

Objectives of today's presentation

- **2007 Budget**
 - Review 2007 Budget for base operations
 - Receive feedback regarding requested changes to be incorporated prior to November 14th Board approval
 - No formal Board action required today
- **2006 Capital Budget Increase (VOTE)**
 - Explain rationale for project shift
 - Seek authority to increase authorized spending level
 - Board vote required today

2007 Budget

- **Development of key assumptions and timeline**
 - Input from February BoD retreat
 - Input from April BoD agenda topic on “ERCOT Planning”
 - Incorporation of final 2006 fee case feedback
- **Incorporation of TNMIP impacts**
 - Labor
 - Projects
- **Schedule**

Budget Development Schedule

Monday April 17	Executive Committee – Preliminary Conceptual Direction Discussion
Tuesday April 18	Board of Directors – Conceptual Direction Discussion
Tuesday May 16	Public Meeting – Strategic Planning & Budgeting (in conjunction w/Board Meeting)
Thursday June 22 –	
Wednesday June 28	Budget Review w/ FOC and Directors (individual meetings will be scheduled)
Monday July 10	Executive Committee – 2007 Budget Final Review
Friday July 14 –	
Tuesday Oct 4	PUCT Focused Reviews
Tuesday July 18	Finance & Audit Committee Agenda – Preliminary Budget Presentation
Wednesday July 19 –	
Friday Dec 29	Development and implementation of ERCOT's Revised Compensation Strategy
Tuesday Aug 1	Draft Delegation Agreement to NERC as ERO, to become Regional Entity (RE) for the ERCOT Region
Tuesday Aug 15	Finance & Audit Committee Agenda – Review of TAC-approved 2007 Project Priority List
Tuesday Sept 19	Finance & Audit Committee Agenda – 2007 Budget Status Report
Tuesday Sept 19	Board Agenda – Updated Texas Nodal Market Implementation Program resource requirements, timeline & budget
Tuesday Sept 26	Public Meeting – Preliminary 2007 Budget Presentation
Sunday Oct 15	Final Delegation Agreement to NERC as ERO, to become Regional Entity (RE) for the ERCOT Region
Thursday Oct 5	Finance & Audit Committee Special meeting – 2007 Budget Review (if necessary)
Tuesday Oct 17	Board Agenda – Finance & Audit Committee 2007 Budget Recommendation
Tuesday Nov 14	Board Agenda – 2007 Budget Approval
Friday Dec 15	PUCT Fee Filing

COMPLETE

Budgetary Objectives

Control cost while:

- Maintaining grid reliability
 - **Enhanced communication routines**
 - **SB20 and long range plans**
 - **Competitive energy renewable zones**
- Maintaining and supporting the market
 - **15+ full time equivalents associated with PRRs approved in 2006**
 - **Independent market monitor economist contract, office space needs, and multiple priority projects**
- Maintaining Critical Information Technology Infrastructure
 - **Cyber and physical security enhancements**
 - **Hardware projects on 2007 project priority list**
 - **New staff in response to hardware failure in late 2005**
- Ensuring reasonable business controls and oversight
 - **Scope of internal audit activity**
 - **Additional independent board members**
 - **Internal control audits**
 - **Staff to administer ERCOT's internal control management program**

Funding Assumptions

- Majority of ERCOT base operations funded through the System Administration Fee
- Texas Nodal Market Implementation Program (TNMIP) funded through a PUCT approved surcharge
- Regional Entity (RE) statutory functions funded through a PUCT approved fee consistent with a delegation agreement between NERC and ERCOT

Objectives & Assumptions

Assumptions

Revenue

- Revenue must be sufficient to cover
 - Operating Expenses
 - Debt Service Obligations
 - Revenue-funded Portion of Capital Expenditures
- MWh's projected at 3.5% over 2006 budget level, resulting in approximately \$ 4.5 million in additional revenue

Capital Expenditure

- \$30.0 million project portfolio
 - \$18.0 million debt funded (60%)
 - \$12.0 million revenue funded (40%)

Objectives & Assumptions

Assumptions (Continued)

Operating Expenses

- Labor & Benefits
 - Benefit load estimated at 32% consistent with 2006
 - Vacancy rate of 4 % (funding 560 positions) reduced from 7% in 2006
 - Merit allowance estimated at 3% consistent with market trends
 - Promotion allowance estimated at 1% consistent with market trends

Previously Scrutinized Expenditure Categories

- **Compensation**
 - Progress continues on board approved compensation strategy. To date no significant changes have been identified.
- **Staffing level**
 - PUCT considering sponsoring an independent review of ERCOT workforce levels
- **Debt Financing**
 - Board approved policy regarding debt funding ratios confirmed
- **Projects**
 - Enhanced processes regarding prioritization
 - ERCOT mandated infrastructure prioritized
- **Employee Events**
 - Excluded from budget
- **Relocation**
 - Consistent with newly approved policy (assumed 25 @ \$25,000)

