



2005 BUDGET OVERVIEW

Budget, Standards & Performance Subcommittee
September 20, 2004

For Discussion Only

NYISO 2005 Budget Overview

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NYISO 2005 Budget Overview

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 18: BSP presents draft 2 to MC
- October 18: Detailed summary of draft 2 is presented to BOD
- Late October: Finance incorporates BOD & MP changes into draft 3
- November 10: BSP presents draft 3 to MC; MC votes on draft 3
- November 16: BOD approves 2005 Budget

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KEY OBJECTIVES

Key Objectives for NYISO's 2005 Budget process are:

Cost-Consciousness:

1. **Develop a 2005 budget within the budget target provided by market participants in Q4 2003 (~2% increase from 2004)**
2. **Ensure consistency of amounts included in 2005 budget with previous projections provided by NYISO Vice Presidents to BSP throughout 2004**
3. **Ensure financing approach contained within 2005 budget is consistent with debt parameters already established with lenders for 2005 borrowings**
4. **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**
5. **Achieve future budget savings by exploring the possibility of transitioning price validation consulting work to internal resources**

2005 as a Transition Year:

1. **Implement projects and activities designed to mitigate risk associated with rapid growth seen over initial five years of NYISO operations, while still continuing to support the 2005 initiatives contained within the NYISO Strategic Plan**
2. **Address projects that have been lingering or on hold pending 2002-2004 progress on SMD 2.0 initiative, notably billing improvements**
3. **Develop a resource-loaded projects plan that ensures availability of resources to complete specified projects, despite reduction in workforce from 2003-2004 levels**
4. **Allow flexibility in budget to continue progress toward a new NYISO facility that would alleviate distance concerns between current PCC and ACC, and allow consolidation of NYISO employees into fewer facilities than current state**
5. **Address required security and facilities improvements needed to current PCC**
6. **Address required technology improvements, including funds allocated for replacing aging equipment, initiating real-time failover between the PCC & ACC, and redundant telecommunications between NYISO buildings**

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KEY ASSUMPTIONS & HIGHLIGHTS

KEY ASSUMPTIONS:

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 also 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) and the 12/31/03 total of 447 (358 FTEs and 89 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 \$5.3M):

- (\$2.4M) 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 details of Projects descriptions, justifications, and costs in separate handout "NYISO 2005 Projects Summary"
- Composition of \$16.9M Project costs: \$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

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COMPARISON OF 2005 BUDGET TO 2005 BUDGET TARGET & 2004 BUDGET

(\$ in millions, except RS#1)

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

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SUMMARY OF BUDGET TARGETS - ORIGINAL

(\$ in millions, except RS#1)

	<u>2004 Budget</u>	<u>2005 Target</u>	<u>2006 Target</u>	<u>2007 Target</u>	<u>2008 Target</u>
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	(\$1.1)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)
RS#1 Revenue Requirement	<u>\$123.8</u>	<u>\$129.1</u>	<u>\$133.2</u>	<u>\$138.2</u>	<u>\$134.5</u>
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.

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SUMMARY OF BUDGET TARGETS - REVISED

(\$ in millions, except RS#1)

	2004 Budget	2005 Draft	2006 Target	2007 Target	2008 Target
Baseline (<i>current year needs</i>)	\$97.8	\$106.5	\$104.1	\$105.0	\$106.9
Projects (<i>current year needs</i>)	\$41.7	\$16.9	\$20.0	\$20.0	\$20.0
Debt Service (<i>prior year financings</i>)	\$30.2	<u>\$26.5</u>	<u>\$31.2</u>	<u>\$36.2</u>	<u>\$29.7</u>
Cash Budget	\$169.7	\$149.9	\$155.3	\$161.2	\$156.6
Less: Net proceeds on CY financings	(\$44.8)	(\$19.9)	(\$21.1)	(\$22.0)	(\$21.1)
Less: Misc. Revenues	(\$1.1)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)
RS#1 Revenue Requirement	\$123.8	\$129.0	\$133.2	\$138.2	\$134.5
Rate Schedule #1 (\$/MWH)	<u>\$0.769</u>	<u>\$0.788</u>	<u>\$0.802</u>	<u>\$0.821</u>	<u>\$0.787</u>

