

2007 BUDGET OVERVIEW FOR THE NYISO

Presentation to the Management Committee
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for the
Budget Standards and & Performance Subcommittee

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2007 BUDGET OVERVIEW FOR THE NYISO

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2007 BUDGET OVERVIEW FOR THE NYISO

Schedule

- **September 27:** BSP subcommittee review of draft 2007 budget
Information on draft 2007 budget provided to Management Committee for preliminary review
- **October 16:** NYISO presents draft 2007 budget to BOD Finance Committee for review
- **October 19:** BSP meeting to discuss feedback received from Management Committee and BOD Finance Committee
- **October 25:** BSP presents draft 2007 budget to Management Committee
- **November 6:** Management Committee vote on final 2007 budget for recommendation to BOD Finance Committee
(tentative)
- **November 21:** BOD Finance Committee approval of final 2007 budget

2007 BUDGET OVERVIEW FOR THE NYISO

Highlights

OVERVIEW:

Budget Target: Revenue Requirement of \$139.7 million exceeds target set in 2003 by \$1.5 million. However, due to changes in projected load, resulting schedule 1 rate of \$0.821/MWH is consistent with the target.

Overall Increase: Overall increase of \$6.6 million includes higher debt service payments relating to prior year obligations (\$4.2 million) which peak in 2007. Remainder increases by approximately 2%.

Debt Levels: NYISO is continuing to reduce levels of outstanding debt (reducing annual financings, shortening length of repayments, and utilizing available funds to repay outstanding debt). This debt reduction program puts upward pressure on the budget in the long-term.

Overall Focus: Staff has indicated that it will continue the focus of improving NYISO's existing processes and procedures rather than significant market or technology changes

MAIN 2007 PRIORITIES:

1. Complete migration to new headquarters facility (expected completion is Q1 2007)
2. Institutionalize process & control improvements and initiatives, including Lean Six Sigma quality program
3. Continue process to replace the Settlements System (phased implementation scheduled for completion in 2009)
4. Continue process to replace Market Information System (phased implementation scheduled for completion in 2009)
5. Complete Enhanced Price Validation project
6. Continue technology infrastructure initiatives to optimize and consolidate computer platforms allowing reduction of required footprint and associated costs
7. Implement proposed shortened billing timeframes (assuming approvals received in late 2006)
8. Implement appropriate metering strategy as relates to settlement cycle intervals
9. Continue TCC and UCAP automation / enhancement initiatives
10. Continue automation efforts for manual billing processes

2007 BUDGET OVERVIEW FOR THE NYISO

Summary Budget

<u>Cost Category</u> <i>(\$ in millions, excluding RS#1/MWH)</i>	<u>2007 Draft</u>	<u>2006 Budget</u>	<u>2005 Actuals</u>	<u>2004 Actuals</u>	<u>2003 Actuals</u>
Current Year Needs (excl. FERC Fees)	\$117.9	\$130.1	\$127.4	\$132.1	\$139.8
Plus: Debt Service from Prior Year Financings	<u>35.4</u>	<u>31.2</u>	<u>25.7</u>	<u>\$29.0</u>	<u>\$15.9</u>
Cash Budget	\$153.3	\$161.3	\$153.1	\$161.1	\$155.7
Less: Miscellaneous Revenues	(2.3)	(2.5)	(4.3)	(\$1.1)	(\$1.0)
Less: Prior Year Underrun/Overcollection applied	(5.0)	(12.5)	-	-	-
Less: Net Proceeds on Current Year Financings	(14.5)	(23.1)	(31.2)	(\$41.5)	(\$45.8)
Net Budget Needs – in \$\$	\$131.5	\$123.2	\$117.6	\$118.5	\$108.9
FERC Fees – in \$\$	<u>\$8.2</u>	<u>\$9.9</u>	<u>\$8.9</u>	<u>\$5.3</u>	<u>\$7.9</u>
Total RS#1 Rev. Requirement – in \$\$	\$139.7	\$133.1	\$126.5	\$123.8	\$116.8
Net Budget Needs – in \$/MWH	\$0.773	\$0.742	\$0.745	\$0.736	\$0.686
FERC Fees – in \$/MWH	\$0.048	\$0.060	\$0.043	\$0.033	\$0.050
Total RS#1 Rev. Requirement - \$/MWH	\$0.821	\$0.802	\$0.788	\$0.769	\$0.736
RS#1 Charge/MWH: Purchasers @ 80% (85% pre-2005)	\$0.657	\$0.642	\$0.630	\$0.654	\$0.626
RS#1 Charge/MWH: Sellers @ 20% (15% pre-2005)	\$0.164	\$0.160	\$0.158	\$0.115	\$0.110

