

# ERCOT

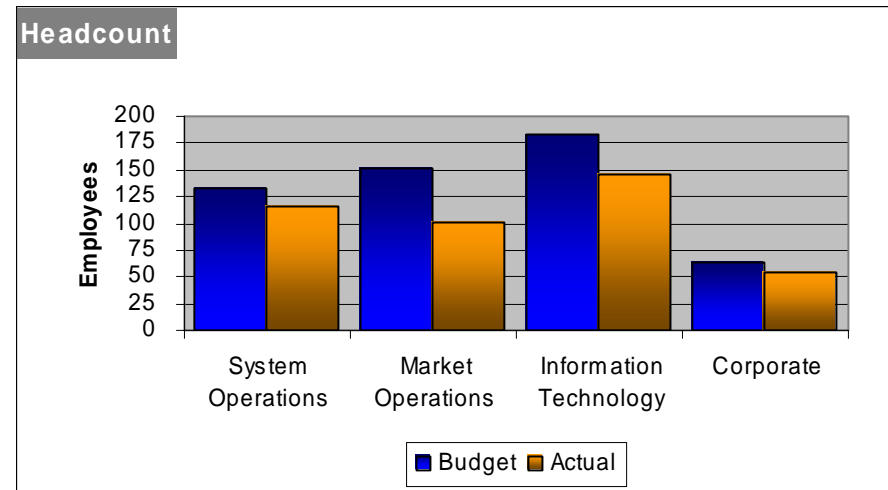
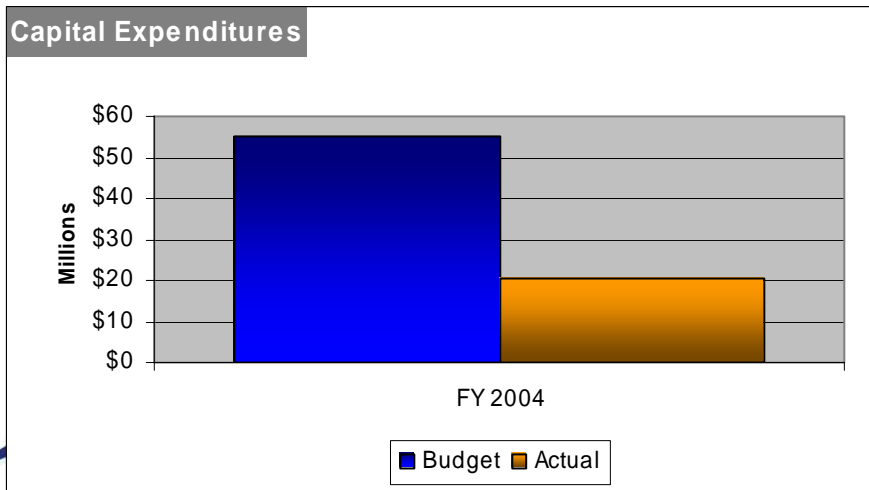
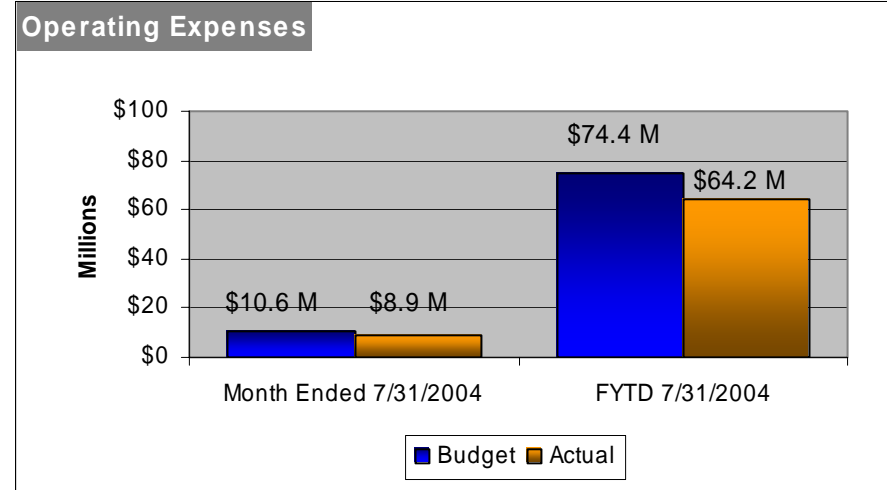
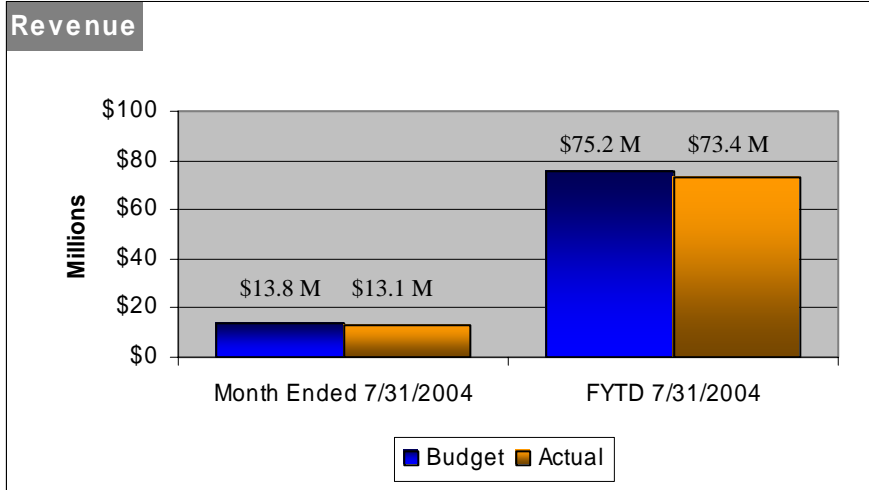
# Financial Summary

## For the Period Ending July 31, 2004

Board of Directors Meeting

August 17, 2004

# ERCOT Financial Snapshot



# Year-to-Date Results of Operations

(\$ Millions)

Revenues	\$ 74.3
Total expenses (w/o depreciation)	\$ 45.6
Excess revenues over expenses	\$ 28.7
Depreciation	\$ (24.1)
Change in unrestricted net assets	\$ 4.6

Notes:

