

## Overview

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## Historical summary

- November 2005 – ERCOT notice to PUCT regarding use of \$5.1 million of unspent 2005 funds for initial nodal funding
- December 2005 – PUCT concurrence to fund initial nodal cost with 2005 funds
- May 2006 – Filed for interim Nodal Surcharge at PUCT
- August 2006 – PUCT approved interim Nodal Surcharge of \$0.0663 / MWh effective October 1, 2006
- November 2006 – BOD reviewed and concurred with ERCOT's further development of the Nodal Program based on a budget of \$226.0 million

## Highlights from approved interim Nodal Surcharge

- **Based on estimated nodal costs of \$125.7 million**
- **Key factors considered when evaluating what blend of revenue (Nodal Surcharge) and debt to use to fund the Nodal Program:**
  - Impact on ERCOT's financial position. Higher debt levels can negatively impact ERCOT's balance sheet. Higher levels of revenue funding via the Nodal Surcharge strengthen ERCOT's balance sheet.
  - Overall cost of the project. The more debt incurred, the more interest cost must be paid and thus the higher the overall cost of the project.
  - Matching cost with benefit. Matching of the payment for the Nodal Program via the Nodal Surcharge with the benefit from the Nodal Program once it is in place.
  - Desire to minimize "spiking" in the Nodal Surcharge. The need or desire to have a consistent, predictable fee that will not fluctuate significantly.

## Highlights from approved interim Nodal Surcharge (continued)

- Considered the following revenue / debt funding scenarios in light of the key factors previously identified:
  - Flat fee
  - 100% revenue funding during development
  - 50% revenue funding during development
  - 10% revenue funding during development
  - 100% debt funding during development
- **The BOD approved a filing and PUCT approved an interim fee of \$0.0663 based on the “flat fee” scenario**

## Nodal Program Budget - revised estimate of Nodal costs

• Estimate for interim fee	\$ 125.7 million
• Underestimated costs	\$ 100.3 million
• * Interdependent projects	<u>\$ 37.0 million</u>
Total program budget	\$ 263.0 million
• Adjustments	
– Less: Interdependent projects	\$ 37.0 million
– Less: Capitalized interest costs	<u>\$ 10.6 million</u>
Nodal costs to be financed	\$ 215.4 million
– Plus: Debt financing costs	<u>\$ 33.5 million</u>
Costs recoverable via Nodal Surcharge	<b>\$ 248.9 million</b>

\* These costs are assumed to be recovered via the System Administration Fee

## Funding assumptions

- Based on current development plans, yearly cash expenditures are estimated as follows:
  - 2006       \$ 44.8 million
  - 2007       \$ 113.9 million
  - 2008       \$ 55.1 million
  - 2009       \$ 1.6 million

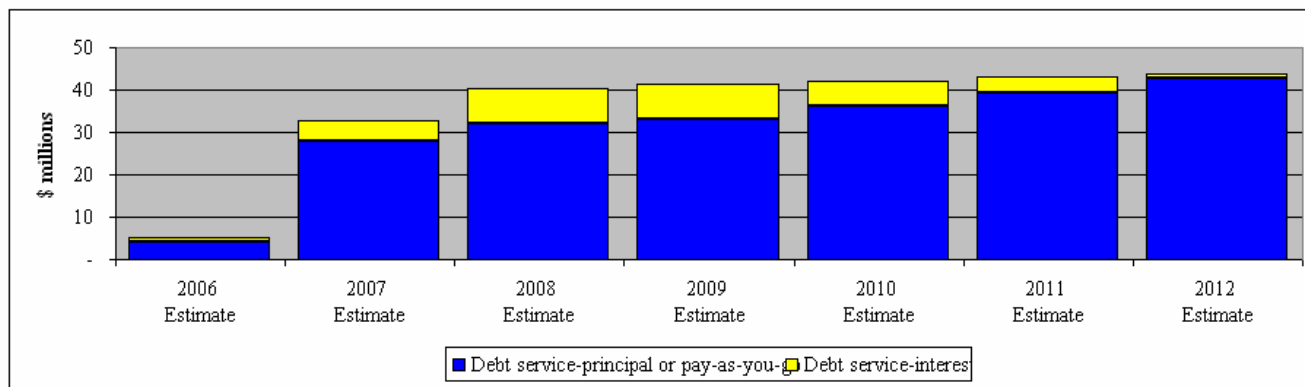
\$ 215.4 million
- With a “flat fee” assumption, interest costs will be incurred both
  - During the development period and
  - During the post-implementation financing period
- Interest is calculated using a historical average interest rate of 6%
- ERCOT continues to recover \$0.0663/MWh through May 2007
- The new surcharge is effective June 1, 2007
- MWh volume assumptions consistent with the approved 2007 budget