Proposed Budget

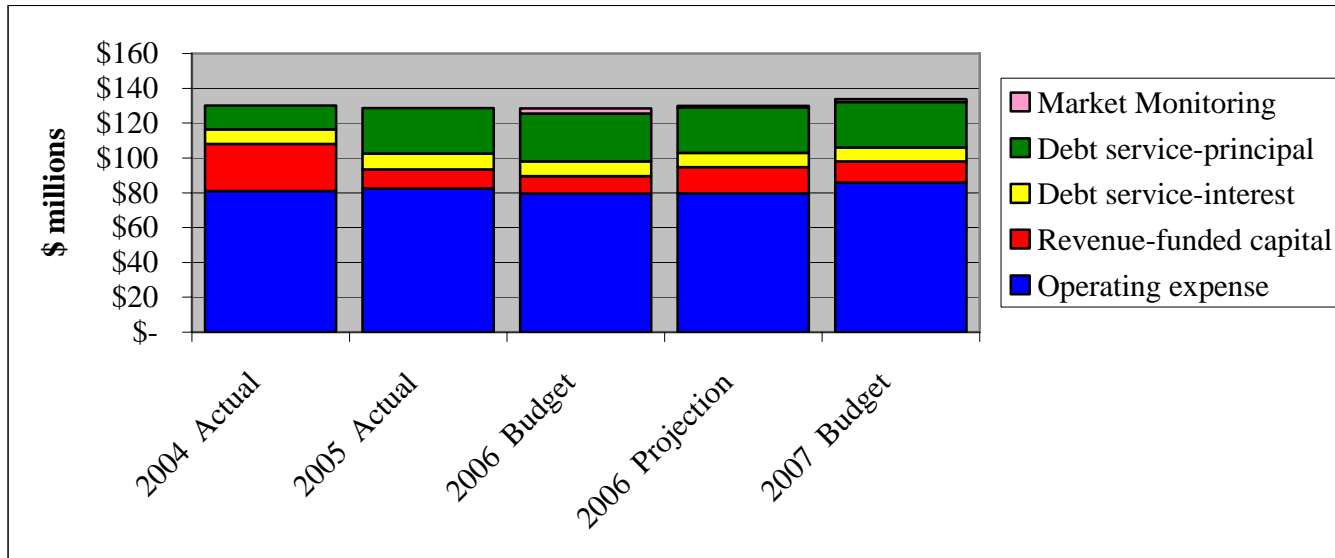
Total – Base Operations

	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 YTD Actual (8.31.06)	FY 2007 Requested	\$ Variance	% Variance
ERCOT							
System Operations	14,110,440	17,037,703	18,397,359	11,299,757	19,999,385	1,602,026	8.7%
Market Operations	16,059,800	12,895,145	15,380,491	8,775,870	14,710,225	(670,266)	-4.4%
Information Technology	24,173,297	23,580,578	26,608,982	17,651,688	30,026,593	3,417,611	12.8%
Corporate Administration	26,676,194	28,937,517	20,003,867	15,870,857	21,221,797	1,217,930	6.1%
Total - ERCOT	81,019,731	82,450,943	80,390,699	53,598,171	85,958,000	5,567,301	6.9%
ERCOT							
Labor & Benefits	44,646,173	55,004,423	59,313,464	41,049,340	72,988,269	13,674,805	23.1%
Labor for Capital Projects	(5,485,762)	(5,599,341)	(6,790,776)	(2,720,894)	(7,373,639)	(582,863)	8.6%
Labor for Nodal	-	-	-	(3,518,724)	(13,776,690)	(13,776,690)	NA
Subtotal - Labor & Benefits	39,160,411	49,405,083	52,522,688	34,809,722	51,837,940	(684,748)	-1.3%
Material, Supplies, Tools & Equipment	1,420,677	1,165,662	1,293,635	647,989	1,204,080	(89,555)	-6.9%
Special Reviews	33,571	1,751,528	-	-	-	-	NA
Outside Services	18,819,101	9,267,941	7,376,746	5,342,154	9,447,052	2,070,306	28.1%
Utilities, Maintenance & Facilities	6,420,972	6,591,288	6,090,491	4,185,914	7,245,027	1,154,536	19.0%
HW/SW License and Maintenance	6,125,259	7,189,225	7,219,010	4,815,653	9,371,689	2,152,679	29.8%
Insurance	1,585,329	1,698,946	1,761,763	1,097,547	1,758,229	(3,534)	-0.2%
Employee Expenses	1,737,487	1,396,360	1,400,825	722,406	1,860,300	459,475	32.8%
Property Taxes	1,198,352	1,016,255	1,043,000	695,333	1,116,000	73,000	7.0%
NERC Dues	880,000	913,795	967,533	647,651	967,533	-	0.0%
Other	3,638,572	2,054,860	715,008	633,802	1,150,150	435,142	60.9%
Total - ERCOT	81,019,731	82,450,943	80,390,699	53,598,171	85,958,000	5,567,301	6.9%

Sources & Uses – 2006 Budget vs. 2007 Budget

	\$ Change in millions <u>Growth/(Reduction)</u>
Revenue	
MWh Growth	4.48
Independent Market Monitoring Savings	1.35
Incremental Debt Savings	1.45
Interest Expense Savings	0.34
Compliance Statutory Reduction	0.43
Interest Income	0.12
Wide Area Network Revenue	0.65
Other Misc. Revenue	-
Fee Reduction from .42 to .4171	(0.85)
Subtotal - Cost Savings	<u>7.97</u>
Expenditures	
Revenue Funded Capital Projects	2.00
Labor & Benefit (<i>net of project & nodal effort</i>)	(0.29)
Outside Services	2.12
HW/SW License & Maintenance	2.15
Utilities, Maint. & Facilities	1.12
Employee Expenses	0.49
Relocation	0.52
Other	(0.14)
Subtotal - Increased Costs	<u>7.97</u>
Excess Expenditures over Revenue	<u>0.00</u>

Fee Requirement



<u>(\$Millions)</u>	2004 Actual	2005 Actual	2006 Budget	2006 Projection	2007 Budget
Operating expense	81.0	82.5	79.5	79.8	86.0
Revenue-funded capital	26.9	10.9	10.0	15.0	12.0
Debt service-interest	8.4	9.2	8.4	8.2	8.0
Debt service-principal	13.6	26.1	27.6	26.1	26.1
Market Monitoring	0.0	0.0	3.0	0.8	1.7
Total revenue requirement	130.0	128.7	128.5	129.8	133.8
GWh	288.3	298.8	301.9	301.2	312.7
System Administration Fee	\$0.44	\$0.42	\$0.4171	\$0.4171	\$0.4171
Debt Outstanding	178.4	160.6	149.0	149.5	141.4

Note:

(a) Other revenue will supplement System Administration Fee to meet total funding requirement.

Fee Schedule

Description	Calculation/Rate/Comment	2007 Budget	
		Amount	Percentage
ERCOT system administration fee	\$0.4171 per MWh	\$ 130,420,000	98.0%
Private wide-area network fees	Recovery of budgeted costs. Actual cost of using third party communications network, initial equipment installation cost not to exceed \$18,000, and monthly network management fee not to exceed \$865.	1,945,000	1.0%
Non-ERCOT load serving entity fee	\$1.15 per ESI ID per year	125,000	0.0%
Interest income	Computed based on assumed bank rates and deposit balances	789,000	1.0%
Membership dues	\$2,000 for corporate members and \$500 for associate and adjunct members	250,000	0.0%
Generation interconnection study fees	Based on the size of the proposed generating plant, \$1,000 - \$5,000 for a preliminary study conducted by ERCOT staff and actual costs incurred by the transmission and distribution service provider for completing a detailed study.	230,000	0.0%
Map sale fees	\$20 - \$40 per map request	1,000	0.0%
Qualified scheduling entity application fee	\$500 per entity	7,500	0.0%
Competitive retailer application fee	\$500 per entity	7,500	0.0%
Mismatched schedule processing fee	\$1 per mismatched event	1,000	0.0%
Total		<u><u>\$ 133,776,000</u></u>	100.0%
Nodal Surcharge	\$0.0663 per unit of net metered generation		
Regional Entity Fee	Fee and billing determinant to be determined		

2007 Project (Base Operations) Request

Program Area	Funding for Projects in Progress	Baseline Maintenance	Enhancements	PUCT NERC Market	Total Budget
<i>(in millions)</i>					
Corporate Operaitons	0.900	0.850	2.500	-	4.250
Information Technology Operations	3.100	4.350	5.300	-	12.750
Market Operations	0.400	0.100	0.800	0.200	1.500
Retail Operations	4.700	-	0.975	1.325	7.000
System Operations	2.350	-	0.600	1.550	4.500
Total	11.450	5.300	10.175	3.075	30.000

A description of the project prioritization process and a detailed project listing can be found at:

<http://www.ercot.com/services/comm/projects/index.html>

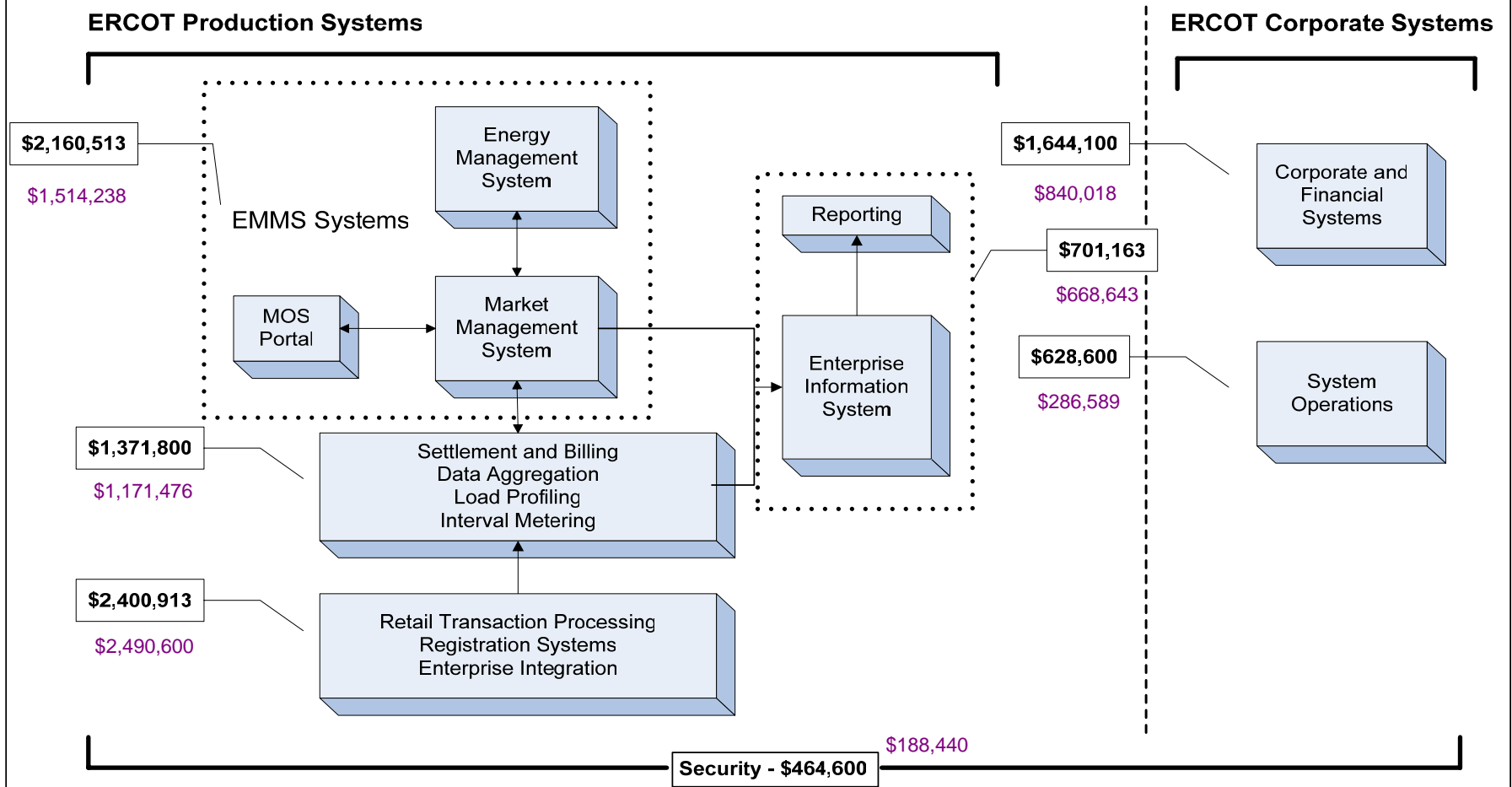
Outside Services

Description	FY 2006 Budget	FY 2007 Requested	\$ Variance	% Variance	Comments
Temporary Staffing	1,184,091	2,248,980	1,064,889	89.9%	Zonal Backfills for Staff Transfer to Nodal
Information Technology Services	960,550	1,248,180	287,630	29.9%	Increased Network, Storage and Application Assistance
Compliance	720,000	910,000	190,000	26.4%	Information System Security Requirements
Reliability	237,492	470,500	233,008	98.1%	Increased Forecasting Services
On Boarding & Employee Services	75,000	372,400	297,400	396.5%	Increased Recruiting Effort;Reclassified Hiring Services
Independent Surveys & Studies	312,000	281,992	(30,008)	-9.6%	
Process Improvement & Risk Management	376,800	254,000	(122,800)	-32.6%	Application Assessment Cost Reduction
Management Training	188,830	45,000	(143,830)	-76.2%	Reduce based on PUCT feedback in 2006
Subtotal	4,054,763	5,831,052	1,776,289	43.8%	
Accounting/Audit Expenses	1,058,255	1,108,000	49,745	4.7%	
Call Center/QSE Standby	1,073,728	1,058,000	(15,728)	-1.5%	
Legal Services	690,000	800,000	110,000	15.9%	Increased HR & Filing Requirements
Governance	500,000	650,000	150,000	30.0%	Increased Board Members, Executive Search
Subtotal	3,321,983	3,616,000	294,017	8.9%	
TOTAL	7,376,746	9,447,052	2,070,306	28.1%	

Hardware & Software Maintenance /Support

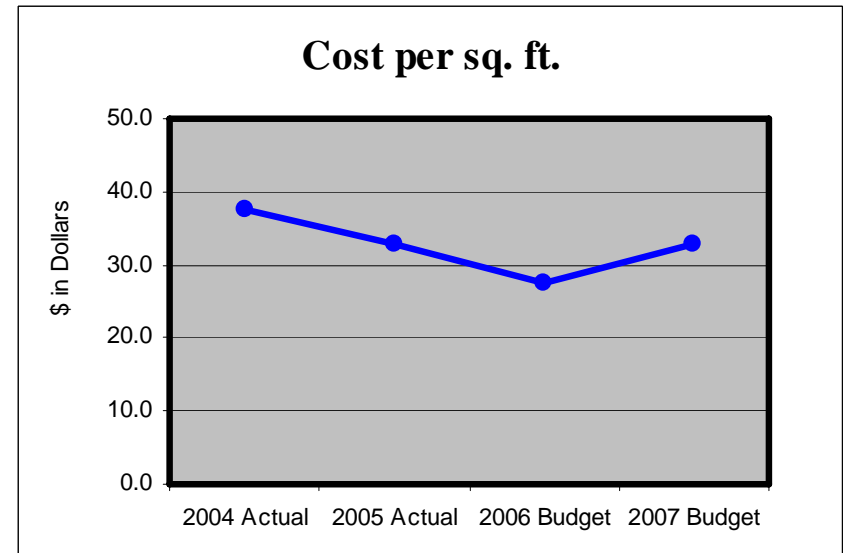
ERCOT 2007 Hardware & Software Support/Maintenance Budget = \$9,371,689

2006 Budget = \$7,160,000



Utilities, Maintenance & Facilities

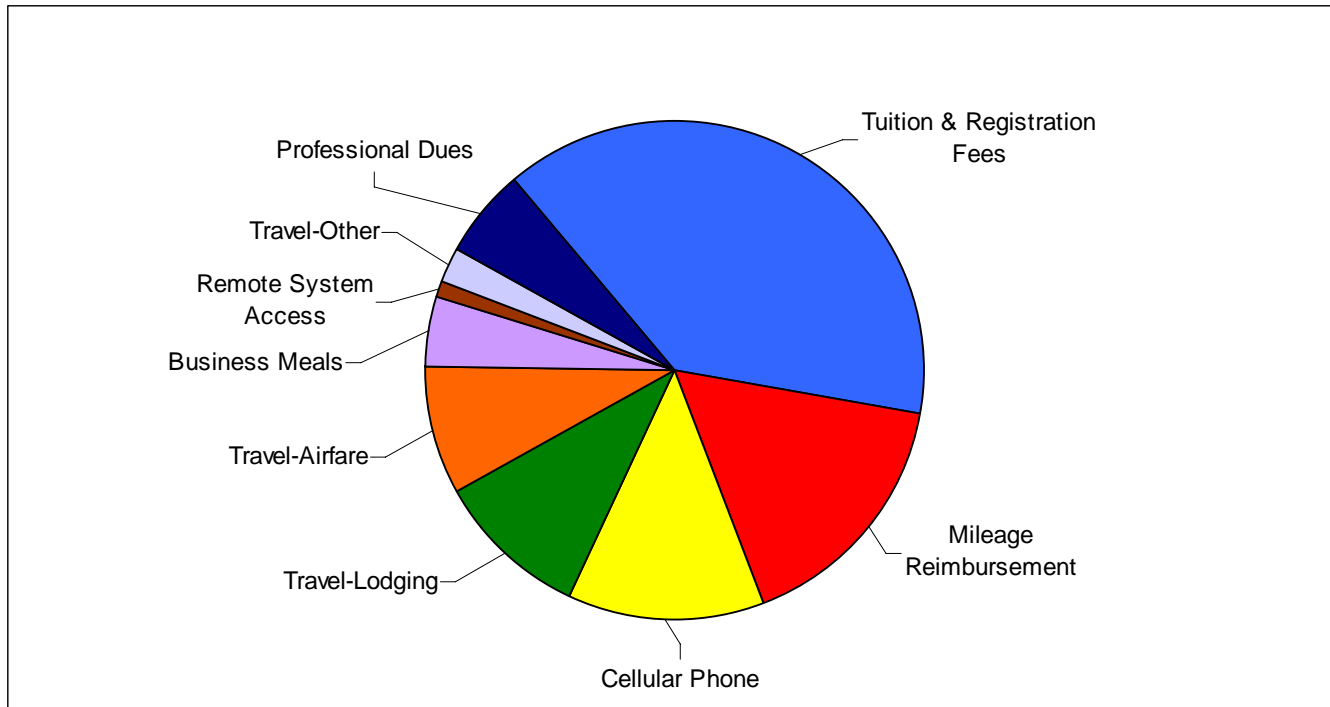
	<u>2004 Actual</u>	<u>2005 Actual</u>	<u>2006 Budget</u>	<u>2007 Budget</u>
Total Utilities, Maintenance & Facilities	6,420,971	6,591,287	6,090,491	7,245,027
Cost Per Square Foot	37.55	32.83	27.56	32.78