Revenues – include interest income

Total expenses – include interest expense



Preliminary - Unaudited

# Year-to-Date Cash Flow Summary

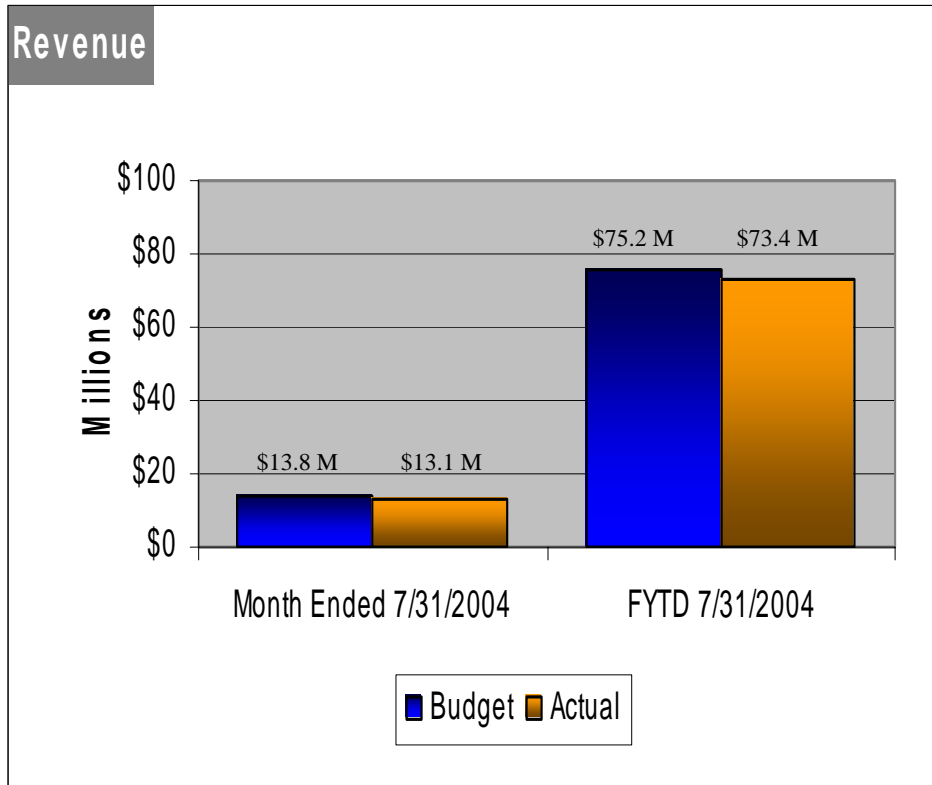
(\$ Millions)

Beginning Cash (January 1, 2004)	\$	28.1
Cash Provided by Operations		16.6
Cash Used in Investing Activities (Projects)		(41.6)
Cash Provided by Financing Activities		21.1
Ending Cash (June 30, 2004)	\$	24.2

Note:

Cash balance includes TCR auction receipts but does not include QSE or TCR security deposits.

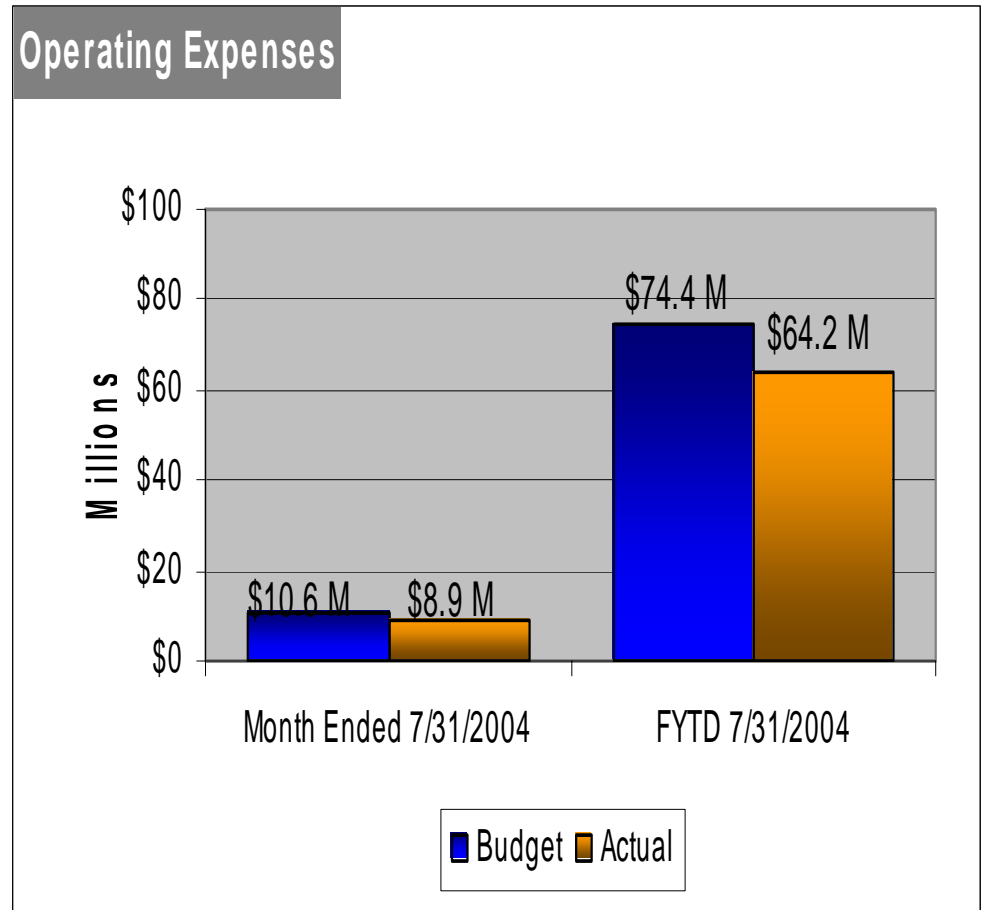
# Revenue



- \$73.4 million year-to-date
  - 98% from System Administrative Fee
    - 70+% from top 5 QSE's
    - 85+% from top 10 QSE's
    - 90+% from top 15 QSE's
- \$1.8 million (2.4%) unfavorable year-to-date
- MWH volume 2.6% below expectation