For Discussion Only

2007 BUDGET OVERVIEW FOR THE NYISO

Detail Budget by Cost Category

(\$ in millions, except RS#1/MWH)	2007 Draft	2006 Budget	2005 Actuals	2004 Actuals	2003 Actuals
Capital	\$4.4	\$21.0	\$22.7	\$12.1	\$30.3
Salaries & Benefits	50.6	49.3	45.8	42.1	37.6
Professional Fees (including Legal)	32.2	29.2	30.0	49.2	49.2
Building Services	4.0	4.4	4.9	4.2	3.3
Computer Services	13.0	10.5	9.8	8.7	4.2
Insurance	3.7	4.6	4.3	6.4	6.7
Telecommunications	5.0	5.1	4.6	4.5	3.1
Other Expenses (BOD, Travel/Training, NPCC Fees)	5.0	6.0	5.3	4.9	5.4
Current Year Needs (excl. FERC Fees)	\$117.9	\$130.1	\$127.4	\$132.1	\$139.8
Debt Service	35.4	31.2	25.7	29.0	15.9
Cash Budget	\$153.3	\$161.3	\$153.1	\$161.1	\$155.7
Less: Miscellaneous Revenues	(2.3)	(2.5)	(4.3)	(1.1)	(1.0)
Less: Proceeds from Current Year Budget Debt/Carryovers	(20.0)	(28.0)	(18.0)	(42.0)	(47.0)
Less: Proceeds from Mortgage/Renovations Debt	-	(8.5)	(16.1)	-	-
Add: Interest on Current Year Budget Debt	0.5	0.5	0.4	0.5	1.2
Add: Principal & Interest on Mortgage/Renovations Debt	-	0.4	2.5	-	-
Net Budget Needs	\$131.5	\$123.2	\$117.6	\$118.5	\$108.9
FERC Fees	8.2	9.9	8.9	5.3	7.9
Rate Schedule #1 Revenue Requirement in \$\$	\$139.7	\$133.1	\$126.5	\$123.8	\$116.8
Budgeted MWH Hours (budget)	170.1	166.0	163.7	161.0	158.8
Rate Schedule #1 Revenue Requirement in \$/MWH (budget)	\$0.821	\$0.802	\$0.788	\$0.769	\$0.736

For Discussion Only

Summary of Significant Changes (cont'd)

2006 Rate Schedule 1 Revenue Requirement		\$133.1
➤ <u>Less: Efficiencies and reductions</u>		
Reduction in FERC Fees assessment	(\$1.7)	
Savings on annual insurance premiums	(\$0.9)	
Reduction in meeting costs	(\$0.6)	
Reduction in NPCC Fees	(\$0.6)	
Reduced building services – KCC consolidation	(\$0.4)	
		(\$4.2)
➤ <u>Plus: Budget increases</u>		
Reduction in financing net of reduction in total capital	\$2.0	
Increase in debt service payments from prior year obligations	\$4.2	
Increase in consultants	\$2.5	
Increase in Salaries & Benefits (~2.6%)	\$1.3	
Increase in external legal costs	\$0.5	
Misc. other increases	\$0.3	
		\$10.8
➤ Subtotal: Increase in Rate Schedule 1 Revenue Req.		\$ 6.6
Equals: 2007 Rate Schedule 1 Revenue Requirement		\$139.7

