



ERCOT Finance & Audit Committee Meeting
7620 Metro Center Drive, Austin, Texas
Met Center, Conference Room 168
August 21, 2007; 8:00am – 10:00am*

Item #	Agenda Item Type	Description/Purpose/Action Required	Presenter	Time
1.		Call to order	C. Karnei	8:00am
2.		Adjourn to Executive Session		
	Decision required	2a. Approval of executive session minutes (Vote) (07/17/07)	C. Karnei	8:00am
	For discussion	2b. Revised Procedure for Employee Background & Reference Checks	N. Capezzuti	
	For discussion	2c. Internal Audit status report	B. Wullenjohn	
	Informative	2d. Update on Internal Audit department 2007 goals	B. Wullenjohn	
	Informative	2e. EthicsPoint update	B. Wullenjohn	
	Informative	2f. Identity & Access Management project update	D. Troxtell	
	Informative	2g. Legal advice and counsel	A. Gallo	
	Decision required	2h. SAS 70 Auditor Selection for 2008 (Vote)	B. Wullenjohn	
		Adjourn to Open Session		8:40am
3.	Decision required	Approval of ISO general session minutes (Vote) (07/17/07) (Vote) (08/07/07)	C. Karnei	8:40am
4.	Informative	Update on 2007 SAS 70	S. Barry	8:41am
5.	Informative	Update on third party credit review	C. Yager	8:50am
6.	Decision required	Creditworthiness standards update (Vote)	C. Yager	8:55am
7.	Decision required	Recommendation of 2008 budget (Vote) Preliminary review of 2009 budget	M. Petterson	9:05am
8.	Informative	Preview Compliance and ERM update (Q&A only)	S. Byone	9:35am
9.	Informative	Committee Briefs (Q&A only)	All	9:40am
10.	Informative	Future agenda items	S. Byone	9:50am
11.		Adjourn ISO meeting		9:55am

** Background material is enclosed or will be distributed prior to meeting. All times shown in the agenda are approximate.
The next Finance & Audit Committee Meeting will be held Tuesday, September 18, 2007, at ERCOT, 7620 Metro Center Drive,
Austin, Texas 78744, in Room 168.

Decision required
For discussion

Draft MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

8:00 A.M.

July 17, 2007

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 8:00 A.M. on **July 17, 2007**. The Meeting was called to order by Clifton Karnei, who ascertained that a quorum was present.

Meeting Attendance

Committee members:

Clifton Karnei, Chair	Brazos Electric Cooperative	Cooperative	Present
Miguel Espinosa, Vice Chair	Unaffiliated Board Member	Unaffiliated Board Member	Present
Nick Fehrenbach	City of Dallas	Consumer	Not Present
R. Scott Gahn	Just Energy	Ind. Retail Electric Provider	Present
Michehl Gent	Unaffiliated Board Member	Unaffiliated Board Member	Present
Tom Standish	Centerpoint Energy	Investor-Owned Utility	Present
William Taylor	Calpine Corporation	Ind. Generator	Present
Dan Wilkerson	Bryan Texas Utilities	Municipal	Present

Other Board Members and Segment Alternates:

Steve Bartley	CPS Energy	Municipal	Present
Robert Thomas	Green Mountain Energy	Ind. Retail Electric Provider	Present

ERCOT staff and guests present:

Anderson, Troy	ERCOT
Brenton, Jim	ERCOT
Byone, Steve	ERCOT
Campbell, Cassandra	ERCOT
Davies, Morgan	Calpine
DiPastena, Phil	ERCOT
Doolin, Estrellita	ERCOT
Hancock, Misti	ERCOT
Kahn, Bob	ERCOT
Petterson, Mike	ERCOT
Troxell, David	ERCOT
Vincent, Susan	ERCOT
Yager, Cheryl	ERCOT
Walker, DeAnn	ERCOT
Westbrook, Susan	ERCOT
Wullenjohn, William	ERCOT

Executive Session

At 8:01 A.M., the Committee meeting was adjourned and the Committee went into Executive Session until 8:30 A.M., when the Committee returned to Open Session.

Approval of Previous Minutes

Tom Standish noted that the minutes of the June 19 Committee meeting needed correction to indicate that he was not present. **Dan Wilkerson made a motion to approve the minutes of the Committee meeting held on June 19, 2007, subject to such correction; Mr. Standish seconded the motion. The motion passed unanimously.**

Credit Review Request for Proposal

Clifton Karnei explained that while in executive session during the July 16, 2007, Special Committee Meeting, the Committee had discussed the proposals received from vendors in response to the Credit Review Request for Proposal ("RFP"). The Committee determined that, after careful consideration of the needs of the market, ERCOT credit, and the costs of the finalists, it would recommend to the Board that staff be authorized to proceed with negotiating a contract with a vendor to (1) perform a review and make "best practice" recommendations regarding market credit practices and (2) provide a model to aid in the analysis of credit risk and the adequacy of capital in the ERCOT market, as recommended by ERCOT staff. Because a contract had not yet been negotiated with the top vendor candidate, the Committee agreed to maintain confidentiality of the vendor's identity.

Miguel Espinosa made a motion to recommend approval of the selected credit review vendor as described in and for up to the amount indicated in the Board template; Dan Wilkinson seconded the motion. The motion passed unanimously.

Credit Working Group Update

Morgan Davies reported that the Credit Work Group (CWG) is preparing an update to the ERCOT Creditworthiness Standards, which sets forth whether and to what amount a market participant may have unsecured credit. He explained that CWG had approved some "low hanging fruit" suggestions, including: (1) lowering the maximum unsecured credit allowed for market participants from \$125 million to \$100 million, (2) using Fitch ratings (along with Standards & Poor's and Moody's); (3) using Tangible Net Worth rather than straight Shareholder's Equity when setting maximum unsecured credit limits; and (4) establishing modified rules limiting amount of maximum unsecured credit allowed under foreign guarantees when quarterly financials are not provided. Mr. Davies noted that the Board would need to approve any modifications to the Creditworthiness Standards and that CWG planned to bring its initial recommendations for Committee consideration and Board review in August or September. He committed to review the proposed changes with TAC prior to bringing them to the F&A Committee. Mr. Karnei asked that CWG report back after meeting with TAC, to notify the Committee of TAC input, comments, and concerns, by segment. William Taylor noted that, because TAC did not have to approve the standards, no formal feedback by segment would be possible.

Mr. Taylor asked Ms. Yager about the additional staff referred to in the materials. Ms. Yager indicated that some of the changes to the Creditworthiness Standards being considered by CWG includes taking into consideration qualitative as well as quantitative factors. Mr. Davies noted that using qualitative factors is now considered best practice and is being used or considered at other ISOs and is supported by FERC, for entities that are FERC jurisdictional. Ms. Yager wanted to ensure that the Committee was aware that ERCOT was not currently staffed to accommodate this change and has not included it in the 2008 budget request. If this change is made and ERCOT considers qualitative factors, at least one additional staff would be required. Ms. Yager confirmed to Mr. Taylor that this determination would likely not be completed before the 2008 budget process was complete.

Finally, Mr. Davies explained that CWG expected to recommend additional changes to the Creditworthiness Standards at a future date. He noted that the CWG was also considering options to transfer risk out of the market, through tools like credit derivatives or insurance.

Cheryl Yager noted that the implementation of Texas SET 3.0 in late June complete the currently planned activities to reduce credit risk in the market. With this implementation, the timeframe to move an entity out of the market was reduced by around 4-5 days (thus making the entire Mass Transition process around 10–12 days).

Quarterly investment performance update

Ms. Yager summarized the investment results from the 2nd quarter with the Committee, noting that there had been no substantial changes. In response to inquiry, Ms. Yager noted that ERCOT was holding \$124 million in collateral deposits as of June 30, and that the interest received on these deposits is passed through to the market participants who post the deposits.

Preliminary 2008 Budget Review

Mike Petterson provided the Committee with an overview of the preliminary 2008 draft Budget, explaining that staff was trying to give a clear view of 2008 and a vision of 2009 and 2010. He told the Committee that, as communicated to the Board several times in recent months, there continues to be upward pressure on the fee, and there is still significant uncertainty regarding the long-term operational and financial implications of transitioning to a Nodal market model. However, he informed the Committee that management proposes:

- the 2008 ERCOT System Administration fee remain flat at \$0.4171 per MWh
- the Nodal program surcharge remain at \$0.1270 per MWh in 2008
- all other charges and fees collected by ERCOT remain unchanged in 2008

Miguel Espinosa requested clarification of the budget impacts shown at slide 4 of Mr. Petterson's presentation. Mr. Petterson offered an explanation, and agreed to include the clarification before the slide is posted on ERCOT's website.

Mr. Petterson and Mr. Byone discussed the many staff requests by line managers which were declined and adjustments made to the 2008 budget in order to avoid the need for a rate increase and the attendant time and money that would be involved in a rate case. Mr. Byone said that many managers were not pleased about the reductions in staff additions which were being denied by management, but they were trying to manage their budgets to help allow the fee to remain flat. Mr. Byone explained to the Committee that the 2008 Budget benefited from the transfer of all NERC fees and Texas Regional Entity operating costs for federal work as these cost were no longer paid from the System Administration fee. He also noted that, to the extent feasible and based upon resource availability, staff was trying to accelerate certain planned 2008 capital projects into 2007 so that these could be completed using available 2007 capital funds.

Mr. Gahn questioned whether ERCOT's current cost recovery method is mandated by statute or PUC rules, since the billing determinants didn't seem to make sense for an entity whose costs are not load-sensitive. Mr. Karnei suggested that management try to raise the issue of the fee basis with the PUC.

Mr. Espinosa asked if the Commission had seen the budget yet, and Mr. Byone explained that, since the materials were only completed the previous Friday, they had not yet visited with the Public Utility Commission about this draft budget. The Committee discussed headcount, and Mr. Byone explained that the Nodal Program staff included some employees as well as consultants. Mr. Karnei confirmed with Mr. Petterson that management now expected to require additional staff in the Nodal (post-2008) market.

Mr. Wilkinson requested that Mr. Petterson provide a 5-year budget forecast at the August Committee meeting, noting that at the current spend rate, Nodal funding would be exhausted by this time next year. Mr. Karnei noted that budget predictions for 2009 and beyond are subject to significant uncertainty about additional staffing and operating expenses needed to operate under a nodal market structure. Mr. Wilkerson noted the fact that MWh were increasing at a lower rate than salaries were increasing and this would continue to cause upward pressure on the System Administration fee for 2009 and beyond.

Mr. Byone confirmed for the Committee that that the 5-year budget projection would be available and they could further discuss the proposed 2008 budget with the benefit of more detail at the Special Meeting that was scheduled for August 7, 2007.

