

2006 Budget vs. Actual Results

(\$ in millions, unless otherwise noted)

Budget & Priority Working Group

February 6, 2006

Summary

- Budget Underrun: \$6.2M (*see composition and details on subsequent slides*)
- Load Overcollections: \$3.5M
- Total 2006 Remaining Funds: \$9.7M
- When preparing the 2007 budget, NYISO had anticipated a total 2006 remaining fund balance of approximately \$5.0M. The \$5.0M was embedded into the 2007 budget as debt reduction. The additional \$4.7M in 2006 remaining funds will be used to reduce debt in 2007. NYISO is currently in the process of reviewing debt reduction scenarios and has not yet finalized a decision on the specific debt reduction.
- Primary factors driving budget underrun:

Interest Income	\$2.2M	Rate of Return higher than budgeted
2006 FERC Fees	\$2.1M	Actual FERC invoice less than budgeted
Salaries & Benefits	\$1.8M	Higher than expected vacancies
Insurance	\$1.0M	Restructured policies in March 2006
Debt Savings	\$0.8M	Cash flow needs and interest rate less than budgeted
- The 2006 actual results outlined in this presentation are contingent upon completion of the Deloitte and Touche 2006 financial statement audit.

2006 Detailed Budget vs. Actual Results

<u>Budget Category</u>	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actuals</u>	<u>Variance</u>
Capital	\$ 22.4	\$ 21.0	\$ 21.8	\$ 0.8
Salaries & Benefits	\$ 50.3	\$ 49.3	\$ 47.5	\$ (1.8)
Professional Fees (including Legal)	\$ 26.6	\$ 29.2	\$ 28.7	\$ (0.5)
Building Services	\$ 4.4	\$ 4.4	\$ 4.4	\$ -
Computer Services	\$ 10.5	\$ 10.5	\$ 14.1	\$ 3.6
Insurance	\$ 4.6	\$ 4.6	\$ 3.6	\$ (1.0)
Telecommunications	\$ 5.1	\$ 5.1	\$ 4.4	\$ (0.7)
Other Expenses (BOD, Travel/Trng, NPCC Fees)	\$ 6.1	\$ 6.0	\$ 5.2	\$ (0.8)
FERC Fees	\$ 9.9	\$ 9.9	\$ 7.8	\$ (2.1)
Debt Service from Prior Year Financings	\$ 31.5	\$ 31.2	\$ 31.0	\$ (0.2)
Cash Budget (excluding FERC Fees)	\$ 171.4	\$ 171.2	\$ 168.5	\$ (2.7)
Less: Miscellaneous Revenues	\$ (2.5)	\$ (2.5)	\$ (5.4)	\$ (2.9)
Less: Proceeds from 2006 Budget Debt	\$ (28.0)	\$ (15.5)	\$ (15.5)	\$ -
Less: Proceeds from 2005 budget underrun and 2004/05 load overcollections	\$ -	\$ (12.5)	\$ (12.5)	\$ -
Less: Proceeds from Renovations Debt	\$ (9.0)	\$ (8.5)	\$ (8.5)	\$ -
Add: Interest on 2006 Budget Debt	\$ 0.8	\$ 0.5	\$ 0.3	\$ (0.2)
Add: Interest on Renovations Debt	\$ 0.4	\$ 0.4	\$ -	\$ (0.4)
Rate Schedule #1 Revenue Requirement	\$ 133.1	\$ 133.1	\$ 126.9	\$ (6.2)

Notes:

1. Original Budget = The budget as presented to the Management Committee and approved by the BOD in November 2005.
2. Revised Budget = The Original Budget with adjustments for applying 2005 budget underrun, load overcollections and updated salaries/organizational structure.

Detailed Results Variance Explanations

Capital – Capital was overspent by \$0.8M at year end primarily due to approximately \$2.0M high priority IT infrastructure initiatives (datacenter migration, impact analysis automation, version upgrades) performed following compliance and control recommendations received from external consultant, offset by underruns of \$1.2M building improvement projects.

