



MEMO

Date: June 13, 2006
To: ERCOT Board of Directors
From: Read Comstock, TAC Chair
Subject: Funding of PRRs or Projects

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: June 20, 2006

Agenda Item No.: 8c

Issue:

Consideration of the Technical Advisory Committee (TAC) resolution on ERCOT Board action item to review advantages and disadvantages of Market Participant funding of certain Protocol Revision Requests (PRRs) or projects.

Key Factors Influencing Issue:

The Protocol Revision Subcommittee (PRS) met, discussed the issues and submitted a list of disadvantages to the TAC regarding Market Participant funding of certain PRRs or projects. TAC considered the issues and voted to adopt the PRS recommendation as described below.

The concept of Market Participant funding of certain PRRs or projects:

- Provides a source of funding outside the ERCOT administrative fee, but administrative complexities and equity issues could outweigh potential benefits
- Adds a new level of complexity to contract negotiations
 - Entity that contributes financially to project could want some level of control over project
 - Potential funds management and confidentiality issues
- Presents a challenge of addressing resource impacts between fee based and Market Participant funded projects
 - Human resource allocation, tracking and accounting
 - Human resource costs
- Creates potential for parties to force option of Market Participant funding if a project does not directly benefit a particular entity
 - Results in only projects supported by investors will be funded



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- Generates questions on how to address project overruns or investor abandoned projects
- Allows opportunity for subsequent Protocol revisions to impact the value of a Market Participant funded project
 - Market Participants may more readily overlook the impacts of such Market Participant funded projects by another project if stakeholders have no financial stake in project.
- Produces potential for equity issues whereby large stakeholders have an advantage over smaller entities

Alternatives:

Not applicable.

Conclusion/Recommendation:

TAC considered the above list of disadvantages related to Market Participant funding of certain PRRs or projects and provides them to the Board in response to the action item assigned to TAC at the 2006 Board Retreat.