



2005 Draft BUDGET

Budget, Standards & Performance Subcommittee
Presentation To
Management Committee
October 14, 2004

NYISO 2005 Draft Budget TABLE OF CONTENTS

<u>Topic</u>	<u>Page</u>
Schedule	3
Objectives	4
Summary of Budget Targets - Original	5
Comparison of 2005 Budget...	6
Highlights	7
Other ISOs Comparison	8
Detail Budget Trends by Cost Category	9
Headcount Summary	10
Line Item Details	11-14
Debt Service Summary	15
Project Summary	16-17
BSP Recommendations	18

NYISO 2005 Draft Budget SCHEDULE

- November 2003: MC recommends 2004 budget and 2005-8 budget targets
- July – August 2004: NYISO prepares draft 1 of 2005 budget
- August 2004: Sr. Management reviews draft 1 & incorporates changes into draft 2
- September 9: PPT reviews 2005 projects to be included in budget
- September 16: High-level summary of draft 2 is presented to BOD
- September 20: Draft 2 is presented to BSP
- October 14: BSP presents draft 2 to MC
- October 19: Detailed summary of draft 2 is presented to BOD
- Late October: Finance incorporates changes into draft 3, if necessary
- November 10: BSP presents draft 3 to MC; MC votes on draft 3
- November 16: BOD approves 2005 Budget

NYISO 2005 Draft Budget OBJECTIVES

Cost-Control:

- 1. Develop a 2005 budget within the budget target provided by market participants in Q4 2003**
- 2. Ensure consistency of amounts included in 2005 budget with previous projections provided by NYISO Vice Presidents to BSP throughout 2004**
- 3. Continue to address concerns noted by market participants about level of external Legal budget by transitioning additional legal work to in-house counsel and by continued improvements to cost monitoring practices**
- 4. Achieve future budget savings by exploring the possibility of transitioning price validation consulting work to internal resources**

Primary Focus of 2005 Budget:

- 1. Focus effort on resolving Billing Issues**
- 2. Implement projects and activities designed to mitigate risk**
- 3. Continue evaluation of facility consolidation and implementation of security upgrade at NYISO facilities**

NYISO 2005 Budget Overview

SUMMARY OF BUDGET TARGETS - ORIGINAL

(\$ in millions, except RS#1)

	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>)	\$30.2	<u>\$29.7</u>	<u>\$32.8</u>	<u>\$37.7</u>	<u>\$31.2</u>
Cash Budget	\$169.7	\$151.2	\$155.3	\$161.2	\$156.6
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>
RS#1 Revenue Requirement	\$123.8	\$129.1	\$133.2	\$138.2	\$134.5
Rate Schedule #1 (\$/MWH)	<u>\$0.769</u>	<u>\$0.789</u>	<u>\$0.802</u>	<u>\$0.821</u>	<u>\$0.787</u>

The budget targets shown above for 2005 – 2008 represent those amounts previously recommended at the November 2003 MC meeting.

NYISO 2005 Draft Budget

COMPARISON OF 2005 BUDGET TO 2005 BUDGET TARGET & 2004 BUDGET

(\$ in millions, except RS#1)

<u>Cost Category</u>	<u>2005 Draft</u>	<u>2004 Budget</u>	<u>Incr/ (Decr)</u>	<u>2005 Target</u>
Baseline	\$106.5	\$97.8	\$8.7	\$101.5
Projects	\$16.9	\$41.7	(\$24.8)	\$20.0
Debt Service	\$26.5	\$30.2	(\$3.7)	\$29.7
Cash Budget	\$149.9	\$169.7	(\$19.8)	\$151.2
Less: Net proceeds on CY financings	(\$19.9)	(\$44.8)	\$24.9	(\$21.1)
Less: Misc. Revenues	(\$1.0)	(\$1.1)	\$0.1	(\$1.0)
Rate Schedule #1 Revenue Req.	\$129.0	\$123.8	\$5.2	\$129.1
Rate Schedule #1 Charge (\$/MWH)	\$0.788	\$0.769	\$0.019	\$0.789
Rate Schedule #1 Charge (Suppliers)	\$0.158	\$0.115	\$0.015	\$0.158
Rate Schedule #1 Charge (LSEs)	\$0.630	\$0.653	\$0.004	\$0.631

NYISO 2005 Draft Budget HIGHLIGHTS

General:

- 2005 Cash Budget total of \$149.9M is \$1.3M less than the budget target established for 2005, and \$19.8M less than the 2004 Cash Budget
- 2005 Rate Schedule #1 requirements are within the 2005 budget target
- Projected headcount at 12/31/05 totals 430 staff (411 FTEs and 19 contractors) as compared to the 12/31/04 total of 420 (407 FTEs and 13 contractors)

