

ISO-NE Responses to State Agencies' Questions to ISO-NE regarding 2020 Budget

- (1) Please provide the latest copy of ISO-NE's FERC Form 1 to every state agency representative.

Electronic pdf version is attached.

- (2) Please provide the most recent copy of ISO-NE's Form 990 to every state agency representative.

Electronic pdf version is attached.

- (3) Please identify the source(s) of the \$2.9 million true-up amount, and specify which and whether any of the sources would be a recurring source of refunds.

The final 2018 revenue requirement was an over-collection of \$2,949,400, which will reduce the 2020 requirement. The over-collection resulted from lower expenses. Specifically, 2018 expenses were \$3,015,000 lower than budgeted. (Final 2018 revenues collected under Section IV.A of the ISO-NE tariff were close to forecast at \$65,600 below what was filed in the 2018 budget/tariff filing.) Please see [Appendix B](#) for further detail and a reconciliation making up the \$2.9 million over-collection.

We do not expect that any of the factors making up the over-collection will be repeated. That said, in any given year the Board and CEO contingency funds may not be utilized if contingent risks don't materialize.

- (4) Personnel. For 2012-2020, please confirm that the numbers set forth in the chart below are accurate, for authorized total full-time employees (FTE) headcount, budgeted number of FTEs, the actual FTEs hired as of the last day of the budget year, the budgeted vacancy rates for 2012-2019, and your proposed vacancy rate for the 2020 budget. Please provide the year-to-date 2019 actual FTE number.

Year	Authorized total FTE Headcount	Budgeted FTEs	Actual FTEs	Budgeted Vacancy %	Actual Average Vacancy %
2012	551.5	524.0	539.5	5.0%	2.6%
2013	577.5	563.0	560.0	2.5%	4.5%
2014	585.5	568.0	567.5	3.0%	3.2%
2015	595.0	577.0	584.5	3.0%	3.2%
2016	603.5	585.5	572.5	3.0%	3.8%

Year	Authorized total FTE Headcount	Budgeted FTEs	Actual FTEs	Budgeted Vacancy %	Actual Average Vacancy %
2017	603.5	585.5	583.5	3.0%	4.1%
2018	608.0	587.5	584.5 (A)	3.4%	3.9% (B)
2019	608.0	583.5	590.0 (C)	4.0%	na
2020	608.0	583.5	na	4.0%	na

ISO-NE confirms all amounts in the chart above are accurate except as noted in red font and explained below.

- A. Actual FTEs as of 12/31/2018 were 584.5 as indicated on Slide 33 of the budget presentation presented to the NEPOOL Budget and Finance Subcommittee and state agencies on August 9 and 12, 2019, respectively (the “Budget Presentation”). (We presume that your number – 588.5 FTE’s – was taken from ISO-NE’s responses to state agencies’ 2019 budget questions. That number indicated 2018 headcount as of 7/31/2018.)
- B. The 2018 actual average vacancy has been provided.
- C. The actual FTE’s as of 7/31/2019 were 590.0. The 2019 Actual Average Vacancy through 7/31/2019 was 3.8%.

(5) Personnel. Please confirm, correct and/or provide the FTE numbers in the chart attached as Appendix A to these questions.

See Appendix A. Please note that the “201X budgeted FTEs” column provides the net positions funded estimated by area – actual vacancy and positions filled by area will vary.

(6) Benefits. For past three years, identify, by calendar year, how many employees are in the now-closed defined benefit pension plan and how many employees are in the new defined contribution pension plan.

The defined benefit pension plans were closed to employees hired or rehired on or after January 1, 2014. The number of active employees as of December 31st of each year in the two plans is provided in the table below.

	Def. Benefit Pension Plan	Def. Contribution Pension Plan
12/31/2016	465	108
12/31/2017	444	140
12/31/2018	417	168

- (7) Benefits. For the \$3.4 million increase listed as 2020 Merit & Promotion on page 57 of the August 2019 PowerPoint, please provide any updated estimates or information as to whether those costs will be lower in the final FY2020 budget.