Utilities, Maintenance & Facilities

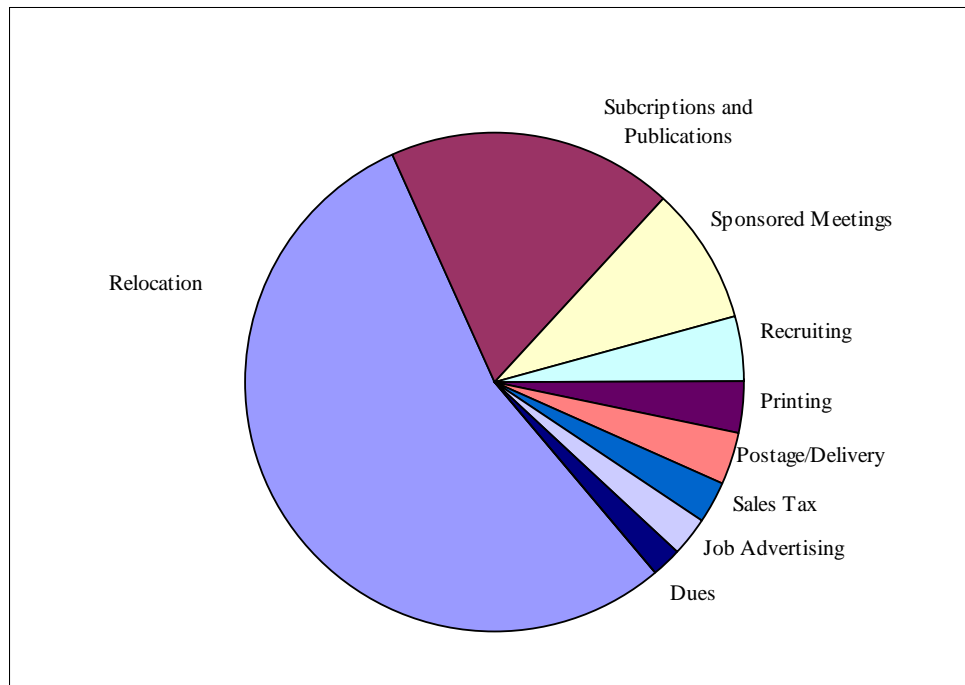
Description	2004 Actual	2005 Actual	2006 Budget	2006 YTD 08/31/06	2007 Requested	2006 Budget	2006 Budget
						vs. 2007 Requested \$ Variance	vs. 2007 Requested % Variance
Utilities							
Electricity	818,506	967,597	900,000	697,237	1,045,000	145,000	16.1%
Water Service	-	23,637	-	26,052	32,400	32,400	NA
Fuel Oil	2,308	8,503	4,000	6,309	10,000	6,000	150.0%
Water/Gas/Sewer/Trash	41,107	32,445	30,000	1,473	8,100	(21,900)	-73.0%
Subtotal - Utilities	861,921	1,032,182	934,000	731,071	1,095,500	161,500	17.3%
Rent							
Office Rental	938,022	730,186	720,000	476,562	741,500	21,500	3.0%
Miscellaneous Rental	-	-	-	-	-	-	NA
Storage Rental	38,137	20,580	6,000	4,531	5,000	(1,000)	-16.7%
Subtotal - Rent	976,159	750,766	726,000	481,093	746,500	20,500	2.8%
Telecom							
PBX Lease for ISO	50,347	16,785	-	137	-	-	NA
Telephone - Local	854,463	682,805	599,100	484,475	658,147	59,047	9.9%
Telephone - Long Distance	128,941	116,284	123,300	49,444	74,666	(48,634)	-39.4%
Telephone - Conf. Calls	76,205	35,712	65,267	33,280	57,400	(7,867)	-12.1%
Internet Service	215,296	86,340	90,000	60,910	99,549	9,549	10.6%
Subtotal - Telecom	1,325,252	937,926	877,667	628,247	889,762	12,095	1.4%
WAN	1,730,117	1,972,119	1,846,824	1,511,155	2,324,965	478,141	25.9%
Building Maintenance							
Building Maintenance	417,600	721,601	446,000	250,632	813,500	367,500	82.4%
Grounds Maintenance	29,410	52,868	40,000	36,708	60,000	20,000	50.0%
Custodial Service	218,209	222,545	240,000	141,786	235,000	(5,000)	-2.1%
Misc Services	90,749	84,189	100,000	73,402	106,800	6,800	6.8%
Bldg Security Services	771,554	817,091	880,000	556,318	973,000	93,000	10.6%
Subtotal - Maintenance	1,527,522	1,898,294	1,706,000	1,058,845	2,188,300	482,300	28.3%
Total Building Maintenance, Security, Rent & Utilities	6,420,971	6,591,287	6,090,491	4,410,412	7,245,027	1,154,536	19.0%

Employee Expenses by Account



Account	Corporate Operations	Information Technology	Market Operations	System Operations	Total	% of Expense Total	% of ERCOT O&M Budget
Tuition & Registration Fees	136,028	276,816	184,625	93,514	690,984	37.14%	0.80%
Mileage Reimbursement	57,967	30,281	50,139	126,834	265,221	14.26%	0.31%
Cellular Phone	44,438	101,863	73,131	45,126	264,559	14.22%	0.31%
Travel-Lodging	35,120	45,578	48,307	82,024	211,029	11.34%	0.25%
Travel-Airfare	29,215	33,402	31,942	74,307	168,866	9.08%	0.20%
Business Meals	16,525	14,634	32,827	26,700	90,685	4.87%	0.11%
Remote System Access	3,887	45,076	12,535	16,556	78,054	4.20%	0.09%
Travel-Other	7,079	10,851	10,803	22,625	51,358	2.76%	0.06%
Professional Dues	20,742	3,098	6,591	9,114	39,544	2.13%	0.05%
Total	351,000	561,600	450,900	496,800	1,860,300	100.00%	2.16%

