



**DRAFT**

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**ERCOT 2006 Budget**  
**Board Meeting**  
**August 16, 2005**

March 22	Meeting with Executive Committee
March 22 – April 28	Budget Development
April 29	Budget templates due to Finance
May 2 – 12	Initial Finance and Management Review of Budget
May 13	Preliminary Budget to Executives/Directors
May 13 – 25	Budget Revisions
May 26 – June 1	Finance - Budget Package Development
June 2 – 14	Executive Committee Review of Budget
June 15 – June 24	Final Budget Revisions
June 27 – July 8	Executive Committee Final Review
July 18	Budget Presentation to Finance & Audit Committee
August 3	Public Meeting on Proposed Budget
August 8	Finance & Audit Committee Meeting
August 15	Finance & Audit Committee Budget Meeting
<b>August 16</b>	<b>Finance &amp; Audit Committee Budget Meeting</b>
September 20	Board Approval of 2006 Budget
September 23	Preliminary PUCT Filing Review
September 30	PUCT Filing



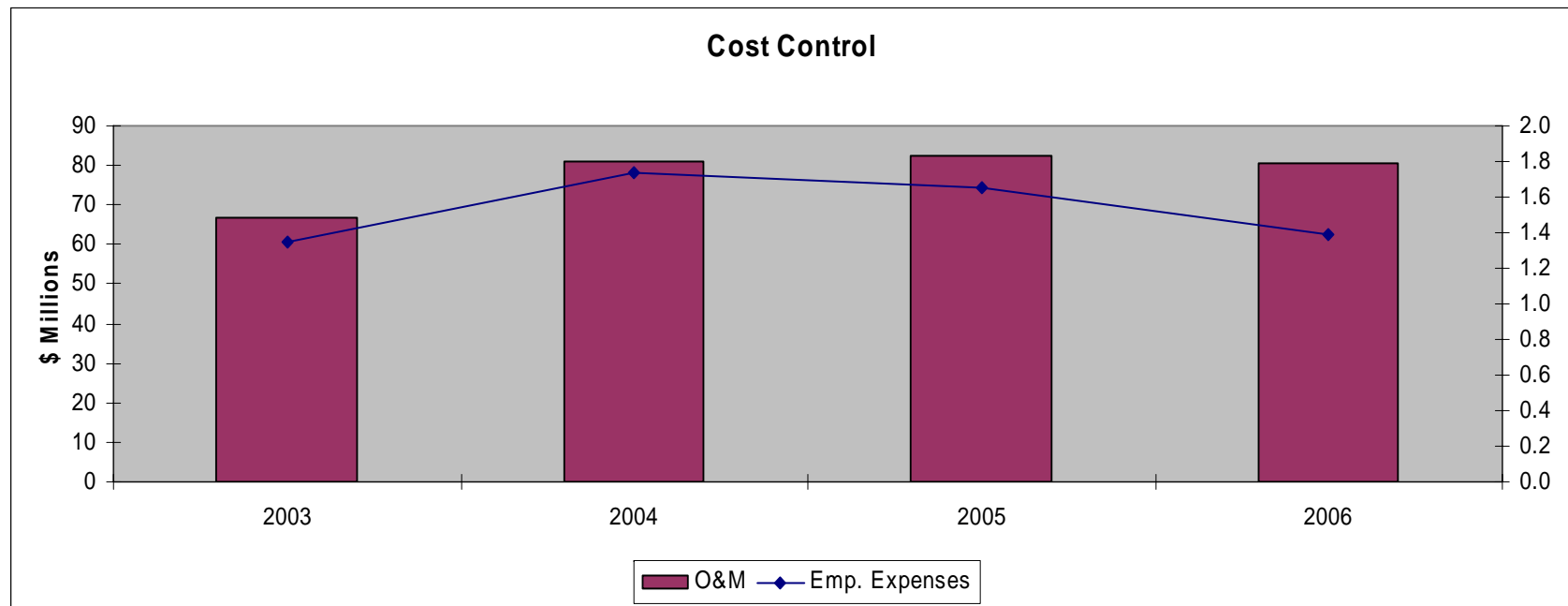
# ERCOT 2006 Budget Proposal

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Executive Overview

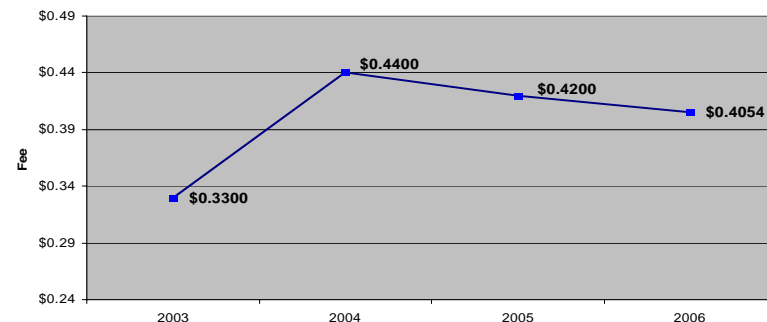
- ❑ Balancing fee objectives...
  - Lowest possible
  - Stability over time
  