The 2020 Merit and Promotional budget of \$3.4 million, based on a 3.5% increase, is still the current estimated budget (as of 8/23/2019). ISO-NE's Board Compensation and Human Resources Committee will formally review that proposal and approve a final Merit and Promotional budget in September 2019. As noted on page 57 of the budget presentation, when salary rate and employee benefit cost changes are taken into account, the overall salary and burden increase is reduced to \$1.8 million.

- (8) Outside Consultants. For Fiscal Years 2017 (actual), 2018 (actual), 2019 (current forecast) and proposed for 2020, please provide the total dollars spent in the operating budget on/for outside consultants by functional areas (i.e., the areas listed in the chart on page 67 of power point). For Information Services, please separate out cybersecurity expenses from all other expenses. Please also provide the corresponding FTE-equivalent of the consultants for the actual FY2017, actual FY2018, forecast for FY 2019, and budgeted for FY2020. (You may use average fully loaded payroll dollars [by functional area] to calculate the FTE (Consultant \$/ average payroll = FTE)).

The requested information is provided in the table below (expense amounts in thousands).

Area	2017		2018		2019		2020	
	Expense	FTE Equiv	Expense	FTE Equiv	Expense	FTE Equiv	Expense	FTE Equiv
System Operations	\$ 353.7	1.8	\$ 589.9	2.9	\$ 137.5	0.7	\$ 158.0	0.8
System Planning	\$ 1,441.2	7.5	\$ 1,169.0	6.2	\$ 1,325.2	6.7	\$ 937.8	4.7
Market Operations	\$ 874.2	5.0	\$ 653.3	3.7	\$ 716.5	4.0	\$ 747.6	4.2
Market Development	\$ 585.0	2.7	\$ 1,314.9	6.0	\$ 2,169.0	9.2	\$ 1,660.5	6.8
Information Services	\$ 2,860.8	15.0	\$ 3,120.9	16.0	\$ 3,581.6	17.9	\$ 4,401.4	22.1
Info. Services - Cyber Security	\$ 1,169.7	6.1	\$ 1,545.8	7.9	\$ 2,058.3	10.3	\$ 3,123.7	15.7
Program Mgt & Bus Arch	\$ 217.7	1.0	\$ 338.6	1.4	\$ 197.8	0.8	\$ 160.0	0.6
Market Monitoring	\$ 1,272.0	7.2	\$ 1,589.5	8.7	\$ 1,452.0	7.8	\$ 1,470.0	8.1
Legal Services	\$ 700.6	2.6	\$ 2,060.1	7.5	\$ 2,016.9	7.8	\$ 1,772.0	6.4
Ext Affairs & Corp Comm	\$ 652.2	3.6	\$ 597.4	3.2	\$ 580.7	3.2	\$ 591.9	3.1
Compl., Risk Mgt, Finance & Int Audit	\$ 1,127.6	6.0	\$ 995.5	5.1	\$ 1,396.8	7.1	\$ 1,119.2	5.4
Human Resources	\$ 1,593.9	7.4	\$ 1,943.7	8.0	\$ 1,998.3	8.0	\$ 1,970.9	9.2
FERC Order 1000	\$ -	-	\$ -	-	\$ -	-	\$ 1,250.0	5.2
CEO & COO & Support	\$ -	-	\$ -	-	\$ -	-	\$ -	-
Building Services	\$ -	-	\$ -	-	\$ -	-	\$ -	-
Total	\$ 12,848.7	65.8	\$ 15,918.5	76.7	\$ 17,630.6	83.4	\$ 19,363.1	92.3

- (9) Outside Consultants. Please provide the same information as question #8 above for all dollars spent in the capital budget on/for outside consultants by functional areas.