# Operating Expenses

- \$64.2 million year-to-date, including depreciation
- \$40.2 million year-to-date, excluding depreciation
- \$10.2 million (13.8%) favorable over the year
  - Labor (\$3.2 million)
  - Consultants (\$2.9 million)
  - SW/HW license and support (\$1.6 million)
  - Employee expenses and other (\$2.5 million)

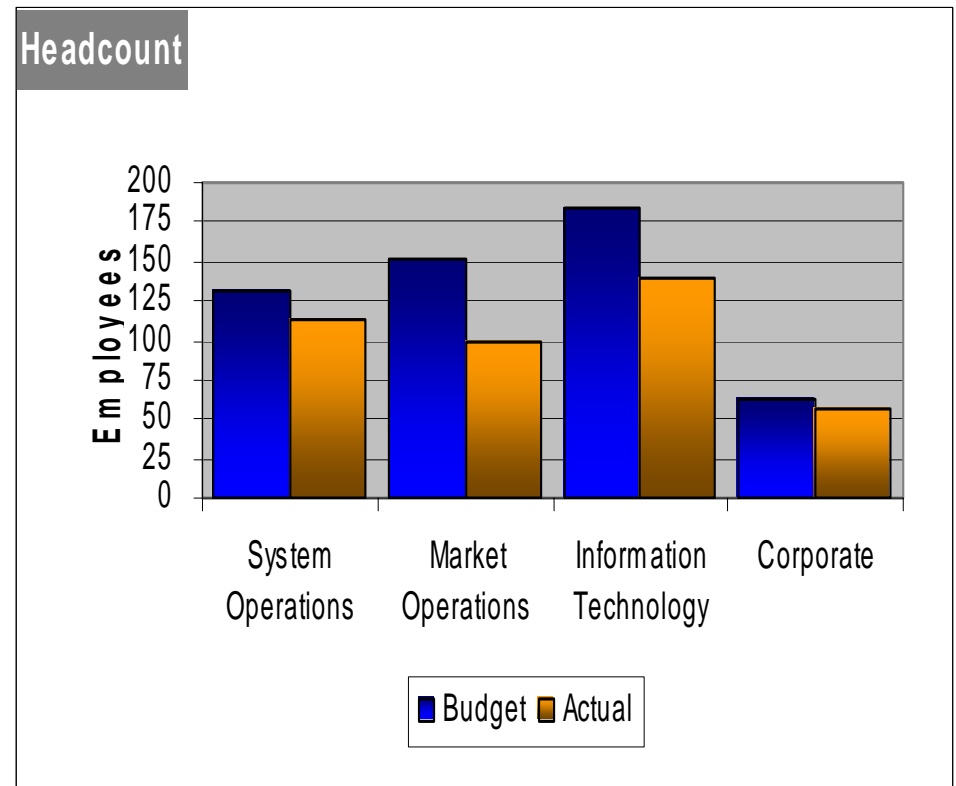


# FY 2004 Results (Income Statement)

	Fiscal Year as of July 31, 2004			
	Budget	Actual	\$ Var	% Var
	Fav / (Unfav)			
<b>ERCOT Revenue by Type</b>				
ERCOT System Administration Fee	74,583,154	72,662,296	(1,920,858)	-2.6%
Non-ERCOT LSE Fees	440,638	396,206	(44,432)	-10.1%
Membership Fees	140,000	151,319	11,319	8.1%
Other Revenue	58,333	213,224	154,891	265.5%
<b>Total - ERCOT Revenue by Type</b>	<b>75,222,125</b>	<b>73,423,045</b>	<b>(1,799,080)</b>	<b>-2.4%</b>
<b>ERCOT Operating Expenses by Expense Type</b>				
Labor & Benefits	29,638,109	25,948,736	3,689,373	12.4%
Contra-Labor to Capital Projects	(3,985,244)	(3,473,670)	(511,574)	12.8%
Tools, Equipment, Materials & Supplies	960,966	788,403	172,563	18.0%
Hardware & Software Expenses	4,775,891	3,169,273	1,606,618	33.6%
Consultants & Contractors	10,156,821	7,304,884	2,851,937	28.1%
PUC-mandated Audits	-	-	-	NA
Utilities, Maintenance & Facilities	2,899,098	2,584,310	314,788	10.9%
Wide Area Network Services (Net)	428,701	278,592	150,109	35.0%
Training, Travel & Other Employee Expenses	1,640,892	899,846	741,046	45.2%
Insurance	1,020,833	877,892	142,941	14.0%
Property Taxes	701,714	703,210	(1,496)	-0.2%
Depreciation & Amortization	24,445,727	23,983,638	462,089	1.9%
Other	1,730,563	1,106,498	624,065	36.1%
<b>Total - ERCOT Operating Expenses by Expense Type</b>	<b>74,414,071</b>	<b>64,171,612</b>	<b>10,242,459</b>	<b>13.8%</b>
<b>Excess (Deficiency) of Revenues over Expenses</b>	<b>808,054</b>	<b>9,251,433</b>	<b>8,443,379</b>	<b>-1044.9%</b>
<b>Other income (expense)</b>				
Interest income	291,667	147,430	(144,237)	-49.5%
Interest expense	(5,722,011)	(4,829,441)	892,570	15.6%
<b>Change in Unrestricted Assets</b>	<b>(4,622,291)</b>	<b>4,569,422</b>	<b>9,191,713</b>	<b>198.9%</b>

# Headcount

- 418 of 530 on staff
- 38 FTE increase (net) in 2004
  - 61 new hires during 2004
  - 23 terminations during 2004