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Line Item Details - CAPITAL

(\$ in millions)	2007 Draft	2006 Budget	\$ Change
Replacement of Existing Hardware	\$2.0	\$3.6	(\$1.6)
Additional Software Licenses (capitalized)	\$1.3	\$2.0	(\$0.7)
Renovations to Power Control Center	\$0.6	\$0.8	(\$0.2)
Acquisition and Renovation of New Headquarters Facility	\$0.4	\$11.2	(\$10.8)
Replacement of Existing Furniture	\$0.1	\$ 0.1	\$ -
Additional Hardware/Software for Product Enhancements	\$ -	\$3.3	(\$3.3)
Total Capital Costs	\$4.4	\$21.0	(\$16.6)

Replacement of Existing Hardware:

To maintain current technology, NYISO's strategy is to replace existing hardware every three years. The 2007 level of capital spending on upgrading existing hardware is lower than 2006 as certain anticipated 2007 hardware purchases were accelerated into 2006.

Additional Software Licenses (Capitalized):

The level of capitalized software licenses decreased from 2006 to 2007 as certain software licenses previously considered capital for budget purposes have now more accurately been reflected as computer services expenses (see corresponding increase in this line item).

Acquisition and Renovation of New Headquarters Facility:

The majority of the renovations on the KCC building were completed in 2006, with certain minor costs remaining for 2007.

Hardware/Software for Product Enhancements:

None of the product enhancements anticipated for 2007 will require capital costs. During 2006, NYISO incurred the capital investment for such projects as the Settlements System Replacement and additional DSS datamarts.

2007 BUDGET OVERVIEW FOR THE NYISO

Line Item Details – SALARIES & BENEFITS

(\$ in millions)	2007 Draft	2006 Budget	\$ Change
Salaries	\$35.2	\$34.5	\$0.7
Incentive Bonuses	\$5.2	\$4.9	\$0.3
Payroll Taxes	\$2.7	\$2.7	\$ -
Benefit Programs	\$7.5	\$7.2	\$0.3
Total Salaries & Benefits	\$50.6	\$49.3	\$1.3
<p><i>NYISO's total headcount complement is 425 FTEs, although an average of approximately 20 openings is expected. Therefore, the 2007 budget reflects Salaries & Benefits for 405 FTEs.</i></p>			
<p><i>The increase in Salaries & Benefits is primarily driven by an average salary increase of ~4%. The increase in Salaries has a corresponding impact on benefit costs.</i></p> <p><i>Salary levels are benchmarked to comparable entities by management based on studies performed by Hay Associates. The BS&P has requested and management has agreed to provide the sub-committee with a presentation summarizing the results of these studies.</i></p>			

2007 BUDGET OVERVIEW FOR THE NYISO **Incentive Bonuses**

- 2007 Budget includes \$ 5.2 million in incentive pay - \$4.2 million of which applies to corporate plan (amounts include payroll taxes)
- ISO staff requests input from BS&P in developing goals. Feedback has been provided on a lagged basis as final draft plan has not been available for review until it has been implemented. Interim results are also reviewed with BS&P during the year.
- **Issues**
 - *Need for a Billing accuracy metric*
 - *Transparency of Six Sigma projects and results*
 - *Target audience for market participant survey*
 - *More emphasis on quantitative measures*
 - *Specificity of goal definition (potential exceptions defined before-hand)*
 - *Feasibility of benchmarking costs to other ISO's*