Salaries & Benefits – Higher than expected vacancies resulted in savings of \$1.8M. Year-end headcount was 390 vs. a 2006 budget of 421.

Professional Fees – Professional Fees were under budget by \$0.5M. This was primarily due to a \$1.1M underrun on consultants for software development projects (Outage Derate, Portal Dashboard, TCC Automation) and \$0.7M underrun on LECG and Potomac, offset by overruns of \$0.7 for External Counsel and \$0.9M for Compliance & Control initiatives.

Computer Services – A \$3.6M overrun, driven primarily by changes in pricing and licensing requirements from certain large vendors, combined with the purchase of additional equipment required for the New Data Center migration and Virtualization initiatives

Insurance – Insurance was renewed in March at a savings of \$1.0M.

Telecommunications – \$0.7M in savings was realized due to elimination of redundant lines.

Other Expenses – Under budget \$0.8M due to savings of \$0.1M Board fees, \$0.4M general travel (lower than expected headcount) and \$0.3M MP meeting costs (negotiated competitive pricing with catering vendors and secured reduced cost meeting site).

FERC Fees – The actual FERC fees were significantly less than budgeted, resulting in a year-end savings of \$2.1M.

Debt Service – \$0.2M in savings was realized. Interest expense was lower than budget because no short-term borrowings were needed for cash flow purposes, plus bank fees were reduced by renegotiating cash management terms.

Misc. Revenues – Interest income was \$2.2M higher than budget, due to rising interest rates and improvements in cash investment strategies. In addition, planning study revenues were \$0.6M higher than originally budgeted .

Interest on 2006 & Renovation Debt – \$0.6 in savings because borrowings were not needed as early in the year as expected for cash flow purposes.

