



MEMO

Date: December 7, 2004
To: Board of Directors
From: Clifton Karnei, Chair Finance & Audit Committee
Subject: Approval of 2005 Budget and Fee Case Settlement

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: December 14, 2004

Agenda Item No.: 9b

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 approve the 2005 ERCOT Budget, which includes a reduction of the ERCOT Administration Fee to \$0.42 per megawatt hour (a reduction from the current \$0.44 Fee). The proposed Budget includes capital requirements, operating and maintenance expenses (excluding depreciation and amortization) and debt service requirements to support the activities of ERCOT in 2005.

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 that will enable the company to fulfill its obligations and responsibilities to the reliable operations of the ERCOT market.

In developing the company's 2005 Budget ERCOT staff followed a process including extensive opportunities for interested parties to provide input. ERCOT solicited information from a broad spectrum of market participants and regulatory staff by conducting three public meetings, three meetings with PUCT staff, and presenting budget material at several meetings of the Finance and Audit Committee meetings, which were open to the public. The 2005 Budget was also discussed at length during the November 16, 2004, meeting of the Board of Directors.

ERCOT, PUCT Staff, and other parties have negotiated a proposed settlement of the ERCOT Administration Fee level for 2005 of \$0.42 per megawatt hour, which will affect ERCOT Staff's recommendation on the 2005 Budget. The settlement is subject to the approval of the Board. At the time of the Board meeting notice was issued, the parties were finalizing execution of the settlement agreement. Commission Staff has filed a petition to effectuate the terms of the settlement.



MEMO

Key terms of the settlement are as follows:

- Reduce of the ERCOT Administration Fee to \$0.42 / MW hour
- Present to the Board of a revised budget to achieve the fee reduction
- Maintain currently recommended debt service and debt reduction levels
- Limit capital projects not to exceed \$35 million
- File a full fee case no later than October 1, 2005, using a revised and more detailed fee filing package (planned to be finalized by March 31, 2005)
- Report monthly to the PUCT at Open Meetings regarding audit response activities and certain financial and accounting developments
- Respond fully to Chairman Hudson's memorandum of November 16, 2004, by February 1, 2004
- seek changes to fee or debt restrictions, if necessary under certain circumstances, prior to making the full fee filing with the new fee filing package

The F&A Committee will meet on December 14, 2004, prior to the Board meeting to finalize the Committee's recommendation regarding the 2005 Budget to the full Board. ERCOT management will review all budget priorities, projects, and services to determine the highest value to the ERCOT mission, and some activities may need to be deferred to meet the constraints of a reduced Fee level. Additional savings must also be identified to respond to audit findings and to improve management and security processes. ERCOT management is confident that the ERCOT organization can meet this challenge.

Key Factors Influencing Issue:

ERCOT must provide adequate funds needed in 2005 to:

- Respond to findings and recommendations of the recently completed information technology and management audits
- Assess and prepare for potential market redesign implementation
- Possibly assume greater responsibility for market monitoring functions
- 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 ERCOT electric market
- Staff to the level needed to proactively participate in and support full market operation and single control area functions



MEMO

- Meet debt service requirements in 2005 which are nearly \$13 million greater than similar obligation in 2004

Conclusion/Recommendation:

ERCOT Staff recommends that the Board of Directors:

1. Approve ERCOT management's proposed 2005 Budget which includes spending authorization for operating and maintenance costs, capital project expenditures to support planned activities and contingencies for 2005, subject to additional cost savings that will be identified and reported to the Board.
2. Approve an ERCOT System Administration Fee and other fees as detailed in Exhibit A as the means for ERCOT to recover revenue requirements included in the 2005 Budget. The recommended Administration Fee level is a reduction to \$0.42 per megawatt hour. All other fees are unchanged from 2004 levels.
3. Authorize ERCOT staff to proceed with appropriate Public Utility Commission of Texas proceedings to implement such fees, as necessary.



MEMO

Exhibit A

Proposed 2005 ERCOT Fee Schedule

Description	Proposed Fee
ERCOT System Administration Fee	\$0.42 per MWH
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