Mr. Wilkerson noted that, with the moderate weather, the ERCOT revenues were down, causing additional rate pressure. Mr. Gahn noted that the reason ERCOT originally thought it could keep the System Administration fee flat was because of the expected increase in MWh. Mr. Karnei asked all members to let Mr. Byone know if they had any additional data request or comments on items included in the draft budget, prior to the August 7 Special Meeting.

Committee briefs (Q&A only)

Project Update - Identity & Access Management

David Troxtell reported that the Identity Access Management project would not be completed within its contract deadline and the cost will likely exceed the original budget of \$1.4 million. ERCOT plans to terminate the contracts for IAM development due to vendor quality and cost problems. Mr. Troxtell told the Committee that the project team was re-looking at the project, and that the IT Development Director was anticipating completing the project by using ERCOT employees and staff augmentation. He confirmed that a full briefing on the project will be provided at the August meeting.

Mr. Karnei reminded the members that the IAM project was intended to provide an automated solution to a SAS70 audit finding regarding certification procedures. Jim Brenton indicated that his staff would do a manual certification of access, pending completion of the automated system, in order to be SAS70 compliant.

Ms. Yager introduced Phil DiPastena, ERCOT's new Enterprise Risk Manager.

Future Agenda Items

Mr. Espinosa noted that Nancy Capezzuti's report on enhanced background investigation and hiring practices should be added as an agenda item for the next meeting.

Mr. Byone reminded the Committee that Sean Barry from PricewaterhouseCoopers would attend the August meeting and update the Committee on the SAS70 progress.

Adjournment

At 9:32 A.M., the Committee meeting was adjourned.

The next regular Committee meeting will be held on the morning of Tuesday, August 21, 2007.

Susan Vincent, Secretary

Draft MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE SPECIAL MEETING

Austin Met Center

9:00 A.M.

August 7, 2007

Pursuant to notice duly given, the special meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 9:00 A.M. on **August 7, 2007**. The Meeting was called to order by Clifton Karnei, who ascertained that a quorum was present.

Meeting Attendance

Committee members:

Clifton Karnei, Chair	Brazos Electric Cooperative	Cooperative	Present (via phone)
Miguel Espinosa, Vice Chair	Unaffiliated Board Member	Unaffiliated Board Member	Present (via phone)
Nick Fehrenbach	City of Dallas	Consumer	Present (via phone)
R. Scott Gahn	Just Energy	Ind. Retail Electric Provider	Not Present
Michehl Gent	Unaffiliated Board Member	Unaffiliated Board Member	Present (via phone)
Tom Standish	Centerpoint Energy	Investor-Owned Utility	Not Present
William Taylor	Calpine Corporation	Ind. Generator	Present (via phone)
Dan Wilkerson	Bryan Texas Utilities	Municipal	Not Present

Other Board Members and Segment Alternates:

Helton, Bob	International Power America	Segment Alternative: Independent Generator	Present
Cox, Brad	Tenaska Power Services	Board Member	Present (via phone)

ERCOT staff and guests present:

Bojorquez, Bill	ERCOT (via phone)
Brewster, Chris	City of Eastland
Byone, Steve	ERCOT
Capezzuti, Nancy	ERCOT
Day, Betty	ERCOT (via phone)
Doolin, Estrellita	ERCOT
Gallo, Andy	ERCOT
Garza, Beth	ERCOT
Goodman, Dale	ERCOT (via phone)
Hancock, Misti	ERCOT
Hinsley, Ron	ERCOT
Jones, Liz	TXU – Austin Regulatory
Jones, Sam	ERCOT
Kahn, Bob	ERCOT
Lester, Suzanne	ERCOT
Mueller, Paula	PUCT (via phone)
Petterson, Mike	ERCOT

Saathoff, Kent	ERCOT (via phone)
Thorne, James	ERCOT
TroxteLL, David	ERCOT (via phone)

Presentation of Proposed 2008 Budget

Michael Petterson introduced the discussion of the proposed 2008 ERCOT ISO budget (Budget) by reviewing the preparation schedule, process and objectives. He explained that input from the Committee would be incorporated into the final draft which would be presented to the Committee during its meeting scheduled for August 21, 2007.

Mr. Karnei reiterated that the purpose of the meeting was for the Committee to prepare to make a tentative recommendation to the full Board during the August meeting to enable the Board to take action on the 2008 Budget during the September meeting.

Miguel Espinosa asked if a fee case would be required to approve the Budget. Mr. Petterson responded that a flat fee would not require a fee filing. Bob Kahn confirmed that a fee case would not be required. Mr. Espinosa then asked whether the three Public Utility Commission of Texas (PUCT) Commissioners had been given an opportunity to have input on the Budget. Mr. Kahn answered that obtaining their input was in process.

Mr. Petterson pointed out that pages 40-45 of the materials distributed prior to the meeting included details about the proposed projects (Projects) for 2008. Nick Fehrenbach asked how many Projects had been approved. David TroxteLL answered that all the Projects on the list had been approved through TAC and would be presented to the Board for approval. TroxteLL further explained that while some Projects on the list were carried over from 2007, those that had been below the funding line in previous years had not been previously approved by the Board. Mr. TroxteLL added that the carry-over Projects that were approved in 2007 would be finished up in 2008.

Mr. Karnei asked about the number of projects on the list that had been below the cut line for funding in previous years. Mr. TroxteLL responded that he would check and include the information in the packet of materials for the next Committee meeting. He expected the number to be much lower than previous years.

Mr. Petterson reviewed several budget assumptions for years 2009-2013 regarding operating expenses, Project expenditures and energy consumption.

Mr. Espinosa requested that the Full Time Equivalency Summary presented on page 20 of the materials be updated to include information for years 2005 through 2007. Mr. Petterson agreed to make the change.

Reacting to the information present on page 11 of the materials (“Revenue Requirement and ERCOT system Administration Fee Summary”), Mr. Karnei asked how debt service-principle could be leveled so far in the future. Steve Byone responded that the numbers were not inclusive of payments expected to be made in connection with Nodal; he expected the number to be \$50 million; and that \$26 million is shown because the twelve cent Nodal Program surcharge had not yet been incorporated into base operations. Mr. Karnei asked if the 2009 budget would show two revenue lines; Mr. Byone responded in the affirmative. In response to Mr. Karnei’s questions, Mr. Byone explained that the \$26 million number was “forced” (for 2009 and beyond) and did not come from existing debt amortization schedules and that he expected debt repayments would be held flat with some exceptions. Mr. Espinosa asked if the number included any carry-over of favorable financial results from 2007. Mr. Byone answered that none were projected because revenues were underrunning in the current year.

Mr. Karnei asked if the actual principal payments should be lower to put downward pressure on the fee. Mr. Byone answered that such action was possible, but a preferred action to reducing the fee would be to reduce debt And debt service obligations.

Mr. Karnei stated that the \$26 million would trend down at some point. Mr. Byone agreed and added he did not believe the downward trend would occur during the time period shown on the table especially considering certain longer term assets that would be debt-funded.

Mr. Byone confirmed that the \$26 million is based on contracted terms in 2008 but is based, in part, on assumed debt repayment starting in 2009. Mr. Karnei suggested that the numbers should be carefully reviewed in 2008 to determine whether to move up or down.

Mr. Petterson made several general comments including that the \$22 million shown for Total Project Spending in 2009 may prove low given that the project list included no funding for a modified or new back-up control center and no funding for potential project surge following the go-live of the Nodal market in December 2008. ; that average two percent load growth was consistent with historical trends and supported by ERCOT's planning staff; and that in the event of unfavorable financial results management had a number of options including reducing costs (e.g. possibly delay initiatives), making use of short-term borrowing capacity, or , as a last resort, seek to increase fees. In any situation, the Committee and Board of Directors would be made aware of significant financial variances as well as management plans to mitigate risk posed by the variance.

Mr. Espinosa referred to page 12 of the materials ("Revenue Requirement and ERCOT System Administration Fee Summary Table") are requested that the table be revised to include actual for 2007. Mr. Byone agreed to make the change.

Nick Fehrenbach asked what accounted for the increase for "Labor & Benefits" (page 12, line 2). Mr. Petterson answered that the employee count of 643 was held constant through 2013 and that the 2008 budget included a number of employees working predominantly on the Nodal project. He also directed the group's attention to page 20 of the materials ("Full Time Equivalency Summary") and explained that the base budget for 2007 excluded any Nodal impacts.

Mr. Fehrenbach asked what was driving the increase for "Utilities, Maintenance & Facilities" (page 12, line 14). Mr. Petterson directed the group's attention to page 36 ("Facilities Summary") and noted the significant jump (26.6%) for electricity. He also noted the increases for office rental, conference calls, and the operation of the Wide Area Network ("WAN"). He added that the increases had been off-set somewhat by a re-negotiated contract for local telephone service which decreased annual expenses by approximately \$500,000. Mr. Karnei noted the irony of ERCOT's utility cost increases being based on higher electricity costs.

Mr. Fehrenbach asked what comprised "Employee Expenses" (page 12, line 15). Mr. Petterson directed the group's attention to page 38 ("Employee Expense Summary"). In response to questions about the College Education Reimbursement numbers, Nancy Capezzuti explained that an approximate increase of \$40K was expected for 2008 due primarily to the fact that the program was introduced in 2007 and would be available for the full year in 2008. Mr. Karnei questioned the distinction between the two lines for travel (page 38). Mr. Petterson explained that "Travel – Airfare" included costs related to training and agreed to revise the table to be more descriptive.

Mr. Fehrenbach asked what comprised "Other" (page 12, line 19). Mr. Petterson directed the group's attention to page 39 of the materials ("Other Expense Summary") and explained that the largest category ("Subscriptions and Publications) included costs for items such as a weather bank database subscription and load forecasting service. In response to Mr. Espinosa's question about the increase from 2007 to 2008, Mr. Petterson answered that he was comfortable with the increase and offered to break out the information to provide more detail about the expense.

Mr. Fehrenbach asked about "Dues-Misc Clubs" for 2007 (page 39). Misti Hancock explained that the table included some accrual reversals which needed to be revised. Mr. Petterson

offered to provide the correct detail in the materials provided to the Committee for its next meeting.

Mr. Espinosa asked if the amount spent year-to-date for "Relocation Benefit" (page 39) was due to a timing issue or if that category was expected to be under spent. Mr. Petterson responded that the expense would be reduced going forward and that the HR team had restructured the benefit and added more controls around eligibility.

Mr. Fehrenbach referred to page 15 of the materials ("Expenditure Summary by Division") and asked about the expected increase for the "Insurance" category. Mr. Byone responded that there was an increase in the value of assets going on the books so the coverage would increase. He also noted the assumption that credit insurance would be obtained during 2008. Mr. Fehrenbach asked if there was a basis for the credit insurance estimates. Mr. Byone answered that the information was available and that it would be up to the Board to decide whether or not to move forward to implement credit insurance.

