

ISO New England 2015 Preliminary Operating and Capital Budgets



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Introduction and Overview

- For 2015, we plan to execute on prior decisions/orders
 - Our focus will be the execution of decisions already made to support existing services (i.e., Hourly Market, Coordinated Transaction Scheduling, Forward Capacity Market and increasing cyber security threats)
- The presentation provides high-level information regarding ISO-NE's initial view of the 2015 Operating Budget estimates, including:
 - Additional resource needs to support on-going work
 - Compensation/benefits increases
 - Mandated regulatory increases (NERC/NPCC)
 - Cyber Security increases
 - Insurance and Financing increases
 - On-going support/inflationary increases
 - Efficiencies and reductions
- The 2015 Capital Budget is also presented in summary form
 - Detailed project descriptions along with their value propositions will be presented in August, once the final expenditures list is determined

Background

- The 2015 operating budget estimates contemplate adjustments to the previous year's budget as follows:
 - Cost reductions from previous year's budget (e.g., one time studies, non-recurring costs)
 - Increases to fund previously committed costs (e.g., Pension and Medical Benefit costs, increased computer services, Cyber Security costs, Energy Market Offer Flexibility (Hourly Market), Coordinated Transaction Scheduling (with New York ISO), NERC/NPCC Fees, and insurance)
 - Costs of maintaining competitive compensation
 - Preliminary estimate is 3.0% merit increase, with 1.0% for equity and promotional increases
 - See slides 12 and 13 for further information
- In summary, this Budget requires a year over year increase for 2015 of \$6,256,000 or 4.5%, before Depreciation expense. However, rates are expected to remain flat as these increases are more than offset by prior year refunds.

Next Steps

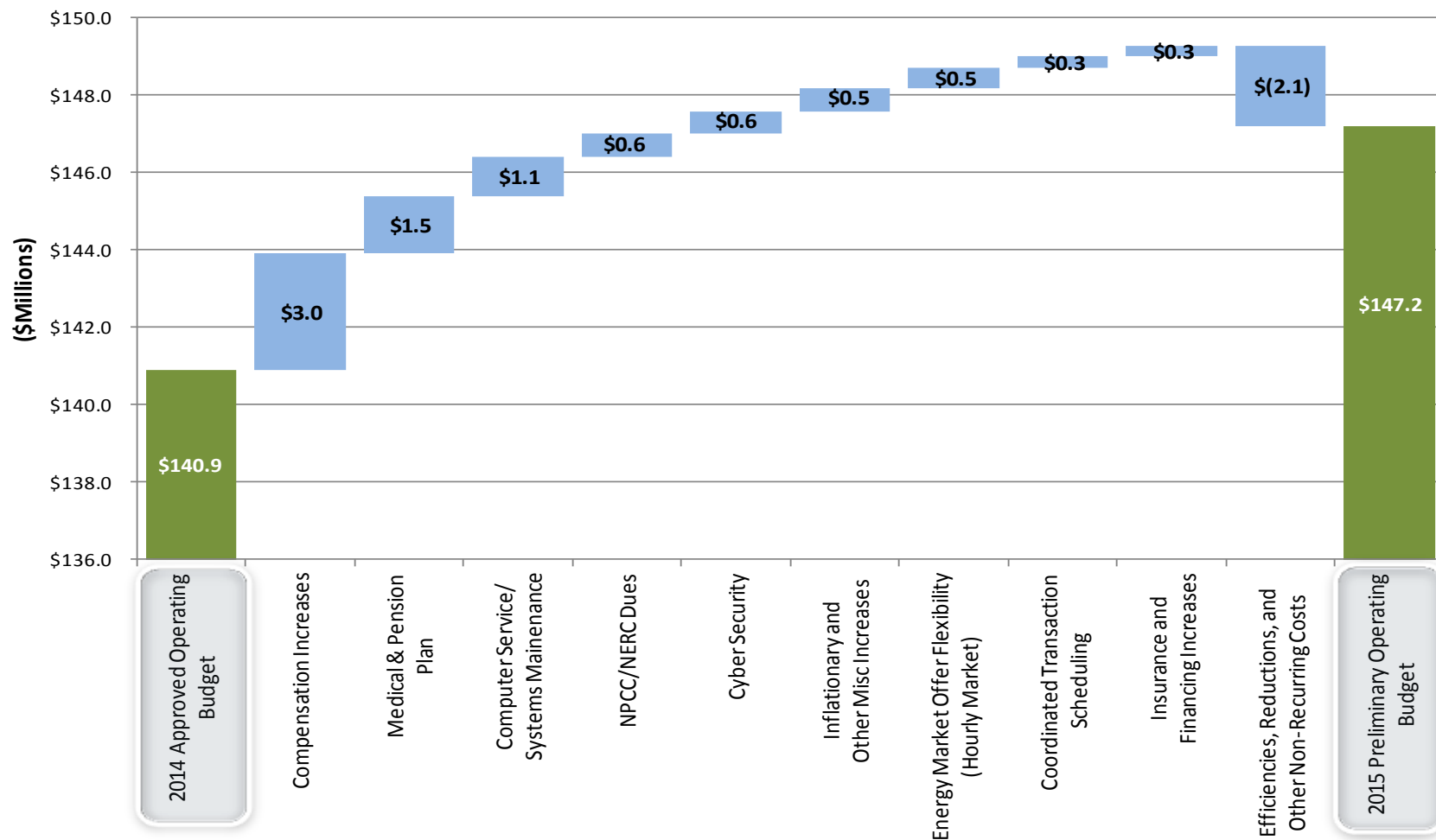
- In addition to this meeting, ISO-NE will review the *preliminary* 2015 Operating and Capital Budgets at the June 25th NEPOOL Participants Summer Meeting
- The ISO will review the 2015 *proposed* Budgets:
 - At the August 27th NEPOOL Budget & Finance Sub-committee meeting
 - With the States on August 28th
 - At the NEPOOL Participants Committee (NPC) September 12th meeting
- NPC to vote on the ISO-NE 2015 proposed Budgets at October 3rd meeting
- ISO New England Board of Directors will vote on the 2015 proposed Budgets subsequent to the NPC vote in October
- ISO New England to file 2015 Budgets with FERC on October 15th (estimated date)

