



MEMO

Date: October 10, 2006
To: ERCOT Board of Directors
From: Sam Jones, CEO
Subject: 2006 Zonal Project Program Funding Increase

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: October 17, 2006

Agenda Item No.: 07b

Issue:

During the development of the Nodal project plan, five projects that had been considered for execution in the Zonal program but are also necessary for execution of the Nodal program were added to the Nodal portfolio. These projects were:

- NMMS (Network Model Management System)
- State Estimator
- EMS Upgrade
- Hardware Replacement (Unix End of Life)
- TCC Data Center Virtualization

Business owners of the aforementioned projects working together with the Nodal leadership team have recommended that the portion of these projects that would have provided benefit to the current Zonal market be funded from the Zonal capital projects budget. The total amount proposed for reallocation is \$37 million. Presently, management believes \$8.5 million of this amount can be accommodated within the 2006 and 2007 Zonal project plans. The remaining amount (totaling \$28.5 million) has been allocated across 2006, 2007 and 2008 based on the total estimated spending of the five projects as contemplated in the Nodal program schedule. The project owners have determined that completion of these projects would have been required in the Zonal market no later than the end of 2008. The breakdown by year is noted in the Forecasted Project Costs section below.

In regard to the \$28.5 million, the estimated amount for inclusion in the 2006 Zonal project program is \$9.3 million. Accordingly, ERCOT requests approval to amend the 2006 Zonal project program budget from \$25 million up to \$34.3 million to fund the Zonal portion of these projects. Due to the fact that timing of the work for these efforts and negotiations with vendors are still being worked out, ERCOT requests that the \$34.3 million be considered a not-to-exceed amount.



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Background/History:

Supporting information on the five projects:

- NMMS (Network Model Management System)
 - Business objectives:
 - Provide improved reliability by mitigating risk associated with model update delays or premature implementations.
 - Provide an improved timeline and data management flow for transmission grid model modifications.
 - Improves the Market by providing accurate, predictable, consistent, and efficient implementation of transmission grid model modifications.
 - Timely accurate modeling provided would promote improved Ancillary Service procurement and congestion management.
 - Improve the accuracy of the Operation model.
- State Estimator
 - Update State Estimator to optimize ERCOT's ability to analyze the state of the transmission power system.
- EMS Upgrade
 - Upgrade EMS system to remain on vendor-supported software version.
 - Replace hardware to remain on vendor-supported hardware (server infrastructure changed due to retirement of Alpha servers for the base operating system.)
- Hardware Replacement (Unix End of Life)
 - The majority of the HP systems have been in place in the data center for between 3 to 5 years. This is a typical lifespan for a high end system. They will need to be replaced with new technology to support ongoing operations.
- TCC Data Center Virtualization
 - Addressing power and cooling limitations will allow ERCOT to continue to effectively support ongoing operations and additional capital project requirements.

Due to the anticipated timing of the final Nodal program budget submission to the Board and the Zonal project planning process, this request has not passed through the usual market stakeholder process. ERCOT believes the additional funding for these projects will not negatively impact the current delivery plans for non-Nodal projects currently underway (or planned to begin before the end of 2006).

Key Factors Influencing Issue:

ERCOT has been directed to accumulate costs associated with the transition to a nodal market



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and to collect these costs from QSEs representing generation resources whereas all other ERCOT costs are to be recovered through existing fees. ERCOT believes it is appropriate to fund portions of the five projects from the System Administration fee based on their expected Zonal benefits and due to the conclusion that if Nodal had not been required by the PUCT these projects would have been undertaken in the Zonal program. ERCOT notes that in some cases, expected spending on these projects has been accelerated to meet critical dependencies in the Nodal project plan.

Forecasted Project Costs:

The projected non-Nodal costs related to these efforts by year are:

➤ 2006	- \$ 9.3M
➤ 2007	- \$ 14.0M
➤ 2008	- \$ 5.2M
➤ Subtotal	- \$ 28.5M
➤ Planned in 2006	- \$ 1.0M
➤ Planned in 2007	- \$ 7.5M
➤ Grand Total	- \$ 37.0M

Conclusion/Recommendation:

ERCOT Staff seeks Board approval to increase the 2006 Zonal project program budget by \$9.3 million for the funding and continued execution of portions of Zonal projects in the Nodal critical path. The result of this request is a 2006 non-Nodal project program not-to-exceed budget of \$34.3 million.



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ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. **BOARD OF DIRECTORS RESOLUTION**

WHEREAS, the board of directors (the “Board”) of the Electric Reliability Council of Texas (“ERCOT”), Inc., a non-profit corporation (the “Company”) deems it desirable and in the best interest of the Company and the Texas electric market to increase the 2006 Zonal project program funding by \$9.3 million to include the funding and execution of projects that, even without a nodal market redesign, would have been required by the ERCOT Zonal market by the end of 2008.

RESOLVED, that ERCOT is authorized to increase the total amount needed to complete Zonal projects by adding \$9.3 million to the total budget, resulting in a not to exceed total 2006 Zonal project program funding amount of \$34.3 million.

BE IT FURTHER RESOLVED, that Sam Jones, Chief Executive Officer of ERCOT, or his designee, is hereby authorized to act on behalf of ERCOT to negotiate and execute in the name of and on behalf of ERCOT such documents necessary to complete these projects.

CORPORATE SECRETARY’S CERTIFICATE

I, James Thorne, General Counsel and Corporate Secretary of the Electric Reliability Council of Texas, Inc., a Texas nonprofit corporation (“ERCOT”), do hereby certify that, at the [date of meeting] ERCOT Board Meeting, the Board of Directors of ERCOT passed a Resolution approving the above resolution.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of _____, 20____.

James Thorne
General Counsel and Corporate Secretary