



ISO New England Inc.

Financial Results March 2020

ISO New England Inc. March Financial Results for Year End 2020

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Executive Summary – March 2020

ISO Tariff Revenue amounts through March 2020 are \$2,841,800 or 5.8% lower than estimates filed in the 2020 tariff. This variance was driven by lower than forecasted load volumes for all three tariff schedules.

The current CEO Emerging Work Allowance is \$2,061,300, an increase of \$961,300 from the original approved budget of \$1,100,000. The CEO Emerging Work Allowance is used to fund activities that require additional funding from what was initially planned during the budgeting cycle. Additional funding needs can be created as a result of refined estimates for work, new activities, or changes in accounting estimates. Conversely, to the extent that changes result in an “under” expenditure, the CEO Emerging Work Allowance is increased. Increases and decreases to the Emerging Work Allowance are detailed on page 3 and subsequent pages of the presentation. Requests for funds from the Emerging Work Allowance are reviewed by senior management, and require CFO and CEO approval prior to the spending authorization.

Significant decreases in costs include Salary & Overhead, including vacancy, employee benefits and payroll taxes, salary rates, and higher internal capital development; Computer Services due to software retirements and net maintenance savings; and Network Operations expense due to lower monthly fees and the timing of installation on a new phone system. Partially offsetting decreases in costs are lower Revenue and Other Income primarily due to interest income rate reductions and higher Insurance Expense due to market conditions.

Budget Variances of greater than 5% and over \$100,000

The current forecast reflects the following line items with a greater than 5% and over \$100,000 variance to the original budget: *Network Operations (down 6.9%)* due to hosting fee timing and rate changes for a new phone system; *Insurance Expense (up 6.9%)* driven by changing market conditions; *Revenues and Other Income (down 40.0%)* from decreased interest income as a result of lower rates and partially offset by *Interest Expense (down 7.5%)* due to a reduction in tax-exempt debt rates.

Management’s Discussion

Revenue Adequacy

The year-to-date 2020 budget to actual results reflect sufficient funding available for unplanned items, including the balance in the CEO Emerging Work Allowance and the Board Contingency for the remainder of the year. The combination of these is \$2.8 million. Additional opportunities are projected in certain areas that would increase these contingency balances, above the current amount, by year's end. Annual Tariff Revenues through March 31, 2020 are lower than the original forecast at \$2.8 million or 5.8%; however, also included in the Revenue Adequacy determination, is the available balance of the Company's working capital line. The working capital line is expected to be sufficient to meet any borrowing needs through year-end.

Forecast vs. Budgeted Expense

The CEO Emerging Work Allowance is used to fund activities that require additional funding from what was planned during the budgeting cycle. To the extent a budgeted item will not be utilized, the funds are relinquished and the balance of the CEO Emerging Work Allowance is increased. Approved changes that have required funding from or returned funding to the allowance are as follows:

Summary of Changes to Board Approved Budget		(In thousands)
Board Approved CEO Emerging Work Allowance		\$ 1,100.0
Budget Savings or Deferral of work returned to the CEO Emerging Work Allowance:		
- Salary & Overhead reductions primarily for vacancy, employee benefits and payroll taxes, salary rates, higher internal capital development, merit & promotional increases, and incentive		1,124.2
- Professional Fees reductions are due to consultant vacancy primarily in the Information Technology area as well as Information Technology consulting work reallocated to internal capital, the return of funds for FERC Energy Market Price Formation work, the removal of funding for an Internal Market Monitoring Data Dashboard, Human Resources compensation consulting, fees for a position in Enterprise Learning that was filled by internal staff, and reduced leadership training funds		1,511.3
- Network Operations expenses include lower than forecasted fees as well as the timing of installation for a new phone system, and the removal of internet access fees of a replaced network.		189.3
- Computer Services reductions include those for discontinued products, lower than forecasted costs for product renewals, and a reduction in license counts for mathematical optimization software.		747.9
- Meeting & Related Expenses reductions due to travel restrictions imposed by COVID-19 partially offset by expenses related to the potential sequestration of Control Room employees due to COVID-19.		72.8
- Education & Training reductions due to training, seminars, and courses canceled due to COVID-19.		85.3
- Interest Expense is lower due to lower interest rates on variable rate tax-exempt debt.		219.8
Total Budget Savings or Deferrals		\$ 3,950.6
Approved Requests funded from the CEO Emerging Work Allowance:		
- Salary & Overhead increases include funding for succession planning initiatives and various other small adjustments.		(396.9)
- Professional Fees increases include funding for strategic planning efforts, the development of Market Monitoring analyses tools, and for support to assist Information Technology Windows and		(1,484.6)
- Computer Services increases include maintenance on new software products, higher Energy Management and Market System support, and for increased license counts on certain products.		(505.3)
- Insurance Expense premium increases primarily due to changing market conditions.		(143.5)
- Board of Directors Expense due to an increase in board retainer fees partially offset by lower board meeting fees and expenses in March as a result of meetings being held via teleconference.		(63.8)
- Revenues, Other Income includes decreased Interest Income as a result of rate reductions as well as lower account balances.		(451.7)
Other net changes (line items < \$50,000)		56.5
Less: Total Approved Requests		\$ (2,989.3)
Current CEO Emerging Work Allowance		\$ 2,061.3

Forecast vs. Budgeted Expense (cont.)

Changes in costs and activities are reflected in revisions to the original budget and are described in the following paragraphs. These changes reflect both those flowed through the CEO Emerging Work Allowance and those funded with available funds in the responsible area. All forecast changes, regardless of funding source, require CFO and CEO approval prior to the spending authorization.

Salaries and Overheads

Salaries and Overheads are currently forecasted \$727,300 below the original budget of \$115,918,900. Significant decreases include \$207,600 for higher than forecasted vacancy expected through the second quarter, \$193,100 net decrease in employee benefits and payroll taxes, \$148,200 for lower rates for new hires as compared to the previous incumbent, \$144,500 for higher internal capital development, \$138,900 in lower 2020 actual merit & promotional increases, and \$124,600 for actual reductions to incentive compensation. Partially offsetting these decreases is \$333,400 for succession planning initiatives. A number of other smaller variances also exist.

Professional Fees & Consulting

Professional Fees & Consulting decreased \$26,700 from the original budget. Reductions include lower costs resulting from consultant vacancies and reallocation of work for internal capital development, the removal of FERC Energy Market Price Formation that will not be undertaken in 2020, the removal of consulting support for Internal Market Monitoring Data Dashboard development due to higher priority work in 2020, a reduction of compensation consulting work, fees for an Enterprise Learning position that was filled internally, a reduction in the level of contributions required by the ISO for regional Cyber Security efforts, and reduced leadership training funds. Decreases were largely offset by funds to support the continuation of strategic planning efforts with a focus on scenario planning, funds for the development of Market Monitoring analyses tools for the purpose of calculating Interim Compensation Treatment costs and revenues and developing battery storage model revenues, the addition of a Windows consultant to support the ISO New England infrastructure and workforce, consultant support to assist the network team with a backlog of projects which have time sensitive deadlines including: corporate web proxy, wireless refresh project, and Critical Infrastructure Protection (CIP) related issues; and funds to continue OP-24 related parameter development and review of generator relay dynamic model parameter work started in 2019.

Network Operations

Network Operations decreased \$189,300 from the original budget. Reductions include hosting fees for a new phone system due to the timing of implementation and a lower than forecasted monthly rate; and the removal of internet access fees related to a replaced system.

Computer Services

Computer Services decreased \$242,600 from the original budget. Reductions include: licensing and maintenance costs for products that have reached their end of life or are no longer being used, and were therefore not renewed, including cyber security and archiving software; lower costs than forecasted upon renewal of computer service products which are often done in multi-year contracts for which estimated increases (i.e. inflationary) are made; and a reduction in mathematical optimization software costs due to less licenses needed. These reductions were partially offset by increases for: maintenance on new software products including those for cyber security, archiving and compliance & governance; for higher Energy Management and Market System support with several recent market changes having been introduced into the system; and increases for license counts on certain products.