Mr. Fehrenbach referred to page 16 of the materials ("Expenditure Summary by Division") and asked what was driving the increase in Labor & Benefits for System Operations. Kent Saathoff answered that there would be more people supporting Nodal and the Independent Monitoring function. Mr. Petterson added that the addition of historical information may provide clarity to the trends in labor costs.

Mr. Fehrenbach referred to page 17 of the materials ("Expenditure Summary by Division") and asked about the Labor & Benefits numbers for Information Technology. In particular, he wanted to know whether fewer people would be needed for routine duties or if outsourcing was expected. Ron Hinsley answered that some positions would be back-filled with contract labor and some would be replaced by Nodal. Mr. Fehrenbach also asked about the fluctuation for Materials, Supplies, Tools & Equipment for Information Technology. Mr. Hinsley agreed to provide the details at a later date.

Mr. Fehrenbach referred to page 19 of the materials ("MWh Load Comparison") and asked about the apparent outliers. He added that the public may assume there is a problem with the forecast. Bill Bojorquez explained that there was a problem with the data used to create the charts and agreed to provide corrected information at a later date. After some discussion about trends in the Dallas area, Mr. Byone explained that policy has been to use the same number from planning for revenue forecasts in the budget. He said he would be happy to use a lower growth number if the Board supported that change in policy. He also mentioned that a Committee member had previously requested looking into ways to establish revenue that was not dependent on megawatt hours and that a proposal would be prepared prior to the next fee filing.

Mr. Fehrenbach referred to page 22 of the materials ("Outside Services Expense Detail") and asked about legal services regarding litigation (line 7). James Thorne explained that the increase from 2008 to 2009 was due to the expected fee filing. Mr. Thorne also agreed to provide information for 2007 to assist Committee members with understanding the cost trends.

Mr. Fehrenbach referred to page 22 of the materials ("Outside Services Expense Detail") and asked about immigration assistance (line 11). Ms. Capezzuti and Mr. Thorne explained that the item had been reallocated to the HR Department from the Legal Department and that it had been decided to use outside services instead of in-house attorneys because only about half the costs covered outside counsel fees and the other half covered filings required for H1B visas and other immigration issues. In response to Mr. Fehrenbach's suggestion, Ms. Capezzuti agreed to revise the comments for the line item to make it clear that the costs would not be 100% legal. Mr. Fehrenbach commented that he was not convinced that recruitment of foreign nationals was necessary. Ms. Capezzuti responded that the current recruitment strategy involved looking inside the United States before looking outside. She added that many foreign national candidates receive their education in the United States.

Mr. Fehrenbach referred to page 23 of the materials (“Outside Services Expense Detail”) and asked about the comments related to the Black Start units (line 14). In particular, he questioned using outside consultants for on-going work. Mr. Saathoff explained that the expertise necessary to conduct the comprehensive studies to determine how “islands” tie together did not exist internally. Mr. Karnei commented that there was pressure to keep full-time employee positions down. Mr. Kahn added that a cost comparison between full-time employee positions and contractor positions would be conducted to ensure the focus on keeping full-time employee positions low did not negatively impact the bottom line.

Mr. Fehrenbach referred to page 24 of the materials (“Outside Services Expense Detail”) and asked about the property tax services (line 27) and whether outside services were needed. Mr. Petterson and Andy Gallo explained that a significant portion of the expenses would be funded by tax savings realized. Mr. Karnei commented that his experience with such services had been positive.

Mr. Fehrenbach referred to page 26 of the materials (“Outside Services Expense Detail”) and asked whether the voice/data cabling data assistance (line 34) was a temporary need. Mr. Hinsley explained that full-time employees handled some tasks, but there would be an on-going need to augment staff with contractors.

Brad Cox asked whether it was possible to incorporate measures of productivity in the budget materials. He commented that it would be good to show the Commissioners the fees have been kept flat for four years while services offered have been increased. Mr. Byone responded that there had been some discussions along those lines and that ERCOT would attempt to present such findings.

Mr. Byone asked if the Committee agreed to not make a fee filing for 2008 and commented that certain trade-offs had been made to allow for a flat fee. Mr. Karnei confirmed that the general consensus of the Committee was that no fee filing was necessary, subject to the results of the next meeting.

Public Feedback

Mr. Byone asked if there were any questions or comments from public participants. Liz Jones suggested putting the detailed information in an appendix. Mr. Byone agreed to prepare an appendix.

Committee Discussion and Next Steps

Mr. Karnei asked Committee members to prepare a second round of questions for presentation during the next Committee meeting. He also invited Committee members to submit detailed questions to Mr. Byone via phone or email before the next meeting. Mr. Byone confirmed that a packet of materials would be made available for the full Board. Mr. Espinosa requested that the number of pages in the packet be reduced. Mr. Byone agreed to include 12-15 summary slides.

Adjournment

At 10:25 A.M. the Committee meeting was adjourned.

Estrellita J. Doolin
for Susan Vincent, Secretary

**ERCOT, Inc.
2007 SAS #70
Scope and Status
Finance & Audit Committee
August 21, 2007**

Overview

- SAS 70 is an examination of Internal Controls
- ERCOT has been the subject of numerous internal control audits
- SAS 70 Scope fits in this way:
 - Covers market activities – not internal accounting (fee matters)
 - Primarily for benefit of market participants and their auditors – including SEC 404 requirements
 - Recurring in nature – not a one time project (like some ERCOT controls audits)
 - Covers an specific period of time

Overview

- SAS 70 History
 - Prior to 2004 – diagnostic and preparation reviews; and one point in time audit
 - 2004 to present – annual type 2 audit covering 6 month periods ending September 30th
- Key timing matters
 - Report to be issued to market participants before December 31st – helps meet 404 requirements
 - 2008 plan is to begin year-round approach
 - Consistent with most other markets
 - Demonstrates more maturity/control

Scope of SAS 70

- Functions and processes covered:
 - Business processes and general controls that impact or affect financial wholesale market settlement
 - Processes that are otherwise “invisible” to the members and upon which they must rely on ERCOT for controls
- Scope changes from prior year
 - Some streamlining of report – reducing number of objectives from 18 to 15; reducing redundancies
 - 3 business processes combined
 - 1 IT objective reorganized/ eliminated
 - Scope of items tested not materially impacted

Phase 1 Status and Findings

- Phase 1 comprises testing of first half of period – roughly April through June
- Coordination and efficiency improved from prior years, particularly in areas of prior challenge (example - IT Security)
- Planned Phase 1 testing successfully completed
 - No firm exceptions identified
 - Follow-up items and potential exceptions are limited system access issues
 - Overall improvement in controls noted

Coming Attractions

- Phase 2 testing to be performed in September
- SAS 70 Report to be prepared and findings validated in October and November
- Report issuance planned for the first week in December
 - Concurrent conference call with market participants
 - Briefing of F&A Committee as desired (December if practical)
- Questions ?

Update

<Revisions and vote>

Electric Reliability Council of Texas, Inc.

Creditworthiness Standards

Referenced in Section 16.2.5 of the Protocols

Referenced in Section 16.11 of the Nodal Protocols

Creditworthiness Standards for Cooperative and Municipal Systems

IF YOUR ENTITY HAS	AND	AND	AND	THEN
Minimum Equity (Patronage Capital)				Maximum unsecured line as a percentage of Unencumbered Assets
\$25,000,000				0.00% to 5.00%
	1.05	1.00	0.15	

* Unsecured line not to exceed \$100 million.

Unencumbered Assets is defined as Total Assets minus Total Secured Debt.

Note 1: Cooperatives shall apply these standards consistent with RUS [CFR Sec. 1717.656 (3)]. Municipals shall apply these standards annually.

Note 2: A Cooperative or Municipal must use "Rated Entity" standards for qualification if that entity is publicly rated by Fitch, S&P or Moody's and has greater than \$100 million in equity.

Note 3: The amount of unsecured line established within the range above is at the discretion of ERCOT if the above criteria are met.

Electric Reliability Council of Texas, Inc.

Creditworthiness Standards

Referenced in Section 16.2.5 of the Protocols
 Referenced in Section 16.11 of the Nodal Protocols

Creditworthiness Standards for Rated Entities

IF YOUR ENTITY HAS		AND	THEN		
Long-Term or Issuer Rating		Tangible Net Worth greater than	Maximum unsecured line as a percentage of Tangible Net Worth		
<u>Fitch or S&P</u>	<u>Moody's</u>				
AAA	Aaa	\$ 100,000,000	0.00%	to	3.00%
AA+	Aa1	\$ 100,000,000	0.00%	to	2.95%
AA	Aa2	\$ 100,000,000	0.00%	to	2.85%
AA-	Aa3	\$ 100,000,000	0.00%	to	2.70%
A+	A1	\$ 100,000,000	0.00%	to	2.55%
A	A2	\$ 100,000,000	0.00%	to	2.35%
A-	A3	\$ 100,000,000	0.00%	to	2.10%
BBB+	Baa1	\$ 100,000,000	0.00%	to	1.80%
BBB	Baa2	\$ 100,000,000	0.00%	to	1.40%
BBB-	Baa3	\$ 100,000,000	0.00%	to	0.70%
Below BBB-	Below Baa3	Requires Security			

* Unsecured line not to exceed \$100 million

Tangible Net Worth is defined as Total Shareholder's Equity less Goodwill or other intangible assets.

Note 1: If a Market Participant's or Guarantor's debt is rated by more than one of the rating agencies and all ratings fall within rating categories which are functional equivalents, ERCOT shall assign unsecured credit or allow a guarantee for amounts within the range for that rating.

If a Market Participant's or Guarantor's debt is rated by more than one of the rating agencies and the ratings fall within different rating categories which are not functional equivalents, ERCOT shall assign unsecured credit or allow a guarantee for amounts as follows:

- If there are 3 ratings and 2 of the 3 are functional equivalents, within the range where 2 of the 3 ratings apply
- If there are 3 ratings and all 3 are different, within the range where the average of the 3 ratings apply (rounded down)
- If there are 2 ratings and the two are different, within the range of the lower of the two

Note 2: ERCOT has the discretion to reasonably request any entity to provide updated financial information and may adjust credit limits as required.

Note 3: The amount of unsecured line established within the range above is at the discretion of ERCOT if the above criteria are met.

Electric Reliability Council of Texas, Inc.

Creditworthiness Standards

Referenced in Section 16.2.5 of the Protocols
 Referenced in Section 16.11 of the Nodal Protocols

Creditworthiness Standards for Privately-Held Entities

IF YOUR ENTITY HAS	<u>AND</u>	<u>AND</u>	<u>AND</u>	<u>THEN</u>
Tangible Net Worth	Minimum Current Ratio	Maximum Debt to Total Capitalization Ratio	Minimum EBITDA to Interest and CMLTD	Maximum unsecured line as a percentage of Tangible Net Worth
100,000,000	1.0	0.60	2.0	0.00% to 1.80%

*Unsecured line not to exceed \$100 million

Tangible Net Worth is defined as Total Shareholders' Equity less Goodwill or other intangible assets.