The revised budget targets shown above for 2006–2008 reflect changes due to reductions in debt service. The savings in debt service have been applied to Baseline, to reflect the likely need for increases in this Cost category. Detailed assessments of Baseline and Projects budget targets for 2006-2008 have not been revised due to the following factors:

- NYISO Strategic Plan has not been redrafted & themes are generally still applicable
- A new CEO will join NYISO in 2005, with specific goals/strategies/direction, etc.
- The status of a potential new facility (including financing) is largely uncertain

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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	p. 15
Salaries & Benefits	\$40.8	\$6.6	\$ -	\$47.4	\$43.8	p. 11-12
Consultants	\$16.3	\$7.9	\$ -	\$24.2	\$38.4	p. 13
Legal	\$5.0	\$ -	\$ -	\$5.0	\$6.0	p. 14
Building Services	\$3.7	\$2.3	\$ -	\$6.0	\$3.5	n/a
Computer Services	\$11.5	\$ -	\$ -	\$11.5	\$5.7	p. 15
Insurance	\$6.8	\$ -	\$ -	\$6.8	\$7.7	p. 16
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. 17
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. 17
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	

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OTHER ISOs COMPARISON

(\$ in millions)

<u>ISO</u>	<u>2005 Budget</u> <i>(Revenue Requirement)</i>
PJM Interconnection	\$299M
California ISO	\$221M
ISO New England	\$131M
Midwest ISO	TBD
ERCOT	TBD
New York ISO	\$129M

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.

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HEADCOUNT SUMMARY at 12/31/05

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

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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	\$29.7	\$3.2
Incentive Bonuses (Corporate & Exec.)	\$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	\$43.9	\$3.5
<i>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).</i>			

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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	\$2.8	\$3.6	\$0.0	\$3.8	\$2.8	\$7.4
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)

*For additional details on the composition of these totals, refer to the following:
 Baseline: separate handout detailing list of significant individual consulting charges
 Projects: separate presentation – "NYISO 2005 Projects Summary"*

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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 Assumptions 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

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LINE ITEM DETAILS: CAPITAL & COMP. SERVICES

(\$ in millions)

CAPITAL & COMP. SERV. COMPOSITION	<u>2005</u>	<u>2004</u>	<u>\$ Diff.</u>
Capital (<i>Baseline</i>)	\$5.8	\$8.3	(\$2.5)
Hardware & Software Maintenance (<i>Baseline</i>)	\$10.8	\$5.3	\$5.5
Computer & Electronics Supplies (<i>Baseline</i>)	<u>\$ 0.7</u>	<u>\$ 0.4</u>	<u>\$0.3</u>
Subtotal (<i>Baseline</i>)	\$17.3	\$14.0	\$3.3
Capital (<i>Projects</i>)	<u>\$0.1</u>	<u>\$9.9</u>	<u>(\$9.8)</u>
Total Capital & Computer Services	\$17.4	\$23.9	(\$6.5)

Baseline: The \$3.3M increase in Capital & Computer Services is largely driven by:

- \$2.5M ABB maintenance agreement for SMD2 in 2005 (\$0 in 2004),
- \$2.1M for physical improvements to the PCC,
- \$1.4M for hardware maintenance for systems purchased during 2004,
- (\$2.4M) for reduction in hardware purchases (baseline)

Projects: For additional details on the composition of Projects costs, see separate handout "NYISO 2005 Projects Summary".

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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>	<u>(\$0.4)</u>
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.

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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

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RECAP

- OPEN ITEM FOR MP DISCUSSION: 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). This conversion is not reflected in 2005 budget presentation, pending discussion with MPs at 9/20/04 BSP.
- 2005 Budget, as proposed, represents the funding level required to meet NYISO's key objectives & projects scheduled for 2005 while staying within the 2005 target budget
- Refer to the "NYISO 2005 Projects Summary" for Project details
- Market Participant Questions / Comments??
- Next Steps to Prepare for 10/18 MC meeting...