Baseline:

- Significant components of the \$8.7M increase from 2004 are:

INCREASES (subtotal of \$13.9M):

- \$6.6M for Salaries & Benefits
- \$2.5M for SMD ABB maintenance agreement
- \$2.1M for physical improvements to the PCC
- \$1.4M for Hardware Maintenance
- \$1.3M for Telecommunications

DECREASES (subtotal of \$5.2M):

- (\$2.3M) in Hardware
- (\$1.0M) in FERC Fees
- (\$1.0M) in Legal
- (\$0.9M) in Insurance

Projects:

- Focus of projects during 2005 is on billing enhancements and automation of manual processes
- See list of \$16.9M in Project costs on page 16. Includes \$6.6M staffing, \$10.3M consultants & other
- Significant projects include \$4.6M for Billing Automation & Enhancements, \$2.3M for consolidation of NYISO offices, \$1.8M for automating the TCC & UCAP auctions (*all others individually < \$1.5M*)
- Primary reason for \$24.8M decrease from 2004 is \$23.0M in 2004 budget for the SMD2.0 project

NYISO 2005 Draft Budget

OTHER ISOs COMPARISON

(\$ in millions)

<u>ISO</u>	<u>2005 Budget</u> (Revenue Requirement)	<u>Outstanding debt at</u> <u>12/31/04</u>
PJM Interconnection	\$299M	\$130M
California ISO	\$221M	\$287M
ISO New England	\$131M	TBD
Midwest ISO	TBD	\$405M
ERCOT	TBD	\$175M
New York ISO	\$129M	\$79M

Comparisons between ISOs' revenue requirements remain difficult due to each ISO's specific rate recovery mechanism, differences between the status of each ISO's market, one-state vs. multi-state issues, available MWH for rate recovery, etc. However, NYISO is providing this information for general reference purposes only. These amounts are preliminary for most ISOs and have been adjusted to include FERC Fees, in order to be comparable to NYISO.

NYISO 2005 Draft Budget

DETAIL BUDGET TRENDS BY COST CATEGORY

(\$ in millions)

<u>Line Item</u>	<u>Baseline</u>	<u>Projects</u>	<u>Debt Serv.</u>	<u>2005 Draft</u>	<u>2004 Budget</u>	<u>Page Reference</u>
Capital	\$5.8	\$0.1	\$ -	\$5.9	\$18.2	n/a
Salaries & Benefits	\$40.8	\$6.6	\$ -	\$47.4	\$43.8	p. 11
Consultants	\$16.3	\$7.9	\$ -	\$24.2	\$38.4	p. 12
Legal	\$5.0	\$ -	\$ -	\$5.0	\$6.0	p. 13
Building Services	\$3.7	\$2.3	\$ -	\$6.0	\$3.5	n/a
Computer Services	\$11.5	\$ -	\$ -	\$11.5	\$5.7	n/a
Insurance	\$6.8	\$ -	\$ -	\$6.8	\$7.7	p. 14
Telecommunications	\$4.2	\$ -	\$ -	\$4.2	\$2.9	n/a
BOD / Training, Meetings, etc. / NPCC Fees	\$5.4	\$ -	\$ -	\$5.4	\$5.3	n/a
FERC Fees	\$7.0	\$ -	\$ -	\$7.0	\$8.0	n/a
Debt Service (from prior years)	\$-	\$ -	\$26.5	\$26.5	\$30.2	p. 15
TOTAL CASH BUDGET	\$106.5	\$16.9	\$26.5	\$149.9	\$169.7	
Less: Net Proceeds from CY financing	(\$5.8)	(\$14.6)	\$0.5	(\$19.9)	(\$44.8)	p. 15
Less: Misc. Revenues	(\$1.0)	\$ -	\$ -	(\$1.0)	(\$1.1)	n/a
TOTAL CASH BUDGET, NET OF FIN'GS	\$99.7	\$2.3	\$27.0	\$129.0	\$123.8	
RATE SCHEDULE #1 (\$/MWH)	\$0.609	\$0.014	\$0.165	\$0.788	\$0.769	

NYISO 2005 Draft Budget HEADCOUNT SUMMARY at year end

Department	2005 FTEs	2005 Contractors	2005 Total	2004 Total
IT	131	17	148	142
Operations	82	0	82	82
Market Services	48	1	49	48
Risk Mgt.	44	0	44	44
Finance	28	0	28	28
Admin & Compl.	23	0	23	21
HR & Training	16	0	16	16
Strategic Plng.	16	0	16	16
Legal & Reg.	14	1	15	14
Communications	6	0	6	6
Executive	<u>3</u>	<u>0</u>	<u>3</u>	<u>3</u>
Total	411	19	430	420

