budget are primarily designated for such initiatives.

Renovations to Power Control Center:

NYISO's prioritization of required capital improvements to the PCC facility has resulted in a lower annual amount of spending than originally anticipated when the 2005 budget was prepared. While \$2.1M was earmarked in the 2005 budget for such improvements, the anticipated level of spending for 2005 is ~\$1M. Certain improvements not completed during 2005 (those lower in priority) will occur in 2006 and beyond.

NYISO 2006 BUDGET OVERVIEW:

Line Item Details – SALARIES & BENEFITS

HEADCOUNT SUMMARY	FTEs
12/31/05 Budgeted Totals	411
Staff Changes in 2005	<u>12</u>
12/31/05 Projected Totals	423
Staff Changes in 2006	-
12/31/06 Totals	423

(\$ in millions)	2006 Draft	2005 Budget	\$ Change
Salaries	\$35.4	\$32.9	\$2.5
Incentive Bonuses	\$5.0	\$4.6	\$0.4
Payroll Taxes	\$2.8	\$2.6	\$0.2
Benefit Programs	\$7.1	\$7.3	(\$0.2)
Total Salaries & Benefits	\$50.3	\$47.4	\$2.9
<p><i>The 6% increase in Salaries & Benefits is primarily due to the following:</i></p> <ul style="list-style-type: none"> * Full year cost of additional positions created; * Annual salary increases of ~4% ; * Offset by: reduction in expected annual increases for Medical insurance <p><i>NOTE: The 6% increase is less than half of the annual increase in Salaries & Benefits noted from 2003 – 2005. NYISO does not intend to add any headcount during 2006 or during the 2007 -2010 period.</i></p>			

NYISO 2006 BUDGET OVERVIEW: Line Item Details – PROFESSIONAL FEES

<i>(\$ in millions)</i>	<u>2006 Draft</u>	<u>2005 Budget</u>	<u>\$ Change</u>
Total Professional Fees	\$26.6	\$29.2	(\$2.6)

Details for composition of Professional Fees will be provided as a separate handout during the September 27, 2005 BSP meeting.

NYISO 2006 BUDGET OVERVIEW:

Line Item Details – BUILDING SERVICES

- Building Services' costs will increase by \$0.2M from 2005 to 2006 primarily from higher annual building costs associated with operating the new headquarters facility over savings from vacating one leased facility (Washington Avenue) in early 2006. The remaining two leased facilities (Annex and Wolf Road) will be vacated in early 2007, resulting in expected decreases in Building Services costs beginning in 2007.
- Additionally, minor increases are expected in Utilities costs for NYISO's facilities, resulting from higher fuel prices in 2006 than in 2005.

NYISO 2006 BUDGET OVERVIEW: Line Item Details – COMPUTER SERVICES

<i>(\$ in millions)</i>	<u>2006 Draft</u>	<u>2005 Budget</u>	<u>\$ Change</u>
Hardware Maintenance costs	\$2.0	\$2.8	(\$0.8)
Software Licenses (not capitalized) and Maintenance costs	\$7.8	\$8.0	(\$0.2)
Computer and Electronics Supplies	<u>\$0.7</u>	<u>\$0.7</u>	<u>\$ -</u>
Total Computer Services Costs	\$10.5	\$11.5	(\$1.0)

Hardware Maintenance and Software Licenses/Maintenance:

The reduction in hardware maintenance and software licenses/maintenance costs from 2005 to 2006 is primarily the result of savings generated from several vendor negotiations.

NYISO 2006 BUDGET OVERVIEW:

Line Item Details - INSURANCE

<i>(\$ in millions)</i>	<u>2006 Draft</u>	<u>2005 Budget</u>	<u>\$ Change</u>
Property & Liability Insurance	\$3.4	\$3.8	(\$0.4)
Directors' & Officers' Insurance	\$1.2	\$1.3	(\$0.1)
Credit Insurance	<u>\$ -</u>	<u>\$1.7</u>	<u>(\$1.7)</u>
Total Insurance	\$4.6	\$6.8	(\$2.2)

Property & Liability Insurance and D&O Insurance:

Conditions in the insurance markets are driving reductions in both NYISO's property & liability and D&O insurance premiums.

Credit Insurance:

NYISO did not purchase Credit Insurance for 2005, and does not plan to pursue Credit Insurance in 2006.

NYISO 2006 BUDGET OVERVIEW:

Line Item Details – TELECOMMUNICATIONS

- The budget for telecom costs is increasing from \$4.2M in 2005 to \$5.1M in 2006. Actual costs for 2004 were \$4.5M, and projected actuals for 2005 are \$4.9M. Therefore, the increase in 2006 telecom costs from anticipated 2005 actuals is \$0.2M.
- The increase in telecom costs for 2006 is primarily attributable to redundant sonnet ring expenses for the new headquarters facility.
- NYISO is currently undertaking an initiative to review all telecom charges and determine what opportunities for efficiencies and savings might exist. To the extent that such savings are identified, NYISO will take steps to reduce future levels of telecom costs.

NYISO 2006 BUDGET OVERVIEW: Line Item Details – OTHER EXPENSES

<i>(\$ in millions)</i>	<u>2006 Draft</u>	<u>2005 Budget</u>	<u>\$ Change</u>
BOD Fees and Expenses	\$1.3	\$0.9	\$0.4
Travel, Meetings, Training Costs	\$3.0	\$2.8	\$0.2
NPCC Fees	<u>\$1.8</u>	<u>\$1.7</u>	<u>\$0.1</u>
Total Other Expenses	\$6.1	\$5.4	\$0.7

BOD Fees and Expenses:

The increase in BOD Fees relates to the increase in BOD retainers and fees that became effective in late 2004 (after the completion of the 2005 budget), which was the first increase in BOD Fees since NYISO's inception in 1999.