- ❑ With...
  - Required business standards
    - Grid Reliability
    - Retail and Wholesale Processing
    - Business controls
    - Corporate governance
  - Capital project backlog
    - \$25 million spending limit
    - Value enhancing projects below the cut line
    - Funding alternatives and maintenance of credit quality

- ❑ Rigorous review process
  - Series of reviews including public and F&A committee feedback
  - More stringent cost containment
    - Outside services
    - Hiring trajectory
    - Employee costs
  - Better alignment of projected spending with historical patterns
  - Budget contingencies eliminated
- ❑ Resulting in reduced spending in several categories
- ❑ Budget process improvement opportunities identified

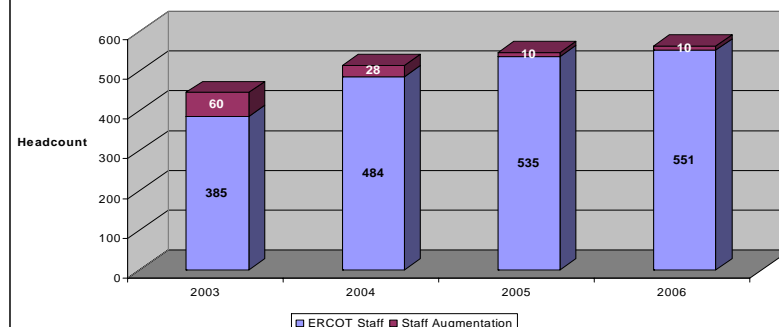


- ❑ Spending request of \$139.4 million
- ❑ Represents a decrease of \$6.5 million or 4.5% relative to the approved 2005 budget
- ❑ Proposed Fee of \$.4054/MWh vs. \$.42/MWh for 2005 – a reduction of 3.5%
- ❑ Includes carry-forward savings identified in 2005
- ❑ Includes additional resources to address business controls
- ❑ Excludes wholesale market redesign and independent market monitor costs

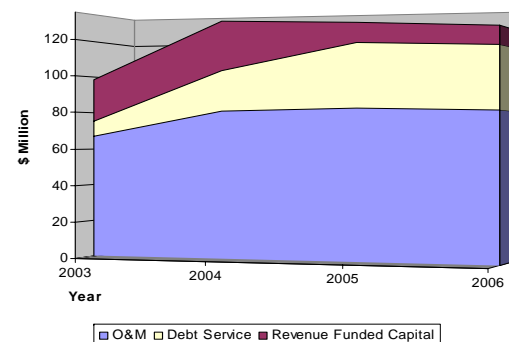
**Proposed System Administration Fee**






**Staffing Summary**



**ERCOT Cost Components**



- ❑ Consumption variance due to weather and/or economy  2.5% MWh equates to ~ 1 cent
  
- ❑ Capital projects and use of internal labor  With 60% leverage, \$7.5 million of incremental capital equates to ~ 1 cent
  
- ❑ Unanticipated events  1 cent increase equates to ~\$3 million toward unanticipated events
  - Additional audits
  - Special studies
  - Etc.

- ❑ Monitoring and reporting practices to warn of potential budget variances
- ❑ For authorized/known variances management has three options to cover the variance:
  1. Seek off-setting spending cuts
  2. Absorb variance (whether favorable or unfavorable) via debt
  3. Seek a mid-year fee adjustment (extreme circumstances as a last resort)



- ❑ The budget proposal has been subjected to a rigorous review process
- ❑ There are risks to achieving the proposed budget
  - Staffing and other assumptions
  - The budget is aggressive but achievable
- ❑ Strong commitment to transparent fiscal disclosure
  - Continue to improve the reporting quality of actual results
  - Improve ability to communicate decision consequences
- ❑ Now the details and questions