2007 BUDGET OVERVIEW FOR THE NYISO

Line Item Details – PROFESSIONAL FEES

(\$ in millions)	2007 Draft	2006 Budget	\$ Change
<i>Note: Individual initiatives and/or vendors exceeding \$250K are listed below.</i>			
Product Enhancement Consultants	\$9.1	\$7.0	\$2.1
External Legal Fees	\$6.0	\$5.5	\$0.5
SMD 2.0 Onsite Support and Ranger Enhancements	\$1.6	\$1.2	\$0.4
Security Guards	\$1.5	\$1.4	\$0.1
Lean Six Sigma Quality Initiative Consultants	\$1.5	\$0.6	\$0.9
Market Advisor & related consulting	\$1.2	\$1.1	\$0.1
Market Design, Price Validation assistance & related consulting	\$1.1	\$1.2	(\$0.1)
External Audits (fin'l audit, SAS 70) and Internal Audit Co-sourcing	\$1.0	\$0.8	\$0.2
Staff augmentation to support integration of certain IT processes	\$0.7	\$ -	\$0.7
Subtotal (see additional details on next page)	\$23.7	\$18.8	\$4.9
<p>Product Enhancement Consultants: The 2007 budget for consultants to assist with product enhancement initiatives reflects an increase of \$2.1M as several multi-year enhancements (i.e. Settlements System Replacement, Comprehensive Bid Management System Replacement, Enhanced Price Validation, etc.) are in phases requiring expertise from external consultants. In comparison, during 2006, many of these projects were in initial phases that did not require as much reliance on consultants. Details on intended product enhancements will be provided in a separate presentation.</p>			
<p>External Legal Fees: In 2007, NYISO increased the external legal budget from \$5.5M to \$6.0M, partly in consideration of increased litigation and FERC filings. Note that the 2006 actuals are targeted at \$6.3M.</p>			
<p>Lean Six Sigma Quality Initiative Consultants: Consulting resources will be used during 2007 to assist in training NYISO's employees in the LSS methodology and developing process improvement projects. Currently an additional ~140 employees are expected to receive LSS training and begin Green Belt projects in 2007.</p>			

2007 BUDGET OVERVIEW FOR THE NYISO

Line Item Details – PROFESSIONAL FEES (*cont'd*)

(\$ in millions)	2007 Draft	2006 Budget	\$ Change
<i>Note: Individual initiatives and/or vendors exceeding \$250K are listed below.</i>			
Subtotal (from previous page)	\$23.7	\$18.8	\$4.9
Consultants to assist with Oracle upgrade / Oracle Forms	\$0.5	\$0.4	\$0.1
Attachment N Support Consultants	\$0.5	\$0.5	-
Staff augmentation to assist with Business Requirements for Financial Systems	\$0.5	\$0.2	\$0.3
ICAP Demand Curve Study	\$0.4	\$ -	\$0.4
Consultant to assist with QA tools	\$0.4	\$ -	\$0.4
Strategic Planning Process	\$0.3	\$ -	\$0.3
Consultant to assist with TCC Auction Support	\$0.3	\$0.1	\$0.2
Consultant to assist with Application Support for Data Warehouse	\$0.2	\$0.6	(\$0.4)
Consultants for Long-Term Reliability Studies	\$ -	\$0.4	(\$0.4)
Other Misc. Professional Fees (all individually < \$250K)	\$5.4	\$8.2	(\$2.8)
Total Professional Fees	\$32.2	\$29.2	\$3.0

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Line Item Details – COMPUTER SERVICES

<i>(\$ in millions)</i>	<u>2007 Draft</u>	<u>2006 Budget</u>	<u>\$ Change</u>
Hardware Maintenance and related costs	\$4.1	\$2.0	\$2.1
Software Licenses (not capitalized) and Maintenance costs	\$8.4	\$7.8	\$0.6
Computer and Electronics Supplies	<u>\$0.5</u>	<u>\$0.7</u>	<u>(\$0.2)</u>
Total Computer Services Costs	\$13.0	\$10.5	\$2.5

Hardware Maintenance and Software Licenses/Maintenance:

The increase in hardware maintenance and software licenses/maintenance costs from 2006 to 2007 is primarily the result of higher maintenance for SMD2 equipment, which was under warranty through 2006. \$1.3M is included in the 2007 budget for such maintenance costs.