Consultant spending in the capital budget is done per project and not by functional area. Consultant spending on all capital projects totaled \$10,747,200 or approximately 52 FTEs for 2017, and \$11,464,400, or approximately 54 FTEs for 2018. Budgeted/Forecasted amounts cannot be provided for 2019 or 2020 since several projects are in the Planning/Conceptual Design phase and their specific requirements have not been fully established.

- (10) Capital Budget. For the proposed 2020 capital budget, please provide a more detailed breakdown and description of what expenditures are included in each category of the Non-Project Capital Expenditures (p. 115 of August 2019 PowerPoint). Please explain the expected direction of these levels of expenditures in future years.

The budget forecast in each of these categories is informed by historical level expenditures and an assessment of planned investments for the upcoming year. The budgeted expenses for Non-Project Capital Expenditures, like the ISO-NE operating budget categories, are zero-based each year.

\$2.0M – System Improvement Requests: Annually, ISO-NE’s Information Services (“IS”) department addresses several hundred small requests to improve existing software infrastructure. The IS department deploys a combination of ISO-NE internal employees and on-site contractors and vendors to address the list of open system improvements. Each year, the forecasted budget is reviewed to ensure the resources dedicated to this effort are not in conflict with the slated major projects.

\$1.7M – Non-Project Hardware: ISO-NE has approximately 1,500 servers and corresponding enterprise networking, storage, and backup infrastructure to support the bulk electric system, associated markets, and corporate needs. ISO-NE is required to ensure that currently deployed infrastructure is kept up-to-date with vendor established end-of-support and end-of-life timelines. These refresh activities are essential to ensure our data center services are supported with security and maintenance contracts. In 2020, ISO-NE is planning the refreshing of datacenter infrastructure to support changing hardware requirements. This involves replacing/upgrading rack and power systems as needed to support changing form factor systems with increased power requirements. ISO-NE is also targeting critical infrastructure supporting systems for hardware upgrades in 2020. These systems support the overall datacenter environments and are not specific to one particular application. The \$1.7 million budget for 2020 reflects a \$0.2 million increase from the 2019 budget and is reflective our general datacenter growth based on increasing performance requirements of market applications, and continually enhancing our cyber security posture.

\$0.3M - Building Improvements, Machinery & Equipment, and Furniture & Fixtures: Annually, ISO-NE's Building Services department invests in the upkeep and upgrading of our Main Control Center ("MCC") and Backup Control Center ("BCC") facilities. The 2020 budget includes funding for various upgrades or purchases that typically arise throughout the year that need replacement or other upkeep of the company's tangible assets.

- (11) **Capital Budget.** With respect to each of the seven approved projects listed in the 2020 capital budget (p. 116 of August 2019 PowerPoint), please provide the actual FY2018, actual FY2019 and budgeted FY2020 personnel costs per project, separated by in-house employees versus outside contractors. If available, please provide the actual 2017, actual 2018 and budgeted 2019 FTE-equivalent numbers for each project, for in-house employees and for outside contractors.

Please see the table below providing this information. Please note that we have used averages of \$90/hour for employees (fully burdened) and \$102/hour for consultants to determine the employee and consultant costs.

