Capital Projects Update

May 2006 Board of Directors Meeting

Steve Byone
David Troxtell

Agenda

- ➢ Portfolio Administration & Project Control
- ➢ Baseline 2006 Project List
- ➢ Current 2006 Project List
- ➢ 2006 Projections
- ➢ Next Steps

Portfolio Administration & Project Control Processes

ERCOT THE TEXAS CONNECTION

Initiation of Project Requests:

- PUCT Rulings
- System Change Requests (SCRs)
- Protocol Revision Requests (PRRs)
- ERCOT Project Requests (PRs)

Divisional Projects Organization (DPO)
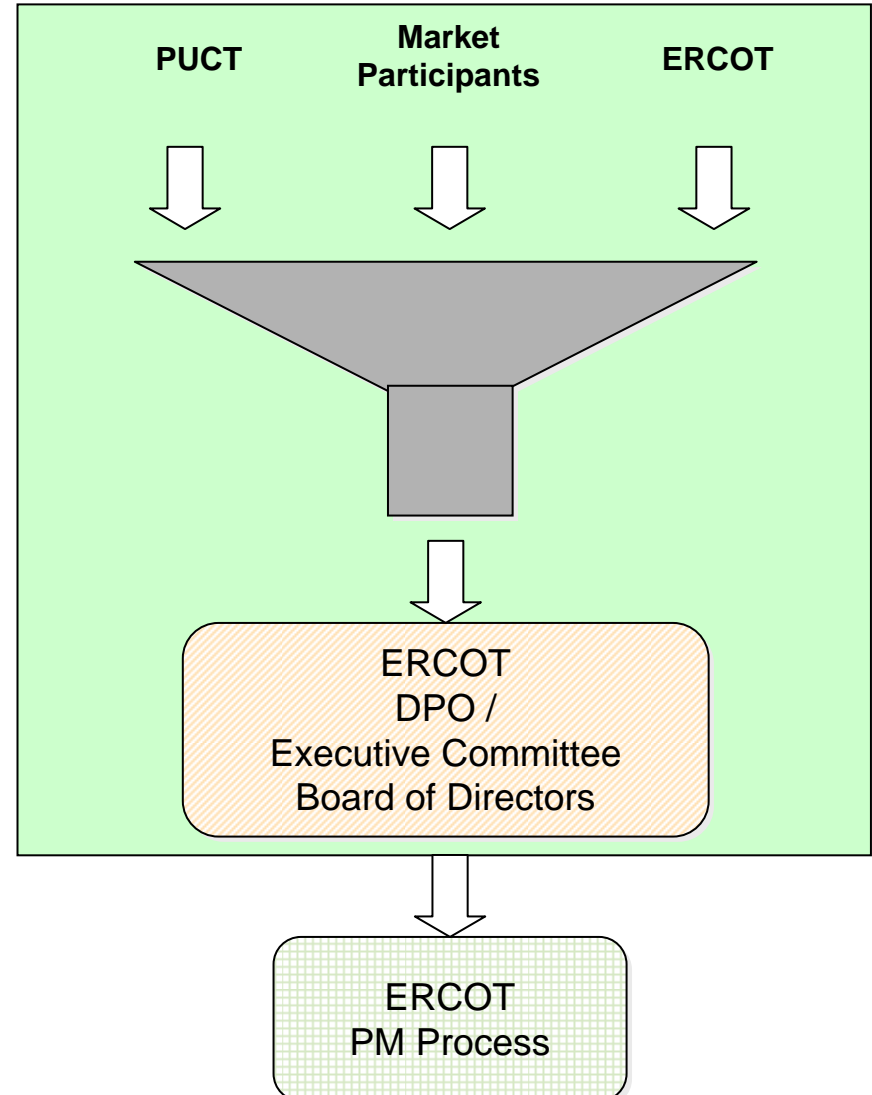
Overall Management of:

- Portfolio of Projects
- Program Area Structure
- Project, Priorities & Reporting and Monitoring

Project Management (PM) Process

Management of:

- Budgets and Approvals
- Project Delivery
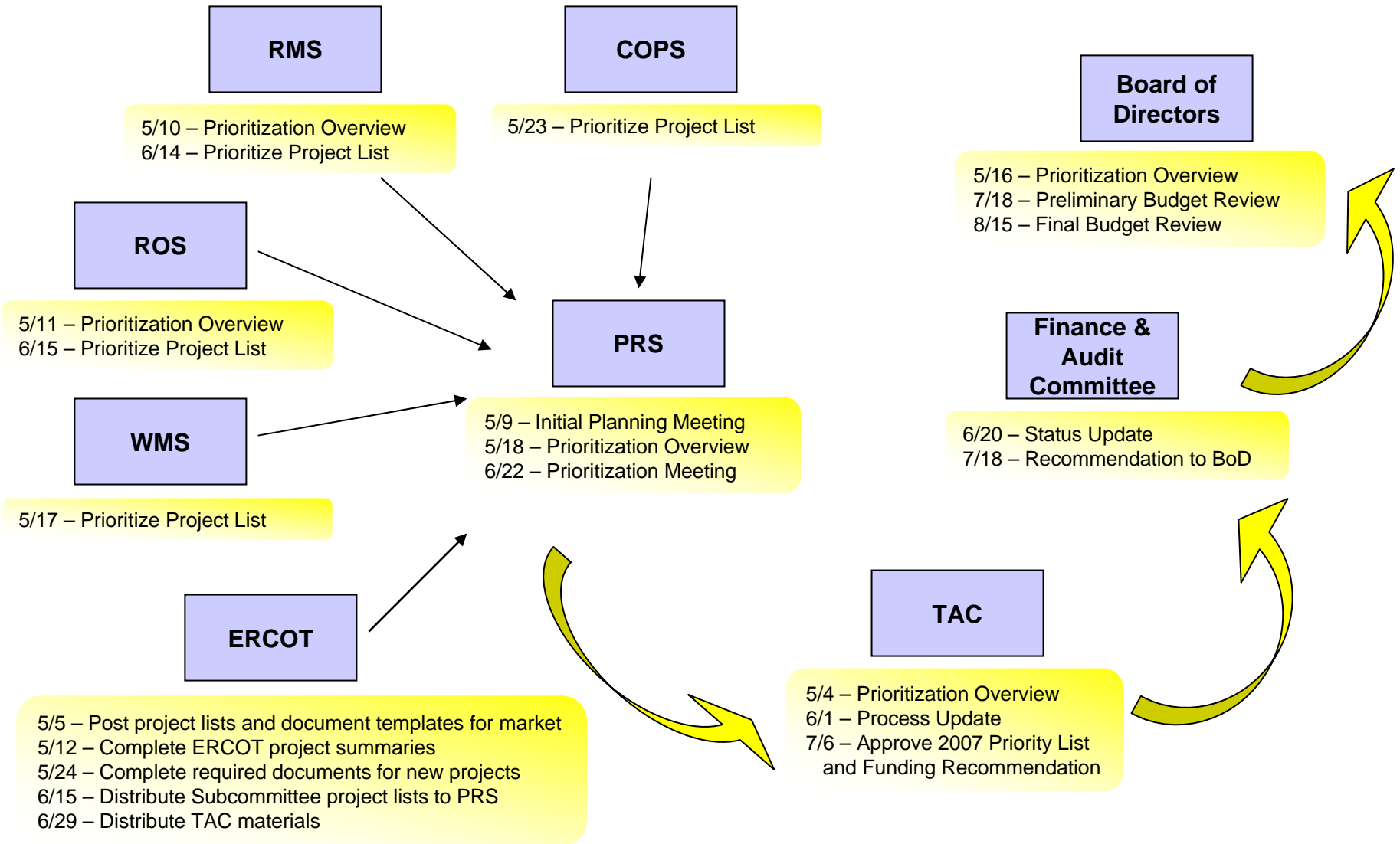- Resources, Costs, Timelines

Projects Pipeline

PUCT	Market Participants	ERCOT

ERCOT
DPO /
Executive Committee
Board of Directors

ERCOT
PM Process

- ➢ ## New for 2007
  - ➢ "Guiding Principles for Project Prioritization"   (see next slide)
  - ➢ ERCOT Project Summaries
  - ➢ Divisional Project Priority Lists (PPLs)
  - ➢ Joint ownership of annual Divisional PPLs between Market Subcommittees and Divisional Project Organizations (DPOs)
    - ➢ MO   COPS   Adam Martinez
    - ➢ RO   RMS   Adam Martinez
    - ➢ SO   WMS / ROS   Gerry Abad
    - ➢ IO   n/a   John Kassel
    - ➢ CO   n/a   David Troxtell
  - ➢ Market Subcommittees and DPOs will recommend the placement of the cutline in the Divisional PPL
    - ➢ Increased focus on resource capability
  - ➢ F&A/Board to approve final overall funding request
  - ➢ 2007 Prioritization folder on ERCOT.com (in progress)
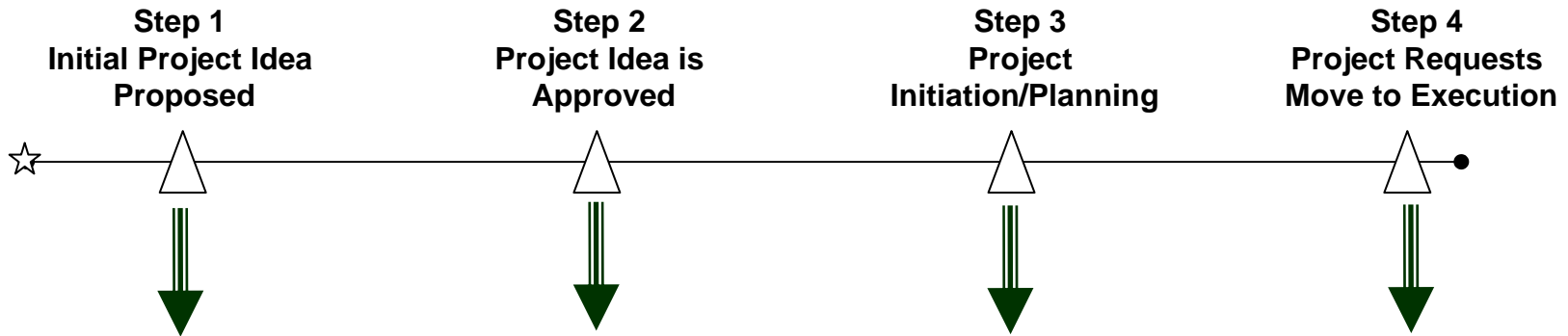   - ➢ www.ERCOT.com / "Quick Links" / "View Project Status"