NYISO 2005 Budget Overview

LINE ITEM DETAILS: SALARIES & BENEFITS

(\$ in millions)

HEADCOUNT SUMMARY	<u>FTEs</u>	<u>Contractors</u>	<u>Total</u>
12/31/04 Budgeted Totals	393	17	410
Staff additions in 2004	<u>14</u>	<u>(4)</u>	<u>10</u>
12/31/04 Projected Totals	407	13	420
Staff additions in 2005	<u>4</u>	<u>6</u>	<u>10</u>
12/31/05 Totals	411	19	430

S&B COMPOSITION	<u>2005</u>	<u>2004</u>	<u>\$ Diff.</u>
Salaries	\$32.9	\$29.6	\$3.3
Incentive Compensation	\$4.6	\$4.0	\$0.6
Payroll Taxes	\$2.6	\$2.4	\$0.2
Benefit Programs	<u>\$7.3</u>	<u>\$7.8</u>	<u>(\$0.5)</u>
Total Salaries & Benefits	\$47.4	\$43.8	\$3.6

Note: The increase in S&B is primarily driven by a higher average headcount in 2005 than 2004 (34 contractors will be converted in 2004), and is offset by a decrease of \$4.6M in contractors (see page 12)

NYISO 2005 Draft Budget

LINE ITEM DETAILS: CONSULTANTS

(\$ in millions)

	<u>Baseline</u>		<u>Projects</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Consultants	\$13.5	\$12.4	\$7.9	\$18.6	\$21.4	\$31.0
Contractors	<u>\$2.8</u>	<u>\$3.6</u>	<u>\$0.0</u>	<u>\$3.8</u>	<u>\$2.8</u>	<u>\$7.4</u>
Total	\$16.3	\$16.0	\$7.9	\$22.4	\$24.2	\$38.4

The largest components of the \$1.1M increase in Baseline consultants are:

- \$0.7M for consultants to assist with billing automation efforts (non-project specific)
- \$0.5M for participation in ISO/RTO Technology Council efforts (considered a project in 2004)

NYISO 2005 Draft Budget

LINE ITEM DETAILS: LEGAL

(\$ in millions)

2005 Budget for external Legal services is \$5.0M:

- Reduction of \$1.0M from 2004 Budget and projected actuals of \$6.0M

Key Drivers for 2005 Legal Budget:

- Increasing internal staff of attorneys from 6 to 8
- Assigning more work to internal staff, particularly regulatory matters
- Expecting similar level of filings, litigation and support activities as 2004
- Director of Regulatory Affairs continues to assume responsibility for assignments to external counsel, review of legal bills, and overall budget reviews

NYISO 2005 Draft Budget

LINE ITEM DETAILS: INSURANCE

(\$ in millions)

INSURANCE COMPOSITION	<u>2005</u> <u>Budget</u>	<u>2004</u> <u>Est. Actual</u>	<u>2004</u> <u>Budget</u>	<u>Budget</u> <u>\$ Diff.</u>
Property & Liability Insurance	\$3.8	\$3.3	\$3.9	(\$0.1)
Credit Insurance	\$1.7	\$1.6	\$2.1	(\$0.4)
Directors & Officers Insurance	<u>\$1.3</u>	<u>\$1.4</u>	<u>\$1.7</u>	(\$0.4)
Total Insurance	\$6.8	\$6.3	\$7.7	(\$0.9)

Insurance renewals in 2004 were less than anticipated in the budget. Property & Liability insurance is expected to reflect minor increases in premiums. Credit insurance has decreased from 2004 budget levels based on new credit policies. Certain Directors & Officers insurance premiums are expected to increase by as much as 25% in 2005, although the entire cost of Directors & Officers coverage will decrease from 2004 levels.

NYISO 2005 Draft Budget DEBT SERVICE SUMMARY

(\$ in millions)

<u>DEBT SUMMARY</u>			<u>Principal Repayments</u>				
	<u>Total Borrowings</u>	<u>\$ O/S at 12/31/04</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Term Loan (NYISO start-up costs)	\$48.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2001-2002 Hardware Financing	\$10.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2003 Budget Financing	\$47.0	\$37.2	\$11.8	\$11.8	\$11.8	\$1.8	\$ -
2004 Budget Financing	\$42.0	\$42.0	\$10.5	\$10.5	\$10.5	\$10.5	\$ -
2005 Budget Financing (<i>anticipated</i>)	<u>\$20.4</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5.1</u>	<u>\$5.1</u>	<u>\$5.1</u>	<u>\$5.1</u>
Totals	\$168.4	\$79.2	\$22.3	\$27.4	\$27.4	\$17.4	\$5.1

NYISO 2005 Draft Budget

Summary of Projects Included in 2005 Budget (*\$ in millions*)