Insurance Expense

Insurance Expense increased \$143,500 from the original budget. The increases were driven by market conditions that affected both the Property & Liability and Directors & Officers policies.

Board of Directors Expense

Board of Directors Expense is currently forecasted \$63,800 higher than the original budget. Contributing to increased expenses was an increase to board retainer fees, partially offset by a decrease in Board Member fees and travel related expenses due to March meetings being held by teleconference due to COVID-19.

Meeting & Related Expenses

Meeting & Related Expenses is currently \$72,800 lower than the original budget. Sizeable reductions have been due to travel restrictions imposed by COVID-19. Partially offsetting this are expenses related to potential Control Room employee sequestration due to COVID-19.

Education & Training

Education & Training decreased \$85,300 from the original budget. Reductions are due to COVID-19 restrictions on employees attending training, seminars, and courses.

Revenues & Other Income

Revenues and Other Income is \$451,700 lower than the original budget primarily due to lower interest rates and lower average balances than forecasted.

Interest Expense

Interest Expense is \$219,800 lower than the original budget due to lower variable tax-exempt debt rates.

Depreciation Expense

Depreciation Expense decreased by \$310,600 primarily because of a change in planned implementation dates and/or project budgets including: the Change Request System Replacement project, Internal Market Monitoring Data Analysis Phase II, and the Cyber Security Improvements project that is still in planning.

Gain/Loss Fixed Asset Disposal

An increase in losses for fixed asset disposals has been made for two projects that had write-offs during the First Quarter of 2020. This included a portion of a previous vendor's work that was deemed unusable on the Change Request System Replacement project and the full disposal for the Liferay Upgrade project that will no longer move forward.

Capital Expenditures

Capital expenditures for 2020 through March totaled \$5,366,100. The \$28,000,000 capital expenditure budget for 2020 is expected to be sufficient and will be monitored as the year progresses.

During the first quarter, the nGEM Software Development Part I and the nGEM Value Added Development projects were chartered as part of the co-funded program among ISO-NE, General Electric and two other Independent System Operators (PJM and MISO) to implement the core product development for GE Grid Solutions' next Generation Management System (nGEM). The nGEM Software Development Part I project, with a total project budget of \$3,229,100, will focus on enhanced data transfer technology and the elimination of the existing vendor platform. The nGEM Value Added Development project, chartered for \$792,000, will develop additional enhancements including operational monitoring tools, stand-alone Market user interfaces, and additional enhancements to software applications to provide additional flexibility. Other major projects chartered to-date include: \$825,000 for the Forward Capacity Market Nested Zones project to model nested export-constrained capacity zones in the monthly and annual Reconfiguration Auctions, Capacity Supply Obligation Bilaterals, and Annual Reconfiguration Transactions; and \$439,600 for the Generation Survey System project to automate ISO-NE's current survey process used for collecting fuel availability and environmental limitations from Market Participants.

Increases in 2020 include spending for projects not anticipated in the original budget and expense reallocations from the prior year. Projects not anticipated in the original budget include \$848,100 for the Application Server Upgrade project, chartered during the fourth quarter of 2019, to upgrade a number of ISO-NE servers to the latest supported version that supports the Day-Ahead and Real-

Time markets as well as various company applications; and \$839,500 for the Change Request System Replacement project to replace the current software framework to a vendor-supported version. This project, chartered in 2018, had been put on hold due to poor performance issues from the original vendor; however, re-planning efforts are now complete with a total project cost of \$1,354,700. Additionally, funds reallocated from 2019 to 2020 include \$402,800 for the Enterprise Application Integration (“EAI”) Replacement project to create a new EAI solution based on an open source platform to improve database integration, application direct access, and messaging.