	2017 and Prior Actual Results (1)				2018 Actual Results				2019 Actual & Remaining Forecast (2)				2020 Budget			
	Int Labor \$	FTE Equiv	Consult \$'s	FTE Equiv	Int Labor \$	FTE Equiv	Consult \$'s	FTE Equiv	Int Labor \$	FTE Equiv	Consult \$'s	FTE Equiv	Int Labor \$	FTE Equiv	Consult \$'s	FTE Equiv
Capital Projects - Approved Charters																
. Energy Market Offer Caps (Order 831)	\$ -	-	\$ -	-	\$ 31,298	0.2	\$ 541,993	2.6	\$ 751,700	4.0	\$ 805,000	3.8	\$ 237,000	1.3	\$ 374,000	1.8
. CIMNET Simult. Feas. Test with Data Transfer Enh.	\$ 5,059	0.0	\$ 251,448	1.2	\$ 21,815	0.1	\$ 573,685	2.7	\$ 94,300	0.5	\$ 769,100	3.6	\$ 386,400	2.1	\$ 382,800	1.8
. Streamline Asset Registration Phase III	\$ -	-	\$ -	-	\$ 348,559	1.9	\$ 166,861	0.8	\$ 631,000	3.4	\$ 609,000	2.9	\$ 125,900	0.7	\$ 74,100	0.3
. Internal Market Monitoring Data Analysis Phase II	\$ -	-	\$ -	-	\$ 258,527	1.4	\$ 51,635	0.2	\$ 648,500	3.5	\$ 164,400	0.8	\$ 688,000	3.7	\$ 122,000	0.6
. 2019 Forward Capacity Market Improvements	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ 352,000	1.9	\$ 1,408,000	6.6	\$ 67,000	0.4	\$ 88,000	0.4
. Energy Storage Device Phase II	\$ -	-	\$ -	-	\$ 12,931	0.1	\$ 7,881	0.0	\$ 248,400	1.3	\$ 612,800	2.9	\$ 84,100	0.4	\$ -	-
. Energy Market Opportunity Costs Phase II	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ 276,900	1.5	\$ 213,100	1.0	\$ 20,000	0.1	\$ -	-
(1) The CIMNET Simultaneous Feasibility Test with Data Transfer Enhancements have project costs that began in 2014.																
(2) 2019 includes actual results through July as well as the remaining forecast for the rest of the year. Actual amounts through July are: Energy Market Offer Caps (Order 831) - (Int Labor \$183.9K, Consult \$458.9K); CIMNET SFT w/DTE (Int Labor \$67.6K, Consult \$471.4K); Streamline Asset Registration Phase III (Int Labor \$533.3K, Consult \$519.5K); Int Mkt Mon Data Analysis Phase II (Int Labor \$349.6K, Consult \$50.8K); 2019 FCM Improvements (Int Labor \$181.4K, Consult \$375.5K); Energy Storage Device Ph II (Int Labor \$48.0K, Consult \$214.0K); Energy Market Opport. Costs Phase II (Int Labor \$155.7K, Consult \$105.8K).																

- (12) **Other RTOs.** Please calculate the cost per kWh for each of the regional transmission organizations (RTOs) for calendar year 2018, including ISO-NE. To the extent ISO-NE is the most expensive, please explain.

The ISO/RTO Financial Comparison figures listed in Appendix 10 to the Budget Presentation are based on the other ISO/RTOs' publicly available financial information (with the limited exception of NYISO, which provided the information directly to ISO-NE). ISO-NE does not gather the volume information from each of the other ISOs and RTOs that would enable

the calculation of the cost per kWh because the resulting metric does not reflect relative differences in performance nor does it reflect the different services that each ISO/RTO provides. FERC is currently evaluating a new form of metrics report; more information can be found at the following link: <https://www.ferc.gov/industries/electric/indus-act/rto/rto-iso-performance.asp>.

Links to the RTO/ISO financial reports are below:

NY ISO: link to 2017 Annual Report (2018 not publicly available)

<https://www.nyiso.com/documents/20142/1407766/2017-Annual-Financials.pdf/aa72ec1c-7ff8-e7b5-302e-b9efec587ba0>

CAISO: link to 2018 Audited Financial Statements

http://www.caiso.com/about/Pages/Publications_Financials/Default.aspx

IESO: link to 2018 Annual Report

<http://www.ieso.ca/-/media/Files/IESO/Document-Library/annual-reports/IESO-2018-annual-report.pdf>

PJM: link to 2018 Annual Report

<https://www.pjm.com/about-pjm/who-we-are/annual-report.aspx>

MISO: link to 2018 Annual Report

<https://www.misoenergy.org/about/MISOFinancials/#nt=%2Fcorporatedoctype%3AAnnual%20Report%20Audited%20Financials&t=10&p=0&s=FileName&sd=desc>

