

# 2007-2010 BUDGET TARGETS

*Prepared for:*

Budget, Standards & Performance Subcommittee

September 27, 2005

# **NYISO 2007-2010 BUDGET TARGETS:**

## **Table of Contents**

<u>Topic</u>	<u>Page #</u>
<b><u>BACKGROUND:</u></b>	
➤ History of Budget Targets	4
➤ Target Levels – As Originally Established in 2003	5
<b><u>2007 – 2010 BUDGET TARGETS:</u></b>	
➤ Process to Update Budget Targets	7
➤ Major Assumptions	8
➤ Detail Projections by Cost Category	9
➤ Reconciliation of 2007 – 2008 Targets	10
➤ Target Levels – Current Version	11
➤ Average Change over 2004 – 2010 Period	12
➤ Debt Summary	13
➤ Transactional Volume Considerations	15
➤ Recap	16



**BACKGROUND**



# **NYISO 2007-2010 BUDGET TARGETS:**

## **History of NYISO Budget Targets**

- NYISO's first set of five-year budget targets were set by MPs in 2003 for the period 2004 – 2008.
- These initial budget targets were created by MPs in summary format to determine a bottom-line RS#1 Revenue Requirement. No underlying details were created (either by line item, department, initiative, etc.) to determine feasibility of meeting budget targets.
- Although set by MPs, NYISO agreed to produce annual budgets that were within the established targets for the five-year period 2004 – 2008.
- To date, NYISO's annual budgets for 2004 - 2006 have been within the budget targets.
- A budget target for 2009 was not created during the 2005 budget approval process as significant changes were pending at NYISO (i.e. new CEO, potential for new facility, no update to Strategic Plan, etc.). NYISO agreed to provide budget targets for 2009 – 2010 during creation of 2006 budget.

# NYISO 2007-2010 BUDGET TARGETS: Target Levels - As Originally Established in 2003

<i>(\$ in millions, except RS#1/MWH)</i>	2004 Budget	2005 Target	2006 Target	2007 Target	2008 Target
Baseline ( <i>current year needs</i> )	\$97.8	\$101.5	\$102.5	\$103.5	\$105.4
Projects ( <i>current year needs</i> )	\$41.7	\$20.0	\$20.0	\$20.0	\$20.0
Debt Service ( <i>prior year financings</i> )	<u>\$30.2</u>	<u>\$29.7</u>	<u>\$32.8</u>	<u>\$37.7</u>	<u>\$31.2</u>
Subtotal: Cash Budget	<b>\$169.7</b>	<b>\$151.2</b>	<b>\$155.3</b>	<b>\$161.2</b>	<b>\$156.6</b>
Less: Net proceeds on CY financings	(\$44.8)	(\$21.1)	(\$21.1)	(\$22.0)	(\$21.1)
Less: Misc. Revenues	<u>(\$1.1)</u>	<u>(\$1.0)</u>	<u>(\$1.0)</u>	<u>(\$1.0)</u>	<u>(\$1.0)</u>
Equals: RS#1 Revenue Requirement	\$123.8	\$129.1	\$133.2	\$138.2	\$134.5
Annual MWHs	<u>161.0</u>	<u>163.7</u>	<u>166.0</u>	<u>168.5</u>	<u>171.0</u>
Equals: Rate Schedule #1 (\$/MWH)	<u>\$0.769</u>	<u>\$0.789</u>	<u>\$0.802</u>	<u>\$0.821</u>	<u>\$0.787</u>
<i>Status of Budget Target</i>	<i>Target Met</i>	<i>Target Met</i>	<i>Target Met</i>	<i>Committed to Meet</i>	<i>Committed to Meet</i>

# **2007 – 2010 BUDGET TARGETS**

# NYISO 2007-2010 BUDGET TARGETS: **Process to Update Budget Targets**

➤ Process Used:  
 During the 2006 budget process, NYISO created detailed projections for 2007 – 2008 to determine the feasibility of meeting the existing budget targets for that period. NYISO also created detailed projections for 2009 – 2010 to allow the establishment of 2009 – 2010 budget targets.