Reductions from projects completed during the first quarter of 2020 include \$560,500 for the Markets Database Refresh and \$453,800 for Energy Market Offer Caps (Order 831) projects, where the reduction primarily resulted from spending occurring in 2019 rather than 2020. Other reductions include projects still in the planning and development stage: \$500,000 for the Energy Security initiative for which design solutions were just recently filed with the FERC and \$400,000 for the Human Resources Workflow & Document Management project due to uncertainty around when planning will begin.

The non-project capital spending has decreased by \$500,000. Estimated funds for hardware and software have been adjusted down by \$700,000 to \$1,000,000 based on current assessments, including hardware and software needs that will be met under current capital projects, while Furniture & Fixtures was increased by \$200,000 for the purchase of new carpeting in the Main Control Center that had been deferred during 2019.

Cash Flow / Capital Adequacy

The ISO has a \$20,000,000 working capital line to fund temporary operating cash flow needs, which expires in July 2021. These needs may arise because operating budget revenues are collected approximately a month and a half in arrears from the month in which the expenditures occur. In addition, there are certain times during the year when an annual payment must be made for an item that is expensed evenly throughout the year, creating a need to increase the level of borrowing on the line (e.g., insurance payments). As of March 31, 2020, there were no outstanding borrowings on the working capital line. The five-year cash flow projections indicate that the \$20,000,000 line will be sufficient to fund the ISO’s ongoing operating needs.

The current letters of credit supporting the tax-exempt debt on the Main Control and Backup Control Centers expire in August and December of 2021, respectively.

The ISO has funded its capital expenditures with Private Placement Notes (Notes) totaling \$50,000,000. The Notes, which include debt offerings of \$39,000,000 and \$11,000,000, require interest only payments until full payment of principal is due for both in November 2024.

Operating Expense Forecast

2020 Operating Budget and Debt Service for Tariff Recovery

Consolidated

(Dollars in Thousands)

Description	Annual		
	Current Year End Forecast	Board Approved Budget	Incr/(Decr)
Operating Expense			
Salaries and Overheads	\$ 115,191.6	\$ 115,918.9	\$ (727.3)
Professional Fees & Consulting	15,814.4	15,841.1	(26.7)
Pro Fees & Consulting (Legal)	3,522.0	3,522.0	0.0
Building Services	2,810.7	2,826.1	(15.3)
Rents & Leases	985.1	1,020.4	(35.3)
Network Operations	2,545.6	2,735.0	(189.3)
Computer Services	15,483.4	15,726.0	(242.6)
Data Services & Office Expenses	1,734.4	1,699.6	34.8
Insurance Expense	2,223.2	2,079.7	143.5
Board of Directors Expense	1,290.5	1,226.7	63.8
Meetings & Related Expenses	1,370.0	1,442.9	(72.8)
Education & Training	1,107.5	1,192.8	(85.3)
Taxes, Permits, Licenses & Fees	194.8	194.1	0.7
Total Operating Expense	164,273.2	165,425.2	(1,152.0)
Revenues, Other Income	(677.9)	(1,129.6)	451.7
Operating Expenses net of Revenue	163,595.3	164,295.6	(700.3)
CEO Emerging Work Allowance	2,061.3	1,100.0	961.3
Board Contingency	700.0	700.0	-
NPCC/NERC Dues & Expense	6,363.9	6,405.1	(41.2)
Interest Expense	2,729.4	2,949.2	(219.8)
Net Expense Before Depreciation	175,449.9	175,449.9	(0.0)
Depreciation Expense	25,916.2	26,226.8	(310.6)
Gain/Loss Fixed Asset Disposal	197.1	60.0	137.1
Total Depreciation and Debt Service	26,113.3	26,286.8	(173.5)
Tariff Expense for ACT Recovery	\$ 201,563.2	\$ 201,736.7	\$ (173.5)

Capital Forecast 2020 – All Capital Spending

(Dollars in Thousands)