Debt to Total Capitalization Ratio is defined as Long-Term Debt (including all current borrowings) divided by Total Shareholders' Equity plus Long-Term Debt.

Note 1: An unsecured limit will be set for privately-held entities which do not have a long-term rating based on the above criteria, subject to the entity providing ERCOT with the most recent audited financial statements, and subsequent quarterly unaudited interim financial statements.

Note 2: ERCOT has the discretion to reasonably request any entity to provide updated financial information and may adjust credit limits as required.

Note 3: The amount of unsecured line established within the range above is at the discretion of ERCOT if the above criteria are met.

Electric Reliability Council of Texas, Inc.

Creditworthiness Standards

Referenced in Section 16.2.5 of the Protocols

Referenced in Section 16.11 of the Nodal Protocols

Entities not meeting the requirements established by the Protocols must provide one (or a combination) of the following forms of financial security for the benefit of ERCOT, as defined in the Protocols. Acceptance of financial security is subject to the review and approval of ERCOT.

1. **Cash Deposit** - standard form n/a
2. **Letter of Credit**
 - a. Must be issued by a bank with a minimum rating of A- with Fitch or S&P or A3 with Moody's
 - b. Must be issued on the Standard Form document approved by the Board of Directors
3. **Corporate Guarantee**
 - a. Guarantor must meet applicable credit standards as stated in the ERCOT Protocols
 - b. Guarantee must be on the Standard Form document approved by the Board of Directors
4. **Foreign Guarantee**
 - a. Guarantor must meet applicable credit standards as stated in the ERCOT Protocols, as well as the standards listed below
 - b. The country of domicile for the foreign guarantor must:
 - i. Maintain a sovereign rating greater than or equal to AA with Fitch or S&P or Aa2 with Moody's
 - ii. If the ratings are below those in (i) above, but greater than or equal to A with Fitch or S&P or A2 with Moody's, then the sovereign rating would qualify if the country had a ceiling rating of AAA with Fitch or S&P or Aaa with Moody's
 - iii. Must have reciprocity agreements with the U.S. regarding enforcement and collection of guarantee agreements
 - c. The foreign guarantor must:
 - i. Provide to ERCOT annual audited financial statements, prepared in accordance with U.S. generally accepted accounting principles or international accounting standards and quarterly unaudited financial statements
 - ii. If the foreign guarantor does not provide quarterly financial statements, the assigned credit limit will be reduced based on their credit rating by:
 1. A- (Fitch or S&P) or A3 (Moody's) and above: 20%
 2. BBB+ (Fitch or S&P) or Baa1 (Moody's) or below: 50%
 - iii. Provide a guarantee in the form of the ERCOT Board approved standard form guarantee Agreement for foreign Entities
 - iv. Reimburse ERCOT the cost of obtaining an opinion of counsel affirming that the guarantee agreement is enforceable in the U.S. and in the jurisdiction of the corporate guarantor's domicile
 - v. Maintain a registered Texas Registration Agent
5. **Surety Bond**
 - a. Must be issued by an insurance company with a minimum rating of A- with Fitch or S&P or A3 with Moody's
 - b. Subject to a limit of \$10 million per QSE per insurer and an overall limit of \$100 million per insurer for all ERCOT QSEs

Electric Reliability Council of Texas, Inc.

Creditworthiness Standards

Referenced in Section 16.2.5 of the Protocols

Referenced in Section 16.11 of the Nodal Protocols

Creditworthiness Standards for Cooperative and Municipal Systems

<u>IF YOUR ENTITY HAS</u>	<u>AND</u>	<u>AND</u>	<u>AND</u>	<u>THEN</u>
<u>Minimum Equity (Patronage Capital)</u>	<u>Minimum Times Interest Earnings Ratio (TIER)</u>	<u>Minimum Debt Service Coverage (DSC)</u>	<u>Minimum Equity to Assets</u>	<u>Maximum unsecured line as a percentage of Unencumbered Assets</u>
<u>\$25,000,000</u>	<u>1.05</u>	<u>1.00</u>	<u>0.15</u>	<u>0.00% to 5.00%</u>

* Unsecured line not to exceed \$100 million.

Unencumbered Assets is defined as Total Assets minus Total Secured Debt.

<u>Sec 16.2.5.1.1</u>			
<u>Minimum Equity (Patronage Capital)</u>			<u>\$25,000,000</u>
	<u>TIER</u>	<u>DSC</u>	<u>Equity to Assets</u>
<u>Required Minimum Ratios</u>	<u>1.05</u>	<u>1.00</u>	<u>0.15</u>
<u>(All of the 3 above ratios must be in compliance)</u>			
<u>A Max Unsecured line of 0% to 5% of Unencumbered Assets (Total Assets minus Total Secured Debt) will be established at the discretion of the ERCOT ISO if the above criteria are met. This line shall not exceed \$125 million.</u>			

Note 1: Cooperatives shall apply these standards consistent with RUS [CFR Sec. 1717.656 (3)]. Municipals shall apply these standards annually.

Note 2: A Cooperative or Municipal Cooperatives & Municipals must use “Rated Entity~~All Other~~ standards for qualification if that entity is publicly rated by Fitch, S&P or Moody’s and has greater than \$100 million in equity.

Note 3: The amount of unsecured line established within the range above is at the discretion of ERCOT if the above criteria are met.

Electric Reliability Council of Texas, Inc.

Creditworthiness Standards

Referenced in Section 16.2.5 of the Protocols

Referenced in Section 16.11 of the Nodal Protocols

Creditworthiness ^{Credit} Standards for Rated ^{all-Other} Entities

Sec 16.2.5.1.1

<u>IF YOUR ENTITY HAS</u> <i>your entity has</i>		<u>AND</u>	<u>THEN</u>		
<u>Minimum Equity</u>		<u>\$100,000,000</u>			
<u>Long-Term or Issuer Rating</u>		<u>Tangible Net Worth</u> <u>greater than</u> <u>Shareholder Equity</u> <u>Greater than</u>	<u>Maximum unsecured line as a percentage of Tangible Net Worth</u> <u>Max Unsecured line as a Percentage of Shareholders' Equity*</u>		
<u>Fitch or S&P</u>	<u>Moody's</u>				
AAA	Aaa	\$ 100,000,000	0.00%	to	3.00%
AA+	Aa1	\$ 100,000,000	0.00%	to	2.95%
AA	Aa2	\$ 100,000,000	0.00%	to	2.85%
AA-	Aa3	\$ 100,000,000	0.00%	to	2.70%
A+	A1	\$ 100,000,000	0.00%	to	2.55%
A	A2	\$ 100,000,000	0.00%	to	2.35%
A-	A3	\$ 100,000,000	0.00%	to	2.10%
BBB+	Baa1	\$ 100,000,000	0.00%	to	1.80%
BBB	Baa2	\$ 100,000,000	0.00%	to	1.40%
BBB-	Baa3	\$ 100,000,000	0.00%	to	0.70%
Below BBB-	Below Baa3	Requires Security			

* Unsecured line not ~~Not~~ to exceed \$100 ~~25~~ million

Tangible Net Worth is defined as Total Shareholder's Equity less Goodwill or other intangible assets.

Note 1:

If an entity has a split rating (i.e. different ratings from S&P and Moody's), the lower rating shall apply
If a Market Participant's or Guarantor's debt is rated by more than one of the rating agencies and all ratings fall within rating categories which are functional equivalents, ERCOT shall assign unsecured credit or allow a guarantee for amounts within the range for that rating.

If a Market Participant's or Guarantor's debt is rated by more than one of the rating agencies and the ratings fall within different rating categories which are not functional equivalents, ERCOT shall assign unsecured credit or allow a guarantee for amounts as follows:

- If there are 3 ratings and 2 of the 3 are functional equivalents, within the range where

Electric Reliability Council of Texas, Inc.

Creditworthiness Standards

Referenced in Section 16.2.5 of the Protocols

Referenced in Section 16.11 of the Nodal Protocols

2 of the 3 ratings apply

- If there are 3 ratings and all 3 are different, within the range where the average of the 3 ratings apply (rounded down)
- If there are 2 ratings and the two are different, within the range of the lower of the two

Note 2:

ERCOT has the discretion to reasonably request any entity to provide updated financial information and may adjust credit limits as required.

Note 3:

The amount of unsecured line established within the range above is at the discretion of ERCOT if the above criteria are met. *The above chart displays the calculation for the maximum limit of unsecured credit. The entity's actual credit limit will be determined by ERCOT. For example, if the TEL or EAL for an entity is \$1,000, and the maximum unsecured credit is calculated to be \$2,000, the \$1,000 limit will be applied.*

Electric Reliability Council of Texas, Inc.

Creditworthiness Standards

Referenced in Section 16.2.5 of the Protocols
 Referenced in Section 16.11 of the Nodal Protocols

Creditworthiness Standards for Privately-Held Entities

<u>IF YOUR ENTITY HAS</u>	<u>AND</u>	<u>AND</u>	<u>AND</u>	<u>THEN</u>
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Credit Standards for Privately-held Entities

Sec 16.2.5.1-1

<u>IF your entity has</u>	<u>AND</u>	<u>THEN</u>
<u>Minimum Equity</u>	<u>\$100,000,000</u>	

<u>Tangible Net Worth</u>	<u>Minimum Current Ratio</u>	<u>Maximum Debt to Total Capitalization Ratio</u>	<u>Minimum EBITDA to Interest and CMLTD</u>	<u>Maximum unsecured line as a percentage of Tangible Net Worth</u> <u>Max Unsecured line as a Percentage of Shareholders' Equity*</u>
<u>100,000,000</u>	<u>1.0</u>	<u>0.60</u>	<u>2.0</u>	<u>0.00% to 1.80%</u>

*Unsecured line not to exceed \$100+25 million

Tangible Net Worth is defined as Total Shareholders' Equity less Goodwill or other intangible assets.

Debt to Total Capitalization Ratio is defined as Long-Term Debt (including all current borrowings) divided by Total Shareholders' Equity plus Long-Term Debt.

Note 1: An unsecured limit ~~A Max Unsecured Limit~~ will be set for privately ~~Privately~~-held entities which do not have a long-term rating based on the above ~~following~~ criteria, subject to the entity providing ERCOT with the most recent audited financial statements, and subsequent quarterly unaudited interim financial statements.

Note 2: ERCOT has the discretion to reasonably request any entity to provide updated financial information, and may adjust credit limits as required.