➤ Comparison of 2007 – 2008 to Existing Targets:  
 NYISO’s projections exceed the established budget targets by \$3.5M in 2007 and \$8.3M in 2008, respectively. While the cause of the 2008 “overrun” is partially caused by ~\$2M higher debt service costs than originally anticipated, the 2007 – 2008 predicament is primarily driven by higher than anticipated increases in FERC Fees, as illustrated below:

	<u>2007</u>	<u>2008</u>
As included in budget targets set in 2003	\$8.6	\$8.8
As updated for current projections in 2005	<u>\$10.9</u>	<u>12.0</u>
Variance	\$2.3	\$3.2

Despite the projected difficulty in meeting the 2007 – 2008 budget targets, NYISO still intends to establish annual budgets for 2007 – 2008 within the existing budget target levels. To help facilitate this, NYISO recommends changing the process used to handle variances on collections of MWHs under RS#1 – see further details on slide 15.

➤ Recommended Budget Targets for 2009 – 2010:  
 Primary goal of creating five-year budget targets is to create rate stability for MPs and to reflect minimal, if any, annual increases in RS#1. NYISO maintains that budget targets must be based on a set of assumptions and detailed projections. NYISO’s projection for 2009 is slightly less than 2007, and represents a less than 5% increase from 2008. NYISO’s projection for 2010 represents a 3.5% increase from 2009. Additionally, the increase in RS#1 from 2004 – 2010 (a seven-year period) is a total of 10%.

➤ Comparison to Other ISO Trends:  
 Certain other ISOs have stated that their annual budget requirements will remain flat or will decrease for a period of years. NYISO supports this culture of cost-consciousness, and is taking steps to reduce discretionary spending. However, comparisons of NYISO’s budgets to other ISOs should include the following points:

- \* Other ISOs exclude FERC Fees from their budget requirements,
- \* Other ISOs do not make firm commitments for a five-year period (most include disclaimers for potential unforeseen events),
- \* The annual budget requirements, outstanding debt, number of FTEs, and start-up costs for most other ISOs exceed NYISO’s.

# NYISO 2007-2010 BUDGET TARGETS:

## Major Assumptions

<u>Cost Category</u>	<u>Major Assumptions</u>
Capital	<ul style="list-style-type: none"> <li>➤ ~\$3M annual investment in new technology investments for product enhancements</li> <li>➤ Existing hardware will be replaced every three years</li> <li>➤ \$1M in anticipated improvements annually are expected for the PCC</li> </ul>
Salaries & Benefits	<ul style="list-style-type: none"> <li>➤ Headcount will remain flat at 423 FTEs through 2010</li> <li>➤ No new benefit programs or significant changes to existing programs</li> <li>➤ Average annual salary increases of 4%</li> <li>➤ 10% annual increases in benefit costs</li> </ul>
Professional Fees (including Legal)	<ul style="list-style-type: none"> <li>➤ 10% annual reduction in Consultants expected for 2007 – 2008</li> <li>➤ 5% annual reduction in Consultants expected for 2009 – 2010</li> <li>➤ No change in Legal costs from 2006 budget levels</li> </ul>
Building Services	<ul style="list-style-type: none"> <li>➤ Anticipated savings of ~\$1M annually beginning in 2007 (after complete migration to Phoenix building)</li> <li>➤ 3% annual increases in routine facilities costs are expected hereafter</li> </ul>
Computer Services	<ul style="list-style-type: none"> <li>➤ Hardware maintenance costs will increase 2-4% annually</li> <li>➤ Software license/maintenance costs will increase ~10% annually</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>➤ 10% increase in insurance costs in 2007 (primarily driven by fallout from Hurricane Katrina)</li> <li>➤ 5% annual increases in insurance from 2008 - 2010</li> </ul>
Telecommunications	<ul style="list-style-type: none"> <li>➤ 5% annual increases in telecom costs</li> </ul>
Other Expenses (BOD, Travel/Trng, NPCC Fees)	<ul style="list-style-type: none"> <li>➤ 2% annual increases in Board of Directors' costs</li> <li>➤ 3% annual increases in NPCC Fees</li> <li>➤ \$0.5M annual reduction in Meeting Costs beginning in 2007 (after complete migration to Phoenix building)</li> </ul>
Debt Service	<ul style="list-style-type: none"> <li>➤ Annual borrowings (5-year terms) to supplement RS#1 recoveries (and to mirror funding for capital and product enhancements) will be \$25M</li> <li>➤ Interest costs for such borrowings will approximate 7%</li> <li>➤ No reductions for "early payments" on debt from potential savings on annual budget (other than \$1.7M from 2005 budget for credit insurance)</li> </ul>
FERC Fees	<ul style="list-style-type: none"> <li>➤ 10% annual increases in FERC Fees</li> </ul>