<u>Description</u>	Actual Spending Current YTD	Forecast Current Year Cost to Complete	Forecast Current Year Total	Original 2020 Budget
Furniture/Fixtures/Building/Property Improvements	\$ 11.8	\$ 488.2	\$ 500.0	\$ 300.0
Hardware/Software	359.0	641.0	1,000.0	1,700.0
SIR'S:				
. Internal Capital Development	219.0	781.0	1,000.0	1,000.0
. External Capital Development	98.7	901.3	1,000.0	1,000.0
Non-Project Capital Spending	688.5	2,811.5	3,500.0	4,000.0
Capital Projects - Approved Charters				
. Identity & Access Management Phase II	436.8	2,116.3	2,553.1	2,366.4
. nGEM Software Development Part I	97.9	64.1	162.0	784.6
. CIMNET Simult. Feas. Test w/ Data Transfer Enh	251.7	583.3	835.0	769.2
. Energy Mgt. Platform 3.2 Upgrade Part II	464.8	1,053.8	1,518.6	1,470.0
. Energy Market Offer Caps (Order 831)	337.2	50.0	387.2	841.0
. Internal Market Mon. Data Analysis Phase II	166.9	739.3	906.3	870.0
. 2019 Forward Capacity Market Improvements	109.2	-	109.2	155.0
. Markets Database Refresh	398.0	41.5	439.5	1,000.0
. Enterprise Application Integration Replacement	92.2	910.6	1,002.8	600.0
. Change Request System Replacement	171.1	668.4	839.5	-
. Forward Capacity Tracking Syst Infr Conv Part I	245.8	810.1	1,055.9	1,012.0
. Energy Storage Device Phase II	217.8	15.0	232.8	184.7
. 2020 Issue Resolution Project Phase I	351.2	583.8	935.0	750.0
. Application Server Upgrade	238.1	610.1	848.1	-
. Forward Capacity Market Nested Zones	89.5	725.5	815.0 ^[1]	1,000.0
. nGEM Value Added Development	134.6	657.5	792.0	-
. Edge Network Redesign	5.3	23.8	29.1	-
. Streamline Asset Registration User Interface	123.9	260.2	384.1	300.0
. Other Projects <\$500K (7 projects)	236.9	765.6	1,002.5	177.5
Sub Total Projects with Approved Charters	4,168.7	10,679.0	14,847.8	12,280.4
Planning/Conceptual Design				
. Long-Term FTRs	-	-	-[2]	On Hold
. nGEM Market Clearing Implementation	271.5	1,728.5	2,000.0	2,000.0
. nGEM Software Development Part II	-	1,860.0	1,860.0	2,000.0
. Energy Security	-	1,000.0	1,000.0	1,500.0
. Forward Capacity Tracking Syst Infra Conv Part II	-	1,000.0	1,000.0	2,000.0
. Sub-accounts for Financial Transmission Rights Market	1.7	202.6	204.3	200.0
. 2020 Issue Resolution Project Phase II	-	540.0	540.0	750.0
. Data Governance, Risk Mgt & Compliance Software	17.1	382.9	400.0	400.0
. Cyber Security Improvements	-	526.0	526.0	660.0
. Update TransSMART Technical Architecture	0.6	399.4	400.0	700.0
. Human Resources Workflow & Document Mgt	1.9	98.1	100.0	500.0
. Other Projects <\$500K - Planning (8 projects)	115.7	634.0	749.6	200.0
. Other Emerging Work Projects	-	372.3	372.3	309.6
Sub Total Planning/Conceptual Design	408.4	8,743.8	9,152.2	11,219.6
TOTAL Capital Projects	4,577.2	19,422.8	24,000.0	23,500.0
Capitalized Interest & Loan Fees	100.4	399.6	500.0	500.0
Total Capital Expenditures	\$ 5,366.1	\$ 22,633.9	\$ 28,000.0	\$ 28,000.0

[1] The Forward Capacity Market Nested Zones project was previously known as 2020 Forward Capacity Market Improvements.

[2] The Long-Term FTRs project has been indefinitely deferred pending the development of appropriate credit requirements.