Note 3: The amount of unsecured line established within the range above is at the discretion of ERCOT if the above criteria are met. ~~The above chart displays the calculation for the maximum limit of unsecured credit. The entity's actual credit limit will be determined by ERCOT. For example, if the TEL for an entity is \$1,000, and the maximum unsecured credit is calculated to be \$2,000, the \$1,000 limit will be applied.~~

Electric Reliability Council of Texas, Inc.

Creditworthiness Standards

Referenced in Section 16.2.5 of the Protocols

Referenced in Section 16.11 of the Nodal Protocols

Entities not meeting the requirements established by the Protocols must provide one (or a combination) of the following forms of financial security for the benefit of ERCOT, as defined in the Protocols. Acceptance of financial security is subject to the review and approval of ERCOT. ~~Sec 16.2.5.1.2~~

~~Entities not meeting the minimums established pursuant to Sec. 16.2.5.1 must provide one (or a combination) of the following for the benefit of, and subject to approval and acceptance by ERCOT:~~

~~Standard Form as Provided by ERCOT
Subject to Approval and Acceptance~~

A.1. Cash Deposit - standard (form n/a)

B.2. Letter of Credit

- a. Must be issued (~~issued~~ by a bank with a minimum rating of A- with Fitch or S&P ~~or~~ A3 with Moody's)
- b. Must be issued on the Standard Form document approved by the Board of Directors

3. **Corporate Guarantee**

- G.a. Guarantor (~~i.e., guarantor~~ must meet applicable credit standards as stated in Section 16.2.5.1.1 (a) of the ERCOT Protocols)
- b. Guarantee must be on the Standard Form document approved by the Board of Directors

4. **Foreign Guarantee**

Guarantor

- D.a. Foreign Guarantee (~~i.e., guarantor~~ must meet applicable credit standards as stated in Section 16.2.5.1.1 (a) of the ERCOT Protocols, as well as the standards listed below)
 - b. The country of domicile for the foreign guarantor must:
 - 1.i. Maintain a sovereign rating greater than or equal to AA with Fitch or S&P ~~or~~ Aa2 with Moody's
 - 2.ii. If the ratings are below those in (1) above, but greater than or equal to A with Fitch or S&P ~~or~~ A2 with Moody's, then the sovereign rating would qualify if the country had a ceiling rating of AAA with Fitch or S&P ~~or~~ Aaa with Moody's
 - 3.iii. Must have reciprocity agreements with the U.S. regarding enforcement and collection of guarantee agreements
 - c. The foreign guarantor must:
 - 4.i. Provide to ERCOT annual audited financial statements, prepared in accordance with U.S. generally accepted accounting principles or international accounting standards and quarterly unaudited financial statements
 - ii. If the foreign guarantor does not provide quarterly financial statements, the assigned credit limit will be reduced based on their credit rating by:
 1. A- (Fitch or S&P) or A3 (Moody's) and above: 20%
 2. BBB+ (Fitch or S&P) or Baa1 (Moody's) or below: 50%

Electric Reliability Council of Texas, Inc.

Creditworthiness Standards

Referenced in Section 16.2.5 of the Protocols

Referenced in Section 16.11 of the Nodal Protocols

5.iii. Provide a guarantee in the form of the ERCOT Board approved standard form guarantee Agreement for foreign Entities

6.iv. Reimburse ERCOT the cost of obtaining an opinion of counsel affirming that the guarantee agreement is enforceable in the U.S. and in the jurisdiction of the corporate guarantor's domicile

7.v. Maintain a registered Texas Registration Agent

5. Surety Bond

E.a. Must be — ~~Per QSE limit of \$10 million per insurer and limit of \$125 million per insurer for all ERCOT QSEs (issued by an insurance company with a minimum rating of A- with Fitch or S&P or A3 with Moody's)~~

b. Subject to a limit of \$10 million per QSE per insurer and an overall limit of \$100 million per insurer for all ERCOT QSEs

~~(Equal to the greater of: Total Estimated Liability (TEL) or Estimated Aggregate Liability (EAL).~~

~~b.~~



Recommended 2008 Budget

Finance & Audit Committee
August 21, 2007

Steve Byone
Mike Petterson

7. Recommended 2008 Budget

Table of Contents	Page
Meeting Objectives	3
Development Schedule	4
Budget Preparation Objectives	5
Key Budget Assumptions	6
2008 Budget Recommendation	7
Financial Analysis	12
Summary and Next Steps	14
Appendix A – Financial Schedules (2008)	
Base Operations	16
Projects	46
Appendix B – Financial Projections (2009 – 2013)	
Base Operations	68

7. Recommended 2008 Budget - Review Objectives

- **Review schedule and process**
- **Review budget preparation objectives**
- **Summarize the recommended 2008 budget**
- **Provide detailed budget support schedules**
- **Determine follow-up action items in preparation for September Board approval**

7. 2008 Budget Development Schedule

Date	Task	Status
Monday, Apr. 23	Executive Committee - 2008 Strategic Planning & Budget Discussion	√
Monday, May 7	Executive Committee - 2008 Strategic Planning & Budgeting Assumptions	√
Wednesday, May 16	Board Agenda - Strategic Planning & Budgeting Assumptions (briefing & request for public comment)	√
Friday, June 1	Budget Kick-off Meeting Instructions & Templates Distributed	√
Monday, June 18 - Wednesday, June 20	Departmental Submittals reviewed by Directors/Divisional VPs	√
Wednesday, June 20	Submit Departmental Budget Request	√
Wednesday, June 20 - Friday, June 22	Calculate & Compile DRAFT Categorical Budget (Budget staff)	√
Tuesday, June 19	Finance & Audit Committee Agenda - Budget/PPL Status Update	√
Monday, June 25 - Friday, June 29	Preliminary Budget Review by Office-- VP/Director/Manager Budget Revisions (as necessary)	√
Friday, June 29	Executive Committee - 2008 Preliminary Budget Review (Company/Divisional levels)	√
Tuesday, July 3 - Friday, July 6	Departmental Adjustments Based on Executive Review	√
Monday, July 9	Executive Committee - 2008 Budget Final Review	√
Tuesday, July 10	PUCT Staff - Assumption & Timeline Discussion	√
Tuesday, July 10	Begin Testimony Preparation	NA
Tuesday, July 17	Finance & Audit Committee Agenda - Preliminary Budget/PPL Presentation (Courtesy copy to all Board members)	√
Tuesday, July 17	Public Meeting - Preliminary 2008 Budget Presentation (in conjunction w/Finance & Audit Committee Meeting)	√
Wednesday, July 18 - Tuesday, July 31	PUCT Staff Review	NA
Tuesday, Aug. 7	Finance & Audit Committee Special Meeting - 2008 Budget Review	√
Friday, Aug. 17	Testimony - 1st Draft Due	NA
Tuesday, Aug. 21	Board Agenda - Finance & Audit Committee 2008 Budget Recommendation & Board Review	
Friday, Sept. 7	Testimony Finalized	NA
Tuesday, Sept. 18	Board Agenda - 2008 Budget Approval/Vote	
Wednesday, Sept. 19 - Thursday, Sept. 27	Review PUCT Fee Filing	NA
Friday, Sept. 28	PUCT Fee Filing	NA

NOTE:

(1) Schedule assumes that a fee filing proceeding at the Public Utility Commission of Texas will not be required.

7. 2008 Budget Preparation Objectives

- **Provide high-value, cost-effective service to the citizens of Texas**
- **Provide market participants predictable, stable fees**
- **Control costs while:**
 - Maintaining grid reliability
 - Maintaining and supporting the market
 - Maintaining critical information technology infrastructure
 - Ensuring reasonable business controls and oversight
- **Accurately anticipate resource requirements in response to regular and substantial market changes:**
 - Nodal Program implementation
 - Texas Regional Entity start-up and organization
 - Protocol revisions
 - Legislative action

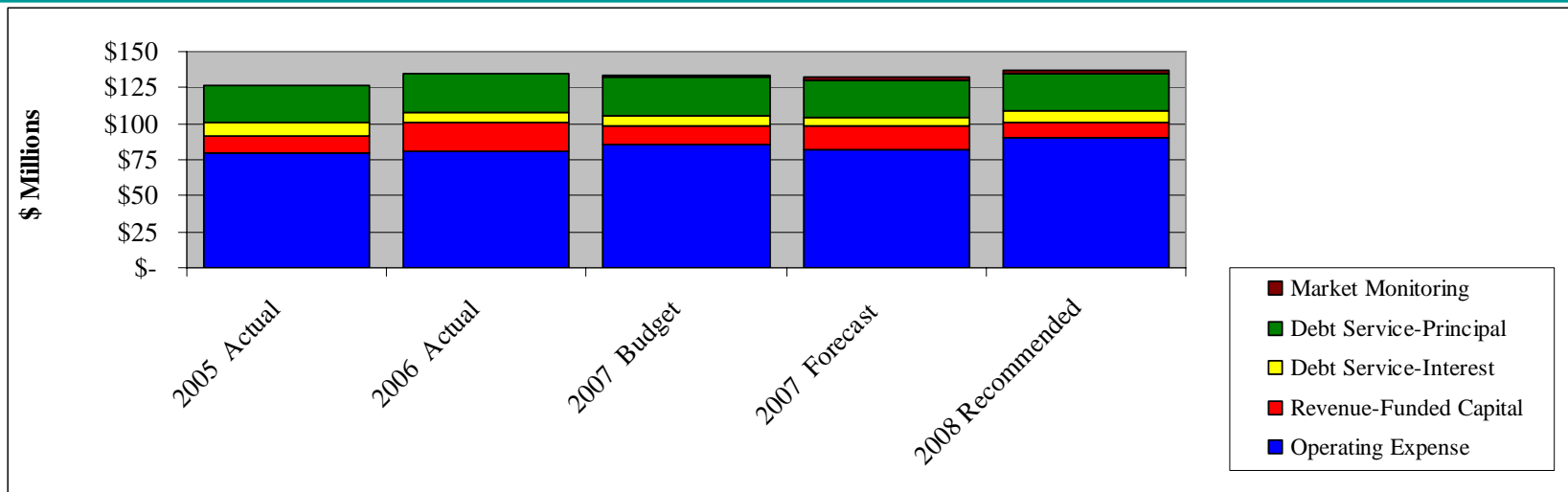
7. Recommended 2008 Budget Recap – Key Assumptions

- **No significant change in ERCOT services, systems, or facilities**
- **No change in the components of ERCOT's revenue requirements**
 - Operating expenses (excluding depreciation)
 - Revenue-funded project expenditures (40% of project cost)
 - Debt service (principal and interest)
- **Utilization of load projections provided by ERCOT planning**
- **Project slate developed, prioritized, and recommended by market participant groups**
- **Maintain ERCOT's strong debt issuer rating**
- **Exclude functions with designated funding sources**
 - Nodal program implementation
 - Texas Regional Entity statutory functions

