



# MEMO

**Date:** September 13, 2005  
**To:** Board of Directors  
**From:** Clifton Karnei, Chair, Finance & Audit Committee  
**Subject:** 2006 ERCOT Budget and Fee Case

## Issue for the ERCOT Board of Directors

**ERCOT Board of Director Meeting Date:** September 20, 2005

**Agenda Item No.:** 9a

### **Issue:**

Approval of the proposed Budget includes capital requirements, operating and maintenance expenses (excluding depreciation and amortization) and debt service requirements totaling \$144.4 million to support the activities of ERCOT in 2006. This includes a base operations budget of \$140 million (of which \$15 million is from debt funding) presented to the Board at its August 16, 2005, meeting, and \$4.4 million for market monitoring activities, to be defined by the PUCT, and incremental debt reduction. The recommended budget will keep all ERCOT fees at current levels, as set forth in **Exhibit A**.

### **Background/History:**

Section 3.10 of the ERCOT Bylaws requires that the Board of Directors approve the ERCOT 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 for the reliable operation of the ERCOT market.

In developing the company's 2006 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 a public meeting, meeting with PUCT staff, and presenting budget material at several meetings of the Finance and Audit Committee ("F&A"), which were open to the public. The 2006 Budget was also discussed during the August 16, 2005 meeting of the Board of Directors. A copy of the budget review schedule is attached as **Exhibit B**.

The F&A Committee will meet on September 20, 2005 prior to the Board meeting to finalize the Committee's recommendation regarding the 2006 Budget to the full Board. Budget materials presented to the Committee for recommendation to the Board will be distributed to the Board on September 20, 2005.

### **Key Factors Influencing Issue:**



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ERCOT must have adequate funds in 2006 to:

- Comply with the 2004 Settlement Agreement and Commission order regarding the 2005 fee case
- Respond to findings and recommendations of recently completed audits
- Assess and prepare for potential market redesign implementation
- Implement an Independent Market Monitoring function
- Complete, enhance and maintain the systems and services contracted for with vendors
- 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

**Conclusion/Recommendation:**

ERCOT Staff recommends that the Board of Directors:

1. Adopt ERCOT management's proposed 2006 Budget which includes \$144.4 million total spending authorization for operating and maintenance costs, capital projects and debt service. This includes a base operations budget of \$140.0 million and a \$4.4 million increment for market monitoring and additional debt reduction.
2. Approve an ERCOT System Administration Fee of \$0.4200 and other fees as detailed in **Exhibit A** as the means for ERCOT to recover revenue requirements included in the 2006 Budget. Direct management to hold the cost of base operations to no more than \$0.4054 per MWh.
3. Authorize ERCOT staff to proceed with an appropriate filing at the Public Utility Commission of Texas to implement such fees, as necessary.

The Finance and Audit Committee is expected to have a formal recommendation to the Board at the September 20, 2005 meeting.



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## Exhibit A

### Proposed 2006 ERCOT Fee Schedule

Description	<i>Proposed Fee</i>
ERCOT System Administration Fee	\$0.4200 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)	<b>\$1,000 (10MW to 74MW)</b> \$2,000 (75MW to 149 MW) \$3,000 (150MW to 249MW) \$4,000 (250MW to 499MW) \$5,000 (500MW and above)
<b>Full Interconnection Study</b>	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

**Exhibit B**  
**2006 Budget Development Schedule**

March 22, 2005	Meeting with Executive Committee
March 22 – April 5	Individual meetings with Officers and Directors
April 6	Meeting with Directors and Managers to discuss 2006 Budget Development and budget templates
April 29	2006 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 and Audit Committee (Special meeting)
August 3	Public Meeting on Proposed Budget
August 8	Finance and Audit Committee meeting to review budget (Special meeting)
August 15	Finance and Audit Committee meeting to review budget (Special meeting)
August 16	Finance and Audit Committee Recommendation to Board at monthly meeting
<b>September 20</b>	<b>Board Approval of 2006 Budget</b>
September 23	Preliminary PUCT Filing Review
September 30	PUCT Filing

## Exhibit B