Capital Forecast – Capital Project Spending through March 2020

(Dollars in Thousands)

<u>Description</u>	<u>Project-To-Date</u>	<u>Forecast Current Year Cost to Complete</u>	<u>Future Year Cost to Complete</u>	<u>Total Project Costs</u>	<u>Estimated Go-Live</u>
Capital Projects - Approved Charters					
. Identity & Access Management Phase II	\$ 2,871.3	\$ 2,116.3	\$ -	\$ 4,987.6	11/20
. nGEM Software Development Part I	3,165.0	64.1	-	3,229.1	12/20
. CIMNET Simult. Feas. Test w/ Data Tr Enh	1,901.3	583.3	-	2,484.6	10/20
. Energy Mgt. Platform 3.2 Upgrade Part II	1,216.2	1,053.8	-	2,270.0	11/20
. Energy Market Offer Caps (Order 831)	2,069.3	50.0	-	2,119.3	03/20
. Internal Mkt. Mon. Data Analysis Phase II	1,193.7	739.3	-	1,933.0	10/20
. 2019 Forward Cap. Mkt. Improvements	1,631.6	-	-	1,631.6	02/20
. Markets Database Refresh	1,557.4	41.5	-	1,598.9	02/20
. Enterprise Application Integration	499.4	910.6	-	1,409.9	12/20
. Change Request System Replacement	686.3	668.4	-	1,354.7	12/20
. Forward Cap Tracking Syst Infr Conv Part I	501.9	810.1	-	1,312.0	07/20
. Energy Storage Device Phase II	1,010.7	15.0	-	1,025.7	03/20
. 2020 Issue Resolution Project Phase I	351.2	583.8	-	935.0	07/20
. Application Server Upgrade	284.0	610.1	-	894.1	08/20
. Forward Capacity Market Nested Zones	89.5	725.5	10.0	825.0[1]	01/21
. nGEM Value Added Development	134.6	657.5	-	792.0	11/20
. Edge Network Redesign	620.9	23.8	-	644.7	12/20
. Streamline Asset Reg. User Int Enh	281.0	260.2	-	541.3	08/20
. Other Projects <\$500K (7 projects)	1,357.9	765.6	-	2,123.6	
Sub Total Projects with Approved Planning/Conceptual Design	21,423.3	10,679.0	10.0	32,112.3	
Sub Total Conceptual Design					
. Long-Term FTRs	907.5	-	-	907.5[2]	TBD
. nGEM Market Clearing Implementation	271.5	1,728.5	-	2,000.0	TBD
. nGEM Software Development Part II	-	1,860.0	-	1,860.0	TBD
. Energy Security	-	1,000.0	-	1,000.0	TBD
. Forward Cap Tracking Sys Infr Conv Part II	-	1,000.0	-	1,000.0	TBD
. Sub-accounts for Financial Transmission	347.4	202.6	-	550.0	TBD
. 2020 Issue Resolution Project Phase II	-	540.0	-	540.0	TBD
. Data Governance, Risk Mgt & Compliance	143.4	382.9	-	526.3	TBD
. Cyber Security Improvements	-	526.0	-	526.0	TBD
. Update TransSMART Technical	49.2	399.4	-	448.6	TBD
. Human Resources Workflow & Document	19.1	98.1	-	117.2	TBD
. Other Projects <\$500K - Planning (8)	329.0	634.0	-	963.0	N/A
. Other Emerging Work Projects	-	372.3	-	372.3	TBD
Sub Total Conceptual Design	2,067.2	8,743.8	-	10,810.9	
Capitalized Interest & Loan Fees	100.4	399.6	-	500.00	N/A
Total Capital Expenditures	\$ 23,590.8	\$ 19,822.4	\$ 10.0	\$ 43,423.2	

[1] The Forward Capacity Market Nested Zones project was previously known as 2020 Forward Capacity Market Improvements.

[2] The Long-Term FTRs project has been indefinitely deferred pending the development of appropriate credit requirements.