SPP (Southwest Power Pool): link to 2018 Annual Report

<https://www.spp.org/spp-documents-filings/?id=18274>

ERCOT: link to 2018 Audited Financial Statements

http://www.ercot.com/content/wcm/lists/172486/ERCOT_2018_Audited_Financial_Statements.pdf

Appendix A

Area	2017 total FTEs	2017 budgeted FTEs	Positions filled on 12/31/17	2018 total FTEs	2018 budgeted FTEs	Positions filled on 12/31/18	2019 total FTEs	2019 budgeted FTEs	Positions filled on 6/30/19	2020 total FTEs	2020 budgeted FTEs
Systems Oper.	108	105	102	108	104	100	108	103.5	104	108	103.5
System Plan.	63	61	58	62	60	60	62	59.5	60	62	59.5
Market Oper.	81	79	78	80	77	78	79	76	78	79	76
Market Dev.	25	25	24	25	24	19	20	19	19	20	19
Information Services	171	164	174.5	177.5	171	176.5	178.5	171.5	171.5	179.5	172.5
Program Mgt & Bus	32.5	31.5	28	31.5	30.5	35.5	36.5	35	35.5	35.5	34
Market Monitoring	22	21	20	22	21	18	22	21	19	21	20
Legal Service	15	15	15	15	15	14	15	14.5	14	16	15.5
Ext Affairs & Corp Comm	18	18	19	19	19	18	19	18	19	19	18
Compliance Risk Mgt, Finance & Int Audit	44	42	41	44	42	42.5	44	42	43	43	41
Human Resource	14	14	14	14	14	14	14	13.5	15	15	14.5
CEO & COO & support	5	5	5	5	5	4	5	5	5	5	5
Building Service	5	5	5	5	5	5	5	5	5	5	5
Totals	603.5	585.5	583.5	608	587.5	584.5	608	583.5	588.0	608	583.5

Appendix B

2018 Revenue Requirement True-Up Reconciliation - ISO New England Inc.

(Dollars in thousands)

	\$ Amounts (credits are savings)	Totals (credits are savings)
<u>Spending Variances:</u>		
Contingencies:		
Board Contingency	\$ (700.0)	
CEO Emerging Work Allowance	\$ (1,100.0)	
Net Savings in Contingencies		\$ (1,800.0)
Depreciation - lower than budget as a result of capital project spending changes and/or changes of in-service dates.		\$ (754.7)
Computer Services - due to lower than estimated license growth for various software, maintenance reductions based on changes in contract renewal dates and terms of service, non-renewal of a software contract that was no longer necessary, non-renewal of support for storage appliances no longer in service, and conversion of storage licenses to a lower cost storage appliance.		\$ (579.2)
Interest Income - came in higher for both settlement and operating funds as a result of higher than budgeted average balances and rates compared to plan.		\$ (555.9)
Building Services - lower utility costs and various facilities maintenance expenditure savings.		\$ (214.3)
Education and Training - reduced Corporate Training programs, and various adjustments across the company.		\$ (191.3)
Insurance Expense - lower than budget property and liability renewals and receipt of dividend distributions of policyholder's surplus.		\$ (178.2)
Professional and Legal Fees Increases:		
Market Development - primarily related to market based improvements to better address energy security risks in the New England region.	\$ 814.9	
Legal - increased funding related to energy security related work and filings for implementation of Competitive Auctions with Sponsored Policy Resources.	\$ 555.5	
Information Technology - increases for Cyber Security and NERC CIP Compliance and support in Infrastructure, Energy Management Systems, and Power System Modeling Management.	\$ 431.3	
All Other Areas	\$ (120.2)	
Net Changes in Professional and Legal Fees		\$ 1,681.5
Net Change across all other Expense Lines:		\$ (422.9)
Net Savings in Expenses:		\$ (3,015.0)
Tariff Collections (under collection):		\$ 65.6
Total 2018 True-Up		\$ (2,949.4)