Projects Summary

Project	Project No.	TOTAL PROJECT COST				2006 LABOR			2006 NON-LABOR			2006 PROJECT COST		
		Pre-2006	2006 Budget	Post-2006	Total Project	Labor Budget	YTD Actual 12/31/06	Labor Variance	Non-Labor Budget	YTD Actual 12/31/06	Non-Labor Variance	Total Budget	YTD Actual 12/31/06	Total Variance
Energy Marketplace Product Enhancements														
Comprehensive Bid Management System	A767	\$ -	\$ 1.3	\$ 3.5	\$ 4.8	\$ 0.7	\$ 0.2	\$ (0.5)	\$ 0.6	\$ 0.6	\$ -	\$ 1.3	\$ 0.8	\$ (0.5)
Energy Marketplace Product Enhancements	A848	\$ -	\$ 0.6	\$ -	\$ 0.6	\$ 0.3	\$ 0.3	\$ -	\$ 0.3	\$ 0.3	\$ -	\$ 0.6	\$ 0.6	\$ -
Enhanced Price Validation	A871	\$ -	\$ 2.0	\$ 2.6	\$ 4.6	\$ 0.5	\$ 0.3	\$ (0.2)	\$ 1.5	\$ 1.2	\$ (0.3)	\$ 2.0	\$ 1.5	\$ (0.5)
Auxiliary Market Product Enhancements														
ICAP Market Automation - Phase I	A543	\$ 3.9	\$ 0.2	\$ -	\$ 4.1	\$ 0.1	\$ 0.1	\$ -	\$ 0.1	\$ 0.1	\$ -	\$ 0.2	\$ 0.2	\$ -
TCC Marketplace Product Enhancements														
TCC Auction Automation - Phase I	A796	\$ 0.5	\$ 3.2	\$ -	\$ 3.7	\$ 1.5	\$ 0.7	\$ (0.8)	\$ 1.7	\$ 0.7	\$ (1.0)	\$ 3.2	\$ 1.4	\$ (1.8)
Operations & Reliability Product Enhancements														
SRE OOM Mitigation	A843	\$ -	\$ 0.5	\$ -	\$ 0.5	\$ 0.2	\$ 0.1	\$ (0.1)	\$ 0.3	\$ 0.2	\$ (0.1)	\$ 0.5	\$ 0.3	\$ (0.2)
Outage Scheduling Reporting	A859	\$ -	\$ 0.1	\$ -	\$ 0.1	\$ 0.1	\$ -	\$ (0.1)	\$ -	\$ -	\$ -	\$ 0.1	\$ -	\$ (0.1)
Financial Service Product Enhancements														
BAS Replacement/Billing Engine	A845	\$ -	\$ 2.7	\$ 7.8	\$ 10.5	\$ 1.0	\$ 0.6	\$ (0.4)	\$ 1.7	\$ 2.0	\$ 0.3	\$ 2.7	\$ 2.6	\$ (0.1)
Working Capital Rebalancing	A883	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.1	\$ 0.1	\$ -	\$ 0.1	\$ 0.1	\$ -	\$ 0.2	\$ 0.2
Business Intelligence Product Enhancements														
DSS 2005 - Release 4	A820	\$ -	\$ 0.1	\$ -	\$ 0.1	\$ -	\$ -	\$ -	\$ 0.1	\$ 0.1	\$ -	\$ 0.1	\$ 0.1	\$ -
DSS Customer Settlements Expansion	A795	\$ 0.7	\$ 0.1	\$ -	\$ 0.8	\$ -	\$ -	\$ -	\$ 0.1	\$ 0.1	\$ -	\$ 0.1	\$ 0.1	\$ -
MDEX Enhancements Phase III - Intranet	A823	\$ 0.3	\$ 0.2	\$ -	\$ 0.5	\$ -	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.1	\$ (0.1)	\$ 0.2	\$ 0.2	\$ -
DSS Pricing & Operational Data Mart	A849	\$ -	\$ 1.8	\$ -	\$ 1.8	\$ 0.3	\$ 0.4	\$ 0.1	\$ 1.5	\$ 1.7	\$ 0.2	\$ 1.8	\$ 2.1	\$ 0.3
Infrastructure Projects														
Virtualization		\$ -	\$ 1.0	\$ 1.0	\$ 2.0	\$ -	\$ -	\$ -	\$ 1.0	\$ 1.0	\$ -	\$ 1.0	\$ 1.0	\$ -
Other Projects														
	TBD	\$ -	\$ 1.4	\$ -	\$ 1.4	\$ 1.1	\$ -	\$ (1.1)	\$ 0.3	\$ -	\$ (0.3)	\$ 1.4	\$ -	\$ (1.4)
Totals		\$ 5.4	\$ 15.2	\$ 14.9	\$ 35.5	\$ 5.8	\$ 2.9	\$ (2.9)	\$ 9.4	\$ 8.2	\$ (1.2)	\$ 15.2	\$ 11.1	\$ (4.1)

Detailed Project Variance Explanations

Project Labor Budgets – Original labor budget reflected most reasonable projection during preliminary project planning phases. The labor estimates are continually revised throughout the course of the project and often result in lower planned levels, consistent with having a greater understanding of the work effort during latter phases of the project. During 2006, corporate reprioritization due to Excellence in Execution initiatives created a greater than expected variance between labor actuals and budget, which had been developed several months prior.

Comprehensive Bid Management – Project launch was later than originally budgeted, resulting in an underrun in labor.

Enhanced Price Validation – Project launch was slightly delayed, resulting in a moderate underrun in consultancy.

TCC Auction Automation – Internal staffing and resource constraints resulted in an underrun in consultancy and labor. Hardware efficiencies that were gained through the Virtualization project enabled a reduction in planned capital expenditures.

BAS Replacement/Billing Engine – Changes in the project staffing mix resulted in greater non-labor actuals and reduced labor actual; overall project cost was close to initial budget plan.

Working Capital Rebalancing – Acceleration of project priority based on Market Participant's request enabled an early start to this planned 2007 project.

DSS Pricing & Operational Data Mart – Scope enhancements made through Market Participants involvement, resulting in project labor and consultancy expenses greater than originally budgeted.