Other Expenses



Account Description	FY 2004	FY 2005	FY 2006	FY 2006	FY 2007	%	% of ERCOT
	Actual	Actual	Budget	YTD Actual (8.31.06)	Requested		
Relocation	794,695	570,839	135,000	197,732	625,000	54.34%	0.73%
Subscriptions and Publications	70,629	113,927	120,778	235,597	214,291	18.63%	0.25%
Sponsored Meetings	6,234	60,642	107,000	21,915	103,952	9.04%	0.12%
Recruiting	60,182	35,283	63,400	34,074	46,844	4.07%	0.05%
Printing	12,924	19,703	66,850	43,579	39,826	3.46%	0.05%
Postage/Delivery	18,525	30,498	47,430	33,893	36,786	3.20%	0.04%
Sales Tax	3,831	203	-	52,437	33,397	2.90%	0.04%
Job Advertising	22,292	46,112	28,500	10,515	28,259	2.46%	0.03%
Dues	7,046	16,772	31,700	20,236	21,796	1.90%	0.03%
Other	209,476	137,844	112,194	(41,630)	-	0.00%	0.00%
Total	1,205,833	1,031,823	712,852	608,348	1,150,150	100.00%	1.34%

Five Year Forecast

ERCOT - Base Operations Key Assumptions

Labor & Benefits

- Headcount held within currently approved level of 584
- Salary expense in 2008 based on a 3% merit with an additional 1% for promotions
 - For 2009 – 2012, assumed overall salary expense increase of 2% (inclusive of merit and promotion adjustments)
- Contra labor estimate based on historical trend and anticipated project budget

Outside Services

- Trend based on historical experience

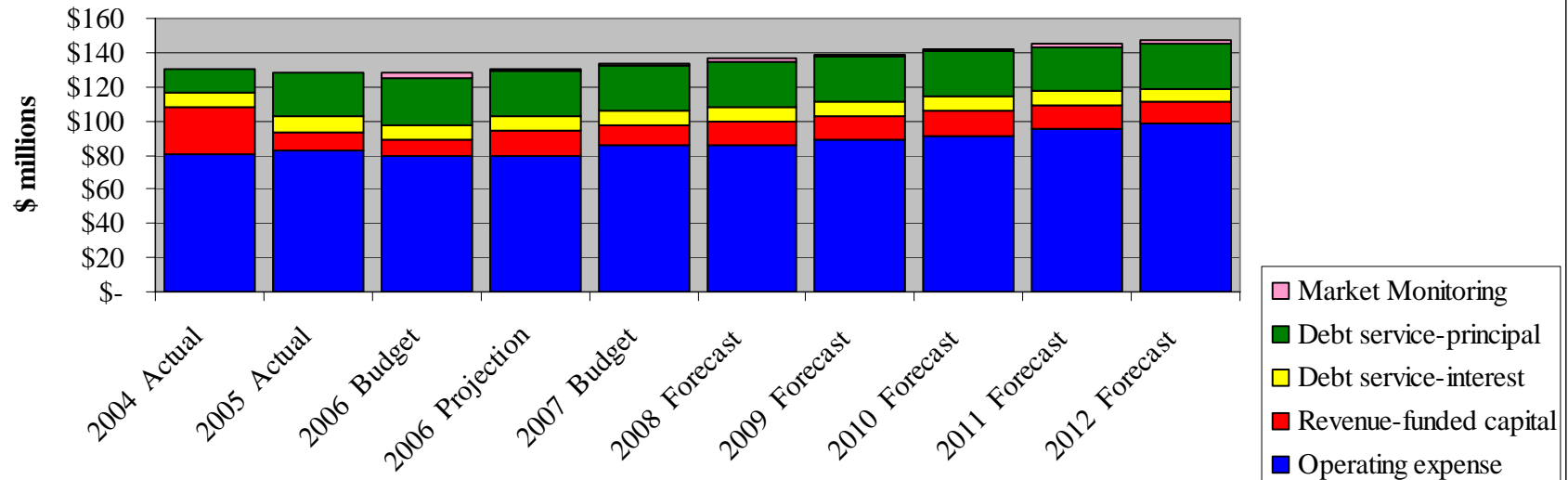
All other categories

- Increase based on Consumer Price Index
 - 2008 – 1.9 %
 - 2009 – 1.8 %
 - 2010 – 1.8 %
 - 2011 – 1.9 %
 - 2012 – 2.0 %

Capital Expenditure

- Identified projects funded based on approved Board ratio of 60% debt and 40% revenue

Five Year Forecast - Fee Requirement




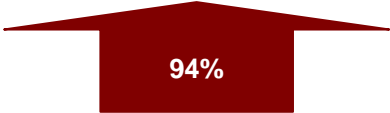




	2004	2005	2006	2006	2007	2008	2009	2010	2011	2012
<u>(\$Millions)</u>	Actual	Actual	Budget	Projection	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
Operating expense	81.0	82.5	79.5	79.8	86.0	85.9	88.5	90.7	95.4	98.7
Revenue-funded capital	26.9	10.9	10.0	15.0	12.0	14.0	14.4	15.6	14.2	12.8
Debt service-interest	8.4	9.2	8.4	8.2	8.0	8.4	8.0	7.8	7.5	7.3
Debt service-principal	13.6	26.1	27.6	26.1	26.1	26.1	26.4	26.4	26.4	26.4
Market Monitoring	0.0	0.0	3.0	0.8	1.7	1.8	1.7	1.7	1.7	1.7
Total revenue requirement	130.0	128.7	128.5	129.8	133.8	136.2	139.0	142.2	145.2	146.9
GWh	288.3	298.8	301.9	301.2	312.7	318.6	325.2	332.9	340.1	346.7
% GWh growth	1.1%	3.6%	1.0%	-0.3%	3.8%	1.9%	2.1%	2.4%	2.2%	1.9%
System Administration Fee	\$0.44	\$0.42	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4140
Debt Outstanding	178.4	160.6	149.0	149.5	141.4	136.2	131.4	128.4	123.4	116.2
<u>(\$ / MWh)</u>										
Operating expense	0.27	0.27	0.2582	0.2564	0.2680	0.2630	0.2655	0.2661	0.2741	0.2782
Revenue-funded capital	0.09	0.04	0.0325	0.0480	0.0374	0.0429	0.0432	0.0458	0.0408	0.0361
Debt service-interest	0.03	0.03	0.0272	0.0264	0.0250	0.0259	0.0241	0.0228	0.0215	0.0206
Debt service-principal	0.05	0.09	0.0896	0.0840	0.0815	0.0800	0.0792	0.0774	0.0758	0.0744
Market Monitoring	0.00	0.00	0.0097	0.0024	0.0051	0.0054	0.0051	0.0050	0.0049	0.0048
Total revenue requirement	\$0.44	\$0.42	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4140

Note: Other revenue will supplement System Administration Fee to meet total funding requirement.

