

Significant Assumptions

- **Efficiency of operations and cost consciousness**
- **Revenue**
 - ERCOT System Administration Fee at currently approved level - \$0.4171 per MWh
 - MWh growth 3.5% - producing approximately \$4.5 million additional revenue in 2007
- **Texas Nodal Market Implementation Program**
 - Direct program costs not included in ERCOT base operating budget
 - Funded through a temporary PUCT-approved surcharge
- **Staffing & Compensation**
 - Consistent with ERCOT's approved compensation strategy
 - Headcount for base operations to remain at current approved level of 589
 - 4% salary adjustment planned for merits and promotions
 - Variable Compensation Program eliminated

Assumptions (continued)

- **Zonal Projects**

- \$36.4 million portfolio
- 60% debt funding / 40% revenue funding

- **Regional Entity**

- Funding requirements included as identifiable increment in 2007 budget
- Recovery
 - through NERC (approximately 80% – 90%)
 - through System Administration Fee (approximately 10% – 20%)

- **Independent Market Monitoring**

- Funding requirements included as identifiable increment in 2007 budget
 - Consultant cost, ERCOT staff commitment, office space, and project investments

Assumptions (continued)

- **Consultant and Contractor Utilization**
- **Employee Expenses**
- **Employee Events Eliminated**

Additional Discussion Topics

- **“Cost Reduction Study”**
 - Suggestion offered by Chairman Hudson
- **Internal Control Objectives**
 - SOX 404
- **Communications Requirements**
 - PUCT staff
 - Legislative personnel
 - Market participants
- **NERC Security Requirements**
- **Other**