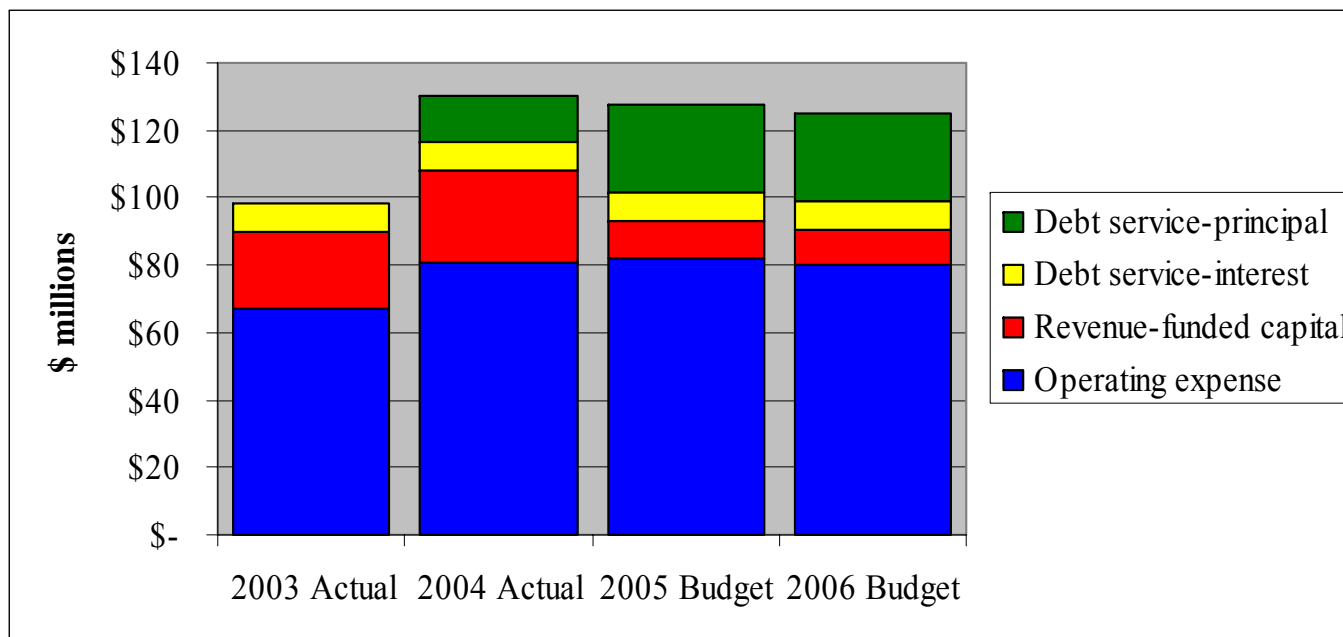
# ERCOT 2006 Budget Proposal

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Budget Overview

# Revenue Requirement Comparison

Aug 2005

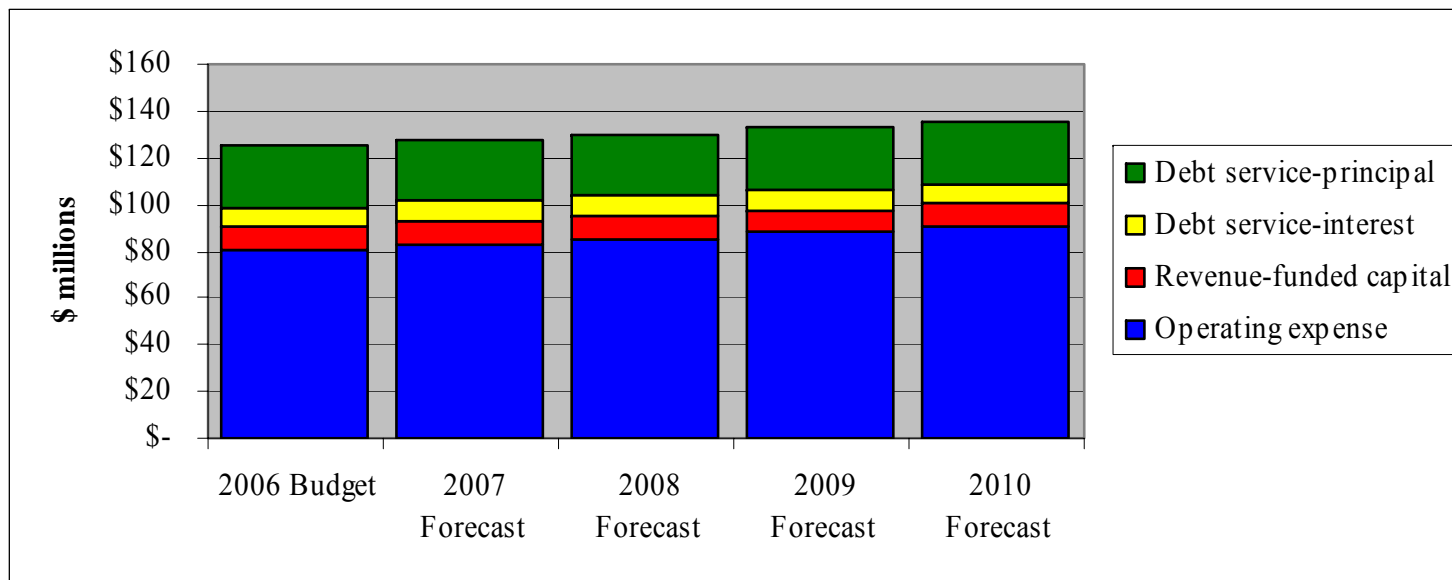


**(\$Millions)**

	2003 Actual	2004 Actual	2005 Budget	2006 Budget
Operating expense	66.9585	81.0197	82.2622	80.3862
Revenue-funded capital	23.0000	26.9250	10.8800	10.0000
Debt service-interest	8.5330	8.4260	8.5320	8.4206
Debt service-principal	0.0000	13.6370	26.0530	26.1370
<b>Total revenue</b>	<b>98.4915</b>	<b>130.0077</b>	<b>127.7272</b>	<b>124.9438</b>
GWh	284.9929	288.7430	295.6320	301.9170
System Administration Fee	\$0.33	\$0.44	\$0.42	\$0.4054 (a)
Debt Outstanding	150.0	178.4	163.1	157.4

Note:

(a) Other revenue (\$2.562 million estimated) will supplement System Administration Fee to meet total funding requirement



	2006 Budget	2007 Forecast	2008 Forecast	2009 Forecast	2010 Forecast
Operating expense	80.4	82.8	85.3	87.9	90.2
Revenue-funded capital	10.0	10.0	10.0	10.0	10.0
Debt service-interest	8.4	8.6	8.6	8.6	8.6
Debt service-principal	26.1	26.1	26.1	26.1	26.1
Market Monitoring	0.0	0.0	0.0	0.0	0.0
Wholesale Market Redesign	0.0	0.0	0.0	0.0	0.0
<b>Total revenue requirement</b>	<b>124.9</b>	<b>127.5</b>	<b>130.0</b>	<b>132.6</b>	<b>134.9</b>
GWh	301.9	307.8	314.5	321.4	328.2
System Administration Fee (a)	\$ 0.4054	\$ 0.4059	\$ 0.4052	\$ 0.4047	\$ 0.4035
Debt Outstanding	157.4	146.3	135.1	124.0	112.9

Note:

(a) Other revenue (\$2.6 million estimated) will supplement System Administration Fee to meet total funding requirement

- Forecast does not anticipate significant changes to the current Texas electric market.
- Forecast assumes annual capital investment of \$25 million is sufficient for new projects and periodic system maintenance, upgrade, and replacement
