

New York State Independent System Operator Incentive Compensation Plan Design Outline

Objective of Incentive Compensation

- Align the employees and organization's vision and long term operating results
- Incentive compensation should attract, motivate and reasonably reward individuals.

Components of Overall Compensation

- Base Compensation-usually set based on comparable salary within the specific industry giving affect for regional cost of living differences.
- Short term Incentive-set based on specific goals that can be achieved in one year.
- Long term Incentive-set based the long term vision or goals that cover a period of three to five years.

Plan Design Objectives

- Align the employees and organization's goals
- Elements of Incentive compensation should create a natural tension among each component
- Ensure that short and long term vision of the organization is rewarded

Current NYISO Design

- The NYISO Incentive Goals for 2002 has10 Goals

Two gateway goals (1) Reliability and (2) Market
Eight Operational Goals
- The current NYISO Incentive compensation Plan is budgeted at approximately \$2.2 million or 10% of base compensation.
- Incentive Compensation Plan is short-term and operational in nature. It does not have a long-term component nor is the plan differentiated as between employees and executives

[Awaiting description of plan and mechanics from NYISO; to be updated]

Suggested Modification

- Modify Incentive Compensation Plan to include goals for Executive Officers
- Goals should focus on cost control, providing a high level of service to market participants and providing a strategic vision over a 3-year planning horizon.
- Possible alternative model for Executives

<u>Executive Plan</u>	<u>Weighting</u>
ISO Operational Goals	50%
<u>Cost Control</u>	25%
Budget	
Up-Lift	
<u>Long Term Goals</u>	25%
Seams Issues	
Infrastructure Issues	

Plan Design Issues

- Should the Executive Plan evaluate the ISO Operational Goals as it's presently scored i.e. the gateway goals must met in order to receive payout on this portion of the goal?.
- If the gateway goals are not met should the Executive plan payout for the cost control and long term goal?
- Should matrix values include negative percentages if goals are below target and considered in overall performance?
- Should goal performance values be set in such a way that failure in one goal can be offset by superior performance in another goal?
- Should the long term goal be cumulative in nature i.e. performance in one period is carried over with payout at the end of the goal period?