Priority	Description
In Flight	Carryover from 2006
1	Projects required by Statute, PUCT Order, NERC compliance or <u>critical</u> reliability of: • Grid Operations • IT Infrastructure • Commercial Settlement
2	<u>High value</u> for a majority of market segments or ERCOT
3	<u>High value</u> to one or two segments, or <u>Medium value</u> for a majority of market segments or ERCOT
4	<u>Medium value</u> for only one segment
9	Non-prioritized / unfunded projects

2007 Prioritization Process Schedule

RMS

5/10 – Prioritization Overview
6/14 – Prioritize Project List

COPS

5/23 – Prioritize Project List

Board of Directors

5/16 – Prioritization Overview
7/18 – Preliminary Budget Review
8/15 – Final Budget Review

ROS

5/11 – Prioritization Overview
6/15 – Prioritize Project List

PRS

5/9 – Initial Planning Meeting
5/18 – Prioritization Overview
6/22 – Prioritization Meeting

Finance & Audit Committee

6/20 – Status Update
7/18 – Recommendation to BoD

WMS

5/17 – Prioritize Project List

ERCOT

5/5 – Post project lists and document templates for market
5/12 – Complete ERCOT project summaries
5/24 – Complete required documents for new projects
6/15 – Distribute Subcommittee project lists to PRS
6/29 – Distribute TAC materials

TAC

5/4 – Prioritization Overview
6/1 – Process Update
7/6 – Approve 2007 Priority List
   and Funding Recommendation

Project Estimating & Budgeting Process

ERCOT THE TEXAS CONNECTION

Step 1
Initial Project Idea
Proposed

Step 2
Project Idea is
Approved

Step 3
Project
Initiation/Planning

Step 4
Project Requests
Move to Execution

- Impact Analysis provides "order of magnitude" budget based on reviews with Subject Matter Experts ("<$100k", "$100k-$500k", "$500k-$1M", "$1M-$3M")

- Time & Cost Estimate is prepared by CART team
- This estimate includes a 35% contingency due to high level nature of project requirements
- Project is slotted into to division portfolio based on logical fit and resource plans

- CART initiates project based on resource plans
- A sub-set of the project budget is approved for Planning
- During Planning Phase, estimate is refined based on detailed design work

- Request for final Execution budget is presented to Strategic Review Team
  (SRT = ERCOT directors)
- Contingency estimate reduced to 10%
- If total project budget exceeds $1M, approval to proceed by the Board of Directors is required
- All changes to scope, schedule or budget require an approved change control
- Change controls are approved by sponsor (SRT and Board of Directors, depending on required authorization levels)

Project Priority List

Board approved (Sept 2005) list of projects

Division	Approved Budget ($000)	Projects By Origin (Above the Cut Line Only)			
		Total	PUCT Based	Market Based	ERCOT Based
SO	$ 8,301K	10	4		6
MO	$ 797K	1		1	
RO	$ 8,859K	12		7	5
IO	$ 7,074K	7	3		4
CO	$ 0K	0			
Total	$ 25,031K	30	7	8	15

NOTE: Includes 2005 carry over projects

Y-T-D Changes to Project List (PPL)

PPL Changes — What has changed within Cut Line	Projects By Origin			
	Total	**PUCT Based**	**Market Based**	**ERCOT Based**
Original PPL as of Sept 2005	30	7	8	15
Completed / Closing	4		0	4
Execution	6	1	2	3
Planning	4	1	2	1
Initiated	4	3	1	
Not Started	4	2	2	
Completed in 2005	(3)		(1)	(2)
Moved Below Cut Line	(5)			(5)
New Projects	47	5	12	30
Completed / Closing	11	1		10
Execution	19	1	7	11
Planning	6	1		5
Initiated	4		2	2
Not Started	7	2	3	2
Current PPL as of April 30, 2006	69	12	19	38