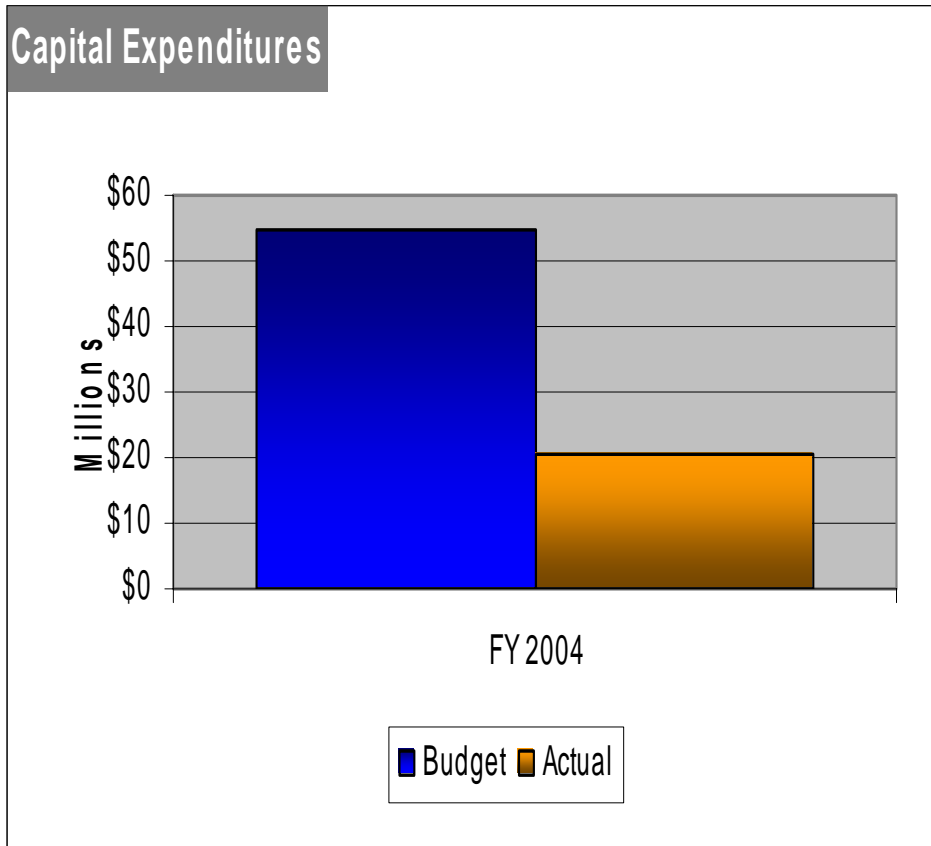
# Consultant and Contractor Expense Variance

Description	YTD	YTD	Variance	Variance
	FY2004 Budget	Actual	- \$	%
(\$000's)				
Texas Nodal Project	2,417	1,796	621	34.6%
Legal	824	444	380	85.5%
Independent Audit Services	794	427	367	85.9%
Other Capital Projects	539	243	296	121.8%
Other Corporate Administration Consulting	505	257	248	96.6%
Other System Operations Consulting	498	253	245	96.7%
EMMS Maintenance on T&M Basis	241	-	241	NA
Data Warehouse Support to PUCT	297	75	222	295.9%
Default QSE	420	210	210	100.0%
Retail Switch Notification	583	395	188	47.5%
Web and Intranet Development	251	101	150	148.3%
Other Miscellaneous Less than \$200,000	469	524	(55)	-10.5%
Other Information Technology Consulting	1,811	1,892	(81)	-4.3%
Security	508	688	(180)	-26.2%
Total	10,156	7,305	2,851	39.0%

# Other Expense Variance

Description	YTD FY2004 Budget	YTD Actual	Variance - \$	Variance %
Employee Recruiting, Relocation, Temp-to-hire and Job Advertising	621,979	62,471	559,508	895.6%
Dues	648,958	563,428	85,530	15.2%
Printing	70,117	21,678	48,439	223.4%
Corporate Events	47,833	17,566	30,267	172.3%
Operator Training	-	(25,422)	25,422	-100.0%
Subscriptions and Publications	55,522	37,708	17,814	47.2%
Postage & Delivery	26,571	18,725	7,846	41.9%
Other	-	(5,383)	5,383	-100.0%
Media Services and Supplies	26,250	24,250	2,000	8.2%
ERCOT Sponsored Meetings	233,333	391,477	(158,144)	-40.4%
Total	1,730,563	1,106,498	624,065	56.4%







# Capital Expenditures

















- \$20.6 million of \$55 million annual budget spent
- 43 projects active in year-to-date 2004
- Major projects underway
  - TCC Phase 2 Building
  - EMMS Release 4.0
  - Enterprise Data Warehouse Phase 2

# Top Ten ERCOT Projects

- 3 Major Projects in the Completion Phase

- |   |        |   |          |   |
|---|--------|---|----------|---|
| • Move In / Move Out Solution to Stacking | Budget |  | Schedule |  |
| • TML Phase II Retail Functionality       | Budget |  | Schedule |  |
| • EMMS Release 3 Grid Operations          | Budget |  | Schedule |  |

- 7 Major Projects in Initiation and Execution Phases

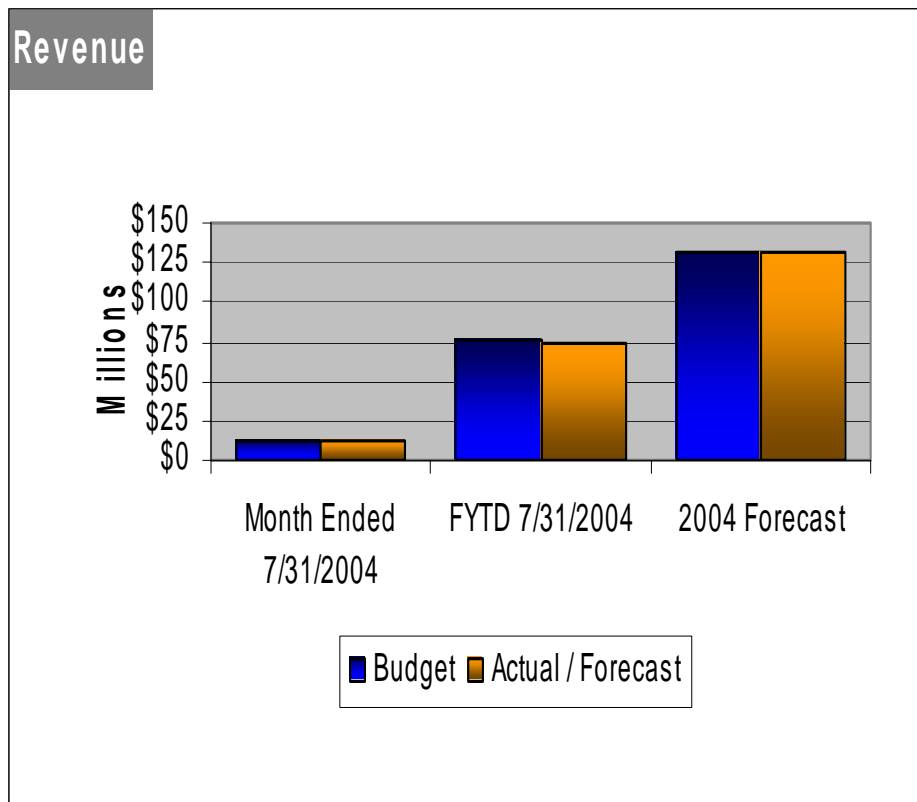
- |                                       |        |   |          |   |
|---------------------------------------|--------|---|----------|---|
| • Taylor Office Building              | Budget |    | Schedule |    |
| • Commercial Applications Replace TCH | Budget |    | Schedule |    |
| • Market Load Research Sampling       | Budget |    | Schedule |    |
| • Data Center Server Consolidation    | Budget |   | Schedule |   |
| • EDW for EMMS and Lodestar           | Budget |  | Schedule |  |
| • EMMS Release 4A &4B                 | Budget |  | Schedule |  |
| • Market Monitoring System            | Budget |  | Schedule |  |

