

BS&P Guidelines for NYISO Budget Preparation/Financing and for Project Monitoring

Executive Summary

An effective project budgeting and financing process is essential to ensure sound investment decisions that result in reliable, efficient and cost effective operations over the long term. An effective project monitoring process will ensure that budget targets are met and that Market Participants are not surprised with budget overruns or suddenly increased budget targets for future years. Such processes also aid in assuring that the NYISO remains a viable, cost-effective ISO. This paper sets forth proposed processes, or frameworks, which the BS&P recommends that the NYISO use to establish the NYISO Operating and Capital Budgets and to monitor project costs.

Among other things, the proposed processes would be used to: identify, screen, evaluate, and select projects to be included in operating and capital budgets for the following year, and in the pre-established long-term budget targets of the NYISO.¹ By design, this proposal will allow Market Participants to provide input through the existing committee structure to NYISO Staff and the NYISO Board on a five-year budget target and on the creation of an annual operating and capital budget.

This process will also allow members of the Management Committee to evaluate and recommend approval of certain Market Participant-initiated project proposals that originate during the year and which are intended to begin during the year but that are not included in the Operating or Capital Budget for that year.

The Project Monitoring process will allow members of the BS&P to monitor the scope of all projects on a quarterly basis and, on a monthly basis, the cost and budget of

¹ Projects are intended to encompass projects and initiatives. For purposes of this document, initiatives are intended to include potential undertakings such as building or leasing new facilities to house NYISO Staff or equipment, etc. While initiatives may or may not go through the same formal project management process as projects, initiatives would be treated in a similar manner.

all projects, regardless of their origin. This process is not intended nor designed to manage staffing, or the ongoing operations or business management of the NYISO or to supplant the Board's financial responsibility for NYISO operations, nor its autonomy and independence.

Both processes depend upon project selection, recommendation and monitoring that is informed by reasonable cost estimates, regular updates on project costs versus budget and a commitment by the NYISO to maintain a "no surprises" budget and project management process.

Market Participants will have an opportunity to provide input on projects proposed to be included in the annual operating and capital budgets and in the budget targets, including projects proposed by the NYISO Staff, during the annual budget preparation process. NYISO Staff will also include all projects in its quarterly project monitoring reports to the BS&P. The process proposed herein is comprised of the five elements as described below.

1 Budget Preparation

An initial step in the process is the establishment of a multi-year (5 year) budget target ("Budget Target") that is reflective of the NYISO long-term strategic plan. Staff will provide information on budget targets to Market Participants. Among other things, the Budget Target would clearly identify those funds that would be treated as an expense and those funds that would be available from longer term financing. It is recognized that the budgeting process needs to be flexible with respect to the out years to accommodate new and changing missions in those future year budgets.

2 Identification and Selection of Budgeted Projects

Project requests will likely originate from a number of different sources for a variety of reasons including: NYISO identified market or operations enhancements or corrections of market flaws; FERC orders; Committee, Subcommittee and Working Group actions; PSC initiatives; resolution of Seams Issues; and, Market Participant requests. During the annual budget preparation process, the NYISO will identify and request Market Participant input on projects to be included in the proposed Operating and Capital Budget and Budget Targets regardless of initial cost estimates. The ISO will also identify potential impacts of such projects on future year budgets. Among other things, the NYISO will identify the proposed project's proponent/s along with the current status of the project in the process.

3 Project Proposals initiated by Market Participants to start in-year and not included in the Budget

Projects proposed by Market Participants and projects requiring tariff changes expected to start in-year or to impact future year budgets, which are not included in the Operating or Capital budget for the year (in-year projects) generally must be presented to either the Business Issues Committee (BIC) or the Operating Committee (OC) for consideration and approval. In certain cases, project requests may be directly presented to the Management Committee (MC). The NYISO Staff will provide costs estimates and potential budget impacts associated with such proposed projects. Such in-year projects, estimated to cost \$500,000 or more, will require MC approval prior to being forwarded to the Project Priority Team (PPT) for advice on prioritization and scheduling. The PPT

shall take into account, inter alia, the budget impacts when determining prioritization and scheduling.

4 Project Monitoring

The NYISO staff shall prepare periodic status reports that provide information on project schedules, milestones and man-hour expenditures for all projects for the PPT and the BS&P Subcommittees. At the next scheduled BSP meeting, NYISO staff shall affirmatively inform the BS&P when projects exceed or are expected to exceed their cost estimates by the lesser of 50% of the project's costs or \$500,000. NYISO Staff shall also inform the BS&P when a project is expected to adversely impact the current operating budget or future year budgets in a manner that is not already incorporated into the budget process.

