



MEMO

Date: November 14, 2006
To: Board of Directors
From: Clifton Karnei, Chair, Finance & Audit Committee
Subject: ERCOT 2007 Strategic Financial Plan & Budget

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: November 14, 2006

Agenda Item No.: 7a

Issue:

ERCOT seeks approval of the proposed 2007 Strategic Financial Plan & Budget (“Budget”), which includes capital requirements, operating and maintenance expenses (excluding depreciation and amortization) and debt service requirements totaling \$165.7 million to support the activities of ERCOT in 2007, excluding the Texas Nodal Market Implementation Program (“TNMIP”) activities and the Texas Regional Entity Division’s Delegated activities (proposing and enforcing federal Reliability Standards). This Budget includes a base operations budget of \$120.1 million, a project budget of \$44.0 million, and \$1.65 million for market monitoring activities. To accommodate the required acceleration of multiple critical-path projects that will support both the Zonal and Nodal markets, the proposed Budget incorporates a modification to the target debt funding ratio for 2007. The project funding ratio in the proposed Budget for 2007 is 27% revenue funded and 73% debt funded. Adjusting the revenue funding percentage in this manner will allow the System Administration fee to remain at the current approved level.

In the event the Board elects to continue to fund the accelerated critical path projects that will support both the Zonal and Nodal markets within the Nodal program, the 2007 Budget would be reduced by \$14 million, from \$44 million to \$30 million. This action would allow the 2007 target revenue funding ratio of 40% to be maintained while the System Administration fee also remained at the current approved level.

ERCOT fees (excluding funding for the Delegated activities) are set forth in Exhibit A.

Background/History:

Section 3.10 of the ERCOT Bylaws requires that the Board of Directors approve the ERCOT Budget. The ERCOT Board of Directors has the responsibility for adopting an annual Budget for ERCOT that will enable the company to fulfill its obligations and responsibilities for the reliable operation of the ERCOT market.

In developing the company’s 2007 Budget, ERCOT staff followed a process which included



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extensive opportunities for interested parties to provide input. ERCOT solicited information from a broad spectrum of market participants and regulatory staff by conducting a public meeting, meeting with PUCT staff, and presenting budget material at several meetings of the Finance and Audit Committee (“F&A”), which were open to the public. The 2007 Budget was also discussed during the October 17, 2006 meeting of the Board of Directors.

The F&A Committee will meet on November 14, 2006 prior to the Board meeting to finalize the Committee’s recommendation regarding the 2007 Budget to the full Board. Budget materials presented to the Committee for recommendation to the Board were posted on the ERCOT website in advance of the November 14, 2006 meeting date.

Key Factors Influencing Issue:

ERCOT must have adequate funds in 2007 to:

- Adequately respond to system improvements and functionality needed to support the market
- Staff to the level needed to proactively participate in and support full market operation and single control area functions
- Meet debt service requirements
- Respond to findings and recommendations of recently completed audits
- Continue the Independent Market Monitoring function
- Complete, enhance and maintain the systems and services contracted for with vendors
- Maintain ERCOT facilities needed to provide secure operations and house Staff

Alternatives:

1. (A) Adopt the proposed 2007 Budget which includes a base operations budget of \$120.1 million, a project budget of \$44.0 million, and \$1.65 million for market monitoring activities.

AND

(B) Authorize a temporary project funding ratio of 27% revenue and 73% debt in 2007 and require management to reinstate the standard ratio of 40% revenue and 60% debt by 2009.

OR

2. Adopt the proposed 2007 Budget as in 1A above, adjusted by reducing the project budget from \$44 million to \$30 million if the critical-path Zonal/Nodal dependent projects will remain in the TNMIP budget.

Conclusion/Recommendation:

1. Adopt the proposed 2007 Budget as stated in either 1. or 2. above.
2. Approve an ERCOT System Administration Fee of \$0.4171 as outlined in the proposed



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2007 Budget.

3. Authorize ERCOT staff to proceed with an appropriate filing at the Public Utility Commission of Texas to implement such fees, as necessary.



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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 ERCOT to approve the proposed 2007 Strategic Financial Plan & Budget (Budget), including capital requirements, operating and maintenance expenses (excluding depreciation and amortization) and debt service requirements, totaling \$165.7 million, to support the activities of ERCOT in 2007, excluding the Texas Nodal Market Implementation Program (“TNMIP”) activities and the Texas Regional Entity Division’s Delegated activities (proposing and enforcing federal Reliability Standards).

THEREFORE, IT IS HEREBY RESOLVED, that the Board hereby adopts the proposed 2007 Budget which includes a base operations budget of \$120.1 million, a project budget of \$44.0 million, and \$1.65 million for market monitoring activities; and

IT IS FURTHER RESOLVED, that the Board hereby authorizes a temporary debt funding ratio of 27% revenue and 73% debt in 2007 and requires ERCOT management to reinstate the standard ratio of 40% revenue and 60% debt by December 31, 2008.

[OR]

THEREFORE, IT IS HEREBY RESOLVED, that the Board hereby adopts the proposed 2007 Budget which includes a base operations budget of \$120.1 million, a project budget of \$30.0 million, \$1.65 million for market monitoring activities, so long as the \$14 million in accelerated critical path projects that will support both the Zonal and Nodal markets are contained within the TNMIP budget.

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 _____, 2006.

James Thorne
General Counsel and Corporate Secretary



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ERCOT Fee Schedule

ERCOT fees are approved by the Board of Directors and are subject to approval from the Public Utility Commission of Texas (PUCT). The following is a schedule of the fees currently in effect.

Description	Protocol Reference	Calculation/Rate/Comment
ERCOT System Administration fee	9.7.1	\$0.4171 per MWh – Charged to all Qualified Scheduling Entities (QSEs) based on Load represented.
Private Wide Area Network fees	9.7.6	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.
Non-ERCOT Load Serving Entity fee	9.7.3	\$1.15 per ESI ID per year – Charged to Load Serving Entities (LSE) operating in areas of Texas where Customer Choice is in effect but outside of the ERCOT Region.
ERCOT Nodal Implementation Surcharge	9.7.7	\$0.0663/MWh – Charged to all QSEs representing net metered generation.
ERCOT Security Screening Study (Not Refundable)	NA	A preliminary study of the impacts of a proposed generation plant conducted by ERCOT staff - \$1,000 (10MW to 74MW) \$2,000 (75MW to 149 MW) \$3,000 (150MW to 249MW) \$4,000 (250MW to 499MW) \$5,000 (500MW and above)
Full Interconnection Study	NA	Costs incurred by the Transmission and/or Distribution Service Provider (TDSP) for completing a detailed study - \$15 per MW (Not Refundable – to support ERCOT system studies and coordination) \$15,000 deposit (10MW to 149MW) \$30,000 deposit (150MW and above) Deposit amounts in excess of actual study costs will be returned
Map Sale fees	NA	\$20 - \$40 per map request (by size)
Qualified Scheduling Entity Application fee	9.7.5	\$500 per Entity
Competitive Retailer Application fee	9.7.5	\$500 per Entity
Mismatched Schedule Processing fee	9.7.4	\$1 per mismatched event - Assessed to QSEs submitting schedules referencing each other where the schedules do not



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		match
Voluminous Copy fee	NA	\$0.15 per page in excess of 50 pages
Late fees	9.4.6	Wall Street Journal prime interest rate plus two (2) percent – assessed for failure to make timely payment under the Protocols.