- Forecast does not incorporate resources necessary for implementation of the Wholesale Market Redesign
- 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 and remains outside of FERC jurisdiction.

- Forecast assumes slight adjustments to Operations & Maintenance
  - Labor & Benefits – 4% increase annually
  - Contra Labor for Capital Projects – maintain current ratio to Labor & Benefits (approx. 11.4%)
  - Tools, Equipment & Supplies – 3% inflation annually
  - Hardware & Software – 2% increase annually for three years
  - Outside Services – 2% reduction annually for three years
  - Utilities, Maintenance, & Facilities – 3% inflation annually
  - Employee Expenses – 3% inflation annually
  - Insurance – 3% inflation annually
  - Property Taxes – 5% inflation annually
  - Other – 5% reduction annually for three years
  - MWh growth – based on Econometric Model
  - Other Revenue - remains stable

- Lower System Administration Fee to \$.4054 per MWh
- Approve 2006 budget proposed by ERCOT management
  - 139.95 Million total spending authorization
    - 80.39 Operating
    - 34.56 Debt Service
    - 25 Capital
  - 124.94 Million total revenue
    - 122.38 System Administration Fee
    - 2.56 Other revenue
  - \$.4054 per MWh System Administration Fee

## Revenue Requirements

- Operating Expenses
- Debt Service Obligations
- Revenue-funded Portion of Capital Investment
- Approximately 98% of ERCOT revenue requirements recovered through the ERCOT System Administration Fee
- System Administration Fee proposed at 4 decimal points
- MWh's projected at 2.2% over 2005 projected level
- No changes to the other miscellaneous fees collected by ERCOT
  - Wide-area network fees
  - Generation interconnection study fees
  - Non-ERCOT load serving entity fees
  - Membership fees
  - Other