Additionally, certain software licenses previously classified as Capital for budget purposes have now more accurately been reflected as computer services expenses (see corresponding decrease in the Capital line item).

The increases in these line items are also driven by increases in vendor maintenance rates and the volume of hardware/software maintained by NYISO.

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Line Item Details – FERC FEES

- NYISO includes FERC Fees within its annual RS#1 budget revenue requirements. Other ISOs do not utilize this practice, and instead, assess FERC Fees as a direct passthrough to MPs.
- The historical level of FERC Fees is presented in the tables to the right, and illustrates the variation in annual FERC Fee assessments.
- FERC has estimated its program costs to increase 4.7% in 2007. NYISO's 2007 budget for FERC Fees is \$8.2M, which represents a corresponding ~6% increase from the 2006 actuals.

NYISO History of FERC Fees					
(\$ in millions)	2002	2003	2004	2005	2006
Annual Budget	\$5.0	\$5.0	\$8.0	\$7.0	\$9.9
FERC Annual Assessment	\$6.2	\$7.7	\$6.7	\$8.3	\$7.8
FERC Adj. to Prior Year	\$-	\$0.2	(\$1.4)	\$0.3	\$-
Total Annual FERC Fees	\$6.2	\$7.7	\$5.3	\$8.6	\$7.8
% Change in FERC Fees	n/a	24%	(31%)	62%	(10%)

Other ISOs History of FERC Fees					
(\$ in millions)	2002	2003	2004	2005	2006
NYISO	\$6.2	\$7.7	\$5.3	\$8.6	\$7.8
CAISO	\$9.1	\$11.3	\$7.8	\$12.3	\$10.8
PJM	\$1.7	\$25.2	\$14.1	\$21.4	\$32.7
MISO	\$-	\$1.4	\$30.0	\$30.0	\$29.2
ISO-NE	\$-	\$-	\$-	\$-	\$6.3

2007 BUDGET OVERVIEW FOR THE NYISO

Line Item Details – DEBT SERVICE

Major Assumptions:

- NYISO plans to obtain debt financing of \$80M to cover capital acquisitions and product enhancements during 2007-2010 (~\$20M is available for borrowings each year during this period). This debt will be repaid over a three-year life to coincide with the average life of the underlying assets. This is a reduction from a four-year life utilized in prior debt facilities.
- \$15M will be borrowed in 2007 to fund capital acquisitions and product enhancements (PSC approval for new debt facility is scheduled for January 2007)
- \$5M is expected to be available from 2006 budget spending underruns and/or transactional volume overcollections to use in lieu of additional 2007 debt borrowings
- Interest on 2007 debt borrowings is estimated at 7%. Interest hedging will be completed in early 2007.
- Interest on all existing debt is hedged at slightly <5% for 2003-2006 budget loans and slightly <6% for the KCC building 20-year financing.

2007 BUDGET OVERVIEW FOR THE NYISO

Line Item Details – DEBT SERVICE (*cont'd*)

ANNUAL PRINCIPAL AND INTEREST REPAYMENTS **									
(\$ in millions)									
<u>Debt Facility</u>	<u>Repayment Period</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
2003 Budget Loan	4 years	\$12.7	\$12.2	\$2.0	\$ -	\$ -	\$ -	\$ -	\$ -
2004 Budget Loan	4 years	12.0	11.5	10.7	-	-	-	-	-
2005 KCC Bldg Mortgage & Renov.	20 years	0.9	1.7	1.7	2.1	2.1	2.1	2.1	2.1
2005 Budget Loan	4 years	5.2	5.0	4.8	4.6	-	-	-	-
2006 Budget Loan	4 years	0.3	4.5	4.3	4.1	4.0	-	-	-
2007 Budget Loan	3 years		0.5	5.9	5.5	5.2			
2008 Budget Loan	3 years			0.6	7.8	7.3	6.9		
2009 Budget Loan	3 years				0.6	7.8	7.3	6.9	
2010 Budget Loan	3 years					0.6	7.8	7.3	6.9
Bank Fees	n/a	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Total		\$31.5	\$35.9	\$30.5	\$25.2	\$27.6	**	**	**