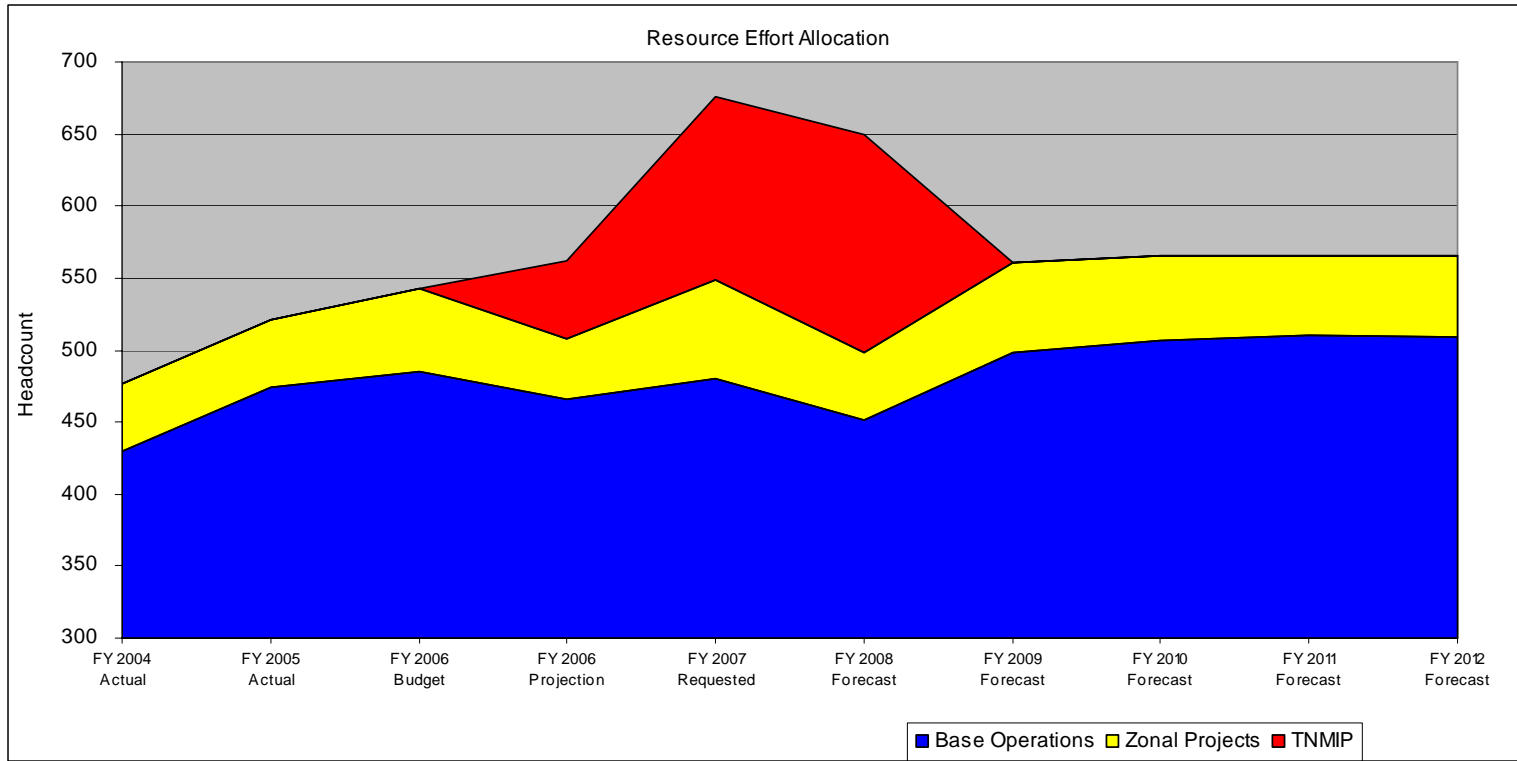
Five Year Forecast – Revenue Requirement

	Actual FY 2004	Actual FY 2005	Budget FY 2006	Projection FY 2006	Budget FY 2007	Forecast FY 2008	Forecast FY 2009	Forecast FY 2010	Forecast FY 2011	Forecast FY 2012
ERCOT O&M Expense										
<i>Labor & Benefits</i>	\$ 44,646	\$ 55,004	\$ 59,313	\$ 61,834	\$ 72,988	\$ 75,908	\$ 67,104	\$ 68,446	\$ 69,815	\$ 71,211
<i>Contra-Labor to Capital Projects</i>	(5,486)	(5,599)	(6,791)	(4,971)	(7,374)	(5,586)	(7,188)	(6,909)	(6,542)	(6,803)
<i>Contra-Labor to TNMIP</i>	-	-	-	(6,454)	(13,777)	(17,647)	-	-	-	-
<i>Subtotal - Labor & Benefits</i>	39,160	49,405	52,523	50,409	51,838	52,676	59,916	61,536	63,273	64,408
<i>Tools, Equipment, &Supplies</i>	1,421	1,166	1,294	1,158	1,204	1,227	1,249	1,272	1,296	1,322
<i>Hardware & Software Expenses</i>	6,125	7,189	7,219	7,461	9,372	9,465	9,484	9,513	9,551	9,570
<i>Outside Services</i>	18,819	9,268	7,377	8,783	9,447	8,242	7,925	7,992	7,744	7,944
<i>Special Audits</i>	34	1,752	-	-	-	-	-	-	-	-
<i>Utilities, Maintenance & Facilities</i>	6,421	6,591	6,090	6,617	7,245	7,383	7,516	7,651	7,796	7,952
<i>Employee Expenses</i>	1,737	1,396	1,401	1,355	1,860	1,896	1,930	1,965	2,002	2,042
<i>Insurance</i>	1,585	1,699	1,762	1,656	1,758	1,792	1,824	1,857	1,892	1,930
<i>Property Taxes</i>	1,198	1,016	1,043	652	1,116	1,136	1,225	1,300	1,340	1,362
<i>NERC Dues</i>	880	914	968	984	968	968	968	968	968	968
<i>Other</i>	3,639	2,055	715	711	1,150	1,117	1,137	1,158	1,180	1,203
<i>Subtotal - O&M Expenses</i>	81,020	82,451	80,391	79,787	85,958	85,901	93,173	95,210	97,040	98,699
Less: Fee Reduction/Cost Reduction TBD			(858)			-	(4,690)	(4,480)	(1,630)	-
<i>Subtotal - O&M Expenses</i>	81,020	82,451	79,533	79,787	85,958	85,901	88,483	90,730	95,410	98,699
Debt service - interest expense	8,426	9,189	8,375	8,201	8,031	8,448	8,023	7,767	7,502	7,310
Debt service - principal payments	13,637	26,137	27,587	26,137	26,137	26,137	26,387	26,387	26,387	26,387
Revenue-funded capital	26,925	10,880	10,000	14,950	12,000	14,000	14,400	15,600	14,200	12,800
Total Revenue Requirement	130,008	128,657	125,495	129,075	132,126	134,486	137,293	140,484	143,499	145,196
Less Other Revenue	2,615	2,050	1,890	2,300	2,567	2,567	2,567	2,567	2,567	2,567
Less Interest Income	347	250	672	1,900	789	789	789	789	789	789
Plus:										
<i>Market Monitoring</i>	-	-	3,000	750	1,650	1,750	1,700	1,700	1,700	1,700
Revenue Rqmt from System Admin Fee GWh	\$ 127,046 288,291	\$ 126,357 298,782	\$ 125,933 301,917	\$ 125,625 301,158	\$ 130,420 312,680	\$ 132,880 318,554	\$ 135,637 325,212	\$ 138,828 332,867	\$ 141,843 340,076	\$ 143,540 346,698
ERCOT System Administration Fee	0.44	\$ 0.42	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4140
Total Capital Spending	46,764	16,365	25,000	25,000	30,000	35,000	36,000	39,000	35,500	32,000
Debt Outstanding at Year-end	\$ 178,363	\$ 160,634	\$ 149,039	\$ 149,497	\$ 141,360	\$ 136,223	\$ 131,436	\$ 128,449	\$ 123,362	\$ 116,175

Five Year Growth

Staff			
2002		296	
2007		560	
Office Space (Sq. Feet)			
2002		114,000	
2007		221,000	
Hardware (Gross Book)			
2002	\$	32,735,000	
2007	\$	70,947,000	
Software (Gross Book)			
2002	\$	102,331,000	
2007	\$	220,538,000	
Principal & Interest			
2002	\$	5,400,000	
2007	\$	34,131,000	
System Administration Fee (per MWh)			
2002	\$	0.2200	
2007	\$	0.4171	

