



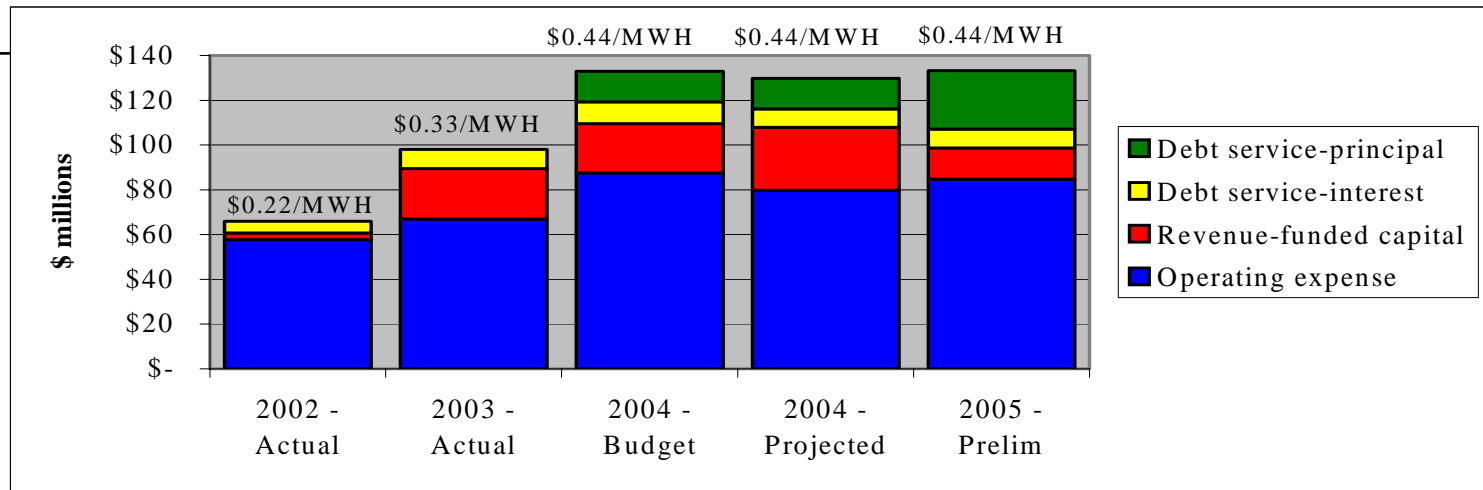
2005 ERCOT Budget Consolidated

Board of Directors
October 19, 2004

Agenda

- Proposed System Administration Fee
- F&A Decision Items
 - Debt borrowing level
 - Capital expenditure level
 - Staffing level
- Overview of ERCOT
 - Key objectives
 - Organization chart
 - Major project initiatives
- Review proposed 2005 budget
 - Summary schedules
 - Detail schedules by expense type

ERCOT - Revenue Requirement Summary



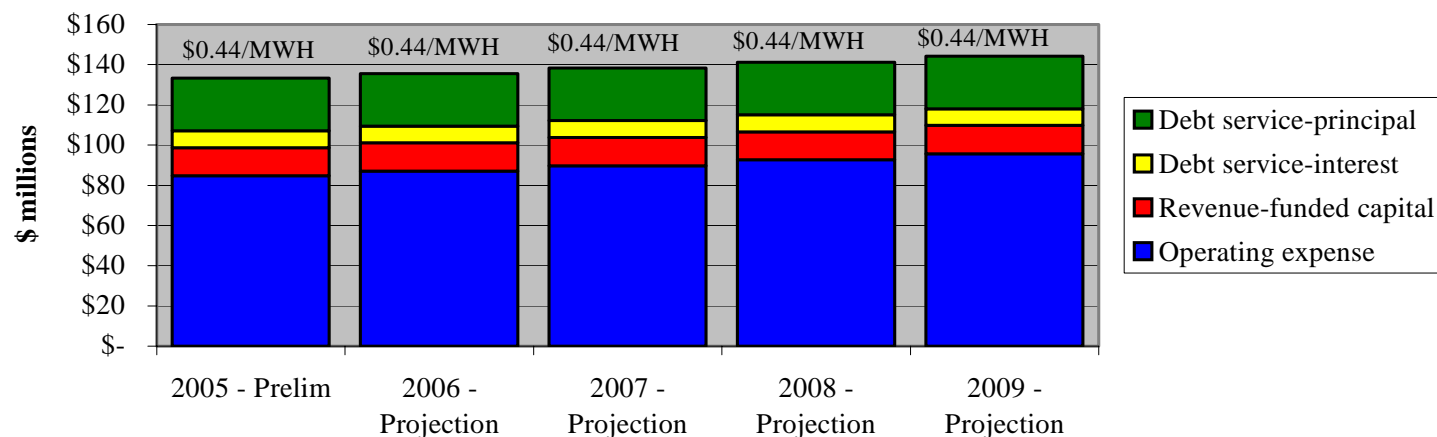
	2002 - Actual	2003 - Actual	2004 - Budget	2004 - Projected	2005 - Prelim
Operating expense	57.7	67.0	87.5	79.7	84.7
Revenue-funded capital	3.0	22.5	22.0	28.2	14.0
Debt service-interest	5.3	8.5	9.8	8.3	8.4
Debt service-principal	0.0	0.0	13.6	13.6	26.1
Total revenue requirement	66.0	98.0	133.0	129.9	133.2
MWH	280	285	294	288	296
System Administration Fee	\$ 0.22	\$ 0.33	\$ 0.44	\$ 0.44	\$ 0.44
Debt Outstanding	150.0	150.0	194.4	176.4	171.3

Key Projection Assumption – Base Case

- No increase in staffing during the period 2006-2009. Productivity gains are assumed to offset any identified new staffing need.
- Forecast does not anticipate significant changes to the current Texas electric market.
- Forecast does not incorporate resources necessary for implementation of the Texas Nodal market.
- Forecast does not incorporate resources necessary for an increased market monitoring role for ERCOT.
- Forecast assumes that ERCOT is not subject to significant additional regulatory oversight. Forecast assumes annual capital investment of \$35 million is sufficient for new projects and periodic system maintenance, upgrade, and replacement.

