Budget Adjustments Report

Board of Directors Meeting
January 18, 2005

Adjustment of Fee from $ .44 to $ .42

- $ .02 reduction is approx. $6,000,000

- Audit adds are approx. $2,000,000 (includes new financial staff, Director of Security plus staff, Chief Risk Officer and VP of Human Resources plus their new staffs)

- Total reduction needs to be $8,000,000

What will we reduce?

- **Operating Expenses:** $ 4,566,000

- **Projects (equity portion):** 3,080,000

- **Still To Be Identified** 354,000

- **Total:** $ 8,000,000

What will we reduce in operations?

- **Merit Increase delay to 04-01-05** $ 546,000
- **Headcount:**
    - **- System Operations   9 FTEs**   657,000
    - **- Market Operations 5 FTEs**   360,000
- **MP Education Department 3 FTEs**   425,000
- **Outside Services:**
    - **- Default QSE Fee**   220,000
    - **- Combined Cycle Modeling**   360,000
    - **- Project Management**   210,000
    - **- Project Mgmt Flex Staffing**   190,000
    - **- IT Flex Staffing**   901,000
    - **- Sys Ops Flex Staffing**   197,000
- **HW/SW Lic & Maint Exp**   500,000

- **Total:** $ 4,566,000

What is the reduction in project expenditures?

- **Projects (equity portion):**   **$ 3,080,000**

- **Equity portion included in fee:**   **40%**

- **Reduction in project expenditures:**   **$ 7,720,000**

- **Original 2005 Projects Budget:**   **$35,000,000**

- **Reduction in project expenditures:**   **$ 7,720,000**

- **Proposed 2005 Projects Budget:**   **$27,280,000**

Where will reductions come from?

- **Projects sourced by PRS were unaffected – NONE were deferred**

- **Projects deferred to 2006:**
  - **ADAM Integration** $ 1,500,000
  - **Operator Training Simulator**   1,042,000
  - **System Improvement Requests**   924,000
  - **Lodestar Upgrade 4.0**   556,000
  - **DC Tie Automation** (#50018, #50020)   853,000
  - **Enhancements to 727** (#50024)   611,000
  - **Lodestar Archive Decommission**   180,000

- **Reduced contingencies** (35/10 to 25/10)   974,000

- **Accelerated facilities spend in 2004**   1,620,000

- **Facilities & New IT storage (net)** *   (40,000)

- **New project resulting from audit**   (500,000)

- **Total reductions:** $ 7,720,000

* **Includes $2,500,000 addition for new IT storage**

How can Market Participants work with us to make this happen?

- Support revised project budget for 2005

- Focus on detailed cost/benefit justification for new PRRs & SCRs

- Review their digital certificates – we pay for them

- Eliminate off-site meetings that incur charges for meeting rooms

- Work with our Market Rules group to streamline ERCOT staff support and attendance at Participant meetings

- Continue to give us open and honest feedback – this dialogue was pretty good in 2004 - let's keep it going…