New Facility Project Recap

	<u>TOTAL PROJECT BUDGET</u>				<u>TOTAL PROJECTS COSTS</u>				<u>Estimated Project Variance</u>
	<u>2005 Actuals</u>	<u>2006 Budget</u>	<u>2007 Budget</u>	<u>Total Project</u>	<u>2005 Actuals</u>	<u>2006 Actuals</u>	<u>2007 Estimate</u>	<u>Total Cost</u>	
Capital - Building	\$ 14.7	\$ -	\$ -	\$ 14.7	\$ 14.7	\$ -	\$ -	\$ 14.7	\$ -
Capital - Renovations	\$ 1.5	\$ 9.0	\$ 0.1	\$ 10.6	\$ 1.5	\$ 9.1	\$ 1.4	\$ 12.0	\$ 1.4
Capital - Equipment	\$ 0.4	\$ 0.9	\$ -	\$ 1.3	\$ 0.4	\$ 1.1	\$ -	\$ 1.5	\$ 0.2
Capital - Furniture	\$ 0.3	\$ 0.6	\$ -	\$ 0.9	\$ 0.3	\$ 0.4	\$ 0.1	\$ 0.8	\$ (0.1)
Non-Capital costs	\$ 0.5	\$ 0.7	\$ -	\$ 1.2	\$ 0.5	\$ 0.5	\$ 0.5	\$ 1.5	\$ 0.3
Cash Budget	\$ 17.4	\$ 11.2	\$ 0.1	\$ 28.7	\$ 17.4	\$ 11.1	\$ 2.0	\$ 30.5	\$ 1.8

Estimated Project Variance Explanations:

1. The New Facility project is currently expected to be 6.3% over budget at time of completion.
2. In January 2006, the BBL contract was increased by \$1.0M. Once design documents were completed and before construction began, construction costs were revisited and updated based on final design.
3. Tech Migration costs for equipment and the ACC have been more than anticipated. Available internal resources have been constrained due to vacancies and external resources have been relied upon more heavily than originally budgeted. Business decision was made to purchase additional equipment to reduce risk during the datacenter and ACC migration.
4. Project will be completed on time – February 2007.

Debt Summary

<u>Debt Facility</u>	<u>Loan Status</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Borrowed</u>	<u>Principal Outstanding 12/31/06</u>
Revolving Credit Facility	\$50M Available	Variable	N/A	\$ -	\$ -
2003 Budget Loan	Term Loan Repayment	4.65%	Jan-08	\$ 47.0	\$ 13.7
2004 Budget Loan	Term Loan Repayment	4.80%	Dec-08	\$ 42.0	\$ 21.0
2005 Budget Loan	Term Loan Repayment	4.80%	Dec-09	\$ 18.0	\$ 13.5
2005 Mortgage - Bldg Acq.	Term Loan Repayment	5.79%	Aug-25	\$ 14.8	\$ 12.5
2005 Mortgage - Renovations	Repayment Begins 02/07	5.96% beginning 01/07	Jan-27	\$ 10.0	\$ 10.0
2006 Budget Loan	Repayment Begins 03/07	4.80% beginning 03/07	Dec-10	\$ 15.5	\$ 15.5
Total					\$ 86.2

NYISO 2007 BUDGET OVERVIEW

(\$ in millions, except RS#1/MWH)	2007 Budget
Capital	\$4.4
Salaries & Benefits	50.6
Professional Fees (including Legal)	32.2
Building Services	4.0
Computer Services	13.0
Insurance	3.7
Telecommunications	5.0
Other Expenses (BOD, Travel/Training, NPCC Fees)	5.0
Current Year Needs (excl. FERC Fees)	\$117.9
Debt Service	35.4
Cash Budget	\$153.3
Less: Miscellaneous Revenues	(2.3)
Less: Proceeds from Current Year Budget Debt	(15.0)
Less: Proceeds from Prior Year Budget Carryovers	(5.0)
Add: Interest on Current Year Budget Debt	0.5
Net Budget Needs	\$131.5
FERC Fees	8.2
Rate Schedule #1 Revenue Requirement in \$\$	\$139.7
Budgeted MWH Hours (budget)	170.1
Rate Schedule #1 Revenue Requirement in \$/MWH (budget)	\$0.821