The recommended 2008 budget -

- **Holds flat all approved fees**
 - System Administrative Fee - \$0.4171 per MWh
 - Nodal Surcharge - \$0.127 per MWh
 - Texas Regional Entity Fee - \$0.016 per MWh
- **And**
 - Fulfills obligations and responsibilities under Senate Bill 7
 - Delivers priority projects approved through the Technical Advisory Committee process
 - Provides funding and support of the independent market monitor
 - Incorporates impact of Texas Regional Entity activity
 - Anticipates implementation of the nodal market
- **Requires no fee filing proceeding at the Public Utility Commission of Texas**

7. Recommended 2008 Budget Recap



Line	(\$Millions)	2005 Actual	2006 Actual	2007 Budget	2007 Forecast	2008 Recommended
1	Operating Expense	80.3	80.9	86.0	81.8	89.9
2	Revenue-Funded Capital	10.9	19.7	12.0	16.2	11.0
3	Debt Service-Interest	9.2	7.6	8.0	6.1	7.9
4	Debt Service-Principal	26.1	26.1	26.1	26.1	26.1
5	Market Monitoring	0.0	0.6	1.7	1.7	1.8
6	Total Revenue Requirement	126.5	134.9	133.8	131.9	136.7
7	GWh	298.8	304.4	312.7	305.9	319.4
8	System Administration Fee	\$0.42	\$0.4171	\$0.4171	\$0.4171	\$0.4171
9						
10	Total Project Spending	16.4	34.5	44.0	39.4	27.5
11						
12	(\$ / MWh)					
13	Operating Expense	0.26	0.25	0.2680	0.2586	0.2743
14	Revenue-Funded Capital	0.04	0.06	0.0374	0.0512	0.0336
15	Debt Service-Interest	0.03	0.02	0.0250	0.0194	0.0241
16	Debt Service-Principal	0.09	0.08	0.0815	0.0826	0.0798
17	Market Monitoring	0.00	0.00	0.0051	0.0052	0.0053
18	Total Revenue Requirement	\$0.42	\$0.4171	\$0.4171	\$0.4171	\$0.4171

Note:

- (1) Other revenue will supplement System Administration Fee to meet total funding requirement.
- (2) Revenues collected in excess of funding requirement are utilized to reduce debt funding.

7. Recommended 2008 Budget Recap – Fee Impact

	<u>\$ Impact</u>	<u>\$/Mwh</u>	
System Administrative Fee - 2007			0.4171
Elements Exerting Downward Fee Pressure			
MWh Growth	2,794,923	0.0088	
Generation Interconnection Studies	170,000	0.0005	
Interest Expense Savings	126,875	0.0004	
Interest Income	11,000	0.0000	
Property Taxes	16,000	0.0001	
HW/SW License and Maintenance	67,975	0.0002	
Material, Supplies, Tools & Equipment	79,620	0.0002	
NERC Dues	967,533	0.0030	
Revenue Funded Capital Projects	1,000,000	0.0031	
Nodal Program Support & Facility Allocations	5,718,212	0.0179	
Subtotal			0.0343
Elements Exerting Upward Fee Pressure			
Wide Area Network Revenue	(95,000)	(0.0003)	
Labor & Benefit <i>(net of project & nodal effort)</i>	(6,292,989)	(0.0197)	
Outside Services	(3,578,162)	(0.0112)	
Insurance	(491,771)	(0.0015)	
Utilities, Maintenance & Facilities	(217,023)	(0.0007)	
Other	(196,210)	(0.0006)	
Employee Expenses	(80,983)	(0.0003)	
Subtotal			(0.0343)
Net Change			<u>0.0000</u>
System Administrative Fee - 2008			<u>0.4171</u>

7. 2008 Project Priority List / Funding Level Review

2008 Project Budgets and Counts by Program Area and Priority

Program Area	Budget Request	Project Count	<u>Counts By Priority (above line)</u>			
			Previously Approved	Critical	High	High/Med
CO	\$ 8,450,000	30	5	8	17	0
IO	\$ 6,400,000	10	0	10	0	0
MO	\$ 1,200,000	4	1	0	3	0
RO	\$ 6,100,000	18	8	2	8	0
SO	\$ 50,000	2	2	0	0	0
Subtotal	\$ 22,200,000	64	16	20	28	0
Nodal	\$ 5,300,000	3	3	0	0	0
Total	\$ 27,500,000	67	19	20	28	0

7. 2008 Project Priority List / Funding Level Review

- **2008 Project Prioritization Notes by Program Area**
 - CO
 - Large number of projects in multiple areas
 - Strong focus on security and process improvement
 - IO
 - Keeping up with computing infrastructure needs
 - MO
 - Focus on Demand Response projects
 - RO
 - Funding request is similar to previous years
 - Several projects anticipating PUCT rulemakings
 - SO
 - Reduced budget request due to Nodal
 - No new projects are proposed for 2008 (two are being carried over for the closing phase)
- **Market lists posted at:**
 - <http://www.ercot.com/services/comm/projects/pp/index.html>

7. Recommended 2008 Budget Recap

POLICY AREA	MANIFESTATION	RATIONALE	IMPACT	CHANGE IN POLICY
Use of leverage	Debt funding for portion of project expenditures	Addition of interest cost is warranted due to benefit derived from fee smoothing over time and matching of cost with benefit.	For \$25 million annual run rate approximately \$0.02 per MWh in on-going fees to pay interest costs. If repayment of principal is deferred, unrestricted net assets will fall.	No
Balance sheet - unrestricted net assets	Timing difference resulting from asset lives and associated depreciation compared to debt maturity profile	Small negative balances are acceptable given that they do not grossly impede the company's ability to obtain debt financing and thus maintain financial flexibility.	Negative unrestricted net asset balance improved from <\$19> million to <\$14> from 2005 to 2006. Continued commitment to match debt repayment schedules to the useful lives of assets constructed and acquired with borrowed funds should continue the trend.	No
Over funding of revenue requirements	Collections via the ERCOT System Administration Fee are greater than revenue requirements	Given policy issues regarding leverage and net unrestricted net assets, using favorable variances to reduce outstanding debt (avoid assuming higher level of debt) is prudent.	Incrementally lower outstanding debt and higher net unrestricted net assets or more ability to fund unbudgeted, priority initiatives.	No
Under funding of revenue requirements	Collections via the ERCOT System Administration Fee are insufficient to cover revenue requirements	In recognition of the complexity and cost of changing ERCOT fees, it is efficient to manage unfavorable budget variances through cost control and short term borrowing.	Heightened pressure to identify cost efficiencies or incrementally higher outstanding debt and lower net unrestricted net assets.	No
High level of system changes and project activity	More projects are requested that are undertaken, capital rationing, and project prioritization	Reflects ERCOT's participatory governance model and heightens commitment and creativity to improve the market. Cognizant of limits on ERCOT's ability to successfully implement system projects.	Increase ERCOT asset values, and depending on how projects are funded, have incremental impact on outstanding debt on unrestricted net assets.	No

Sensitivity Overview

- \$0.01 of System Administration Fee is equivalent to:
 - \$3.2 million of operating expense
 - $-\$3.2 \text{ million} / 319,400,000 \text{ MWh} = \$0.01 / \text{MWh}$
 - \$8.0 million of capital spending
 - 60% leverage (40% equity funding * \$8.0 million = \$3.2 million)
 - 7.7 GWh
 - 2.5 percent deviation from MWh expected
 - Calculations:
 - $\$3.2 \text{ million} / \$0.4171 \text{ per MWh} = 7.7 \text{ GWh}$
 - $7.7 \text{ GWh} / 319.4 \text{ GWh} = 2.4\%$
- Response to variances
 - All action consistent with Financial Policy regarding F&A Committee and Board of Director awareness and involvement
 - Cost control
 - Reduce costs
 - Delay or cancel initiatives
 - Additional borrowing under existing credit facilities
 - Interim or expedited fee request

Summary

- **ERCOT's necessary responsibilities are funded**
- **ERCOT's fees are held constant**

Next Steps

- **Provide feedback regarding the recommended 2008 budget to Steve Byone and/or Bob Kahn by September 1, 2007**
- **Provide the final recommended budget package to the Board on September 11, 2007 for anticipated Board action on September 18, 2007**