ERCOT - Revenue Requirement and System Administration Fee Forecast (2005-2009)

(Excluding estimate for Market Oversight and Texas Nodal Implementation)



	2005 - Prelim	2006 - Projection	2007 - Projection	2008 - Projection	2009 - Projection
Operating expense	84.7	87.1	89.8	92.7	95.7
Revenue-funded capital	14.0	14.0	14.0	14.0	14.0
Debt service-interest	8.4	8.4	8.4	8.4	8.4
Debt service-principal	26.1	26.1	26.1	26.1	26.1
Market Oversight	0.0	0.0	0.0	0.0	0.0
Texas Nodal Implementation	0.0	0.0	0.0	0.0	0.0
Total revenue requirement	133.2	135.6	138.3	141.2	144.3
MWH	296	303	311	318	326
System Administration Fee	\$ 0.44	\$ 0.44	\$ 0.44	\$ 0.44	\$ 0.44
Debt Outstanding	171.3	166.1	161.0	155.9	150.7

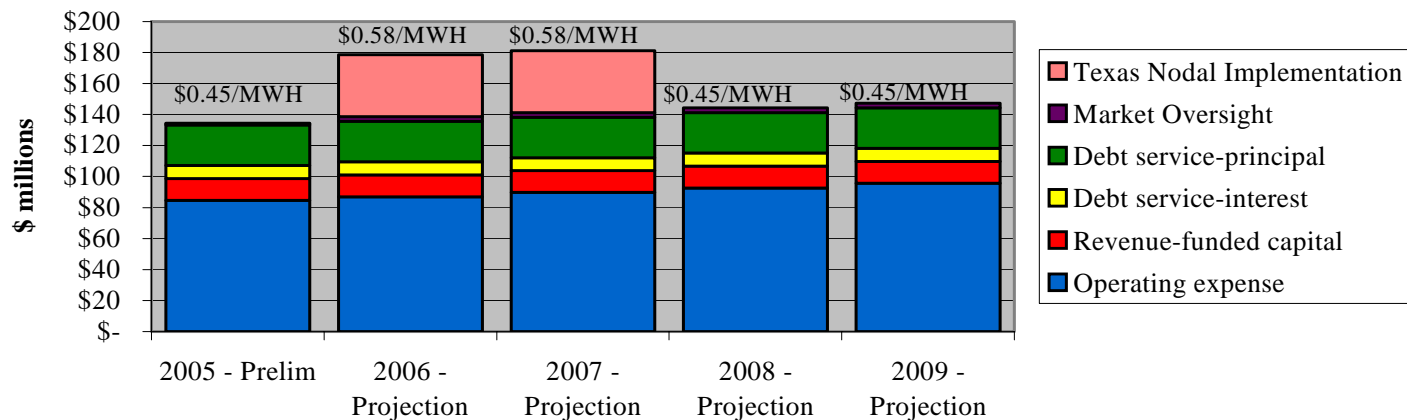
ERCOT - Revenue Requirement and System Administration Fee Forecast (2005-2009)

	Budget FY 2005	Projection FY 2006	Projection FY 2007	Projection FY 2008	Projection FY 2009	Comment
ERCOT O&M Expense						
<i>Labor & Benefits</i>	\$ 56.8	\$ 60.6	\$ 63.6	\$ 66.8	\$ 70.1	\$0.9 million in 2006 plus annual 5% increase of salary and benefits
<i>Contra-Labor to Capital Projects</i>	(4.9)	(5.2)	(5.5)	(5.8)	(6.0)	Proportion of labor as budgeted in 2005
<i>Tools, Equipment, & Supplies</i>	1.6	1.6	1.7	1.7	1.8	3% inflation per year
<i>Hardware & Software Expenses</i>	7.2	7.2	7.2	7.2	7.2	Hold flat
<i>Outside Services</i>	8.9	8.5	8.1	7.7	7.3	5% reduction per year
<i>Special Audits</i>	1.0	-	-	-	-	- Performed in-house after 2005
<i>Utilities, Maintenance & Facilities</i>	6.6	6.8	7.0	7.2	7.4	3% inflation per year
<i>Employee Expenses</i>	1.6	1.7	1.7	1.8	1.8	3% inflation per year
<i>Insurance</i>	1.9	2.0	2.1	2.2	2.3	5% inflation per year
<i>Property Taxes</i>	1.5	1.6	1.6	1.7	1.8	5% inflation per year
<i>Other</i>	2.5	2.4	2.2	2.1	2.0	5% reduction per year
Subtotal	84.7	87.1	89.8	92.7	95.7	
Debt service - interest expense	8.4	8.4	8.4	8.4	8.4	Hold flat. Debt level down a net \$5 million per year. Interest rates rising.
Debt service - principal payments	26.1	26.1	26.1	26.1	26.1	\$13.3 million plus \$12.5 million
Revenue-funded capital	14.0	14.0	14.0	14.0	14.0	40% of \$35 million annual capital program
Extra Revenue-funded Capital	-	-	-	-	-	Use of favorable spending variance
Total Revenue Requirement	133.2	135.6	138.3	141.2	144.3	
Less Other Revenue & Interest Income	2.3	2.3	2.3	2.3	2.3	Hold flat
Revenue Rqmt from System Admin Fee	\$ 130.9	\$ 133.3	\$ 136.0	\$ 138.9	\$ 142.0	
GWH	295.6	303.0	310.6	318.4	326.3	2.5% growth per year
ERCOT System Administration Fee	\$ 0.44	\$ 0.44	\$ 0.44	\$ 0.44	\$ 0.44	
Debt Outstanding at Year-end	\$ 171.3	\$ 166.1	\$ 161.0	\$ 155.9	\$ 150.7	

Key Projection Assumption – Texas Nodal

- No increase in staffing during the period 2006-2009. Productivity gains are assumed to offset any identified new staffing need.
- Forecast assumes that ERCOT is not subject to significant additional regulatory oversight.
- Forecast assumes annual capital investment of \$35 million is sufficient for new projects and periodic system maintenance, upgrade, and replacement.
- Texas Nodal implementation cost assumed as \$0.5 million in 2005 and \$40 million per year for 2006 and 2007. All implementation costs assumed recovered in the year spent.
- Incremental market monitoring cost assumed as \$0.7 million in 2005 and \$3 million per year thereafter. All market monitoring costs assumed operating costs - expensed as incurred.