April 30, 2006 PPL

Division	Approved Budget ($000)	Number of Projects (Above the Cut Line Only)			
		Total	PUCT Based	Market Based	ERCOT Based
SO	$6,752K	27	7	7	13
MO	$3,028K	12	1	8	3
RO	$7,206K	9		4	5
IO	$6,622K	14	4		10
CO	$905K	7			7
Total	$25,513K	69	12	19	38

Note: Includes 2005 carry over projects

- **Unforecasted 2006 Carryovers** **(17)**
- **Addition of New Market Projects** **(7)**
- **Data Center Changes/Enhancements** **(5)**
- **Creation of Subprojects** **(5)**
- **Audit Compliance Efforts** **(3)**

ERCOT 2006 Project Status

Project Phase (Includes All Active Projects Above and Below Cut Line)	Number of Projects	2006 Projected Spend (Apr YTD Actual plus May-Dec Forecast)	Confidence Level
Completed / Closing	17	$1,738,509	n/a
Execution	29	$10,021,708	Medium-High
Planning	16	$8,014,700	Medium
Initiated	19	$3,515,000	Low
Not Started (Only Above the Cut Line)	11	TBD	
TOTAL Started	**81**	**$23,289,917**	

Projects that have not been formally planned have a lower likelihood of achieving projections

Next Steps

❑ **Continue to refine project planning process**

- Implement resource planning process improvements
- Finalize Divisional PPL active project plans and supporting resource demands
- Capture accurate resource availability
- Verify projected staffing demands
- Verify staffing commitments by Resource Manager
- Clarify and resolve conflicts

❑ **Review projects impacted by Nodal**

❑ **Conduct 2007 project planning**

❑ **July BOD update**

Questions?

Appendix:
2006 Project Projections by Division

- ❏ System Operations (SO)
- ❏ Market Operations (MO)
- ❏ Retail Operations (RO)
- ❏ Infrastructure Operations (IO)
- ❏ Corporate Operations (CO)

SO 2006 Project Projections

Project Phase (Includes All Active Projects Above and Below Cut Line)	Number of Projects	2006 Projected Spend (Apr YTD Actual plus May-Dec Forecast)	Confidence Level
Completed / Closing	7	$314,500	n/a
Execution	8	$3,564,044	Medium-High
Planning	4	$2,168,000	Medium
Initiated	6	$1,173,000	Low
Not Started (Only Above the Cut Line)	3	TBD	
TOTAL Started	**25**	**$7,219,544**	

MO 2006 Project Projections

Project Phase (Includes All Active Projects Above and Below Cut Line)	Number of Projects	2006 Projected Spend (Apr YTD Actual plus May-Dec Forecast)	Confidence Level
Completed / Closing	1	$22,600	n/a
Execution	8	$1,597,300	Medium-High
Planning	1	$793,000	Medium
Initiated	2	$700,000	Low
Not Started (Only Above the Cut Line)	1	TBD	
TOTAL Started	**12**	**$ 3,197,000**	

RO 2006 Project Projections

Project Phase (Includes All Active Projects Above and Below Cut Line)	Number of Projects	2006 Projected Spend (Apr YTD Actual plus May-Dec Forecast)	Confidence Level
Completed / Closing	1	$10,900	n/a
Execution	2	$1,078,800	Medium-High
Planning	4	$3,530,400	Medium
Initiated	2	$299,000	Low
Not Started (Only Above the Cut Line)	3	TBD	
TOTAL Started	**9**	**$ 7,117,100**	

IO 2006 Project Projections

Project Phase (Includes All Active Projects Above and Below Cut Line)	Number of Projects	2006 Projected Spend (Apr YTD Actual plus May-Dec Forecast)	Confidence Level
Completed / Closing	7	$ 1,318,309	n/a
Execution	5	$2,921,164	Medium-High
Planning	0		Medium
Initiated	3	$1,248,000	Low
Not Started (Only Above the Cut Line)	3	TBD	
TOTAL Started	**15**	**$ 5,487,473**	

CO 2006 Project Projections

Project Phase (Includes All Active Projects Above and Below Cut Line)	Number of Projects	2006 Projected Spend (Apr YTD Actual plus May-Dec Forecast)	Confidence Level
Completed / Closing	1	$72,200	n/a
Execution	6	$860,400	Medium-High
Planning	7	$1,618,300	Medium
Initiated	0		Low
Not Started (Only Above the Cut Line)	1	TBD	
TOTAL Started	**14**	**$ 2,550,900**	