Date: June 12, 2007
To: Board of Directors
From: Clifton Karnei, Finance & Audit Committee Chair
Subject: TRE 2008 Business Plan & Budget

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: June 19, 2007
Agenda Item No.: 3

Issue:
The Texas Regional Entity – a Division of the Electric Reliability Council of Texas, Inc. (TRE), seeks approval of the proposed 2008 Business Plan and proposed 2008 Budget (Budget), which includes all capital requirements, operating and maintenance expenses (excluding depreciation and amortization) and debt service requirements totaling $4,144,849 to support the activities of TRE in 2008. This amount includes $3,296,066 for activities and expenses for proposing and enforcing the Federal Energy Regulatory Commission (FERC) approved North American Electric Reliability Corporation (NERC) Reliability Standards, pursuant to the Energy Policy Act (EPAct Delegated Duties) and $848,782 for the activities and expenses for investigating compliance with the ERCOT Protocols and Operating Guides, which exist under the Texas's Public Utility Regulatory Act (PURA), and working with Public Utility Commission of Texas (PUCT) staff regarding any potential Protocol violations (collectively 'PURA Compliance Activities'). The Budget does not include funding for capital projects to be completed during 2008.

Background/History:
Section 4.10 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, for its traditional Independent System Operator (ISO) function which budget will enable the company to fulfill its obligations and responsibilities for the reliable operation of the ERCOT market. Now that TRE has been added as an independent and functionally separate division of ERCOT and TRE has signed a Delegation Agreement with NERC, the ERCOT Board also has the responsibility for adopting an annual Budget for TRE. The TRE Budget is required by FERC and NERC to sufficiently ensure that TRE can meet its EPAct Delegated Activities and its PURA Compliance Activities responsibilities. In addition, the Delegation Agreement specifically requires that the TRE budget includes reasonable reserve funding for unforeseen and extraordinary expenses and other contingencies, consistent with generally accepted accounting principles.

The TRE Budget must be approved by the Board and submitted to NERC for approval by July 12, 2007. In developing the TRE 2008 Budget, TRE staff followed a process which included opportunities for interested parties to provide input. TRE solicited information from market participants by conducting a public Workshop and presenting budget material at several meetings of the Finance and Audit Committee (F&A), which were also open to the public.

As a result of the delayed implementation of the EPAct Delegated function from January 1, 2007 to June 2007, and due to lower capital expenditures, the TRE will have excess revenues for 2007. This amount is currently estimated to be $2,646,315. Ultimately, any excess TRE revenues from 2007 will be applied to cover 2008 TRE expenses. Therefore, the resulting 2008 fee will be reduced to reflect any such 2007 TRE over-collections.

F&A will meet on June 19, 2007 prior to the Board meeting to finalize the Committee's recommendation regarding the 2008 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 June 19, 2007 meeting date.

Key Factors Influencing Issue:

TRE must have adequate and sufficient funds in 2008 to:

- Properly complete all EPAct Delegated Duties
- Properly complete all PURA Compliance Activities
- Have reasonable reserve funding for unforeseen and extraordinary expenses and other contingencies (as required by Delegation Agreement)

Alternatives:

1. Approve a revised Budget and Business Plan
2. Don't approve the Budget or Business Plan and request reconsideration of FERC's Order (this is not recommended)

Conclusion/Recommendation:

1. Adopt the proposed 2008 Budget and Business Plan as submitted.
2. Authorize TRE staff to proceed with an appropriate filing at NERC and FERC to have the Budget and Business Plan approved.

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 ("ERCOT") deems it desirable and in the best interest of ERCOT and the Texas Regional Entity – a division of ERCOT ("TRE") to approve the proposed 2008 Business Plan and Budget (Budget), including capital requirements, operating and maintenance expenses (excluding depreciation and amortization) and debt service requirements, totaling $4,144,849, to ensure that the TRE can complete the TRE responsibilities in 2008, including $3,296,066 for EPAct Delegated Duties and $848,782 for PURA Compliance Activities.

THEREFORE, IT IS HEREBY RESOLVED, that the Board hereby adopts the proposed 2008 Budget of $4,144,849 which includes a budget of $3,296,066 for EPAct Delegated Duties and a budget of $848,782 for PURA Compliance Activities.