# NYISO 2007-2010 BUDGET TARGETS:

## Detail Projections by Cost Category

(\$ in millions, except RS#1/MWH)	2005 Budget	2006 Draft	2007 Projection	2008 Projection	2009 Projection	2010 Projection
Capital	\$21.8	\$22.4	\$11.2	\$12.0	\$12.4	\$12.7
Salaries & Benefits	47.4	50.3	51.4	53.7	56.0	58.4
Professional Fees (including Legal)	29.2	26.6	24.5	22.6	21.7	20.9
Building Services	4.2	4.4	3.5	3.6	3.7	3.8
Computer Services	11.5	10.5	11.3	12.7	13.5	14.4
Insurance	6.8	4.6	5.1	5.3	5.6	5.9
Telecommunications	4.2	5.1	5.4	5.6	5.9	6.2
Other Expenses (BOD, Travel/Trng, NPCC Fees)	5.4	6.1	5.4	5.5	5.7	5.7
<b>Current Year Needs (excl. FERC Fees)</b>	<b>\$130.5</b>	<b>\$130.0</b>	<b>\$117.8</b>	<b>\$121.0</b>	<b>\$124.5</b>	<b>\$128.0</b>
Debt Service	<u>26.5</u>	<u>31.5</u>	<u>38.9</u>	<u>35.7</u>	<u>30.2</u>	<u>32.0</u>
<b>Cash Budget</b>	<b>\$157.0</b>	<b>\$161.5</b>	<b>\$156.7</b>	<b>\$156.7</b>	<b>\$154.7</b>	<b>\$160.0</b>
Less: Revenues	(1.9)	(2.5)	(1.8)	(1.9)	(1.9)	(1.9)
Less: Proceeds from Current Year Budget Debt	(20.4)	(28.0)	(25.0)	(25.0)	(25.0)	(25.0)
Less: Proceeds from Mortgage/Renov.	(15.9)	(9.0)	-	-	-	-
Add: Interest on Current Year Budget Debt	0.5	0.8	0.9	1.0	1.0	1.0
Add: Principal & Interest on Mortgage/Renov.	<u>2.7</u>	<u>0.4</u>	-	-	-	-
<b>Net Budget Needs</b>	<b>\$122.0</b>	<b>\$123.2</b>	<b>\$130.8</b>	<b>\$130.8</b>	<b>\$128.8</b>	<b>\$134.1</b>
FERC Fees	7.0	9.9	10.9	12.0	13.2	14.5
<b>RS#1 Revenue Requirement in \$\$</b>	<b>\$129.0</b>	<b>\$133.1</b>	<b>\$141.7</b>	<b>\$142.8</b>	<b>\$142.0</b>	<b>\$148.6</b>
<b>MWH Hours</b>	<b>163.7</b>	<b>166.0</b>	<b>168.5</b>	<b>171.0</b>	<b>173.1</b>	<b>175.0</b>
<b>RS#1 Revenue Requirement in \$/MWH</b>	<b>\$0.788</b>	<b>\$0.802</b>	<b>\$0.841</b>	<b>\$0.835</b>	<b>\$0.820</b>	<b>\$0.849</b>

*For Discussion Only*

# NYISO 2007-2010 BUDGET TARGETS: Reconciliation of 2007- 2008 Targets

(\$ in millions, except RS#1/MWH)	2006 <u>Draft</u>	2007 <u>Target</u>	2008 <u>Target</u>
<b>RS#1 Revenue Requirement in \$\$</b>			
Current Projection – from Detail by Cost Category	\$133.1	\$141.7	\$142.8
BSP Target Established in 2003	<u>\$133.2</u>	<u>\$138.2</u>	<u>\$134.5</u>
Difference from Target	(\$0.1)	\$3.5	\$8.3
<b>RS#1 Revenue Requirement in \$/MWH</b>			
Current Projection – from Detail by Cost Category	\$0.802	\$0.841	\$0.835
BSP Target Established in 2003	<u>\$0.802</u>	<u>\$0.821</u>	<u>\$0.787</u>
Difference from Target	\$0.000	\$0.020	\$0.048
<p><i>NOTE: Current projections of funding requirements for 2007 – 2008 indicate that NYISO's required funding will exceed the current budget targets for those years by \$3M and \$8M, respectively. Despite this forecast, NYISO intends to create annual budgets that meet the established budget targets for 2007 – 2008. The primary driver of this circumstance is the unanticipated increases in FERC Fees. In 2003, FERC Fees were expected to grow to \$8.8M by 2008 (compared to \$12M now projected for 2008).</i></p>			