Priority	Project Name	Labor	Non-Labor	Total
1a	Billing Automation & Enhancements: TCC Settlement	\$0.2	\$0.0	\$ 0.2
1b	Billing Automation & Enhancements: Rate Schedule 1 Allocation	\$0.2	\$0.2	\$ 0.4
1c	Billing Automation & Enhancements: NTAC & TSC Rate Mgt.	\$0.2	\$0.0	\$ 0.2
1d	Billing Automation & Enhancements: BAS Replacement Strategy/Billing Sim.	\$0.7	\$1.1	\$ 1.8
1e	Billing Automation & Enhancements: DSS Customer Settlements Expansion	\$0.4	\$1.6	\$ 2.0
2,3	TCC & UCAP Auction Automation	\$0.7	\$1.1	\$ 1.8
	Total Billing Related Projects	\$2.4	\$4.0	\$6.4
9a	MIS Enhancements: Comprehensive Bid Mgt. System	\$0.5	\$0.1	\$ 0.6
9b	MIS Enhancements: Oracle Forms Replacement	\$0.2	\$0.1	\$ 0.3
13	Documentum Expanded Implementation	\$0.3	\$0.2	\$ 0.5
	Total Risk-reduction Projects	\$1.0	\$0.4	\$1.4
4	Controllable Tie Lines Scheduling and Pricing	\$0.3	\$0.6	\$ 0.9
5	15 Minute Scheduling	\$0.1	\$0.3	\$ 0.4
6	Scheduling of Combined Cycle Units	\$1.0	\$0.5	\$ 1.5
7	Self Supply of Reserves	\$0.4	\$0.5	\$ 0.9
8	SMD Feature Extensions	\$0.7	\$0.2	\$ 0.9
10	Outage Schedule Reporting	\$0.5	\$0.3	\$ 0.8
11	Intra-Hour Transaction Scheduling (<i>previously named VRD</i>)	\$0.1	\$0.5	\$ 0.6
12	Market Data Exchange Enhancements (Portal)	\$0.1	\$0.7	\$ 0.8
	Total Other Projects	\$3.2	\$3.6	\$6.8
14	Consolidate NYISO Offices	\$0.0	\$2.3	\$ 2.3
	Total Projects 2005	\$6.6	\$10.3	\$16.9
	Total Projects 2004 (labor includes \$9.4 salaries + \$3.9 contractors)	\$13.3	\$28.4	\$41.7
	(Decrease) from 2004	(\$6.7)	(\$18.1)	(\$24.8)

NYISO 2005 Draft Budget

Summary of Projects Not Included in 2005 Budget

Following is a list of issues and projects that were reviewed by NYISO for funding consideration in 2005, but were not selected. Some of these items may be addressed as baseline efforts, others may become projects in 2006, and still others may never be completed.

<u>Issues/Projects Reviewed – Not Budgeted</u>	
Automate FERC Reports (Forms 582 & 714)	Load Bid Verification
Automated Generator Derate Interface	Metering Upgrades
Automated Notification for System Events	MMP MIS / Market Simulation Environment
BPCG for RRC Down Units	Netting Bilaterals for Credit Requirements
Comprehensive Market Simulator	New Meter Authorities Management
Credit Management System	Operational Tools for Broader System Monitoring
Customer Relations Management System	Oracle Clustering
DADRP Enhancements	Real-Time Credit Risk Validation
DSS Expansion, including MMP	Reference Price Calculations in MIS
EDRP Settlements	Regulating Unit Specification of UOL
ELR MWhr Bidding Capability for SCUC	Renew/Intermittent Unit Scheduling Enhancements
Enterprise Metadata	Reserve Sharing among Northeast ISOs/RTOs
Expanding Product Environments	RT Bid Adjustments for Units with DAM Awards
Generator Attributes Tracking System	SCUC LRR Pass Changes
Generator Audit Reporting Application	Virtual Trading in NYC Load Pockets
Internal Controllable Lines	Voltage Support Service Calculation
Intranet Upgrade	Working Capital Rebalancing

NYISO 2005 Draft Budget BS&P Recommendation

- Recommend approval of the Rate Schedule #1 Revenue Requirement budget of \$129.0M, as proposed, representing the funding level required to meet NYISO's key objectives & projects scheduled for 2005 while staying within the 2005 target budget
- Recommend that Board consider eliminating Credit Insurance expenditures in light of current ISO credit policy. Recommend using elimination of expenditure to pay down debt
- Move forward on potential conversion of LECG price validation efforts to internal resources in 2005 (addition of 4 FTEs at \$0.4M could offset \$0.3M in LECG costs in 2005; savings for LECG costs in 2006 would be \$0.7M)
- Continued support for 2003 motion that any underspent budget funds be applied toward debt, rather than refunded to Market Participants