ERCOT - Revenue Requirement and System Administration Fee Forecast (2005-2009) (Including estimate for Market Oversight and Texas Nodal Implementation)



	2005 - Prelim	2006 - Projection	2007 - Projection	2008 - Projection	2009 - Projection
Operating expense	84.7	87.1	89.8	92.7	95.7
Revenue-funded capital	14.0	14.0	14.0	14.0	14.0
Debt service-interest	8.4	8.4	8.4	8.4	8.4
Debt service-principal	26.1	26.1	26.1	26.1	26.1
Market Oversight	0.8	3.0	3.0	3.0	3.0
Texas Nodal Implementation	0.5	40.0	40.0	0.0	0.0
Total revenue requirement	134.5	178.6	181.3	144.2	147.3
MWH	296	303	311	318	326
System Administration Fee	\$ 0.45	\$ 0.58	\$ 0.58	\$ 0.45	\$ 0.44
Debt Outstanding	171.3	166.1	161.0	155.9	150.7

ERCOT - Revenue Requirement and System Administration Fee Forecast (2005-2009)

	Budget FY 2005	Projection FY 2006	Projection FY 2007	Projection FY 2008	Projection FY 2009	Comment
ERCOT O&M Expense						
<i>Labor & Benefits</i>	\$ 56.8	\$ 60.6	\$ 63.6	\$ 66.8	\$ 70.1	\$0.9 million in 2006 plus annual 5% increase of salary and benefits
<i>Contra-Labor to Capital Projects</i>	(4.9)	(5.2)	(5.5)	(5.8)	(6.0)	Proportion of labor as budgeted in 2005
<i>Tools, Equipment, & Supplies</i>	1.6	1.6	1.7	1.7	1.8	3% inflation per year
<i>Hardware & Software Expenses</i>	7.2	7.2	7.2	7.2	7.2	Hold flat
<i>Outside Services</i>	8.9	8.5	8.1	7.7	7.3	5% reduction per year
<i>Special Audits</i>	1.0	-	-	-	-	- Performed in-house after 2005
<i>Utilities, Maintenance & Facilities</i>	6.6	6.8	7.0	7.2	7.4	3% inflation per year
<i>Employee Expenses</i>	1.6	1.7	1.7	1.8	1.8	3% inflation per year
<i>Insurance</i>	1.9	2.0	2.1	2.2	2.3	5% inflation per year
<i>Property Taxes</i>	1.5	1.6	1.6	1.7	1.8	5% inflation per year
<i>Other</i>	2.5	2.4	2.2	2.1	2.0	5% reduction per year
Subtotal	84.7	87.1	89.8	92.7	95.7	
Debt service - interest expense	8.4	8.4	8.4	8.4	8.4	Hold flat. Debt level down a net \$5 million per year. Interest rates rising.
Debt service - principal payments	26.1	26.1	26.1	26.1	26.1	\$13.3 million plus \$12.5 million
Revenue-funded capital	14.0	14.0	14.0	14.0	14.0	40% of \$35 million annual capital program
Extra Revenue-funded Capital	-	-	-	-	-	Use of favorable spending variance
Total Revenue Requirement	133.2	135.6	138.3	141.2	144.3	
Less Other Revenue & Interest Income	2.3	2.3	2.3	2.3	2.3	Hold flat
Plus:						
<i>Market Oversight</i>	0.8	3.0	3.0	3.0	3.0	\$3 million per year beginning 10/2005
<i>Texas Nodal Implementation</i>	0.5	40.0	40.0			\$80.5 million total implementation cost
Revenue Rqmt from System Admin Fee	\$ 132.2	\$ 176.3	\$ 179.0	\$ 141.9	\$ 145.0	
GWH	295.6	303.0	310.6	318.4	326.3	2.5% growth per year
ERCOT System Administration Fee	\$ 0.45	\$ 0.58	\$ 0.58	\$ 0.45	\$ 0.44	
Debt Outstanding at Year-end	\$ 171.3	\$ 166.1	\$ 161.0	\$ 155.9	\$ 150.7	

Potential Impact on Users of Electricity

- **Average Residential Impact** (assuming pass through of System Administrative Fee)
 - Typical household uses approx. 1,000 Kwh / month (or 1 Mwh)
 - Approx. 2004 monthly “ERCOT expense” of average residential consumer is \$0.44
 - Approx. annual “ERCOT expense” for average residential consumer is \$5.28 for 2004

Administrative Fee Sensitivity

- \$0.01 of Administrative Fee equals:
 - \$3 million of operating expense
 - $\$3 \text{ million} / 297,000,000 \text{ MWH} = \$0.01 / \text{MWH}$
 - \$7.5 million of capital spending
 - 60% leverage (40% equity funding * \$7.5 million = \$3 million)
 - 6.8 GWH
 - 2.3 percent deviation from MWH expected
 - Calculations ($\$3 \text{ million} / \$0.44 \text{ per MWH} = 6.8 \text{ GWH}$.
 $6.8 \text{ GWH} / 297 \text{ GWH} = 2.3\%$)

ERCOT - Revenue Requirement Sensitivity to Debt Leverage

Assumed Capital Investment	\$ 35	\$ 35	\$ 35	\$ 35	\$ 35
Debt funding of Capital	60%	50%	40%	30%	0%
Revenue funding of Capital	40%	50%	60%	70%	100%
	2005 - Prelim	2005 - Prelim	2005 - Prelim	2005 - Prelim	2005 - Prelim
Operating expense	84.7	84.7	84.7	84.7	84.7
Revenue-funded capital	14.0	17.5	21.0	24.5	35.0
Debt service-interest	8.4	8.4	8.4	8.4	8.4
Debt service-principal	26.1	26.1	26.1	26.1	26.1
Market Oversight	0.0	0.0	0.0	0.0	0.0
Texas Nodal Implementation	0.0	0.0	0.0	0.0	0.0
Total revenue requirement	133.2	136.7	140.2	143.7	154.2
Less Interest Income and Other Revenue	2.3	2.3	2.3	2.3	2.3
Revenue to be Recovered from Admin Fee	130.9	134.4	137.9	141.4	151.9
GWH	295.6	295.6	295.6	295.6	295.6
System Administration Fee	\$ 0.44	\$ 0.45	\$ 0.47	\$ 0.48	\$ 0.51

ERCOT - Impact of Using Favorable 2004 Variance to Reduce Borrowing

	Actual 12/31/02	Actual 12/31/03	Budget 12/31/04	Forecast 12/31/04	Proposed 12/31/05
Debt Outstanding	150.0	150.0	194.4	176.4	171.3
Interest expense	5.3	8.5	9.8	8.3	8.4
Principal payment	-	-	13.6	13.6	26.1
Total	5.3	8.5	23.4	21.9	34.5
Cash interest paid	6.2	9.4	11.0	9.5	9.8