Travel, Meetings, Training Costs:

The increase in this line item reflects higher costs for MP meetings once NYISO has vacated the Washington Avenue facility in early 2006. MP meetings previously held there will be at offsite premises. This line item will decrease in 2007 once conference facilities are available in the Phoenix building.

NPCC Fees:

A minor increase in NPCC Fees is expected based on input received from NPCC.

NYISO 2006 BUDGET OVERVIEW: Line Item Details – DEBT SERVICE

Major Assumptions:

- \$25M will be borrowed in 2006 to fund capital acquisitions and product enhancements
- \$12M will be borrowed in 2006 to complete the renovations and migration to the Phoenix building (\$9M for renovations is borrowed over a 20-year term and \$3M for migration costs/furniture is borrowed over a 5-year term)
- Interest on the 20-year term renovations is fixed at 5.96%
- Interest on most of the 5-year borrowings for capital acquisitions/product enhancements and Phoenix migration is capped at 4.80%

ANNUAL PRINCIPAL AND INTEREST REPAYMENTS **									
(\$ in millions)									
<u>Debt Facility</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
2003 Budget Loan	\$13.1	\$12.7	\$12.0	\$2.0	\$ -	\$ -	\$ -	\$ -	\$ -
2004 Budget Loan	12.0	11.7	11.2	10.7	-	-	-	-	-
2005 Phoenix Bldg Mortgage & Renov.	2.5	1.2	1.5	1.7	2.1	2.1	2.1	2.1	2.1
2005 Budget Loan	0.5	5.5	5.3	5.0	4.8	-	-	-	-
2006 Budget Loan	-	0.8	8.2	7.8	7.5	7.2	-	-	-
Bank Fees	0.8	0.8	0.7	0.7	0.7	0.7	TBD	TBD	TBD
Total	\$28.9	\$32.7	**	**	**	**	**	**	**

**** Note: Totals after 2006 are not presented as additional loans after 2006 are factored into this table.**

NYISO 2006 BUDGET OVERVIEW:

Line Item Details – FERC FEES

- NYISO includes FERC Fees within its annual RS#1 budget revenue requirements. Other ISOs do not utilize this practice and instead, assess FERC Fees as a direct passthrough to MPs.
- NYISO (and other ISOs) have protested to FERC both the level of FERC Fees and the methodology for assessing FERC Fees. A recent calculation indicated that ISOs & RTOs pay ~70% of the overall FERC annual budget.
- FERC Fees (and the potential for continued significant annual increases) are the primary item causing significant pressure on NYISO's ability to meet budget targets and to maintain reasonable annual budget increases. The level of FERC Fees is presented to the right:

NYISO History of FERC Fees					
(\$ in millions)	2002	2003	2004	2005	2006
Annual Budget	\$5.0	\$5.0	\$8.0	\$7.0	\$9.9
FERC Annual Assessment	\$6.2	\$7.7	\$6.7	\$8.3	TBD
FERC Adj. to Prior Year	\$ -	\$0.2	(\$1.4)	\$0.3	TBD
Total Annual FERC Fees	\$6.2	\$7.7	\$5.3	\$8.6	TBD
% Change in FERC Fees	n/a	24%	(31%)	62%	TBD

Other ISOs History of FERC Fees					
(\$ in millions)	2002	2003	2004	2005	2006
NYISO	\$6.2	\$7.7	\$5.3	\$8.6	TBD
CAISO	\$9.1	\$11.3	\$7.8	\$12.3	TBD
PJM	\$1.7	\$25.2	\$14.1	\$21.4	TBD
MISO	\$ -	\$1.4	\$30.0	\$30.0	TBD
ISO-NE	\$ -	\$ -	\$ -	\$ -	TBD

SUPPLEMENTAL INFORMATION

NYISO 2006 BUDGET OVERVIEW: Other ISOs Comparison

<i>(\$ in millions)</i>					
ISO/RTO	2006 Revenue Requirement	2006 FERC Fees	2006 Rev. Req. excluding FERC Fees	Debt Outstanding at 12/31/06	FTEs at 12/31/06
MISO	\$262.1	\$ -	\$262.1	\$406.5	670
PJM	TBD	\$ -	TBD	TBD	~575-600
CAISO	\$183.0	\$ -	\$183.0	\$169.0	528
ERCOT	\$124.9	\$ -	\$124.9	\$157.4	587
NYISO	\$133.1	\$9.9	\$123.2	\$99.3	423
ISO-NE	\$113.9	\$ -	\$113.9	\$87.1	417

NYISO 2006 BUDGET OVERVIEW:

Recap

Schedule:

- **September 27:** BSP subcommittee review of draft 2006 budget
- **October 11:** BSP presents draft 2006 budget to Management Committee for review
- **Early October (TBD):** NYISO presents draft 2006 budget to BOD Finance Committee for review
- **Late October (TBD):** BSP meeting to discuss feedback received from Management Committee and BOD Finance Committee
- **November 9:** Management Committee vote on final 2006 budget for recommendation to BOD Finance Committee
- **November 15:** BOD Finance Committee approval of final 2006 budget

Summary Points:

- **NYISO has prioritized all budget requests to allow completion of priority initiatives, while staying within the budget target established during 2003 for 2006**
- **2006 will continue the focus of improving NYISO's existing processes and efforts rather than significant market or technology changes**

Wrap-Up:

- **Refer to separate presentation for composition of 2006 anticipated product enhancements**
- **Refer to separate presentation for details on budget targets for 2007 – 2010**
- **Market Participant Questions / Concerns???**