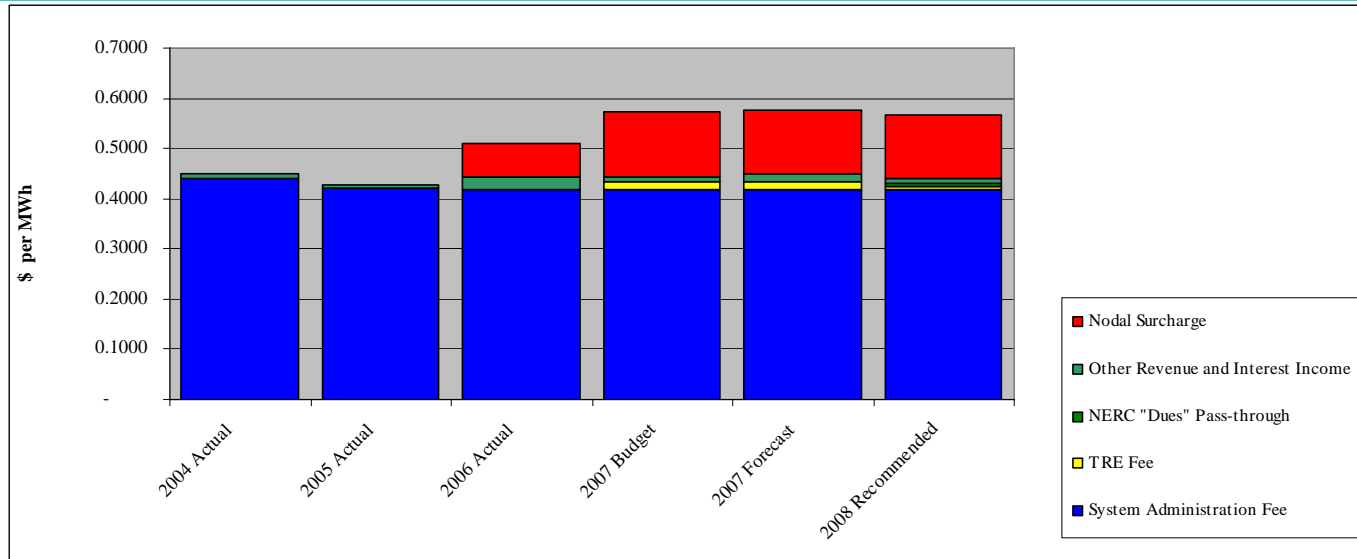
Appendix A

Detailed work papers relating to the recommended 2008 budget

7. Recommended 2008 Budget – Revenue Requirement & Fee Summary Table

Line		2005 Actual	2006 Actual	2007 Budget	2007 Forecast	2008 Recommended
1	ERCOT O&M Expense					
2	<i>Labor & Benefits</i>	\$ 54,239	\$ 59,131	\$ 72,988	\$ 70,426	\$ 80,027
3	<i>Contra-Labor to Base Projects</i>	(5,174)	(4,396)	(7,374)	(3,082)	(4,718)
4	<i>Contra-Labor to Nodal</i>	-	(4,984)	(13,777)	(11,273)	(17,178)
5	<i>Subtotal - Labor & Benefits</i>	49,065	49,751	51,838	56,071	58,131
6	<i>Support Allocations - Nodal Program</i>	-	(1,673)	-	(3,721)	(1,673)
7	<i>Backfill Allocations - Nodal Program</i>	-	(403)	-	(1,495)	(1,545)
8	<i>Facilities Allocations - Nodal Program</i>	-	(120)	-	(1,825)	(2,500)
9	<i>Subtotal - Allocations - Nodal Program</i>	-	(2,196)	-	(7,042)	(5,718)
10	<i>Tools, Equipment, &Supplies</i>	1,166	1,093	1,206	1,154	1,127
11	<i>Hardware & Software Expenses</i>	7,196	7,740	9,372	9,023	9,304
12	<i>Outside Services</i>	7,417	9,104	9,372	9,368	12,850
13	<i>Special Audits</i>	1,752	575	-	-	-
14	<i>Utilities, Maintenance & Facilities</i>	6,591	6,940	7,243	6,941	7,460
15	<i>Employee Expenses</i>	1,396	1,260	1,935	1,431	2,016
16	<i>Insurance</i>	1,699	1,677	1,758	1,689	2,250
17	<i>Property Taxes</i>	1,016	998	1,116	1,032	1,100
18	<i>NERC Dues</i>	925	965	968	963	-
19	<i>Other</i>	2,044	3,018	1,150	1,167	1,346
20	<i>Subtotal - O&M Expenses</i>	80,267	80,923	85,958	81,796	89,866
21	Debt service - interest expense	9,189	7,632	8,031	6,140	7,905
22	Debt service - principal payments	26,137	26,137	26,137	26,137	26,137
23	Revenue-funded capital	10,880	19,658	12,000	16,209	11,000
24	Market Monitoring	-	600	1,650	1,650	1,750
25	Total Revenue Requirement	126,473	134,950	133,776	131,932	136,657
26	Less Other Revenue	2,050	5,795	2,567	3,353	2,642
27	Less Interest Income	250	2,200	789	959	800
28	Revenue Rqmt from System Admin Fee	\$ 124,173	\$ 126,955	\$ 130,420	\$ 127,620	\$ 133,215
29	GWh	298,782	304,374	312,680	305,943	319,400
30	% GWh Growth	3.6%	1.9%	2.7%	-2.2%	2.1%
31	ERCOT System Administration Fee	\$ 0.42	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4171
32	Capital Spending - Revenue Funded	10,880	19,658	12,000	16,209	11,000
33	Capital Spending - % Revenue Funded	66%	57%	27%	41%	40%
34	Capital Spending - Debt Funded	5,485	14,807	31,960	23,181	16,500
35	Capital Spending - % Debt Funded	34%	43%	73%	59%	60%
36	Total Project Spending	16,365	34,465	43,960	39,390	27,500
37	Total ERCOT Spending Authorization	131,958	149,757	165,736	155,113	153,157

7. Recommended 2008 Budget – Income on a per MWh Basis



Line	(\$ per MWh)	Note	2004 Actual	2005 Actual	2006 Actual	2007 Budget	2007 Forecast	2008 Recommended
1	System Administration Fee	(1)	0.4400	0.4200	0.4171	0.4171	0.4171	0.4171
2	Other Revenue and Interest Income	(2)	0.0103	0.0077	0.0263	0.0107	0.0141	0.0108
3	TRE Fee	(3)	0.0000	0.0000	0.0000	0.016	0.016	0.0080
4	NERC "Dues" Pass-through	(4)	0.0000	0.0000	0.0000	0.0011	0.0011	0.0055
5	Subtotal	(6)	0.4503	0.4277	0.4434	0.4449	0.4483	0.4414
6	Nodal Surcharge	(5)	0.0000	0.0000	0.0663	0.1270	0.1270	0.1270
7	Total		0.4503	0.4277	0.5097	0.5719	0.5753	0.5684
8	MWh		288,291,328	298,782,420	304,373,763	312,680,098	305,943,308	319,399,903

Notes:

- (1) System Administration Fee covers ERCOT's "base operations".
- (2) Other revenue and interest income is comprised of wide-area network revenue, non-ERCOT load serving entity revenue, generation interconnection revenue, membership dues, map sales, interest income, and other non-operating income.
- (3) Texas Regional Entity Fee commenced in 2007. Favorable budget variance from 2007 is expected to reduce the fee in 2008. It is assumed that the balance is restored in 2009 at the 2007 fee level of \$0.016 per MWh. The method by which the Texas Regional Entity Fee is assessed and collected is subject to an active Protocol Revision Request (PRR 720).
- (4) NERC "Dues" Pass Through was reflected in the System Administration Fee until 2007. In 2007, the System Administration Fee includes approximately \$967,000 for "NERC Dues". New responsibility and reorganizations at NERC resulted in significant increases to the organization's dues assessments. Organization of the Texas Regional Entity brought better understanding of the nature of "NERC Dues".
- (5) The Nodal Surcharge will remain in effect until the costs of implementing the Nodal Program, as approved by the Public Utility Commission of Texas, are fully recovered. It is currently expected the Nodal Surcharge will cease to be collected in late-2012.
- (6) The cost of ERCOT activity, on a per MWh basis, excluding the Nodal Program, has declined by 2 percent since 2004. Load growth over the five-year period (approximately 11 percent) has outpaced inflation, staff growth, and the incremental cost of new responsibilities at ERCOT, such as the Texas Regional Entity.

7. Recommended 2008 Budget – Income Sources

Line	Description	Protocols Reference	Calculation/Rate/Comment	2008 Recommended	
				Amount	Percentage
1	ERCOT system administration fee	9.7.1	\$0.4171 per MWh	\$ 133,215,323	98.0%
2	Private wide-area network fees	9.7.6	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.	1,850,000	1.0%
3	Non-ERCOT load serving entity fee	9.7.3	\$1.15 per ESI ID per year	125,000	0.0%
4	Interest income	NA	Computed based on assumed bank rates and deposit balances	800,000	1.0%
5	Membership dues	NA	\$2,000 for corporate members and \$500 for associate and adjunct members	250,000	0.0%
6	Generation interconnection study fees	NA	Security screening study fee (\$1,000 - \$5,000) Stability software modeling fee (\$15 per MW of capacity)	400,000	0.0%
7	Map sale fees	NA	\$20 - \$40 per map request	1,000	0.0%
8	Qualified scheduling entity application fee	9.7.5	\$500 per entity	7,500	0.0%
9	Competitive retailer application fee	9.7.5	\$500 per entity	7,500	0.0%
10	Mismatched schedule processing fee	9.7.4	\$1 per mismatched event	1,000	0.0%
11	Voluminous copy fee	NA	\$0.15 per page in excess of 50 pages	-	0.0%
12	Late fees	9.4.6	Wall Street Journal prime interest rate plus two (2) percent	-	0.0%
13					
14	Total			<u>\$ 136,657,323</u>	100.0%

Note:

In addition to the items listed above, ERCOT collects a Nodal market surcharge (12.7 per MWh) and the Texas Regional Entity fee (1.6 per MWh in 2007). Revenue from these sources are utilized to the development and implementation of the Nodal market and NERC statutory functions.

7. Recommended 2008 Budget – Expenditure Summary

	2005 Actual	2006 Actual	2007 Budget	2007 YTD Actual (6.30.07)	2008 Recommended	2007 Budget vs. 2008 Recommended	
						\$ Variance	% Variance
ERCOT							
<i>Labor & Benefits</i>	54,239,050	59,131,229	72,988,269	33,521,879	80,026,643	7,038,374	9.6%
<i>Labor for Capital Projects</i>	(5,174,167)	(4,395,648)	(7,373,639)	(1,465,112)	(4,717,804)	2,655,835	-36.0%
<i>Labor for Nodal</i>	-	(4,984,423)	(13,776,690)	(5,327,327)	(17,177,910)	(3,401,220)	24.7%
<i>Subtotal - Labor & Benefits</i>	49,064,883	49,751,158	51,837,940	26,729,440	58,130,929	6,292,989	12.1%
<i>Support Allocations - Nodal Program</i>	-	(1,673,237)	-	(2,493,579)	(1,673,212)	(1,673,212)	NA
<i>Backfill Allocations - Nodal Program</i>	-	(402,772)	-	(668,828)	(1,545,000)	(1,545,000)	NA
<i>Facilities Allocations - Nodal Program</i>	-	(120,484)	-	(970,821)	(2,500,000)	(2,500,000)	NA
<i>Subtotal - Allocations - Nodal Program</i>	-	(2,196,493)	-	(4,133,228)	(5,718,212)	(5,718,212)	NA
<i>Material, Supplies, Tools & Equipment</i>	1,165,662	1,092,541	1,206,480	535,519	1,126,860	(79,620)	-6.6%
<i>Special Reviews</i>	1,751,528	575,026	-	(43,472)	-	-	NA
<i>Outside Services</i>	7,417,285	9,703,961	11,022,052	5,386,042	14,600,214	3,578,162	32.5%
<i>Utilities, Maintenance & Facilities</i>	6,591,288	6,939,517	7,242,627	3,168,695	7,459,650	217,023	3.0%
<i>HW/SW License and Maintenance</i>	7,196,208	7,740,247	9,371,689	4,430,095	9,303,714	(67,975)	-0.7%
<i>Insurance</i>	1,698,946	1,676,549	1,758,229	733,388	2,250,000	491,771	28.0%
<i>Employee Expenses</i>	1,396,360	1,259,905	1,935,300	521,011	2,016,283	80,983	4.2%
<i>Interest & Fees</i>	9,188,943	7,631,714	8,031,400	2,748,650	7,904,525	(126,875)	-1.6%
<i>Property Taxes</i>	1,016,255	997,716	1,116,000	510,842	1,100,000	(16,000)	-1.4%
<i>NERC Dues</i>	924,960	964,808	967,533	482,403	-	(967,533)	-100.0%
<i>Other</i>	2,043,695	3,018,129	1,150,150	477,479	1,346,360	196,210	17.1%
Total - ERCOT	89,456,013	89,154,777	95,639,400	41,546,864	99,520,323	3,880,923	4.1%