- \$18 million less debt incurred in 2004 than budgeted

ERCOT - Impact of Using Favorable 2004 Variance to Reduce Borrowing

	2004	2005	2006	2007	2008	2009	Total
Debt @ 12/31/2004 - Budgeted	194.4						
Debt @ 12/31/2004 - Forecast	176.4						
Debt Avoided Due to Use of Favorable Variance in 2004	18.0						
Debt Avoided - Assuming a five year amortization		14.40	10.80	7.20	3.60	-	
Average Debt Avoided	9.0	16.2	12.6	9	5.4	1.8	
Assumed Annual Interest Rate	3.50%	3.50%	4.00%	4.50%	5.00%	5.00%	
Avoided Interest Cost	0.32	0.57	0.50	0.41	0.27	0.09	2.15
System Administration Fee	0.0011	0.0019	0.0017	0.0014	0.0009	0.0003	
Impact							

- \$2.15 million dollar cost savings over five years

Summary Statistics

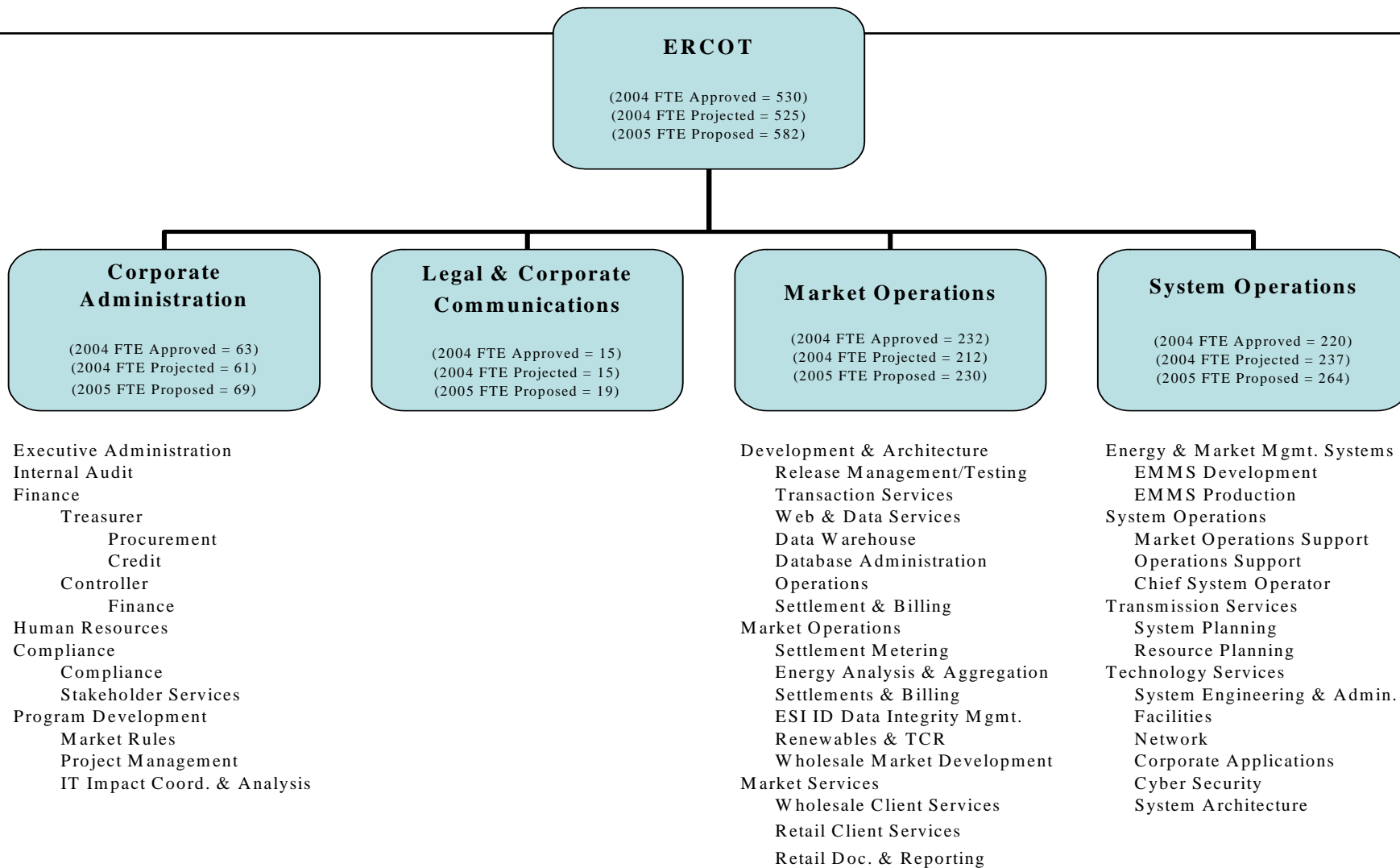
(\$000s except Admin Fee)	2001 Actual	2002 Actual	2003 Actual	2004 Forecast	2005 Budgeted (Proposed)
Administrative Fee	\$0.22	\$0.22	\$0.33	\$0.44	\$0.44
Revenue Rqmts	\$65,835	\$66,295	\$98,000	\$130,256	\$134,316
Capital Investment	\$76,881	\$44,833	\$57,148	\$45,000	\$35,000
Debt Outstanding	\$95,000	\$150,000	\$150,000	\$176,400	\$171,263
MWH Load	270,556	279,604	285,028	289,061	296,288
ERCOT Staffing	267	296	380	525	582



Review 2005 Budget

Overview of ERCOT

ERCOT Organization Chart



Significant Operational Responsibility

- Market Operations
 - Project support, training, load and data aggregation analysts, client relations, retail transactions testing and support, settlement support
- System Operations
 - Congestion analysis, facilities management, operator training, and EMMS system support
- Legal Services
 - Contracting processes and records management
- Corporate Administration
 - Internal audit, NERC compliance, and contract coordination and procurement processes

Top Priority Proposed Capital Projects

- TCC Phase 2 (Completion)
- EDW BI Foundation P2
- MOMs – Enhancement to Potomac Software
- MOMs – Enhancement to AREVA Study Tools
- EDW BI Reporting Tool
- EDW EMMS Reports
- TX SET 2.1
- PRR515 – Disclosure of Local Congestion
- RT Market Ramp Rate (Feasibility Study)
- SCR738 – Enhancements to FasTrak Tools
- ADAM Integration