# 2004 Forecast

# 2004 Forecast

	Budget FY 2004	Forecast FY 2004	Difference
ERCOT Revenue			
<i>ERCOT System Administration Fee</i>	\$ 129,510	\$ 127,589	\$ (1,921)
<i>Other Revenue</i>	1,095	1,304	209
Subtotal ERCOT Revenue	130,605	128,893	(1,712)
ERCOT Operating Expense (excluding Depreciation)			
<i>Labor &amp; Benefits</i>	\$ 50,808	\$ 46,186	\$ 4,622
<i>Contra-Labor to Capital Projects</i>	(6,832)	(6,165)	(667)
<i>Tools, Equipment, Materials &amp; Supplies</i>	1,647	1,352	296
<i>Hardware &amp; Software Expenses</i>	8,187	6,000	2,187
<i>Consultants &amp; Contractors</i>	17,412	13,678	3,733
<i>PUC-mandated Audits</i>	-	1,500	(1,500)
<i>Utilities, Maintenance &amp; Facilities</i>	5,705	5,029	676
<i>Employee Expenses</i>	2,813	1,543	1,270
<i>Insurance</i>	1,750	1,505	245
<i>Property Taxes</i>	1,203	1,206	(3)
<i>Other</i>	2,967	2,184	782
Subtotal ERCOT Operating Expense	85,660	74,017	11,643
Debt Service and Capital			
<i>Interest Income</i>	500	253	(247)
<i>Debt service - interest expense</i>	9,809	8,279	1,530
<i>Debt service - principal payments</i>	13,636	13,636	-
<i>Revenue-funded capital</i>	22,000	18,000	4,000
Subtotal Debt Service and Capital	44,945	39,662	5,283
Total Forecast Favorable 2004 Budget Variance			15,214

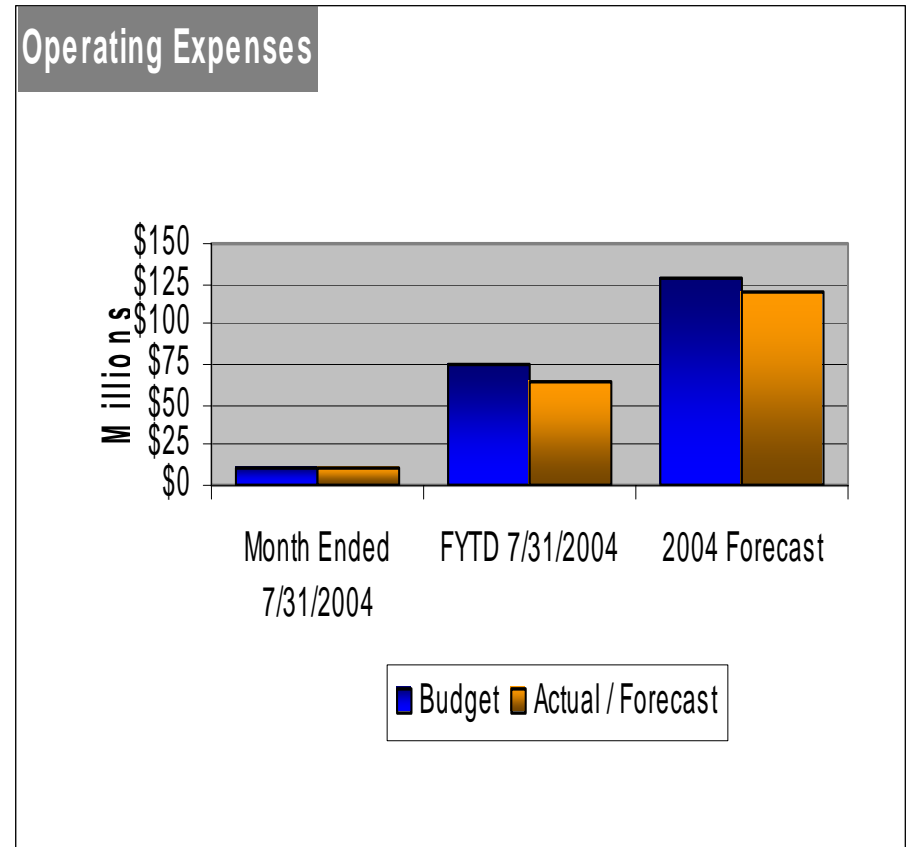
# Forecast Revenue



- \$73.4 million year-to-date
- \$1.8 million (2.4%) unfavorable year-to-date
- Forecast \$1.7 million revenue shortfall in 2004
  - MWH for remainder of year assumed at budget
  - Other revenue sources continue actual trend over first seven months of 2004

# Forecast Operating Expenses

- \$9.7 million favorable variance year-to-date July 31, 2004
- Projected \$11.6 million favorable variance in 2004
  - Consultants (\$3.7 million)
  - PUC-mandated audits (<\$1.5 million>)
  - Labor (\$3.9 million)
  - SW/HW license and support (\$2.2 million)
  - Employee expenses and other (\$3.3 million)