# NYISO 2007-2010 BUDGET TARGETS: Target Levels – Current Version

*NYISO intends to create annual budgets for 2007 – 2008 that are within the RS#1 revenue requirement targets established in 2003. However, the components of the target levels for these years have been revised and are presented below. Proposed targets for 2009 and 2010 based on NYISO's detailed projections are also presented below:*

<i>(\$ in millions, except RS#1/MWH)</i>	<u>2004 Budget</u>	<u>2005 Budget</u>	<u>2006 Draft</u>	<u>2007 Target</u>	<u>2008 Target</u>	<u>2009 Target</u>	<u>2010 Target</u>
Current Year Needs (excl. FERC Fees)	\$131.5	\$130.5	\$130.0	\$114.3	\$112.7	\$124.5	\$128.0
Debt Service ( <i>prior year financings</i> )	<u>30.2</u>	<u>26.5</u>	<u>31.5</u>	<u>38.9</u>	<u>35.7</u>	<u>30.2</u>	<u>32.0</u>
Cash Budget	<b>\$161.7</b>	<b>\$157.0</b>	<b>\$161.5</b>	<b>\$153.2</b>	<b>\$148.4</b>	<b>\$154.7</b>	<b>\$160.0</b>
Less: Net proceeds on CY financings	(44.8)	(33.1)	(35.8)	(24.1)	(24.0)	(24.0)	(24.0)
Less: Misc. Revenues	<u>(1.1)</u>	<u>(1.9)</u>	<u>(2.5)</u>	<u>(1.8)</u>	<u>(1.9)</u>	<u>(1.9)</u>	<u>(1.9)</u>
Net Budget Needs	<b>\$115.8</b>	<b>\$122.0</b>	<b>\$123.2</b>	<b>\$127.3</b>	<b>\$122.5</b>	<b>\$128.8</b>	<b>\$134.1</b>
FERC Fees	<u>8.0</u>	<u>7.0</u>	<u>9.9</u>	<u>10.9</u>	<u>12.0</u>	<u>13.2</u>	<u>14.5</u>
RS#1 Revenue Requirement in \$\$	<b>\$123.8</b>	<b>\$129.0</b>	<b>\$133.1</b>	<b>\$138.2</b>	<b>\$134.5</b>	<b>\$142.0</b>	<b>\$148.6</b>
MWH	<u>161.0</u>	<u>163.7</u>	<u>166.0</u>	<u>168.5</u>	<u>171.0</u>	<u>173.1</u>	<u>175.0</u>
RS#1 Revenue Requirement in \$/MWH	<b>\$0.769</b>	<b>\$0.788</b>	<b>\$0.802</b>	<b>\$0.821</b>	<b>\$0.787</b>	<b>\$0.820</b>	<b>\$0.849</b>
Annual Change in RS#1/MWH	<u>3.9%</u>	<u>2.5%</u>	<u>1.8%</u>	<u>2.4%</u>	<u>(4.1%)</u>	<u>4.2%</u>	<u>3.5%</u>
<i>Source for RS#1 Revenue Requirement</i>	<i>Target Set in 2003</i>	<i>Target Set in 2003</i>	<i>Target Set in 2003</i>	<i>Target Set in 2003</i>	<i>Target Set in 2003</i>	<i>Detail Proj. by Cost Category</i>	<i>Detail Proj. by Cost Category</i>

*For Discussion Only*

# NYISO 2007-2010 BUDGET TARGETS: Average Change over 2004 - 2010 Period

<i>(\$ in millions, except RS#1/MWH)</i>	2004 Budget	2005 Budget	2006 Draft	2007 Target	2008 Target	2009 Target	2010 Target	2004 - 2010 Total Change		
								\$	%	Avg. % Increase
Current Year Needs (excl. FERC Fees)	\$131.5	\$130.5	\$130.0	\$114.3	\$112.7	\$124.5	\$128.0	(\$3.5)	(2.7%)	(0.5%)
Cash Budget	\$161.7	\$157.0	\$161.5	\$153.2	\$148.4	\$154.7	\$160.0	(\$1.7)	(1.1%)	(0.2%)
Net Budget Needs	\$115.8	\$122.0	\$123.2	\$127.3	\$122.5	\$128.8	\$134.1	\$18.3	15.8%	2.6%
FERC Fees	\$8.0	\$7.0	\$9.9	\$10.9	\$12.0	\$13.2	\$14.5	\$6.5	81.3%	13.6%
RS#1 Revenue Requirement in \$\$	\$123.8	\$129.0	\$133.1	\$138.2	\$134.5	\$142.0	\$148.6	\$24.8	20.0%	3.3%