Capital Program

- Assumed \$35 million total capital program funded 60 percent with borrowed money
- Capital program also constrained by availability of subject matter experts
- Project funding consistent with ERCOT's Financial Policy
- Projects identified and prioritized
- Preliminary estimate of resource requirements and project cost completed
- Next steps
 - Reconciliation of project resource requirement and preliminary departmental operating budgets
 - Confirm debt utilization ratio
 - If necessary, adjust operating budgets

Capital Program “Cut Line”

- Approximately 35 to 55 highest priority projects identified for implementation in 2005
- Completion of projects began in 2004
- Minor capital purchases – personal computers, office equipment, tools, and furniture and fixtures

Expanding the Capital Program “Cut Line”

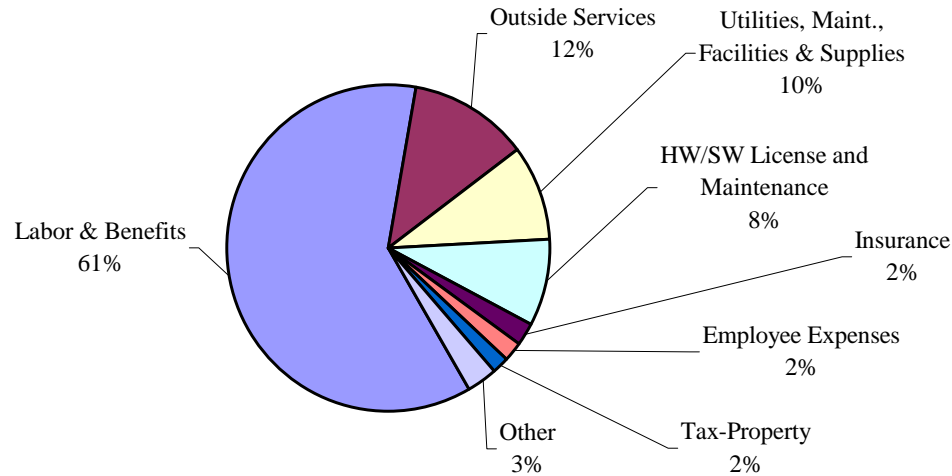
- Increase capital funding
 - System Administration fee impact
 - Debt impact
- Operational cost savings
 - Not necessarily a one-for-one impact on funds available for added capital investment
- Hire additional subject matter experts
 - Outside services or ERCOT staff
 - System Administration fee impact



Review 2005 Budget

Operating Cost Summary

ERCOT - O&M Component of Revenue Requirement

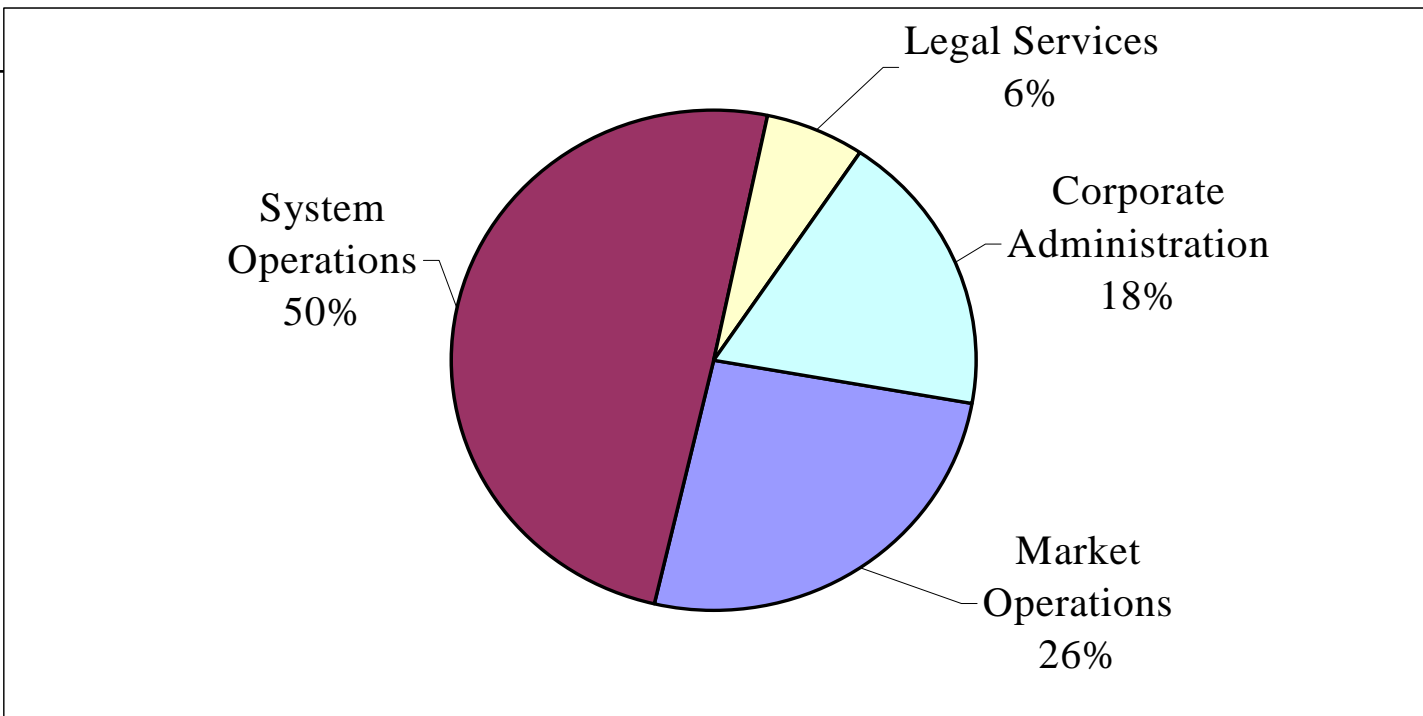


	2003- Actual	2004- Budget	2004- Projected	2005-Prelim	
Labor & Benefits	34.2	44.0	41.0	51.9	61%
Outside Services	11.9	17.4	15.3	9.9	12%
Utilities, Maint., Facilities & Supplies	7.9	9.2	8.1	8.2	10%
HW/SW License and Maintenance	5.4	8.2	6.7	7.2	8%
Insurance	1.2	1.8	1.5	1.9	2%
Employee Expenses	1.3	2.8	1.9	1.6	2%
Tax-Property	1.0	1.2	1.2	1.5	2%
Other	4.0	3.0	2.8	2.5	3%
Total operating expense component of revenue requirement	67.0	87.6	78.6	84.7	100%