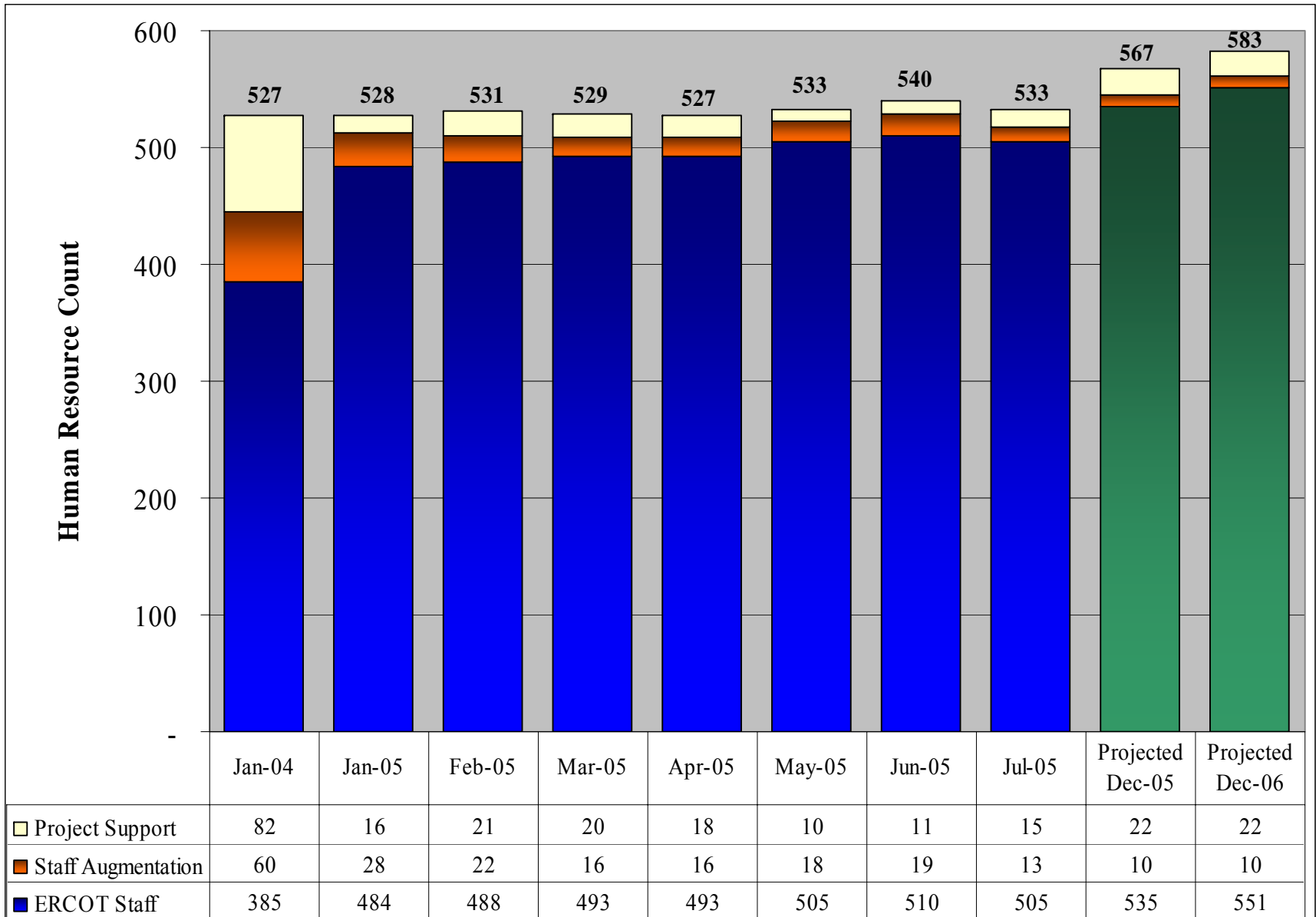
## Operating Expenses

### ➤ Labor

- Staff to perform long-term, base operating activity
- Justification documentation required for all existing and proposed positions
- Positions increasing by 15
  - 10 Contractor replacements
  - 10 Audit recommended and/or Internal Control Management Plan
  - 5 Eliminated
- Labor for Capital Projects
- Benefits loaded estimated at 32%
- Vacancy rate estimated at 6 % (approx. 35 positions)
- Salary Adjustment pool estimated at an average of 4%
- Incentive Compensation Plan to Manager level

# Staff vs. Contractor Summary

Aug 2005



# Staffing Summary

Aug 2005

Division	2005 Approved Positions	Adjustments	2006 Approved Positions
Corporate	96	14	110
Information Technology	182	5	187
Systems Operations	153	-1	152
Market Operations	140	-3	137
Total	571	15	586
Vacancy Adjustment	-34		-35
Funded Positions	537		551