Staffing Effort



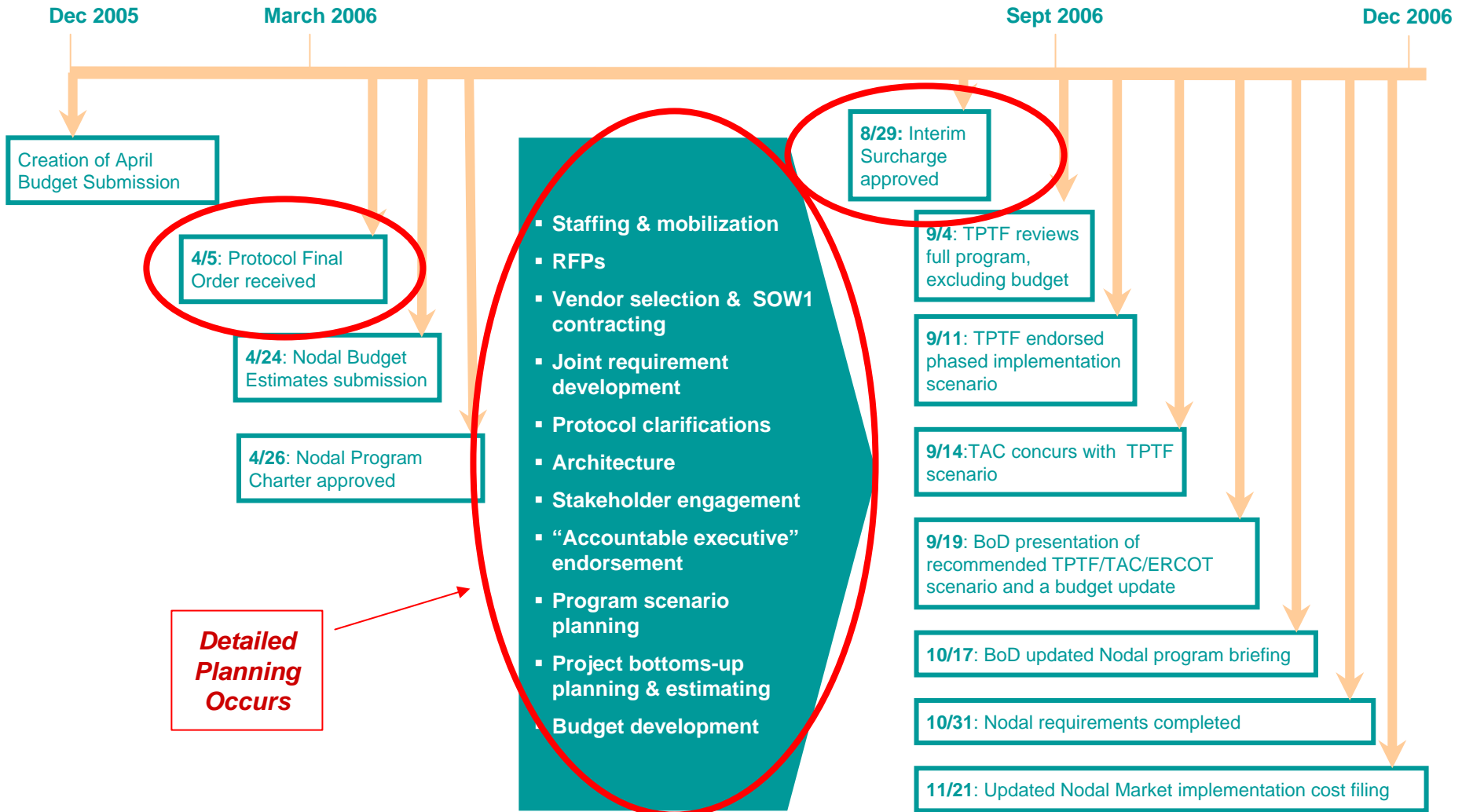
	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Projection	FY 2007 Requested	FY 2008 Forecast	FY 2009 Forecast	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast
Headcount										
Base Operations	430	474	485	465	480	451	498	506	510	509
Projects excluding TNMIP	46	47	57	42	68	48	63	59	55	56
Subtotal - Base Operations	476	521	542	507	548	499	561	565	565	565
Texas Nodal	-	-	-	55	128	151	-	-	-	-
Total Headcount	476	521	542	562	676	650	561	565	565	565

Budget Development Schedule

Date	Action
Monday, Apr. 17	Executive Committee - Preliminary Conceptual Direction Discussion
Tuesday, Apr.18	Board of Directors - Conceptual Direction Discussion
Tuesday, May 16	Public Meeting - Strategic Planning & Budgeting (in conjunction w/Board Meeting)
Thursday, Jun. 22 - Wednesday, Jun. 28	Budget Review - CFO and Directors (individual meetings will be scheduled)
Monday, July 10	Executive Committee - 2007 Budget Final Review
Friday, July 14 - Tuesday, Oct. 4	PUCT Focused Reviews
Tuesday, July 18	Finance & Audit Committee Agenda - Preliminary Budget Presentation
Wednesday, July 19 - Friday, Dec. 29	Development and implementation of ERCOT's Revised Compensation Strategy
Tuesday, Aug. 1	Draft Delegation Agreement to NERC as ERO, to become Regional Entity (RE) for the ERCOT Region
Tuesday, Aug. 15	Finance & Audit Committee Agenda - Review of TAC-approved 2007 Project Priority List
Tuesday, Sept. 19	Finance & Audit Committee Agenda - 2007 Budget Status Report
Tuesday, Sept. 19	Board Agenda - Updated Texas Nodal Market Implementation Program resource requirements, timeline, and budget
Tuesday, Sept. 26	Public Meeting - Preliminary 2007 Budget Presentation
Thursday, Oct. 5	Finance & Audit Committee Special Meeting - 2007 Budget Review (if necessary)
Sunday, Oct. 15	Final Delegation Agreement to NERC as ERO, to become Regional Entity (RE) for the ERCOT Region
Tuesday, Oct. 17	Board Agenda - Finance & Audit Committee 2007 Budget Recommendation
Tuesday, Nov. 14	Board Agenda - 2007 Budget Approval
Friday, Dec. 15	PUCT Fee Filing

- **Proposed allocation of previously identified Nodal critical path projects**

Nodal Major Events



Background on Nodal Planning

- **Detailed Nodal planning occurred prior to approval of the Nodal Market Implementation Surcharge**
 - Project organized and planned in most efficient manner to implement necessary changes
 - Strict interpretation of Zonal and Nodal costs for allocation among QSEs representing load vs QSEs representing generation was not contemplated
- **PUCT approval of Interim Market Implementation Surcharge**
 - Final order issued August 29th
 - Established need to clearly identify costs relating to implementation of Nodal protocols
 - Results in proposed reclassification of \$37 million in expected project costs from “Nodal” to “Zonal”

Future Reviews and Approvals

- **Nodal Baseline budget expected in November**
 - Currently under review by ERCOT, TPTF, TAC & BOD
 - BOD acceptance anticipated in November
- **Baseline budget expected to form basis for updated Nodal Market Implementation Surcharge**
 - ERCOT required filing with the PUCT
 - ERCOT required to justify all costs recovered via surcharge
 - Interested parties have an opportunity to intervene
 - Interim allocation to generation subject to finalization
 - Interim surcharge collections subject to true-up

Issues Impacting Capital Decisions

- **PUCT order requires implementation of the Nodal market by 1/1/2009**
- **Certain projects previously assumed Nodal *must* be funded from Zonal capital**
 - Critical path projects
 - Significant portion of project costs not currently contemplated in Zonal planning
- **Funding alternatives**
 - Re-prioritize Zonal projects
 - Reduce spending elsewhere
 - Temporarily raise System Administration Fee
 - Temporarily increase debt funding ratio