# NYISO 2007-2010 BUDGET TARGETS:

## Debt Summary

PRINCIPAL BALANCE OUTSTANDING AT DECEMBER 31, (\$ in millions)									
Debt Facility	2005	2006	2007	2008	2009	2010	2011	2012	2013
2003 Budget Loan	\$25.5	\$13.7	\$2.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2004 Budget Loan	31.5	21.0	10.5	-	-	-	-	-	-
2005 Phoenix Bldg Mortgage & Renov.	13.6	22.5	22.3	22.0	21.2	20.4	19.6	18.7	17.7
2005 Budget Loan	18.8	14.1	9.4	4.7	-	-	-	-	-
2006 Budget Loan	-	28.0	21.0	14.0	7.0	-	-	-	-
2007 Budget Loan	-	-	25.0	18.8	12.5	6.3	-	-	-
2008 Budget Loan	-	-	-	25.0	18.8	12.5	6.3	-	-
2009 Budget Loan	-	-	-	-	25.0	18.8	12.5	6.3	-
2010 Budget Loan	-	-	-	-	-	25.0	18.8	12.5	6.3
<b>Total</b>	<b>\$89.4</b>	<b>\$99.3</b>	<b>\$90.2</b>	<b>\$84.5</b>	<b>\$84.5</b>	<b>\$83.0</b>	<b>**</b>	<b>**</b>	<b>**</b>

**\*\* Note: Totals for 2011 – 2013 are not presented as no additional loans that may occur after 2010 are factored into this table.**

# NYISO 2007-2010 BUDGET TARGETS:

## Debt Summary - continued

ANNUAL PRINCIPAL AND INTEREST REPAYMENTS									
(\$ in millions)									
Debt Facility	2005	2006	2007	2008	2009	2010	2011	2012	2013
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	-	-	-
2007 Budget Loan	-	-	0.9	7.8	7.3	6.9	6.5	-	-
2008 Budget Loan	-	-	-	1.0	7.8	7.3	6.9	6.5	-
2009 Budget Loan	-	-	-	-	1.0	7.8	7.3	6.9	6.5
2010 Budget Loan	-	-	-	-	-	1.0	7.8	7.3	6.9
<b>Total</b>	<b>\$28.1</b>	<b>\$31.9</b>	<b>\$39.1</b>	<b>\$36.0</b>	<b>\$30.5</b>	<b>\$32.3</b>	<b>**</b>	<b>**</b>	<b>**</b>
<i>** Note: Totals for 2011 – 2013 are not presented as no additional loans that may occur after 2010 are factored into this table.</i>									

# **NYISO 2007-2010 BUDGET TARGETS:**

## **Transactional Volume Considerations**

### **BACKGROUND:**

- As annual budgets are created, NYISO estimates expected MWHs to use in the denominator of the RS#1 calculation.
- Over or undercollections caused by variances between actual and forecasted MWH have been passed through to MPs (i.e. rebates or charges to MPs for over/under collections on MWHs).
- In 2003, Management Committee motion to approve budget allowed NYISO to utilize any spending underruns toward paying down existing debt (motion was silent with regard to variances on MWH volumes).
- NYISO is currently holding \$2M in overcollected funds from 2004, and ~\$4M in overcollections on 2005 MWHs through August.

### **DISCUSSION:**

- BSP has discussed the possibility of establishing a budget reserve from overcollections on transactional volumes to assist with unforeseen expenditures in a given budget year.
- NYISO has cautioned that tracking by MP of such a reserve would be administratively burdensome.

### **RECOMMENDATION:**

- NYISO recommends utilizing any overcollections (both those existing at 12/31/05 and on a going forward basis) from transactional volumes to pay down existing debt – consistent treatment with spending underruns.
- NYISO will manage any annual undercollections on transactional volumes in conjunction with anticipated debt borrowings and/or annual spending underruns – MPs will not be assessed an increase to RS#1 during a given budget year.
- NYISO will continue to report trends on transactional volumes to MPs during BSP meetings.

# **NYISO 2007-2010 BUDGET TARGETS:**

## **Recap**

- NYISO will meet budget targets for 2007 – 2008 within levels previously established by MPs
- NYISO has provided budget targets (and underlying assumptions) for 2009 – 2010
- NYISO recommends use of overcollections from transactional volumes to reduce outstanding debt
- MP Questions / Concerns ???