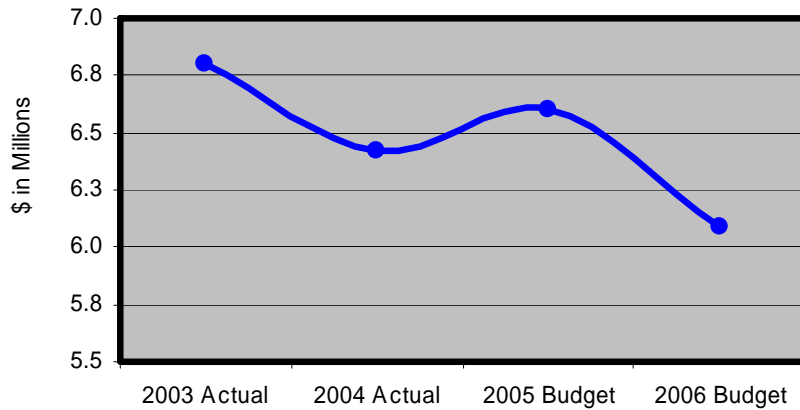
## Eliminated Positions

System Planning	Donohoo	Lead Engineer Graphics Analyst
Settlements & Billing	Ragsdale	Billing Analyst
ESI ID Data Intergity Mgmt	K. Farley	Retail Transaction Analyst 1
ESI ID Data Intergity Mgmt	K. Farley	Retail Transaction Analyst 1
Renewables & TCR	McCoy	CRC Analyst

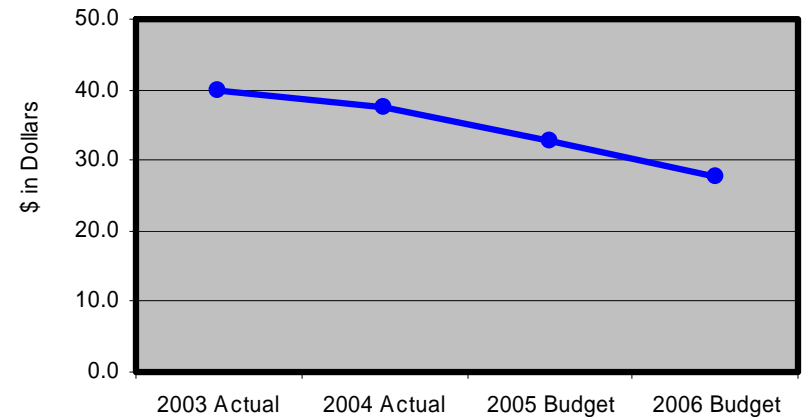
## New Positions

Department	Manager	Position Title	Projected Hire Date	Consultant Offset	Comments
Executive	Bowman	Risk Management Manager	4th Q, 2005		See Supplemental Attachment
Finance	Petterson	Payroll Specialist	4th Q, 2005		See Supplemental Attachment
Finance	Petterson	Financial Analyst	9/30/2005	√	See Supplemental Attachment
Finance	Yager	Credit Analyst	3rd Q, 2005		See Supplemental Attachment
Finance	Bowman	ICMP Administrator	3rd Q, 2005	√	See Supplemental Attachment
Finance	Bowman	Financial Analyst	1st Q, 2006		See Supplemental Attachment
Finance	Petterson	Accountant	1st Q, 2006		See Supplemental Attachment
Finance	Petterson	Fixed Asset Accountant	1st Q, 2006		See Supplemental Attachment
General Counsel	Shellman	Legal Assistant	3rd Q, 2005		See Supplemental Attachment
Market Rules	Moseley	Market Rules Analyst	3rd Q, 2005	√	See Supplemental Attachment
Internal Audit	Ettorre	CRSA Analyst	4th Q, 2005		See Supplemental Attachment
Internal Audit	Ettorre	Internal Auditor	3rd Q, 2006		See Supplemental Attachment
System Engineering & Admin	Baxter	Patch & Virus Coordinator	3rd Q, 2005		See Supplemental Attachment
Program Development	Connell	Project Manager	3rd Q, 2005	√	See Supplemental Attachment
Program Development	Connell	Assoc. Project Manager	3rd Q, 2005	√	See Supplemental Attachment
Program Admin. & Analysis	Anderson	Program Analyst	10/1/2005	√	See Supplemental Attachment
Data Warehouse/Data Archive	Chase	Database Developer	3rd Q, 2005	√	See Supplemental Attachment
Data Warehouse/Data Archive	Chase	Database Developer	3rd Q, 2005	√	See Supplemental Attachment
Data Warehouse/Data Archive	Chase	Database Architect	3rd Q, 2005	√	See Supplemental Attachment
Data Warehouse/Data Archive	Chase	Database Developer	3rd Q, 2005	√	See Supplemental Attachment