Status reports will be prepared monthly and forwarded to the PPT for review. Additionally, the status of strategic projects will also be reported to the Committees on a periodic basis.

The BS&P Chair or any member of the BS&P Subcommittee shall have an automatic right to add a report and action item to the agenda for the next scheduled MC meeting upon a request placed with the Chair of the Management Committee five business days prior to the date of the Management Committee meeting.

5 Evaluation

The NYISO Staff will provide the BS&P with information necessary for the BS&P to evaluate whether a project has realized its expected mission and business performance goals. The overall effectiveness of the budgeting process associated with each project will be reviewed by the NYISO Staff and the BS&P and lessons learned will be used to

modify the budgeting process and selection decisions for future projects considered by the MC.

6 Exceptions

In the event of an emergency, e.g., where it is determined that the reliability of the system may be in jeopardy and/or that the existing market design does not result in a competitive and efficient outcome, this process may be bypassed. Projects undertaken by the NYISO pursuant to this exception will be included in project monitoring reports.

Section 1.0 Budget Targets and Identification and Selection of Budgeted Projects

Commencing with the establishment of the 2004 Budget, the annual budgeting process will include a Budget Target, developed by NYISO Staff, reviewed² by the MC, and approved by the NYISO Board. The Budget Target will cover a five-year period. The Budget Target will include NYISO operations and capital projects and/or initiatives. The initial Budget Target (2004-2008) will be developed using the 2003 original approved budget as a base point. The first year included in the Budget Target will be quite detailed and provide, as a minimum, the same level of information as is currently the case. The remaining four years included in the Budget Target, by their nature, will be less precise and detailed. At a minimum, the NYISO Staff will provide, for each of those four years, an estimate of expenditures for ongoing operations as well as approved and anticipated projects, both expensed and capitalized. Initiatives such as new buildings, back-up control centers, hardware upgrades, etc. may also be included in the Budget Target.

Depending upon the nature, scope and resources required, the costs of some projects may be borne as an operating expense in the year incurred whereas the cost of other projects or initiatives may be funded through external capital financing with the related debt service obligations (principal and interest) being recovered over a period of years. The Budget Target will separately identify that portion of the projects' and initiatives' costs which will be expensed and recovered through the Operating Budget and that portion which is to be capitalized. Note, the Summary Report and Project Budget Report will provide information on all projects and initiatives to the extent that they have been identified.

² Approval as used herein means approval of the 1st year of the Budget Target and acceptance of the 4 succeeding years.

1.1 Project Budget Summary Report

For those projects and initiatives, the costs of which are to be expensed, the NYISO will provide the following information, by year, for the five-year period of the Budget Target:

- The total amount of money estimated to be available for project expense funding.
- Estimated expenditures (costs) for those projects/initiatives that are already underway.
- Estimated expenditures (costs) for those projects/initiatives that have been prioritized and scheduled by the PPT but are not yet underway.
- Funding available for project expenses that have not yet been prioritized and scheduled.

For those project and initiatives the costs of which are to be funded through external capital financing, the NYISO will provide the following information by year, for the five-year period of the Budget Target:

- The estimated capital budget (financing requirements).
- The total amount of money estimated to be available for the debt service payments of financed projects/initiatives.
- The debt service payments for completed projects/initiatives.
- The debt service payments for projects/initiatives already underway.
- The estimated debt service payments associated with projects/initiatives that have been prioritized and scheduled by the PPT but are not yet underway.
- The estimated funds (revenue) available for the payment of debt service for projects/initiatives that have not yet been prioritized and scheduled.

For those projects and initiatives where certain costs may be expensed and the remaining portion of the costs capitalized, the same information as described above shall be included.

1.2 Project Budget Report

The Project Budget Report will be prepared and updated by the NYISO Staff as project prioritization and scheduling are recommended by the PPT. The report should be prepared monthly to contain the following:

- Project Budget Summary Report described above.
- A listing of completed financed projects/initiatives grouped by year with the past and remaining future recovery.
- A listing of active projects/initiatives showing the budgeted amounts, historic expenditures and projected expenditures along with a breakdown by expensed and financed portions of the project/initiative. For financed projects/initiatives, the expected debt service obligation cost recovery by year.
- A listing of scheduled projects/initiatives showing the budgeted amounts with a breakdown of expensed and financed portions. For financed projects/initiatives, the expected cost recovery by year.
- A listing of approved but unscheduled projects/initiatives with budgeted costs by quarter.