2015 BUDGET COMPONENTS AND KEY ASSUMPTIONS

2015 Budget Components

- The preliminary 2015 budget was determined by combining the following:
 - Budget increases for:
 - Compensation – current estimate. Final budget proposal will be based on survey data.
 - Additional FTEs and Professional Fees to support previously committed work primarily in the information technology area
 - Medical and Pension Plan cost increases
 - Inflationary Increases including Computer Services and Insurance (existing policies and Cyber Security)
 - Other Changes (Education and training- Manager development program, Non-operator NERC certification training)
 - Budget decreases for:
 - Interest Expense
 - Back-up Control Center transition costs
 - Non-recurring professional fees

2015 Budget Components (cont.)



2015 Budget Components

Preliminary Operating Budget

The following amounts are changes and assumptions from the 2014 budget:

Item	Description	Amount (\$ in millions)
Compensation Increases	Annual merit increase of 3.0% and promotional increases of 1.0% (see the following slides for further information) (tentative)	\$ 3.0
Medical & Pension Plan Cost Changes	Changes in plan costs with an estimated increase in Medical Plan cost trend (11% increase) including the impact of the Patient Protection and Affordable Care Act, and an estimated increase in funding for Pension Plan primarily due to changes in mortality tables	\$ 1.5
Computer Service/Systems Maintenance	Headcount additions in IT and Program Management, consultant support to supplement staff, and Computer Service licenses and maintenance for the on-going support and maintenance of new and enhanced systems including Forward Capacity Market, Asset & License Management, Website Enhancements, Integration of Variable Resources, and Network Modeling	\$ 1.1
NPCC/NERC Dues	An estimated increase in NPCC and NERC Dues, and funding for Eastern Interconnect Data Sharing Network fees	\$ 0.6
Cyber Security	Headcount additions and Computer Service costs for Cyber Security Improvements	\$ 0.6

2015 Budget Components

Preliminary Operating Budget, cont.