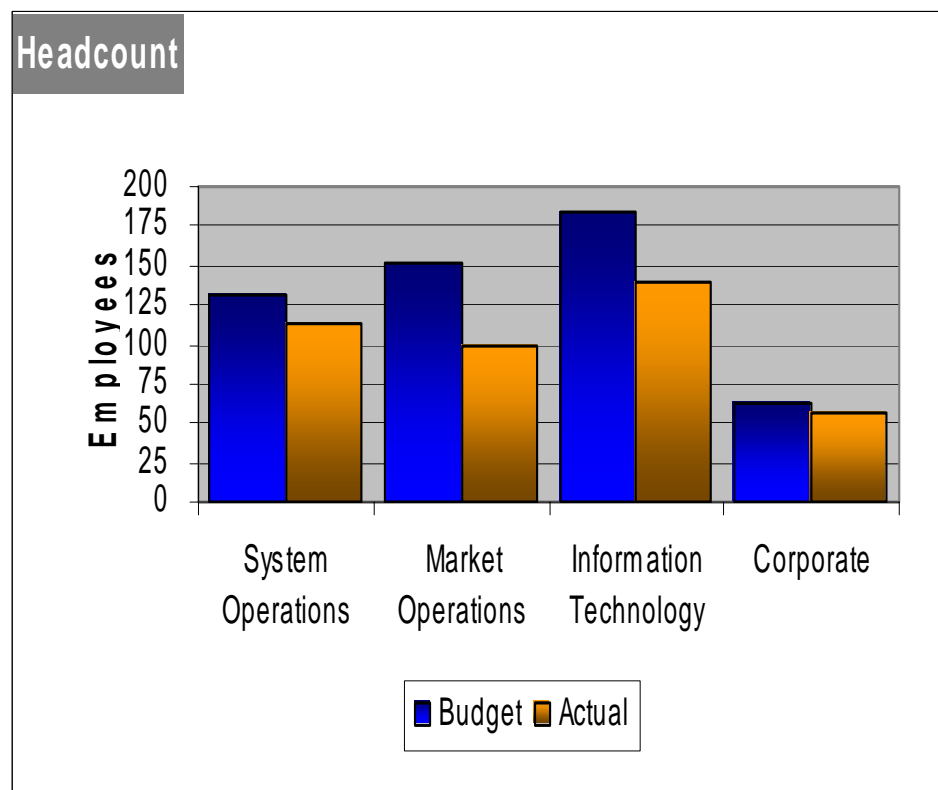


Note: Operating expenses excluding depreciation expense.

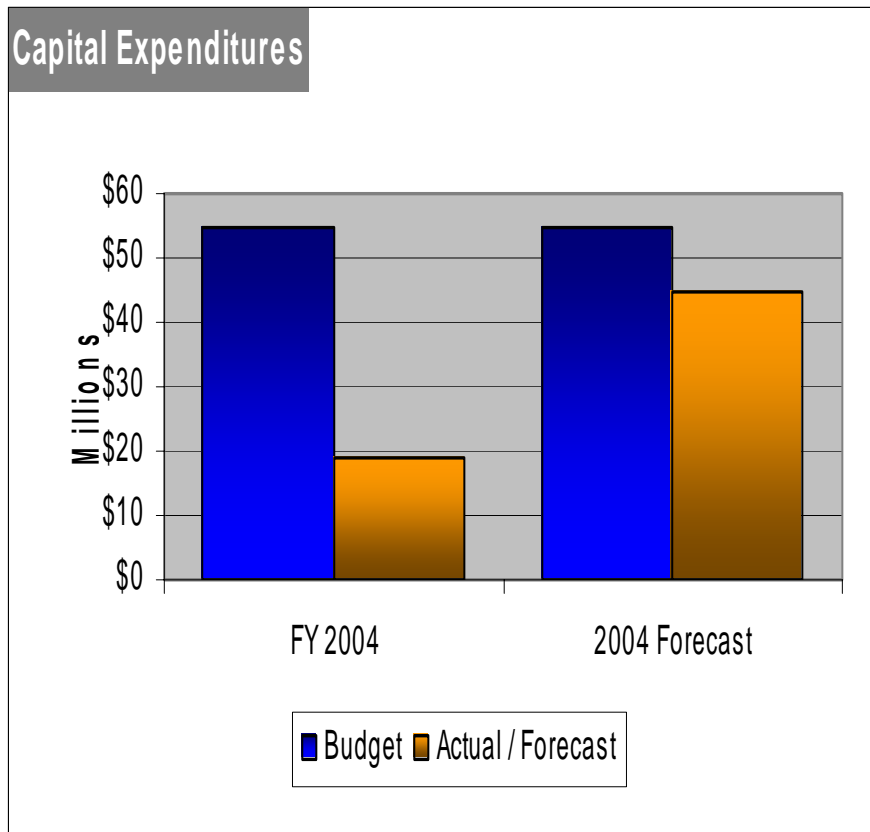


# Forecast Headcount

- 418 of 530 on staff
- 38 FTE increase (net) in 2004
- Forecast includes 468 staff members by the end of 2004



# Forecast Capital Expenditures



- \$20.6 million of \$55 million annual budget spent at July 31, 2004
- \$45 million projected capital investment in 2004
- Major projects underway
  - TCC Phase 2 Building
  - EMMS Release 4.0
  - Enterprise Data Warehouse Phase 2

# Reasons for Lower Capital Spend in 2004

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- Reduced Scope by Market on Competitive Metering, Texas Set 2.1 and Direct Load Control Projects - \$4M
- Delay in Implementing Recommendations from the Commercial Applications Systems Upgrade Project (CASUP) due to cross impacts with high priority market projects - \$2.5M
- Delay in Completing Requirements for EMMS Release 4 and other EMMS system deliveries - \$2M

# 2004 Forecast

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- Any excess funds collected during 2004 will be factored into the 2005 budget proposal
  - Options include debt management and 2005 operating expense funding
  - Options considered on the following slide