Section 2.0 Identification and selection of project proposals initiated by Market Participants during the year and not included in the budget

Market Participants may propose projects for completion in-year in response to a variety of circumstances including: enhancements; correction of market flaws; FERC Orders; Committee, Subcommittee and Working Group actions; PSC initiatives; and, resolution of Seams Issues. Similarly, projects requiring a change in the tariffs may be proposed outside the annual budget process. Generally, such projects will involve the analysis, development and/or implementation of market enhancements and will often involve the use of significant internal manpower, external consultants or development of software enhancements. Projects may also require the development of revised Tariff language. The preliminary project proposal should include, as a minimum, the following information:

- Project Name
- Project Description, including perceived need
- Initial description of expected benefits

- Desired/required completion/on-line date

In addition to projects, initiatives such as new buildings, back-up control centers, hardware upgrades, etc. may involve significant expenditures. These initiatives, if proposed by Market Participants, may also be included and monitored under this process. The process is not intended to cover ongoing operational expenses. Major Projects are defined to encompass both projects and initiatives the total costs of which exceed \$500,000. NYISO Staff will develop initial cost estimates to determine whether a project or initiative will exceed the \$500,000 threshold and thus be forwarded to the Management Committee for an approval recommendation. The \$500,000 threshold may also be met through impacts or future year budgets. NYISO Staff will endeavor to provide this threshold information prior to a BIC or OC vote. NYISO Staff intends to provide resource estimates prior to MC votes on these projects.

As a general practice, most projects proposed by Market Participants for completion in-year and not included in the Operating or Capital Budget or which require tariff changes will pass the initial screening phase conducted by BIC, or the OC, before entering the Selection Phase of the process. The Selection Phase of the process will involve more detailed analysis of the Project. Staff's analyses will be presented to the MC for its consideration. In certain cases there may be exceptions to this process. Examples of exceptions include: those proposed projects submitted directly to the MC for consideration and instances where the NYISO Staff has already commenced its detailed analysis.

Table 1 sets forth the specific roles and responsibilities of the key participants in the initial Selection phase of this process.

Table 1. Selection Phase

Party	Roles & Responsibilities
Project Proponent/s and/or Working Group/Task Force	<ul style="list-style-type: none"> • Develop project proposal. • Submit proposal to BIC or OC. • Provide additional screening information if requested.
BIC or OC	<ul style="list-style-type: none"> • Review proposal. • Accept, modify or reject. • If adopted, forward project proposal to NYISO Staff for detailed analysis.
NYISO Staff	<ul style="list-style-type: none"> • Commence detailed analysis and prepare resource and cost estimates. • Present results of analysis to MC
Management Committee	<ul style="list-style-type: none"> • Adopt, modify or reject projects following lower committee action (if applicable). • Receive BS&P and PPT reports.
Project Priority Team	<ul style="list-style-type: none"> • Recommend a Prioritization of the projects adopted by the MC.
BS&P Subcommittee	<ul style="list-style-type: none"> • Evaluate projects assigned for further analysis by the MC. • Prepare overall budget reports for MC review.

2.1 BIC or OC Action

The principal objective of the screening phase is to determine whether the Market Participant-initiated proposal or the proposal requiring a tariff change is viable and merits further detailed analysis by the NYISO Staff.

The project/initiative's proponent/s will submit the proposal to either BIC or the OC. The Committee conducting the review may use the following as screening criteria to assist in its determination of whether the proposal requires detailed analysis to be conducted by the NYISO Staff.

- Does the project align with the NYISO Strategic Plan?
- Is it needed for the performance of these functions?
- Does the project provide economic benefits?
- Does the project support operational, or work, processes that have been simplified or otherwise redesigned?
- Does the project improve service reliability?
- What are the expected benefits of the proposal?
- Is the project required by regulation?
- Are there major risks involved that will reduce the likelihood of the project performing as expected?
- How do the alternatives, if any have been developed, compare with the proposal?

Projects deemed qualified by either BIC or the OC will be submitted to the NYISO Staff for detailed analysis and preparation of further cost estimates.

2.2 NYISO Staff Detailed Analysis

If a Market Participant-proposed project/initiative or a project requiring a tariff change is approved by the BIC or OC, the NYISO Staff, in conjunction with the proponent/s, will conduct a detailed analysis of the proposal. . As appropriate, the NYISO Staff's analysis will include:

- Project Name
- Project Description, including need.
- Alternatives, if developed, including potential benefits.
- Preliminary estimated stream of expected benefits (both quantitative and qualitative).
- Preliminary estimated stream of project costs (identify components separately – labor, hardware, software, consultants, etc.).