## Facilities Cost

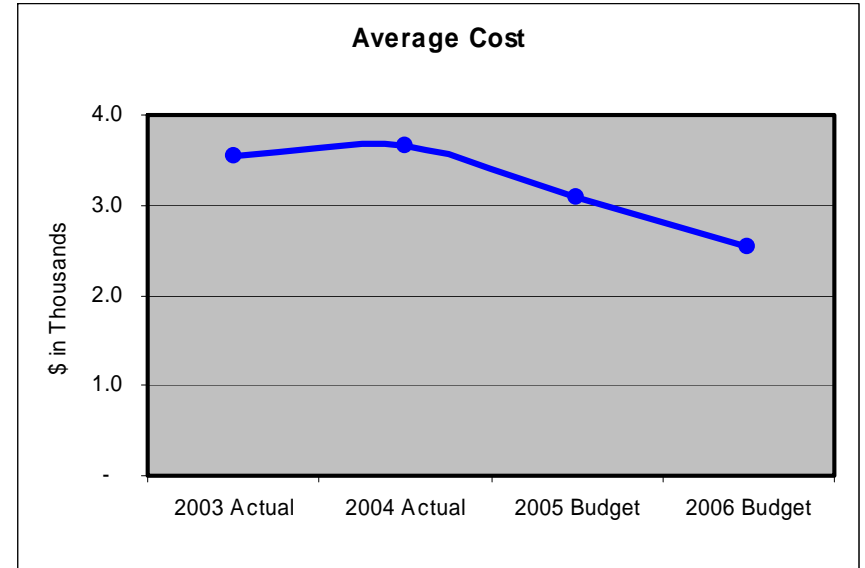
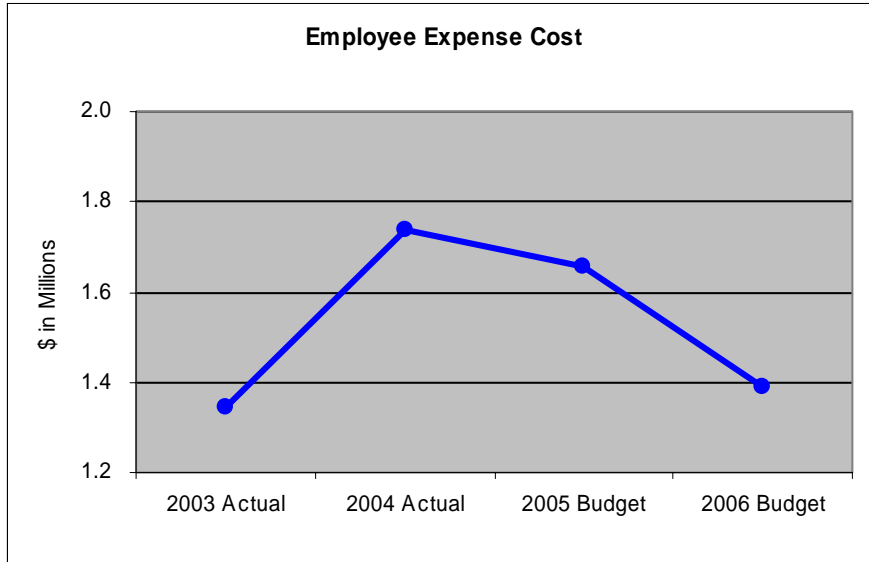


## Cost per sq. ft.



Total Building Maintenance, Rent & Utilities  
Cost/sq.ft.