Item	Description	Amount (\$ in millions)
Inflationary and Other Miscellaneous Increases	Includes estimated increases for leasing of computer equipment, employee management training, telecommunications, BCC operating and other costs	\$ 0.5
Energy Market Offer Flexibility (Hourly Market)	Headcount and consultant additions as well as software license increases for the introduction of this new market enhancement	\$ 0.5
Coordinated Transaction Scheduling	Headcount and consultant additions to support Coordinated Transaction Scheduling between the New England and New York control areas, which will improve scheduling of wholesale electricity sales between the two regions and improve market efficiency across both regions	\$ 0.3
Insurance and Financing	Includes estimates for increased insurance costs, increase in debt service costs for amortization of term loan fees for back-up control center, higher bank fees , partially offset by an increase in interest income due to higher projected settlement cash balances	\$ 0.3
Efficiencies, Reductions, and Other Non-Recurring Costs	Includes non-recurring 2014 work (FERC Order 1000, Synchrophasor and Data Utilization (Smart Grid), and Other Misc.), consultant work to be absorbed by internal staff, reductions as a result of contract negotiation, and a reduction of interest expense on the renewal of ISO's \$39M term loan fees in 2014	\$ (2.1)
Total	<i>(this represents a 4.5% increase over 2014)</i>	\$ 6.3

2015 Budget

Summary Budget Information

(Budget Amounts are in Millions)	<u>2015</u>	<u>% Change</u>	<u>2014</u>	<u>% Change</u>	<u>2013</u>	<u>% Change</u>	<u>2012</u>	<u>% Change</u>	<u>2011</u>	<u>% Change</u>	<u>2010</u>
Operating Budget Before Depreciation	\$147.2	4.5%	\$140.9	4.1%	\$135.5	9.4%	\$123.9	5.4%	\$117.5	7.9%	\$108.9
Capital Budget (1)	28.0	0.0%	28.0	(4.4%)	29.3	4.6%	28.0	5.7%	26.5	(5.4%)	28.0
Total Cash Budget	\$175.2	3.7%	\$168.9	2.5%	\$164.8	8.5%	\$151.9	5.5%	\$144.0	5.2%	\$136.9
Operating Budget Before Depreciation	\$147.2	4.5%	\$140.9	4.1%	\$135.5	9.4%	\$123.9	5.4%	\$117.5	7.9%	\$108.9
Depreciation	31.5	10.9%	28.4	(0.3%)	28.5	5.2%	27.1	4.6%	25.9	7.5%	24.1
Revenue Requirement Before True-up	178.7	5.5%	169.3	3.2%	164.0	8.6%	151.0	5.3%	143.4	7.8%	133.0
True up	(9.8)		1.9		0.9		(7.4)		(9.7)		4.2
Revenue Requirement	\$168.9	(1.4%)	\$171.2	3.8%	\$164.9	14.8%	\$143.6	7.4%	\$133.7	(2.6%)	\$137.2
Forecast – GWhs (2)	140.4	1.4%	138.4	(0.4%)	138.9	0.7%	138.0	4.2%	132.4	1.2%	130.8
\$/KWh Rate	\$0.00120	(1.6%)	\$0.00123	4.2%	\$0.00119	14.4%	\$0.00104	3.0%	\$0.00101	(3.8%)	\$0.00105
Average Monthly Consumer Cost (3)	\$0.85		\$0.86		\$0.83		\$0.73		\$0.71		\$0.74

- (1) 2014 Capital Budget includes the Backup Control Center (BCC) Data Center Transition Project, however, it excludes the BCC Project, which is funded by tax-exempt bonds
- (2) 2014 and 2015 Forecasts based on May 2014 CELT Report. All other years based on CELT Report for the applicable year, which can be found on www.iso-ne.com.
- (3) Based on average consumption of 700 kWh per month.