Significant Variance Explanation

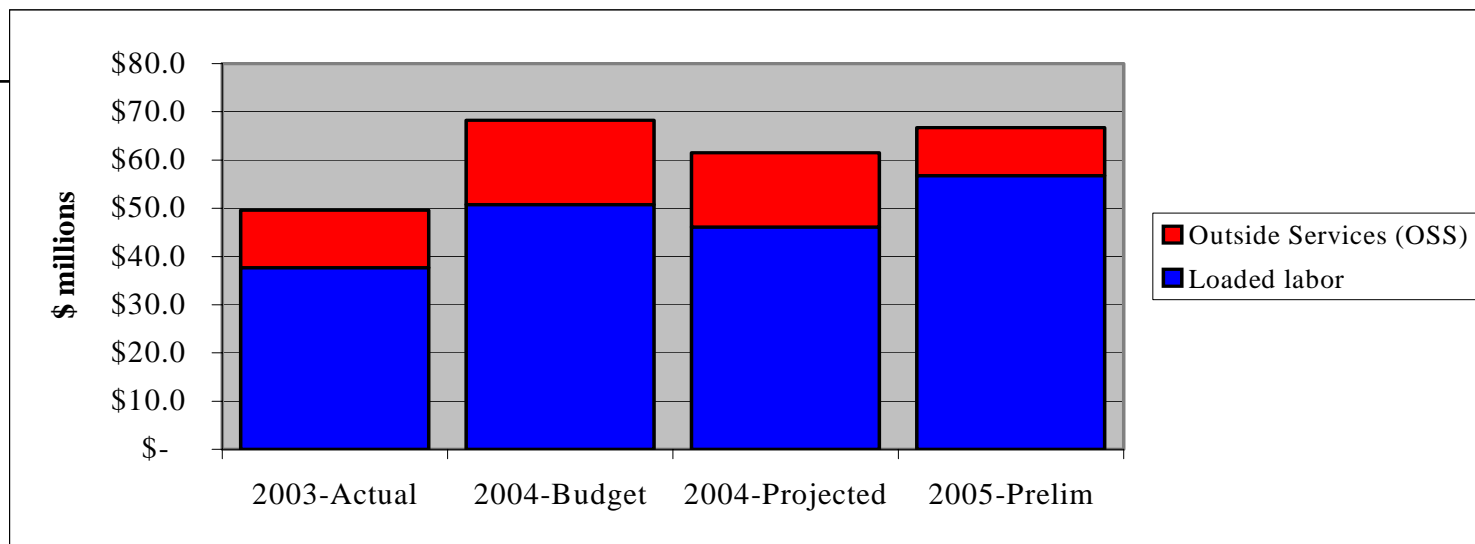
- To support operational needs 57 additional employees
- Use of outside services decreased \$5.1 million (37 percent) below 2004 projection
- Hardware and software support increased \$0.5 million (7 percent) over 2004 projection
- Facility and supply costs equal to 2004 projected and down approximately \$11 per square foot (22 percent)
- Property taxes increased \$0.3 million (25 percent) over 2004 projection due to fixed asset investment
- Insurance costs increased \$0.4 million (28 percent) over 2004 projection
- Interest expenses increased \$0.3 million (3 percent) over 2004 projection due to added debt
- Employee expenses reduced an average of nearly 23 percent per employee (\$820 per employee)

ERCOT - O&M by Division



	Director	FY 2005 Submitted
Market Operations	R. Giuliani	22.0
System Operations	S. Jones	42.1
Legal Services	M. Pemberton	5.2
Corporate Administration	M. Buckles	15.4
Total		<u>84.7</u>

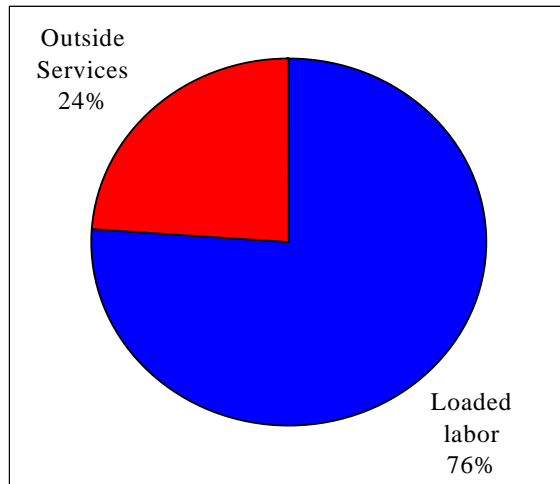
ERCOT - Labor and Outside Services Comparison



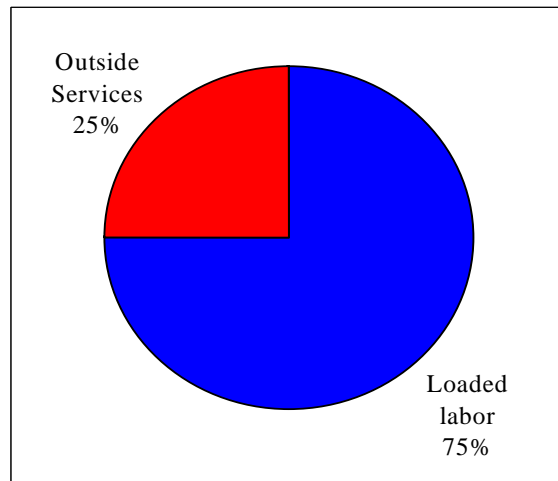
	2003-Actual	2004-Budget	2004-Projected	2005-Prelim
Loaded labor	37.7	50.8	46.1	56.8
Outside Services (OSS)	11.9	17.4	15.3	9.9
Loaded labor plus OSS	49.6	68.2	61.5	66.7
ERCOT staff members	380	530	525	582
OSS / Loaded labor cost	31.6%	34.3%	33.3%	17.5%
Percent change - Loaded labor	na	34.8%	-9.2%	23.1%
Percent change - OSS	na	46.1%	-11.9%	-35.3%
Percent change-Lbr & OSS	na	37.5%	-9.9%	8.5%

