



MEMO

Date: November 9, 2004
To: Board of Directors
From: Clifton Karnei, Chair, Finance & Audit Committee
Subject: 2005 ERCOT Budget Approval

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: November 16, 2004

Agenda Item No.: 7a

Issue:

Section 3.10 of the ERCOT Bylaws requires that the Board of Directors approve the ERCOT Budget. Pursuant to this requirement, ERCOT staff requests that the Board adopt the Proposed 2005 ERCOT Budget. The proposed Budget includes capital requirements, operating and maintenance expenses (excluding depreciation and amortization) and debt service requirements totaling \$154.2 million.

Background/History:

ERCOT is required to develop and propose an annual Budget. The ERCOT Board of Directors has the responsibility for adopting an annual Budget for ERCOT.

ERCOT staff prepared a 2005 Budget proposal and presented the proposal to the Finance and Audit Committee (F&A Committee) on October 8, 2004. The proposed Budget was also presented and discussed in a public meeting on October 12, 2004. The F&A Committee has met or held conference calls prior to these meetings for review and discussion of the proposed Budget.

The F&A Committee will meet on November 16, 2004 prior to the Board meeting to finalize the Committee recommendation to the full Board. Key issues to be resolved are:

1. The appropriate level of capital expenditures for 2005.
2. The impact of ERCOT's level of debt funding of capital projects (Financial Policy) on a 2005 Debt/Equity level.
3. The method for calculating any surplus funding and appropriate disposition of any surplus.
4. The establishment of a long-term debt strategy prior to the maturity of the revolving credit facility in May 2006.
5. The 2005 ERCOT System Administration Fee resulting from resolution of the above issues.



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Key Factors Influencing Issue:

ERCOT must provide adequate funds needed in 2005 to:

- Complete, enhance and maintain the systems and services contracted for with the vendors
- Complete and maintain ERCOT facilities needed to provide secure operations and house Staff
- Adequately respond to system improvements and functionality needed to support the market
- Staff to the level needed to proactively participate in and support full market operation and single control area functions
- Meet debt service requirements

The 2005 proposed budget does not include funding for two significant items:

- Implementation of the Texas Nodal market redesign
- Assumption by ERCOT staff of market oversight monitoring responsibility currently performed by PUCT staff.

Alternatives:

The F&A Committee evaluated various alternatives relating to debt funding of capital projects. Three of the alternatives are as follows:

Funding of Capital Projects (debt/equity)	Resulting \$ per megawatt hour fee	Comments
40 / 60	\$0.47	None
50 / 50	\$0.46	None
60 / 40	\$0.44	Recommendation

Conclusion/Recommendation:

ERCOT staff recommends that the Board of Directors:

1. Adopt ERCOT management’s Proposed 2005 Budget which includes the following assumptions:
 - A. \$154.2 million total spending authorization for operating and maintenance costs, capital project expenditures, and debt service obligations in 2005.
 - B. \$21.0 million of incremental debt to cover 60 percent debt funding of \$35 million in planned capital project costs.
 - C. \$133.2 million revenue requirement for 2005 - \$154.2 million total authorized



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spending less \$21 million incremental debt financing for capital investment.

2. Approve an ERCOT System Administration Fee of \$0.44 per MWH and other fees as detailed in "Exhibit A" as the means for ERCOT to recover revenue requirements included in the 2005 Budget.

Authorize ERCOT staff to proceed with an appropriate filing at the Public Utility Commission of Texas to implement such fees.



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Exhibit A

Proposed 2005 ERCOT Fee Schedule

Description	Proposed Fee
ERCOT System Administration Fee	Maintain \$0.44 per MWH (F&A Committee to make recommendation)
Private Wide Area Network Fees	Initial installation not to exceed \$18,000 Monthly service charges at cost Monthly network management not to exceed \$865
Non-ERCOT Load Serving Entity Fee	\$1.15 per ESI ID per year
ERCOT Security Screening Study (Not Refundable)	\$1,000 (10MW to 74MW) \$2,000 (75MW to 149 MW) \$3,000 (150MW to 249MW) \$4,000 (250MW to 499MW) \$5,000 (500MW and above)
Full Interconnection Study	Actual costs \$15 per MW (Not Refundable) \$15,000 deposit (10MW to 149MW) \$30,000 deposit (150MW and above) Deposit amounts in excess of actual study costs will be returned
Map Sales Fees	Actual costs (\$20 - \$40 by size)
Qualified Scheduling Entity Application Fee	\$500 per entity
Competitive Retailer Application Fee	\$500 per entity
Mismatched Schedule Processing Fee	\$1 per mismatched event
Voluminous Copy Fee	\$0.15 per page in excess of 50 pages
Late Fees	Wall Street Journal prime interest rate plus two (2) percent