2015 Budget Components

Staffing Additions

The following represents a breakdown of Preliminary headcount additions for 2015:

Business Area	Positions	Number of Positions (FTEs)
IT – Infrastructure and Enterprise Support Services	Includes two positions for Cyber Security, and two positions, one in IT Settlements support and one in IT Database and Support, related primarily to the introduction of Energy Market Offer Flexibility (Hourly Market) and Coordinated Transaction Scheduling (CTS) market enhancements, and to support the updated and expanded ISO website	4.0
IT – Software Development and Power System Support	Includes two positions in IT Energy Management System and Network Modeling areas to support Hourly Market, CTS, the Integration of Variable Resources and Network Modeling improvements and one position in IT Enterprise Applications Development to Support Forward Capacity Market software enhancements	3.0
Finance and Market Operations	Includes the addition of a Payroll Supervisor in Finance, and the transfer of a Business Analyst position from part-time to full-time in Market Operations Support (the transfer of the position to full-time has resulted in consultant savings above the staffing cost)	1.5
Program Management	The addition of a systems testing analyst who has the technical skills to perform this role for the implementation of multiple new systems and enhancements	1.0
Total Positions		9.5

2015 Budget Compensation Estimates

Compensation budget estimates are preliminary and, as per the normal process, the final compensation increases included in the budget will be based on the actual survey data received.

Merit Budgets - Forecasted 3.0% pool for 2015

- National surveys regarding 2015 salary increases are currently in process, with final results generally available in late August/early September. We do not anticipate major changes in merit budget projections from the last several years, which have been at 3%.
- To date none of the consulting groups have provided preliminary information. Initial data may become available in late June or early July.

2015 Budget Compensation Estimates *(cont.)*

Promotion and Equity Increases – Forecasted 1% pool for 2015

- The current budget estimate assumes a 1% promotion pool budget:
 - The 1% would help ensure that pay remains competitive specifically for critical ISO job functions
 - The national shortage of experienced utility industry talent continues to drive salaries higher
- National projections for 2015 promotional and equity budgets are collected along with the national merit data mentioned above; there have been no initial results for promo/equity budgets released by any national compensation consulting firm to date

2015 PRELIMINARY CAPITAL BUDGET

Capital Budget

2015 Expenditures

Major Projects In Development:		
	Coordinated Transaction Scheduling	\$3.7M
	Generation Control Application Production Part 1	\$2.2M
	Divisional Accounting	\$0.6M
In Planning/Conceptual Design		
	Business Continuity Plan Infrastructure Enhancements Phase III	\$2.0M
	Forward Capacity Auction (FCA) 10	\$2.0M
	Third Party Financial Transmission Rights (FTR) Administration	\$1.8M
	Generation Control Application Production Part 2	\$1.5M
	VPN System Upgrade	\$1.0M
	Issues Resolution Project 2015	\$1.0M
	Simultaneous Feasibility Test Lite Production Version	\$1.0M
	Power System Modeling	\$1.0M
	Quarterly Release Projects 2015	\$0.8M
	Wind Integration Phase II	\$0.5M
	LMPc Replacement	\$0.5M
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The 2015 Capital Budget is a preliminary estimate and still being defined.

Capital Budget

2015 Expenditures (cont.)

In Planning/Conceptual Design (Continued):		
	Web Enhancements	\$0.5M
	Phasor Measurement Unit (PMU) Data Application	\$0.5M
	Forward Capacity Auction (FCA) 9	\$0.4M
	Price Responsive Demand	\$0.3M
	Software Testing Tool 2015	\$0.3M
	Non-Project Capital Expenditures	\$3.4M
	Other Emerging Work	\$2.5M
	Capital Interest	\$0.5M
Total 2015 Capital Budget		\$28.0M

The 2015 Capital Budget is a preliminary estimate and still being defined.

2015 OPERATING BUDGET DEFERRALS

2015 Operating Budget Deferrals

The following projects discussed below have been deferred and are not contemplated in the budget for 2015:

Project/Initiative	Project/Initiative Key Driver	Status
FERC Order 1000	FERC	The full extent of the impact of Order 1000 is not known at this time. Depending on the final FERC Order, additional costs may be incurred.
Winter Program 2015/2016	ISO and NEPOOL	The Preliminary budget does not contemplate costs for this. In the event work needs to be undertaken on this, it will be incremental.