# Recommendation for Board approval of updated nodal fee filing

## Steve Byone

### Texas Nodal Market Implementation Program Funding

#### Flat Fee Option



Line	(\$Millions)	2006 Estimate	2007 Estimate	2008 Estimate	2009 Estimate	2010 Estimate	2011 Estimate	2012 Estimate	Total or Average
1	Debt service-interest	1.1	5.0	8.3	8.0	6.0	3.7	1.3	33.5
2	Debt service-principal or pay-as-you	4.1	27.9	32.1	33.2	36.2	39.3	42.6	215.4
3	Total revenue requirement	5.2	32.9	40.4	41.2	42.2	43.0	43.9	248.9
4	GWh	78.5	312.7	318.6	325.2	332.9	340.1	346.7	
5	Nodal Surcharge	\$0.067	\$0.105	\$0.127	\$0.127	\$0.127	\$0.127	\$0.127	\$0.127
6		Beg Jun 1	0.127						
7	Incremental Debt Outstanding	40.7	126.7	149.7	118.1	81.9	42.6	0.0	
8									
9	(\$ / MWh)								
10	Debt service-interest	0.014	0.016	0.026	0.025	0.018	0.011	0.004	
11	Debt service-principal or pay as you	0.052	0.089	0.101	0.102	0.109	0.116	0.123	
12	Total revenue requirement	0.067	0.105	0.127	0.127	0.127	0.127	0.127	
13									
14									
15									
16									
17	Estimated market redesign expendi	44.8	113.9	55.1	1.6	-	-	-	215.4
18	Revenue-funding for market redesign	4.1	27.9	32.1	33.2	36.2	39.3	42.6	215.4
19	Assumed incremental debt funding	40.7	86.0	23.0	(31.6)	(36.2)	(39.3)	(42.6)	-
20									
21	Cumulative incremental debt fundin	40.7	126.7	149.7	118.1	81.9	42.6	-	
22	Average outstanding incremental de	20.4	83.7	138.2	133.9	100.0	62.3	21.3	
23	Interest rate	5.50%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	
24	Assumed incremental interest expel	1.1	5.0	8.3	8.0	6.0	3.7	1.3	33.5
									33.4803
									248.8803

## Finance costs

- Nodal *capitalized interest* cost is estimated at \$10.6 million
  - Accounting policy which applies to the development period
  - Estimate assumes each “project” under Nodal Program is placed “in service” when completed throughout 2007 and 2008
- Debt financing costs are expected to total approximately \$33.5 M (includes the \$10.6 million of capitalized interest)
  - Development period \$ 14.3
  - Estimated average useful life \$ 19.2
  - 6% rate – Sensitivity Analysis
    - A 25 basis point change in the interest rate assumption has a \$0.001 impact on the Nodal Surcharge (e.g. if the interest rate changed from 6% to 5.75% or 6.25%, the Nodal Surcharge would change from \$0.127 to \$0.126 or \$0.128 respectively)



## Revenue / debt ratio (under a flat fee scenario)

	Estimate @ <u>Interim filing</u>	*Estimate @ <u>Jan 2007</u>
<b>Expected recovery</b>		
During development period (thru 2008)	38%	32%
Over estimated average useful life (2009-2012)	62%	68%

\*Note: The contribution during the development period is less than estimated for the interim Nodal Surcharge filing given the higher overall estimated Nodal Program cost relative to the interim fee of \$0.0663

## ERCOT recommendation

- ERCOT staff believes that the “flat fee” methodology adopted for the interim Nodal Surcharge continues to be appropriate for recovery of Nodal Program costs
- Staff requests the BOD approve a fee filing at the PUCT based upon the BOD approved Nodal Program budget
  - To be funded through a Nodal Surcharge of \$0.127 / MWh
  - To be effective until all Nodal Program costs are fully recovered  
(currently estimated to be by the end of 2012)
- ERCOT staff will monitor progress against the Nodal Program budget and may request changes to the Nodal Surcharge if estimated costs are expected to be materially different
  - Staff will request PUC approval of an expedited hearing process to make those changes if they become necessary
- **F&A recommendation regarding Board approval of updated nodal fee filing**
- **Agenda Item 12a. Approval of Updated Nodal Fee Filing (Vote)**