2003 Actual	2004 Actual	2005 Budget	2006 Budget
6,800,531	6,420,971	6,598,144	6,090,491
39.77	37.55	32.83	27.56

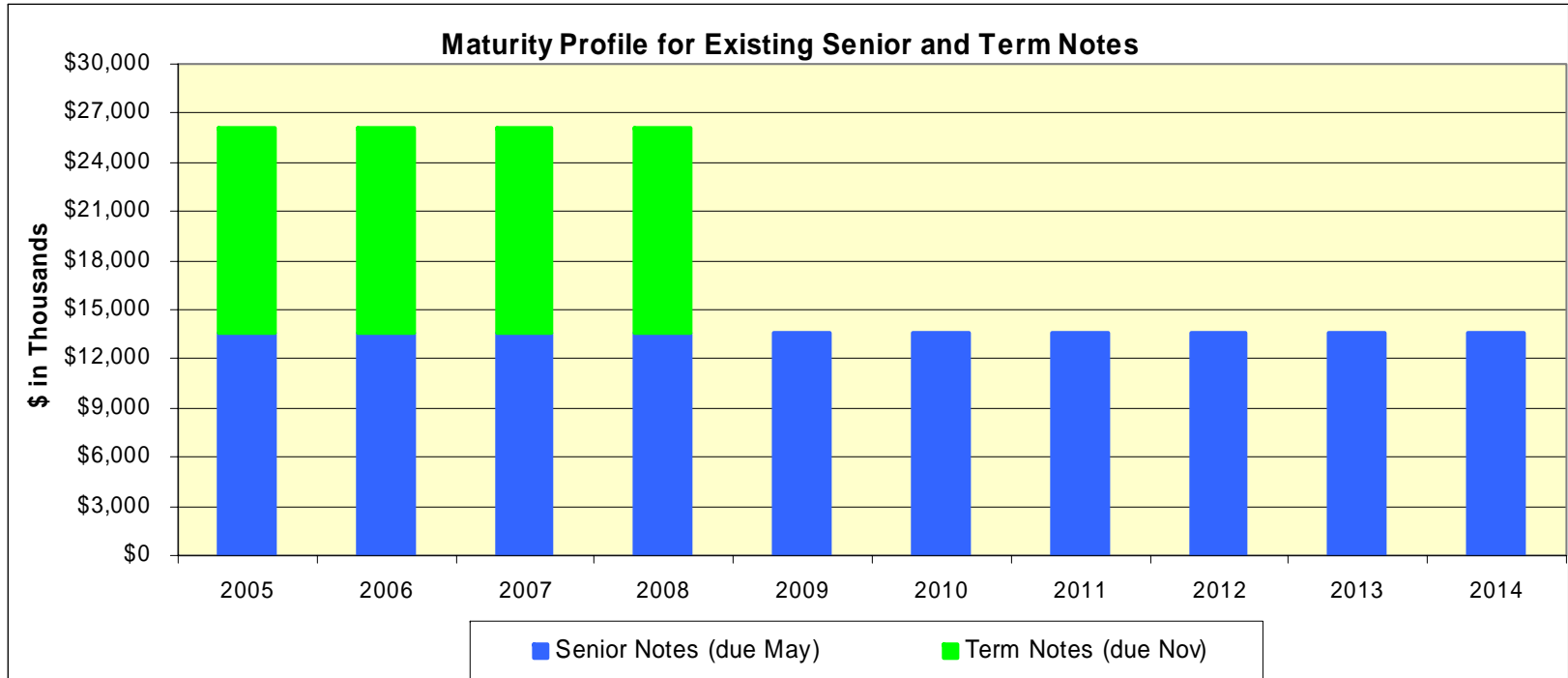


	2003 Actual	2004 Actual	2005 Budget	2006 Budget
Employee Expense Total	1,345,473	1,737,486	1,657,458	1,391,750
Average Cost	3,540.72 (a)	3,650.18 (a)	3,086.51 (b)	2,525.86 (b)

Note:

(a) Average based on Actual Staffing

(b) Average based on Funded Positions



# Revenue Requirement Reconciliation

Aug 2005

2005 Revenue Requirement	\$	127,727
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## Less Efficiency Savings and Additional Revenue

<i>Special audits and reviews</i>	2,435	
<i>Labor to capital</i>	2,357	
<i>Other consulting services</i>	979	
<i>Revenue-funded capital</i>	880	
<i>Relocation benefit</i>	700	
<i>Facilities costs</i>	508	
<i>Property tax liability</i>	450	
<i>Interest income</i>	422	
<i>Materials, tools, equipment and supplies</i>	420	
<i>Employee expenses</i>	266	
<i>Sponsored meetings</i>	250	
<i>Interest Expense</i>	111	
<i>Outside legal fees</i>	76	
<i>Other</i>	-	9,854

## Plus Cost of New Initiatives and Increased Expenditures

<i>Full year of staff hired in 2005</i>	1,700	
<i>Salary adjustment in 2006 for 2005</i>	1,600	
<i>New staffing</i>	1,520	
<i>Hardware and software support</i>	514	
<i>Combined cycle stability model</i>	390	
<i>Other independent audits</i>	253	
<i>Board compensation</i>	250	
<i>Audit of internal controls</i>	150	
<i>Training to market on ERCOT processes</i>	150	
<i>IT methodology</i>	100	
<i>NERC Dues</i>	78	
<i>Net of other items</i>	277	6,982

2006 Revenue Requirement	\$	124,855
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## Systems Capital Projects - Trend Analysis





# Types of Requests in 2006

Aug 2005

## 2006 Project Priority List - Total Project Cost by Priority and Impact Area

Priority	Compliance	ERCOT Operations	Infrastructure	Market Impact	Market Monitoring	Security / Audit	Grand Total	Running Total
1.0	3,351,511	90,851	231,444	1,403,401	337,228	-	5,414,435	5,414,435
1.1a		2,577,700	4,975,000	10,181,454	2,591,780		20,325,934	25,740,369
1.1b		2,342,041	5,958,433	350,345	1,150,659	1,089,465	10,890,942	36,631,312
1.2	764,478	3,906,970	1,227,411	4,784,666		1,020,025	11,703,549	48,334,861
1.3		2,809,902	899,451	659,535		371,223	4,740,111	53,074,972
2.1	602,444	1,997,951	2,843,640	3,203,725			8,647,760	61,722,731
2.2		283,228		1,040,000		104,139	1,427,367	63,150,098
2.3		209,584		1,302,700		301,806	1,814,090	64,964,188
3.1		434,214	382,772				816,986	65,781,174
3.2							-	65,781,174
3.3		107,752		505,359			613,111	66,394,285
Grand Total	4,718,433	14,760,191	16,518,151	23,431,185	4,079,667	2,886,658	66,394,285	