

NYISO
***Projects Budgeting and
Financing Process***

Draft
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1.0 INTRODUCTION

An effective, projects budgeting and financing process is essential to ensure efficient operations and sound investment decisions. It is also essential towards assuring that the NYISO is competitive with neighboring ISOs. This report details a draft approach to identify, evaluate, prioritize, fund, and manage operating and capital project investments for the short and long term operation of the NYISO. This process is designed to allow market participants, NYISO staff and the ISO Board to effectively manage this process through the BS&P, PPT and the larger committee structure. The project budgeting and financing process described herein can be applied to the identification, selection, monitoring, and evaluation of all operations, IT, billing and capital projects. This process is not designed to manage staffing and ongoing operations of the NYISO. All projects in excess of \$500,000 will be required to follow this process. Much of the day to day implementation of this will be handled by NYISO staff.

The recommended approach for this project budgeting process has five phases, as described below.

1.1 Budgeting

An initial step in the process is the establishment of a multi-year budget. While many projects may be desirable and justified in one manner or another, there are only a limited amount of resources available for major projects. All projects selected must be prioritized

and measured against the available pool of resources. The first step is for Market Participants and the NYISO Board to establish a long-term budget consistent with the NYISO long-term strategic plan that clearly identifies the amount of funds available for projects and capital expenditures. The budget would identify those funds that would be treated as an expense and those funds that would be available for longer term financing. The budgeting process will need to be flexible to accommodate new and changing missions in future year budgets.

1.2 Identification

Requests for projects can come from a number of different sources. These can include, NYISO identified enhancements or correction of flaws, FERC orders, Committee, Subcommittee and Working Group Actions, NYISO staff initiatives, PSC actions, Seams Issues Resolution, and Market Participant requests. All projects that require expenditure of funds from the Project Expense Budget or the Project Financing Budget will be required to go through the Project budgeting and financing process.

All requests for projects will be noted and included in a single list properly identifying the source of the request and its status in the process.

1.3 Selection

The selection process identifies all new projects for inclusion into the project budget portfolio based on an overall targeted budget cap. Within this part of the process projects are evaluated and prioritized. Projects within the allowed budget will then be selected for implementation.

The NYISO staff or proponent of an project will perform the necessary analyses to justify the proposed project. It is recognized that in many cases the NYISO may be required to supply the necessary data to support the analyses and they will be required to supply that information in a timely manner.

A proponent must first present the proposed project to either the Business Issues Committee (BIC) or the Operating Committee (OC) for approval or if appropriate, directly to the Management Committee.

Within the selection phase, projects are screened, evaluated (Cost/Benefit Analysis), prioritized (included in an existing activity or deemed a project), given a recommended implementation date.if needed, a ConOps will be performed.

Proposed projects will then be submitted to the Budget, Standards & Performance Subcommittee (BS&P) for review. Prior to the proposal going to the Management Committee (MC), the BS&P's will review the analyses and rankings developed by the proponent. The BS&P will provide a report to the MC identifying whether the project met the budgeting review requirements, whether the project can be accommodated within

the budget without impacting other already scheduled projects, whether the project would qualify for long term project financing, and whether the project would require deferral of other already scheduled projects and/or additional funding beyond that which is contained in the multi-year budget.

If the BS&P determines that the project did not meet the budgeting review requirements, the project proponent may choose to resubmit an enhanced proposal to the BS&P or forward the project to the MC without the required analysis. The proposed project will then be presented to the MC for a vote on whether the project should be approved and implemented.

Approved projects will then be forwarded to the Project Priority Team (PPT) for prioritization and scheduling. The PPT shall take into account the budget impacts of its schedules when determining prioritization and scheduling. The BS&P will review the PPT approved project schedules and budgets to determine the amount that should be financed and expensed and to assure that the project can be accommodated within the approved project budgets and actual current year budget trends. Any problems will be referred to the PPT for consideration and possible action by the MC and NYISO board.

As projects are approved, prioritized and scheduled, a Project Priority Schedule and a Project Budgets Report will be developed and distributed by NYISO staff. These reports will be used to develop priorities, to evaluate the financial impact of proposed projects, and develop future years budgets. Within a budget year, all scheduled projects must fit

within the adopted projects budget. When developing schedules for projects that impact future year budgets, projects shall be scheduled in a manner that will fit within the long-term project budgets. It will take an action of the MC and NYISO Board to initiate projects that will exceed the future year project budgets.

1.4 Monitoring

An ongoing monitoring process that manages all ongoing and proposed projects needs to be in place to ensure that each investment continues to be required and, as such, is delivered on schedule and within budget. NYISO staff will have the responsibility of preparing the reports and reporting on the status to the PPT and when there are budget impacts to the BS&P.

Project schedules will be developed for all projects. Milestones, cashflow tracking and critical path analysis will be developed for each project and monitored monthly through PPT review.

Key and strategic projects will also be reported at the Committees on a periodic basis.

Once the project schedule, milestones cashflow tracking, critical path and resource allocation have been identified, only project exception reporting will be required on a routine basis. Significant changes to the project scope, schedule or cost may require re evaluation and reprioritization of the project and other projects. The NYISO will be

required to report to the MC any project that is projected to exceed its estimated cost by the lesser of \$500,000 or 10% or more. Some projects may initially be projected to fall below the 500,000 threshold, but later exceed the threshold. When ISO staff becomes aware that the project would have passed the threshold, this project will be brought before the BS&P and the MC. It will take an action of the MC and NYISO Board to reschedule and reprioritize projects in a manner that will exceed the future year project budgets.

1.5 Evaluation

The review process will be tied into the project closeout process. It will be used to determine if a project has realized its expected mission and business performance goals. During the evaluation phase, the overall effectiveness of the budgeting process of the project will be reviewed. Lessons learned during the evaluation phase of the projects should be geared towards modifying future project budgeting process and selection decisions.

1.6 Exceptions

In the event of an emergency where it is determined that the reliability of the system may be in jeopardy this process may be bypassed.