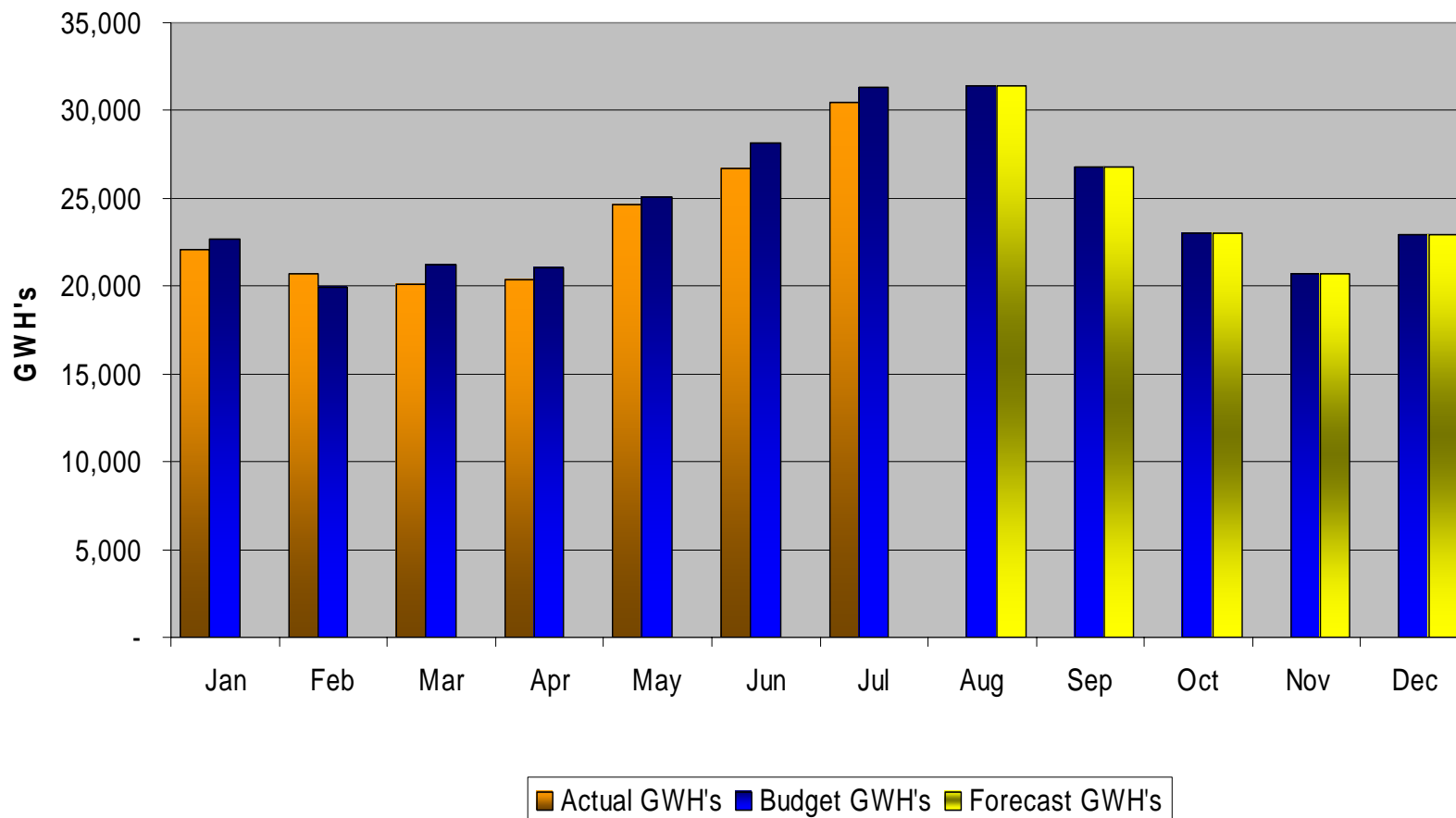
# 2004 Forecast

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- **Options for application of fees in excess of revenue requirement forecast**
  - Fund more than 40% of 2004 capital investment with revenue (defer debt borrowings)
  - Invest the funds until 2005, then use them to pay operating expenses (negative carry cost)
  - Issue a refund to the market
  - Reduce the 2004 ERCOT System Admin. Fee
- Recommendation in F&A Committee Report