Increasing Reliance on ERCOT Staff

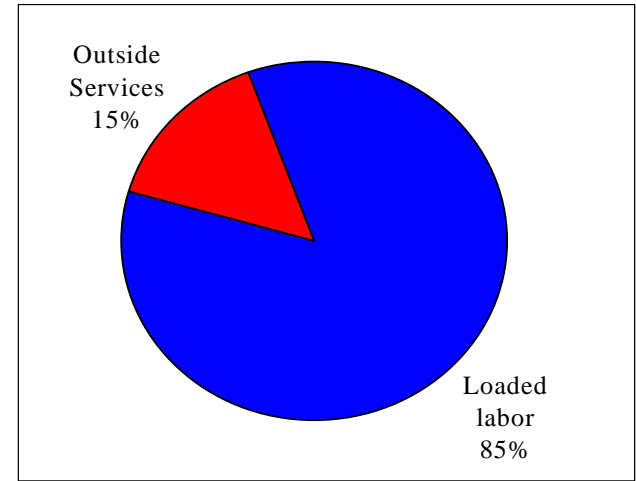
2003 - Labor and Outside Services Comparison



2004 - Labor and Outside Services Comparison



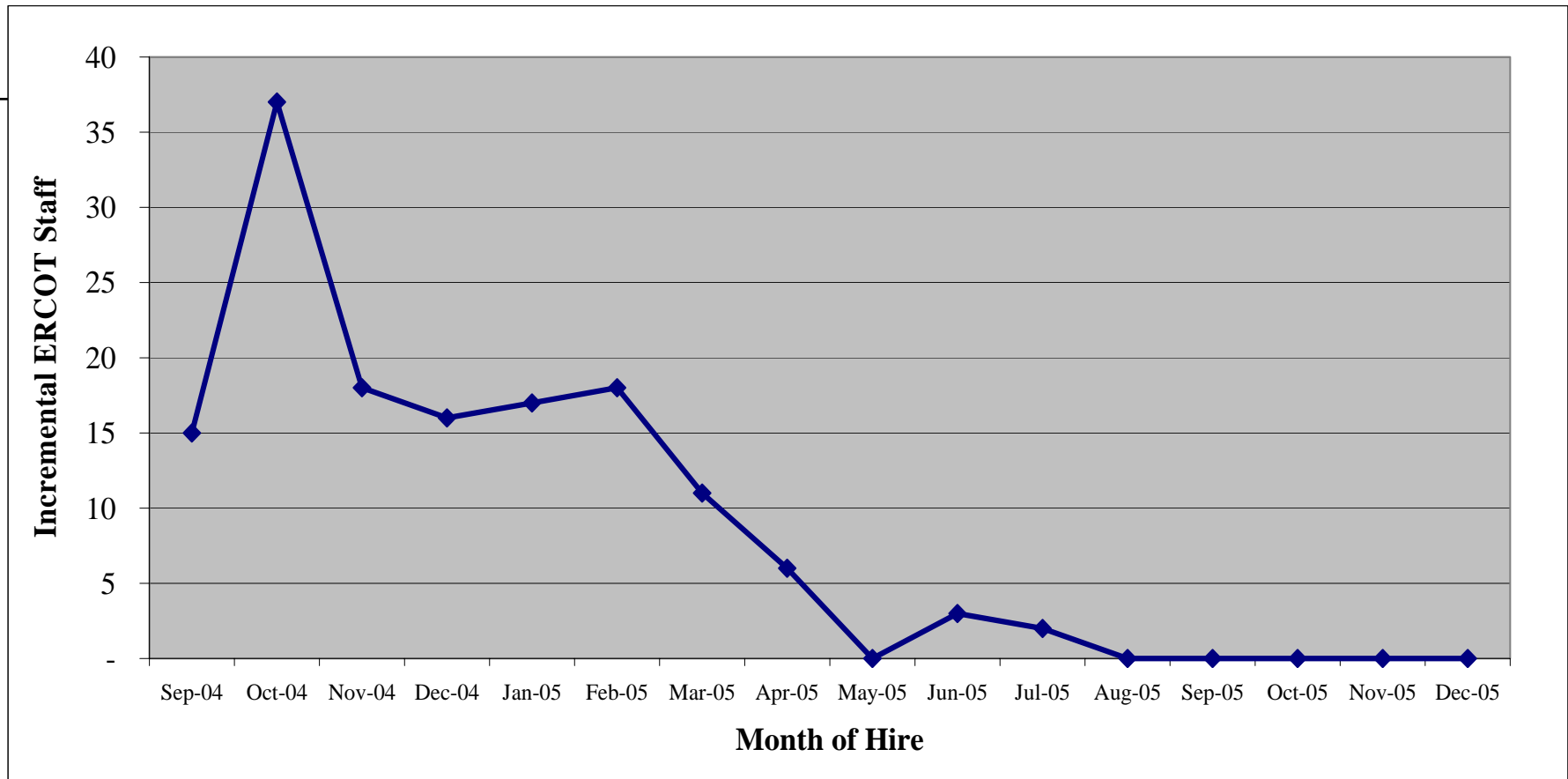
2005 - Labor and Outside Services Comparison