Management Recommendation

- **Combined approach**

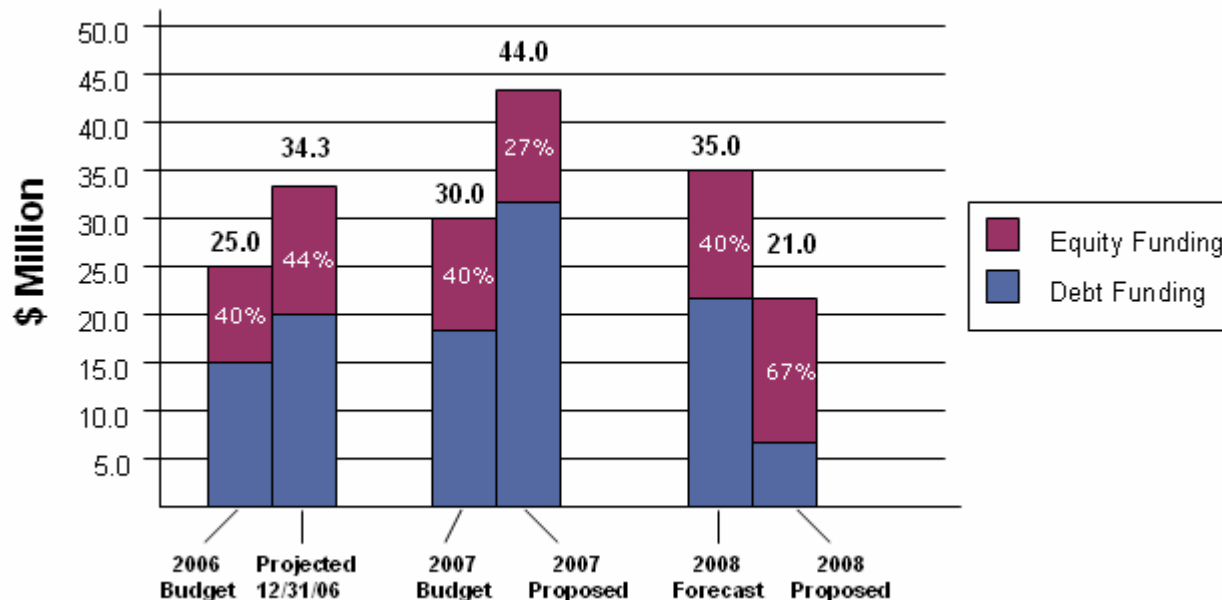
- Re-prioritize Zonal project plans where possible
- Use anticipated 2006 “excess revenue” to fund project additions
- Temporarily decrease 2007 equity contribution from 40% to 27%
- Reduce 2008 Zonal project spending so that the overall (2006-2008) equity contribution target of 40% is restored

- **Benefits**

- Accommodate critical path items
- Maintain overall credit quality
- Maintain stable System Administration Fee
 - Avoid System Administration Fee Case in 2007
 - Maintain staff focus on Nodal implementation

Finance & Audit Committee Report

Steve Byone



2006 Budget

- Development of 2006 capital program consistent with previous practice
- 2006 capital program totaling \$25 million
- Original PPL of 30 projects

2006 YTD

- Typical reprioritizing occurs
- New projects are added
- Due to under delivery in 2005, increased carryover is incorporated
- Current PPL consists of 102 projects
- \$25M budget is no longer available

Request for 2006 Zonal Budget Increase

- Project work assumed to be a component of nodal must be allocated to zonal
 - Some affected items made *preliminary* PPL; though not all
 - Timing of certain required effort accelerated – Nodal critical path
 - *Preliminary* PPL items were contemplated for completion by year-end 2008
- Total budget for all items shifting back to zonal for funding is \$37 million
 - **Completion of Items totaling \$9.3 million requires a 2006 spending increase**

Detail of Projects Shifting to “Zonal”

Sources and Uses of Equity Funding for ERCOT Projects

\$ Million

	2006 Budget	Projected 12/31/2006	2007 Budget	2007 Proposed	2008 Forecast	2008 Proposed	3 Year Totals
Capital Plan							
Debt Funding	15.0	19.4	18.0	32.0	21.0	7.0	58.4
Equity Funding	10.0	15.0	12.0	12.0	14.0	14.0	41.0
Proposed Capital Spend	25.0	34.3	30.0	44.0	35.0	21.0	99.3
Equity Funding							
Revenue Funding	10.0	10.0	12.0	12.0	14.0	14.0	36.0
* Incremental Debt Reduction		1.5					1.5
* IMM		1.4					1.4
Anticipated Excess Revenue		2.2					2.2
Sub-total Equity Funding	10.0	15.0	12.0	12.0	14.0	14.0	41.0
Projected Need @ 40%	10.0	13.7	12.0	17.6	14.0	8.4	39.7
Over/(Short)	-	1.2	-	(5.6)	-	5.6	1.2
Effective Equity %	40%	44%	40%	27%	40%	67%	41%

Alternative - Adjust System Administration Fee (cents/MWh) \$ 0.0179

Accommodation of Projects Shifting From Nodal to Zonal Within Capital Plans

Program Area/Project	2006 Budget	Projected 12/31/2006	2007 Budget	2007 Proposed	2008 Forecast	2008 Proposed	3 Year Totals
SO/NMMS		1.8		4.5		0.8	7.0
SO/State Estimator		1.3		3.2		0.6	5.0
SO/EMS Upgrade		1.9		4.5		1.6	8.0
IT/Hardware	1.0	4.4	5.5	1.8		2.3	15.0
IT/TCC Virtualization			2.0				2.0
Totals	1.0	9.3	7.5	14.0	0.0	5.3	37.0

* Excess revenue from these components targeted for additional project work as contemplated in the 2006 PUCT Approved Fee

- **Vote on authority to increase authorized 2006 project portfolio budget as per decision template**

APPENDIX

Proposed Budget

Corporate Administration by Function

	Executive Admin	Human Resources	Facilities & Security	Corporate PMO	General Counsel	Finance & Accounting	Internal Audit & Controls	NERC Compliance	Entity Admin	Total
Labor & Benefits	720,269	1,273,067	2,848,056	2,040,033	2,454,923	3,541,133	1,362,648	524,949	(4,237,205)	10,527,873
Labor for Capital Projects	-	(35,490)	(301,665)	(419,965)	-	-	-	-	-	(757,120)
Labor for Nodal	-	(115,700)	(584,402)	(561,925)	(49,098)	(283,972)	(6,813)	-	-	(1,601,910)
Subtotal - Labor & Benefits	720,269	1,121,877	1,961,989	1,058,143	2,405,825	3,257,161	1,355,835	524,949	(4,237,205)	8,168,843
Material, Supplies, Tools & Equipment	700	8,000	544,700	2,700	10,300	16,800	600	8,150	-	591,950
Special Reviews	-	-	-	-	-	-	-	-	-	-
Outside Services	850,000	467,400	954,000	142,900	800,000	461,000	700,000	12,000	-	4,387,300
Utilities, Maintenance & Facilities	500	15,000	3,989,000	-	1,500	1,000	-	30,775	-	4,037,775
HW/SW License and Maintenance	-	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	1,753,229	-	5,000	-	1,758,229
Employee Expenses	8,100	29,700	78,300	45,900	54,000	87,510	29,700	17,790	-	351,000
Property Taxes	-	-	-	-	-	1,116,000	-	-	-	1,116,000
NERC Dues	-	-	-	-	-	-	-	-	-	-
Other	8,500	685,000	10,500	3,500	56,500	40,000	4,000	2,700	-	810,700
Total	1,588,069	2,326,977	7,538,489	1,253,143	3,328,125	6,732,700	2,090,135	601,364	(4,237,205)	21,221,797
							(a)	(b)		

Notes:

(a) Costs associated with ERCOT SAS 70 Audit included in Internal Audit & Controls.

(b) Budget reflects non-statutory functions pending final approval from FERC