**** Note: Totals after 2010 are not presented as additional loans after 2010 are not factored into this table.**

2007 BUDGET OVERVIEW FOR THE NYISO

Line Item Details – DEBT SERVICE (*cont'd*)

PRINCIPAL BALANCE OUTSTANDING AT DECEMBER 31, (\$ in millions)									
<u>Debt Facility</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
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	-	15.5	11.6	7.7	3.9	-	-	-	-
2007 Budget Loan	-	-	15.0	10.0	5.0	-	-	-	-
2008 Budget Loan	-	-	-	20.0	13.3	6.7	-	-	-
2009 Budget Loan	-	-	-	-	20.0	13.3	6.7	-	-
2010 Budget Loan	-	-	-	-	-	<u>20.0</u>	<u>13.3</u>	<u>6.7</u>	-
Total	\$89.4	\$86.8	\$70.8	\$64.4	\$63.4	\$60.1	**	**	**

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

2007 BUDGET OVERVIEW FOR THE NYISO

2008-2011 Projections

(\$ in millions, except RS#1/MWH)	2006 Budget	2007 Draft	2008 Projection	2009 Projection	2010 Projection	2011 Projection
Capital	\$21.0	\$4.4	\$8.1	\$9.0	\$6.0	\$7.5
Salaries & Benefits	49.3	50.6	53.1	56.2	58.8	61.4
Professional Fees (including Legal)	29.2	32.2	29.7	28.6	27.7	26.7
Building Services	4.4	4.0	3.8	3.9	4.0	4.2
Computer Services	10.5	13.0	13.7	14.3	15.0	15.8
Insurance	4.6	3.7	3.9	4.1	4.3	4.5
Telecommunications	5.1	5.0	5.1	5.2	5.3	5.4
Other Expenses (BOD, Travel/Trng, NPCC Fees)	<u>6.0</u>	<u>5.0</u>	<u>4.6</u>	<u>4.9</u>	<u>4.9</u>	<u>5.1</u>
Current Year Needs (excl. FERC Fees)	\$130.1	\$117.9	\$122.0	\$126.2	\$126.1	\$130.6
Debt Service	<u>31.2</u>	<u>35.4</u>	<u>29.9</u>	<u>24.6</u>	<u>26.9</u>	<u>24.7</u>
Cash Budget	\$161.3	\$153.3	\$151.9	\$150.8	\$153.0	\$155.3
Less: Revenues	(2.5)	(2.3)	(2.3)	(2.4)	(2.4)	(2.4)
Less: Proceeds from Current Year Budget Debt / Carryovers	(28.0)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)
Less: Proceeds from Mortgage/Renov.	(8.5)	-	-	-	-	-
Add: Interest on Current Year Budget Debt	0.5	0.5	0.6	0.6	0.6	0.6
Add: Principal & Interest on Mortgage/Renov.	<u>0.4</u>	-	-	-	-	-
Net Budget Needs	\$123.2	\$131.5	\$130.2	\$129.0	\$131.2	\$133.5
FERC Fees	<u>9.9</u>	<u>8.2</u>	<u>8.8</u>	<u>9.4</u>	<u>10.0</u>	<u>10.7</u>
RS#1 Revenue Requirement in \$\$	\$133.1	\$139.7	\$139.0	\$138.5	\$141.2	\$144.2
MWH Hours	166.0	170.1	172.7	174.7	176.6	178.6
RS#1 Revenue Requirement in \$/MWH	\$0.802	\$0.821	\$0.805	\$0.793	\$0.800	\$0.807