ERCOT - Staffing Detail

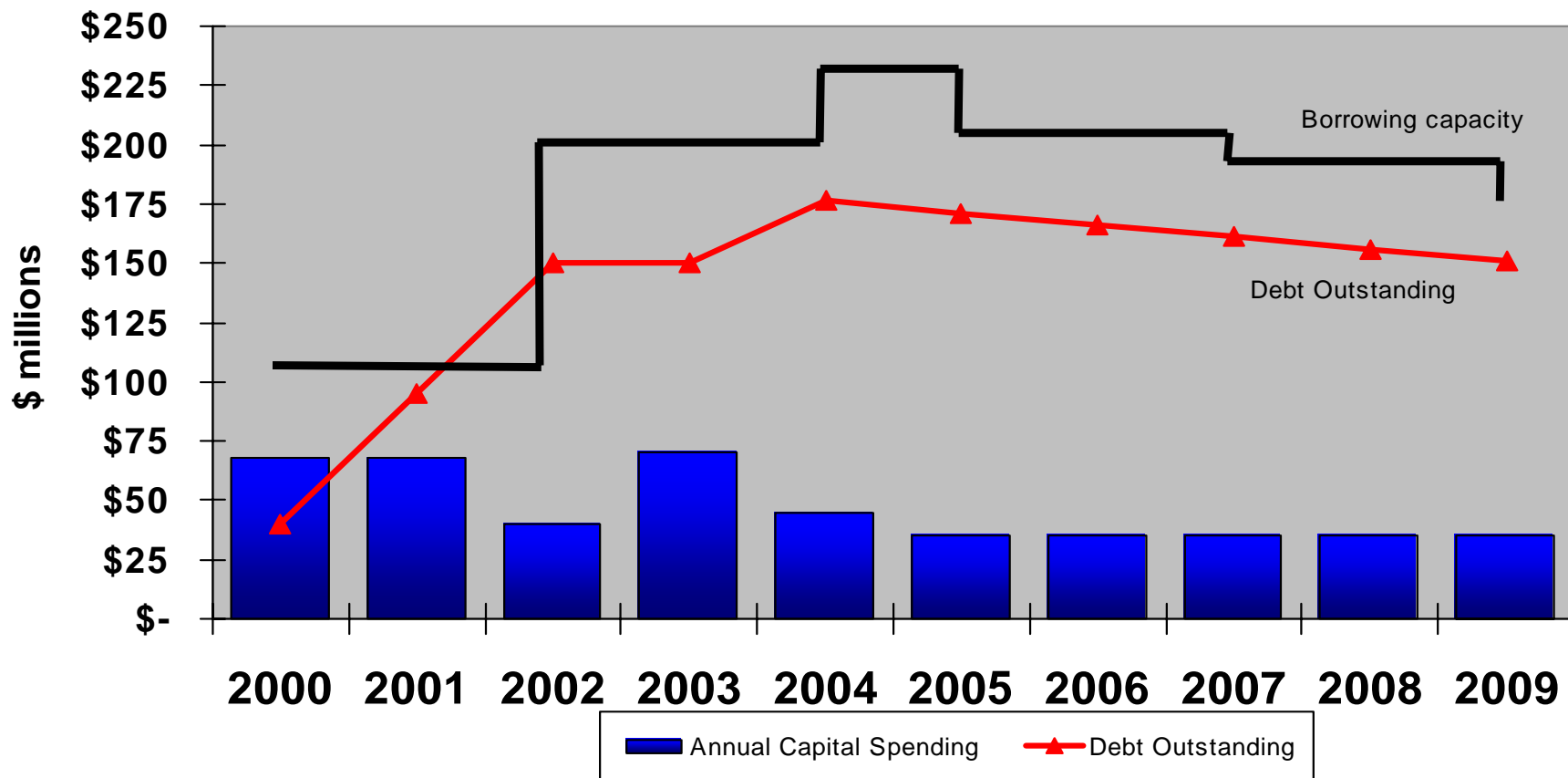
		2004			2004 Projected vs. 2005 Proposed	
	Officer	2003 Actual	Projected	2005 Proposed	Variance #	Variance %
Market Operations	R. Giuliani	167	212	230	18	8.5%
System Operations	S. Jones	159	237	264	27	11.4%
Legal & Corporate Communications	M. Pemberton	12	15	19	4	26.7%
Corporate Administration	M. Buckles	42	61	69	8	13.1%
Total		380	525	582	57	10.9%

ERCOT - Estimated Hire Date



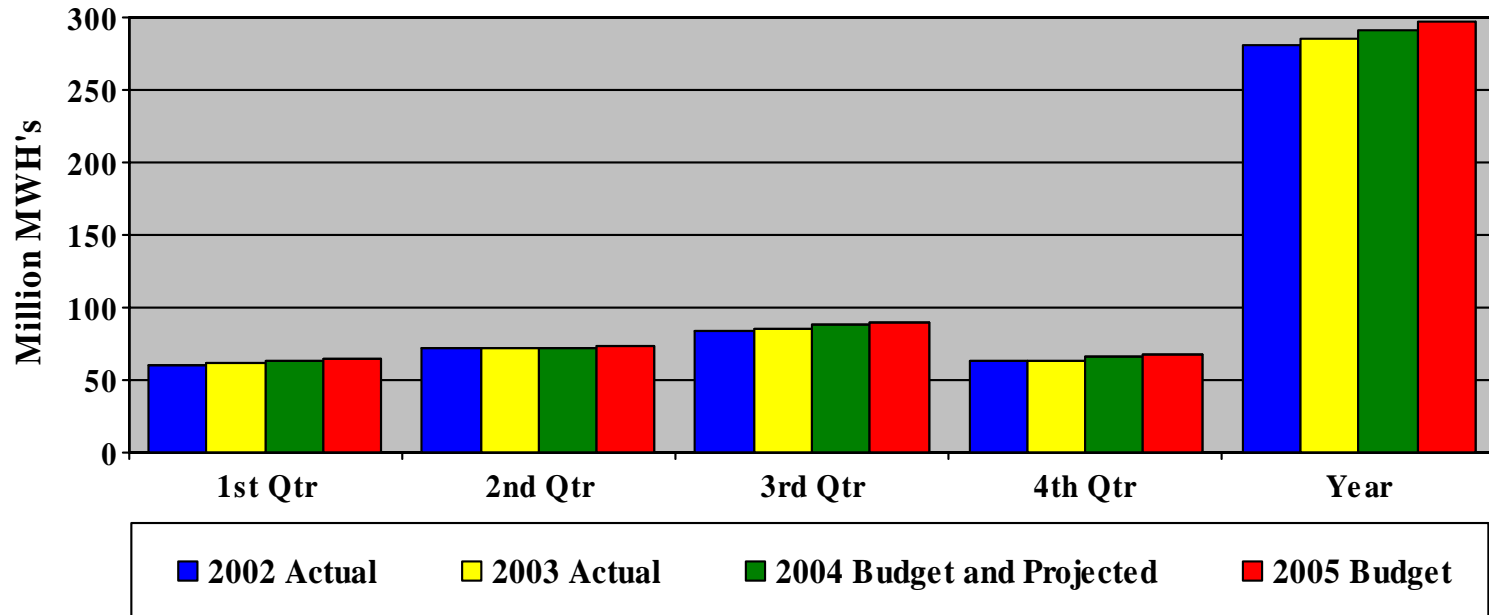
	Month																Total
	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	
Market Operations	5	16	8	4	3	9	3	1	-	2	-	-	-	-	-	-	51
System Operations	9	16	8	12	8	9	5	4	-	1	-	-	-	-	-	-	72
Legal & Corporate Communications	-	-	-	-	1	-	-	1	-	-	2	-	-	-	-	-	4
Corporate Administration	1	5	2	-	5	-	3	-	-	-	-	-	-	-	-	-	16
Total	15	37	18	16	17	18	11	6	-	3	2	-	-	-	-	-	143

Capital Investment Funding



2002-2005 MWH Trends

2.5% increase in 2005 over 2004 Actual and Projected



Prepared by ERCOT Planning Department Using:

- Trend analysis
- 10-year growth rates for annual energy
- Result compared to summation of individual TDSP forecasts with minor discrepancy