

- ❑ Key elements of expected final order from PUCT
 - Approve System Administration Fee of \$0.4171
 - Reduce revenue requirements by approximately \$0.9 million with strong suggestion that reduction be achieved in the following areas
 - Relocation costs
 - Interns
 - Leadership development training
 - Employee events
 - Use funds collected for market monitoring (\$3.0 million) and incremental debt reduction (\$1.4 million), to the extent not used for the intended purpose, for incremental project work
- ❑ Management commitment to the recommendations contained in the expected final order was filed with the PUCT
- ❑ Limitations and implications

- ❑ \$0.9 million PUCT ordered savings and fee reduction
- ❑ \$1.5 million of unbudgeted initiatives already identified including:
 - Staff augmentation relating to December 2005 hardware failure
 - Long term transmission planning study required by SB20 and due December 2006
 - System study on potential interconnection of Entergy
 - Additional studies and consulting services relating to ERCOT's on-going fee filing proceeding, including the compensation workshop
 - Incremental preparation for internal control assessment
- ❑ \$3.5 million labor vacancy savings
 - Approximately 7 percent of required staff labor in recognition of turnover and time to refill vacant positions

- ❑ \$527,000 efficiency savings achieved
 - Leadership development training
 - Early pay down of term notes
 - Default QSE payments
 - Employee events
- ❑ Additional savings targeted
 - Property tax assessment
 - Interns
 - Relocation costs
 - Employee business expenses

- ❑ Reforecast of expected 2006 revenue, operating expenses, and project expenditures is being developed and will be distributed in advance of the May 16, 2006 meeting of the Finance and Audit Committee.

□ General

- Lowest ERCOT System Administration Fee possible given ERCOT mission and responsibility
- Mission unchanged from 2006
- Performance goals and objectives unchanged from 2006
- Incorporate elements of reforecast of 2006 revenue requirements
- Consistent with conditions established in the final order issued by the PUCT in the 2006 fee filing case
- Allocate resources to address issues identified on the ERCOT risk map
- Remain a 501(c)(6) entity

- ❑ Wholesale Market Redesign
 - Costs fully recovered through the Texas Nodal Surcharge and are not presented in the 2007 budget proposal
- ❑ Market Monitoring
 - PUCT staff to provide details of and justification for market monitoring cost
 - Based on service level agreement for market monitoring support
- ❑ Regional Entity
 - ERCOT will maintain necessary compliance activities to satisfy the obligations of ERCOT, Inc.
 - Include ERO/RE assessments resulting from implementation of Energy Policy Act

- Compensation and Staffing
 - Maintain base operations staffing at 584 employees to provide support consistent with 2006
 - No significant, new compliance responsibility
 - No significant, new market monitoring support commitment
 - No significant, new federal regulation or requirements
 - No “SOX 404” internal control requirement
 - Incorporate conclusions stemming from June 2006 workshop on ERCOT compensation practices
 - Compensation strategy
 - Merit increases
 - Portfolio of employee benefits
 - Variable compensation
 - Relocation
 - Employee benefit load reflecting July 1, 2006 benefit changes

- Compensation and Staffing (continued)
 - Assumed “vacancy” savings
 - Contra-labor to capital project assumptions

□ Project Funding

- Identify and prioritize projects
- 2007 revenue requirement includes funding for only those projects that are expected to be through the planning phase by December 31, 2006
- Remaining projects are on a “candidate list” and will be considered for implementation after planning is complete
- 2007 revenue requirement includes debt facility charge necessary to arrange debt financing for projects on “candidate list” approved for implementation during the year
- Debt incurred to implement projects taken from the “candidate list” is assumed repaid in the following year(s) as detailed in future budgets

❑ Miscellaneous

- Insurance coverage consistent with 2006 levels
- Enhance credit loss protection through credit insurance
- Property tax expenses consistent with 2006 property assessment settlement and negotiated tax abatements
- No new building or leased space in 2007. New space needs are accommodated through the remodeling and reconfiguration of existing space or the finish out of unused space in existing facilities.
- No significant change in type and quantity of hardware and software used
- Enhance communication processes and tools
- Records management requirements
- Board and committee support unchanged from 2006