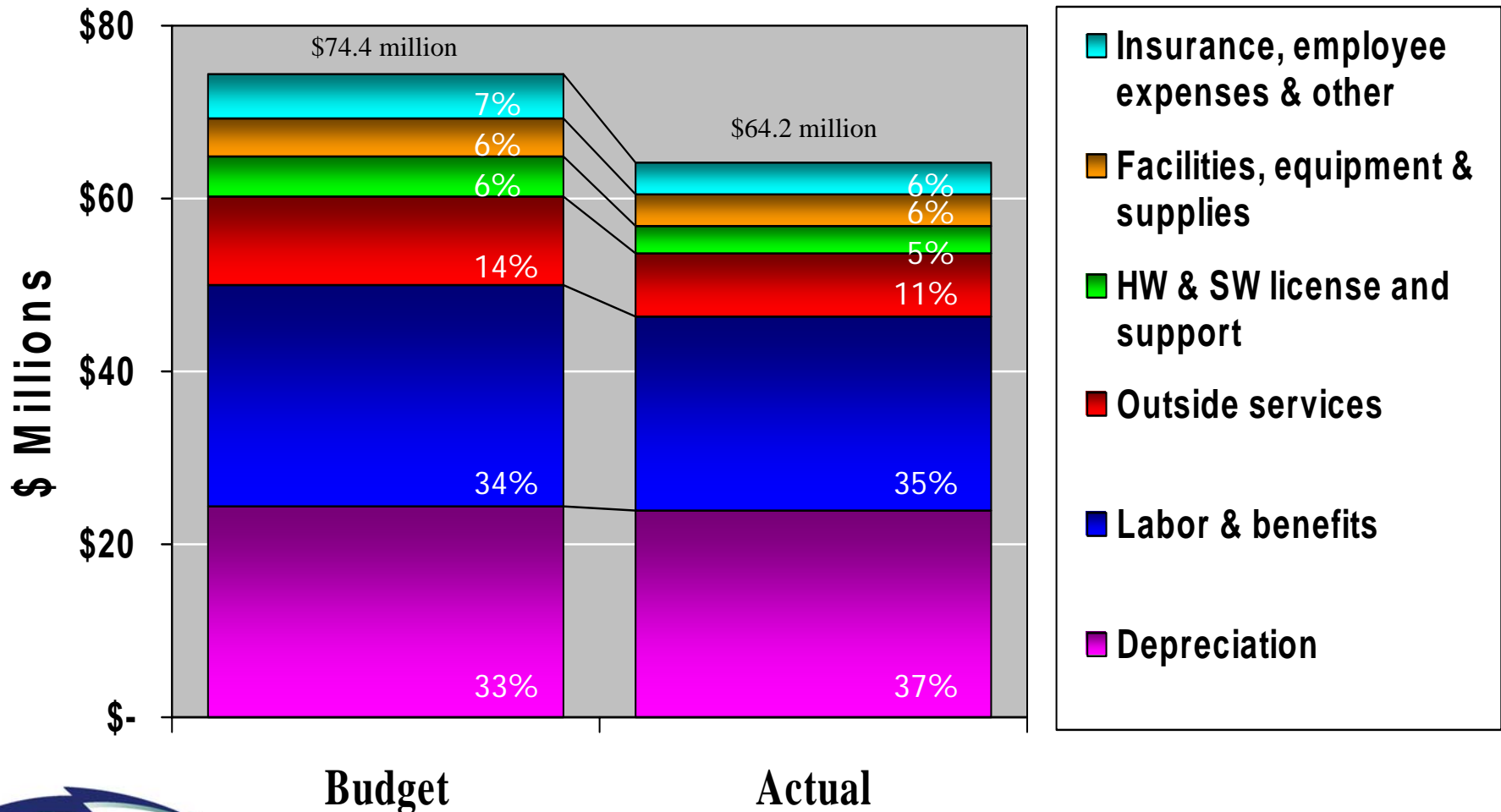
# Supplemental

# MWH by Month



# FY 2004 Operating Expense

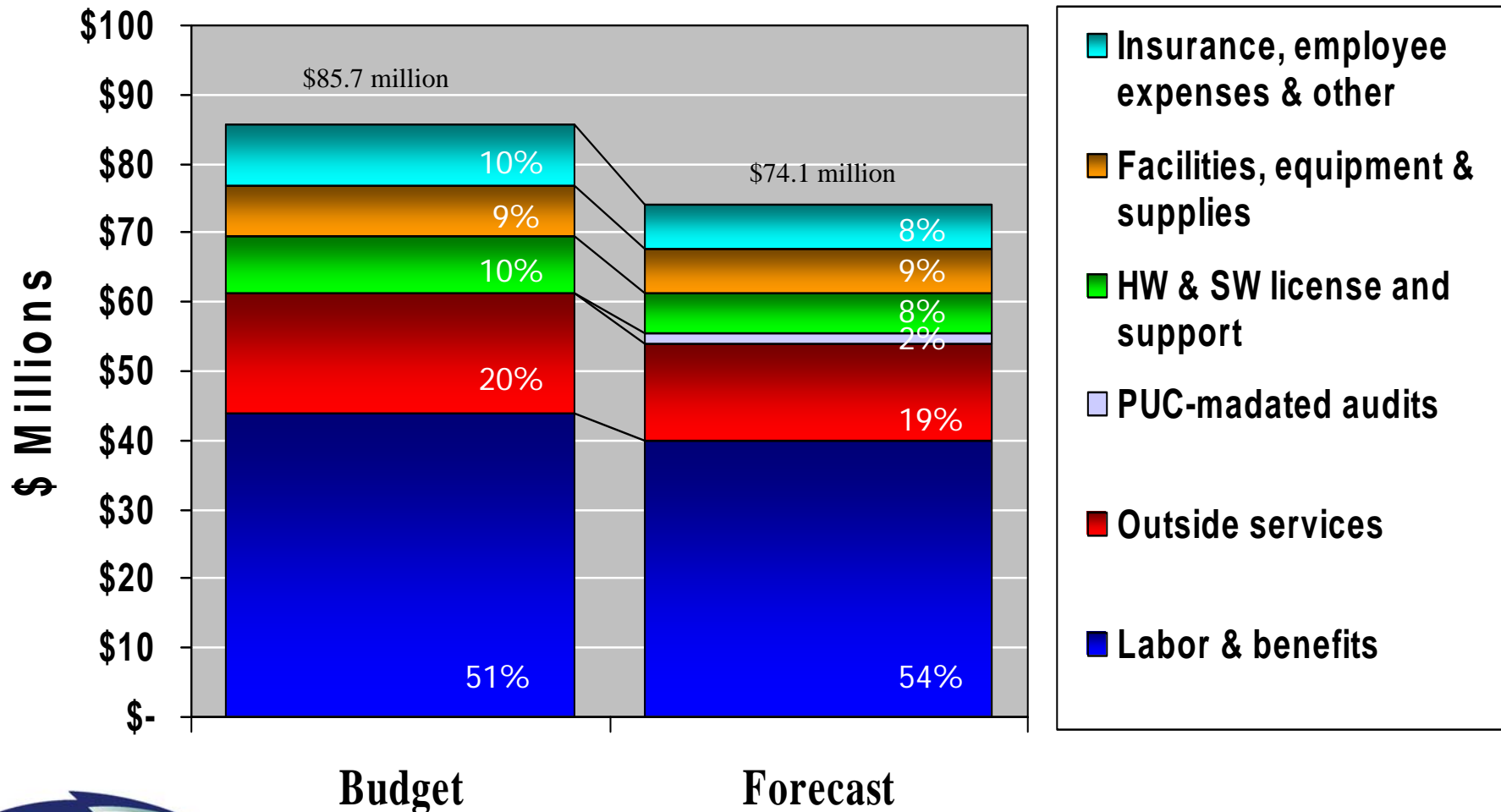
## Year-to-Date 2004 Budget versus Actual





# Forecast FY 2004 Operating Expense

## 2004 Budget versus 2004 Forecast



# ERCOT QSE Short Payments

	Enron	TCE	Mirant	Total
<b>Net amount due at December 31, 2003</b>	<b>455,329</b>	<b>15,854,950</b>	<b>7,322,261</b>	<b>23,632,540</b>
<b>2004 payments to the market (collections)</b>	<b>-</b>	<b>(905,611)</b>	<b>(7,322,261)</b>	<b>(8,227,872)</b>
<b>2004 true-up, resettlement, and interest additions</b>	<b>15,962</b>	<b>480,223</b>	<b>-</b>	<b>496,185</b>
<b>Net amount due at June 30, 2004</b>	<b>471,291</b>	<b>15,429,562</b>	<b>-</b>	<b>15,900,853</b>
<b>Expected payment under payment plans or other</b>				<b>(15,429,562)</b>
<b>Amount not currently under a payment plan or signed court order</b>				<b>471,291</b>

# End