- Estimated timeline for project completion.
- Whether project/initiative can be accommodated within the Budget Target without impacting other already scheduled projects.
- Whether project qualifies for long term financing.
- Whether the project/initiative would require deferral of other already scheduled projects.
- Whether the project would require funding beyond that which is contained in the budget target.
- Associated risks of not implementing the proposed project/initiative.
- A recommendation as to whether the project/initiative should be approved by the MC.

The NYISO Staff will forward the results of its analysis to the MC for its consideration.

The MC will be responsible for recommending to the NYISO Board whether to proceed with the proposed project/initiative. Projects/initiatives that are approved by the MC will be forwarded to the PPT for further recommendations as to scheduling and prioritization.³ BS&P will monitor projects within the context of the Current Year Budget and the Budget Target.

Section 3.0 Project Monitoring

The NYISO staff will monitor the status of all projects/initiatives, regardless of their origin, and prepare periodic reports. Among other things, these periodic reports will identify each project's/initiative's progress relative to: actual costs incurred versus approved budget, whether the project can be completed within scope, budgeted cost and schedule. At least quarterly, the NYISO will present a report on project scope.

3.1 Establish and Maintain Project Cost, Schedule, and Scope

The NYISO Staff will provide periodic updates to PPT and BS&P on the status of the project's cost, schedule, and scope.

³ All projects currently being worked on by the NYISO, regardless of origination, are reviewed by the PPT.

The NYISO staff shall prepare periodic status reports that provide information on project schedules, milestones and man-hour expenditures for all projects, regardless of origin, for the PPT and the BS&P Subcommittees. The NYISO will prepare quarterly reports on project scope. NYISO staff shall affirmatively inform the BS&P when any project exceeds or is expected to exceed its cost estimate by the lesser of 50% of the project's costs or \$500,000. NYISO Staff shall also inform the BS&P when a project is expected to adversely impact the current operating budget or future year budget targets in a manner that is not already incorporated into the budget process.

The BS&P Chair or any member of the BS&P Subcommittee should have an automatic right to add a report and action item to the agenda for the next scheduled MC meeting upon a request placed with the Chair of the Management Committee five business days prior to the date of the Management Committee meeting. This recommendation will be presented to the By-Laws Subcommittee.

3.2 Assess Project Progress

Throughout a project's life, from pre-operational stages through completion, NYISO staff will assess progress against the project's budgeted cost, schedule, and Scope.

3.3 Project Monitoring Status Reports

The NYISO Staff shall provide Monitoring Status reports periodic for the PPT and BS&P. The contents of this report will be developed collaboratively.

Section 4.0 Evaluation

NYISO Staff will conduct an evaluation of projects included in the Budget Preparation and Financing and Project Monitoring Process after the project/initiative

becomes operational, usually within six months of deployment. The Evaluation Phase “closes the loop” of the budgeting process by comparing actual cost and benefits against budget and expectations. This will not only allow performance to be assessed, but also helps identify areas where decision-making can be improved. The evaluation should include:

- An evaluation of whether the specific investment met performance, cost, and schedule objectives have been met; and
- An evaluation of whether the budgeting process improved the outcome of the investment.

The NYISO Staff shall share these evaluations with the PPT and BS&P to offer a better understanding of project performance and to allow BS&P to recommend to the NYISO Staff adjustments to the project or to the budgeting process, as it deems appropriate.

Such evaluations should take place immediately if a project is cancelled.

The NYISO Staff shall also evaluate, and report to the BS&P, on a project’s investment value or the impact of the project on reliability, economics, customer satisfaction and system capability.

This evaluation should focus on three primary areas described below.

1. Impact on Stakeholders

The project’s impact on stakeholders would be measured by the NYISO Staff through use of surveys (formal or informal), interviews, and feedback studies.

2. Ability to deliver performance measures (Quantitative and Qualitative)

The project’s impact should be carefully evaluated to determine whether it met its original scope.

3. Ability to Meet Performance Goals

- Cost

- Benefit
- Schedule

NYISO staff shall discuss with the BS&P its conclusions, based on these evaluations, of lessons learned, including costs, project management and technical insights and shall work together with the PPT and BS&P to develop, recommend, and modify the budgeting process as appropriate.

Staff will evaluate resources necessary to perform these functions and advise the Market.

Section 5.0 Transition

This guideline document outlines a desired end state. By necessity, the implementation of this business process will take time. It is expected that different aspects of this process will be implemented over a course of twelve months.⁴ Toward the end of the twelve-month period, the NYISO Staff and BS&P will evaluate how this process is working and, if warranted, make recommendations for refinements to this process.

⁴ Some evaluation elements may not be in place until 2005.