For Discussion Only

2007 BUDGET OVERVIEW FOR THE NYISO

Summary-BS&P Comments

In summary, the BS&P's comments with respect to the 2007 budget are as follows:

- The NYISO staff reexamine the feasibility of meeting the Rate Schedule #1 revenue requirement budget target of \$138.2 million set in 2003. This modest decrease of 1% from the proposed staff budget appears high enough to accommodate the peak 2007 debt service payment as well as an inflationary increase in the other components of the budget. On the surface, areas which warrant additional review include "salaries & benefits" and "professional fees".
- The salary and benefit budget assumes a 5% increase in staff from August 31, 2006 levels. The 2006 projection for salaries and benefits is \$46.3 million compare to a proposed budget of \$50.6 million in 2007.
- Professional fees include \$1.2 million in staff augmentation costs to support integration of IT and business processes. Also includes increases in LSS consultants of \$1.5 million and external legal fees of \$0.5 million.
- Reexamination of these areas could potentially facilitate efforts to meet 2008 revenue requirement target of \$134.5 million. Current projections reflect 2008 as \$4.5 million over target despite significant reduction in scheduled debt service payments.

2007 BUDGET OVERVIEW FOR THE NYISO

Fixed Rate Alternative

At the September 27th subcommittee meeting and follow-up teleconferences, BSP members discussed with NYISO staff an alternate approach would include a fixed Schedule 1 rate for a 4 or 5 year period. In summary, under this approach:

- NYISO would commit to a fixed Rate Schedule 1 charge of \$.75 per MWH for the period.
- FERC fees would be removed from NYISO budget under Rate Schedule 1. NERC ERO *Funding* would not be included in NYISO budget under Rate Schedule 1. These items would be billed as a direct pass-through to MPs on NYISO settlement invoices quarterly based on actual invoiced costs. Charges will be assessed quarterly or under an agreed-upon methodology.
- NYISO will continue to utilize available funds to reduce amount of debt outstanding, within parameters allowable under financing agreements.
- NYISO would agree to a limitation on annual debt financing of \$25 million and a limit on the amount of debt outstanding ranging from \$60 to \$63 million at December 31, 2010.
- NYISO staff would continue to provide budget reporting to BSP consistent with current practice.

These discussions are ongoing. At this time, issues remain unresolved with respect to the process for addressing significant variances in spending and load during the period. The BS&P has proposed several provisions for addressing these variances.

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Fixed Rate Alternative

<u>\$ in millions</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Rate Schedule 1 (\$/mwh)	0.75	0.75	0.75	0.75	
Usage (mwh)	170.1	172.7	174.7	176.6	
NYISO Rev.Req. exc FERC fees	\$127.6	\$ 129.5	\$ 131.0	\$ 132.5	\$ 520.6
Projected Spending	\$131.5	\$130.2	\$129	\$131.2	\$521.9
Variations	\$(3.9)	\$(0.7)	\$2.0	\$ 1.3	\$(1.3)

2007 BUDGET OVERVIEW FOR THE NYISO

Fixed Rate Alternative – Potential Variance Provisions

Variations in Load & Spending

- Spending under-runs and over collections due to load variations would be used to pay down debt. If over collections are more than 3 percent relative to the budgeted revenue requirement, the MC would be consulted with regard to disposition of excess funds.
- Spending overruns or under-collections due to load variations of less than 3 percent relative to the budgeted revenue requirement would be managed by the ISO without the issuance of debt. If under-collections exceed 3%, the MC would be consulted with regard to the action to be taken.
- During the annual budget process, increases in the budget due to updates in load projections would be limited to 1% above current projections.

Transition Provision

To the extent necessary, a portion of year 2006 over-collections would be utilized to fund the projected budget shortfall for the year 2007 resulting from the implementation of this plan. The remainder would be utilized to reduce outstanding debt.