7. Recommended 2008 Budget – Expenditure Summary

	2005 Actual	2006 Actual	2007 Budget	2007 YTD Actual (6.30.07)	2008 Recommended	2007 Budget vs. 2008 Recommended	
						\$ Variance	% Variance
System Operations							
<i>Labor & Benefits</i>	15,202,794	16,478,797	20,943,680	9,473,695	23,142,831	2,199,151	10.5%
<i>Labor for Capital Projects</i>	(234,302)	(377,686)	(492,128)	(165,247)	(89,908)	402,220	-81.7%
<i>Labor for Nodal</i>	-	(1,334,609)	(2,923,632)	(1,254,010)	(4,791,115)	(1,867,483)	63.9%
<i>Subtotal - Labor & Benefits</i>	14,968,492	14,766,502	17,527,920	8,054,438	18,261,808	733,888	4.2%
<i>Support Allocations - Nodal Program</i>	-	(258,437)	-	(382,714)	(296,000)	(296,000)	NA
<i>Backfill Allocations - Nodal Program</i>	-	(532)	-	-	(400,000)	(400,000)	NA
<i>Facilities Allocations - Nodal Program</i>	-	-	-	-	-	-	NA
<i>Subtotal - Allocations - Nodal Program</i>	-	(258,969)	-	(382,714)	(696,000)	(696,000)	NA
<i>Material, Supplies, Tools & Equipment</i>	30,358	43,425	51,600	9,135	17,650	(33,950)	-65.8%
<i>Special Reviews</i>	-	-	-	-	-	-	NA
<i>Outside Services</i>	469,073	1,072,112	2,662,000	1,322,565	4,083,474	1,421,474	53.4%
<i>Utilities, Maintenance & Facilities</i>	3,789	100,000	-	116	-	-	NA
<i>HW/SW License and Maintenance</i>	6,498	742	-	-	-	-	NA
<i>Insurance</i>	-	-	-	-	-	-	NA
<i>Employee Expenses</i>	305,218	345,763	502,200	145,393	582,432	80,232	16.0%
<i>Interest & Fees</i>	-	-	-	-	-	-	NA
<i>Property Taxes</i>	-	-	-	-	-	-	NA
<i>NERC Dues</i>	-	-	967,533	482,403	-	(967,533)	-100.0%
<i>Other</i>	164,194	226,469	66,700	117,448	253,000	186,300	279.3%
Total - System Operations	15,947,623	16,296,044	21,777,953	9,748,784	22,502,364	724,411	3.3%

7. Recommended 2008 Budget – Expenditure Summary

	2005 Actual	2006 Actual	2007 Budget	2007 YTD Actual (6.30.07)	2008 Recommended	2007 Budget vs. 2008 Recommended	
						\$ Variance	% Variance
Market Operations							
<i>Labor & Benefits</i>	12,250,039	13,504,416	17,746,261	7,437,311	17,817,461	71,201	0.4%
<i>Labor for Capital Projects</i>	(839,763)	(1,350,328)	(2,261,896)	(666,301)	(2,410,954)	(149,058)	6.6%
<i>Labor for Nodal</i>	-	(1,155,163)	(3,584,492)	(1,328,961)	(4,362,772)	(778,280)	21.7%
Subtotal - Labor & Benefits	11,410,276	10,998,926	11,899,873	5,442,049	11,043,735	(856,138)	-7.2%
<i>Support Allocations - Nodal Program</i>	-	(309,998)	-	(462,057)	(110,000)	(110,000)	NA
<i>Backfill Allocations - Nodal Program</i>	-	(334,490)	-	(428,986)	(600,000)	(600,000)	NA
<i>Facilities Allocations - Nodal Program</i>	-	-	-	-	-	-	NA
Subtotal - Allocations - Nodal Program	-	(644,488)	-	(891,043)	(710,000)	(710,000)	NA
<i>Material, Supplies, Tools & Equipment</i>	8,310	28,088	14,400	6,147	14,050	(350)	-2.4%
<i>Special Reviews</i>	-	-	-	-	-	-	NA
<i>Outside Services</i>	1,091,463	1,830,583	2,032,272	1,448,070	3,291,792	1,259,520	62.0%
<i>Utilities, Maintenance & Facilities</i>	23,024	29,497	37,200	7,940	40,600	3,400	9.1%
<i>HW/SW License and Maintenance</i>	6,697	401	-	9,455	-	-	NA
<i>Insurance</i>	-	-	-	-	-	-	NA
<i>Employee Expenses</i>	250,973	229,203	440,100	91,090	458,302	18,202	4.1%
<i>Interest & Fees</i>	-	-	-	-	-	-	NA
<i>Property Taxes</i>	-	-	-	-	-	-	NA
<i>NERC Dues</i>	-	-	-	-	-	-	NA
<i>Other</i>	125,384	106,941	152,550	61,497	164,100	11,550	7.6%
Total - Market Operations	12,916,127	12,579,152	14,576,395	6,175,206	14,302,579	(273,816)	-1.9%

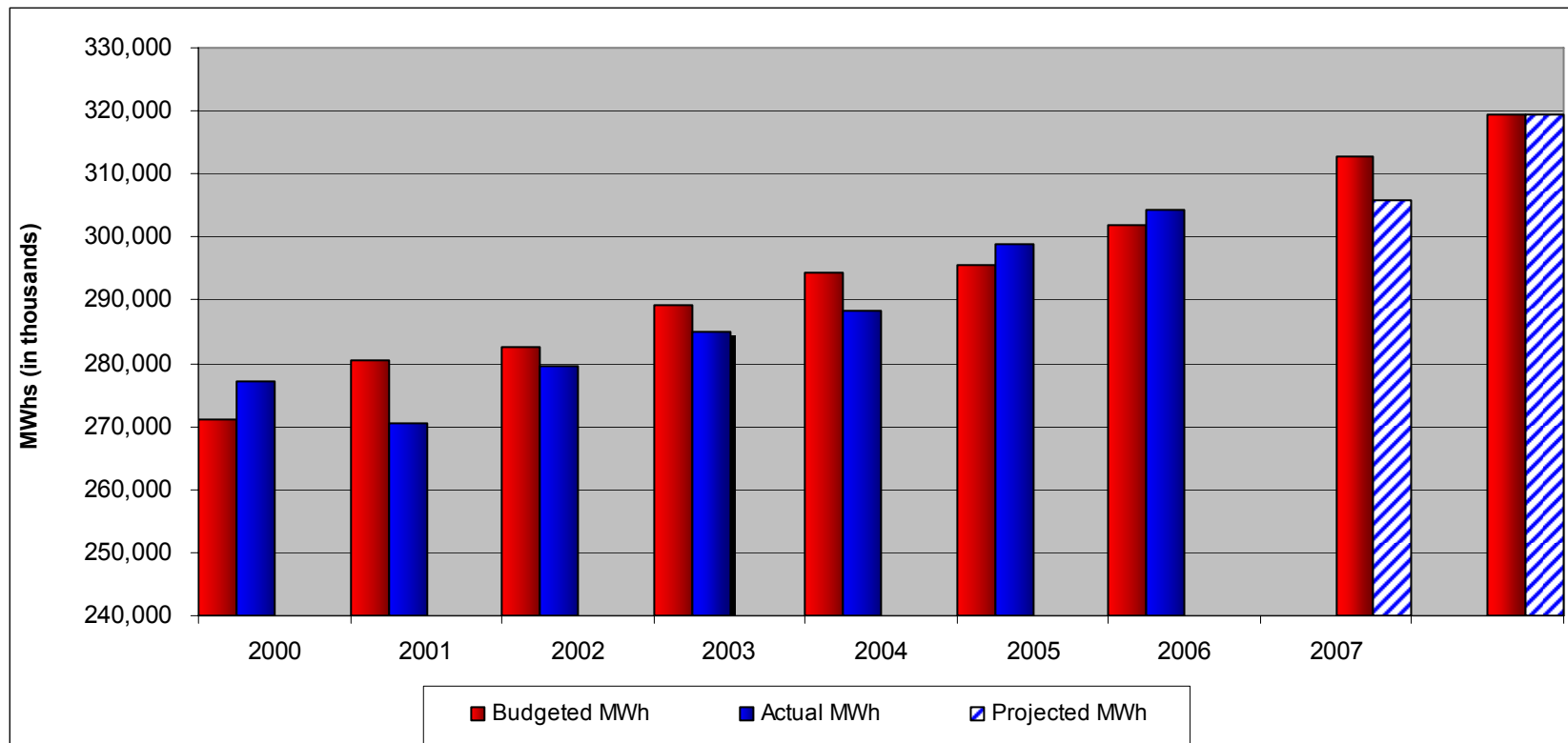
7. Recommended 2008 Budget – Expenditure Summary

	2005 Actual	2006 Actual	2007 Budget	2007 YTD Actual (6.30.07)	2008 Recommended	2007 Budget vs. 2008 Recommended	
						\$ Variance	% Variance
Information Technology							
<i>Labor & Benefits</i>	15,165,941	18,098,033	23,770,590	10,244,035	25,444,080	1,673,490	7.0%
<i>Labor for Capital Projects</i>	(3,544,127)	(2,707,319)	(3,862,495)	(581,237)	(1,186,549)	2,675,946	-69.3%
<i>Labor for Nodal</i>	-	(2,226,402)	(5,666,656)	(2,484,210)	(7,684,315)	(2,017,659)	35.6%
Subtotal - Labor & Benefits	11,621,814	13,164,312	14,241,439	7,178,588	16,573,216	2,331,777	16.4%
<i>Support Allocations - Nodal Program</i>	-	(65,628)	-	(97,188)	(75,000)	(75,000)	NA
<i>Backfill Allocations - Nodal Program</i>	-	(45,866)	-	(209,579)	(445,000)	(445,000)	NA
<i>Facilities Allocations - Nodal Program</i>	-	-	-	(391,272)	(1,000,000)	(1,000,000)	NA
Subtotal - Allocations - Nodal Program	-	(111,494)	-	(698,039)	(1,520,000)	(1,520,000)	NA
<i>Material, Supplies, Tools & Equipment</i>	555,081	368,657	548,530	104,480	343,805	(204,725)	-37.3%
<i>Special Reviews</i>	-	-	-	-	-	-	NA
<i>Outside Services</i>	466,365	1,045,059	2,015,480	874,961	2,836,830	821,350	40.8%
<i>Utilities, Maintenance & Facilities</i>	2,876,707	3,283,139	3,167,652	1,271,322	3,247,050	79,398	2.5%
<i>HW/SW License and Maintenance</i>	7,149,347	7,634,923	9,371,689	4,332,089	9,303,714	(67,975)	-0.7%
<i>Insurance</i>	-	-	-	-	-	-	NA
<i>Employee Expenses</i>	540,138	397,326	564,300	144,128	572,400	8,100	1.4%
<i>Depreciation & Amortization</i>	-	-	-	-	-	-	NA
<i>Interest & Fees</i>	-	-	-	-	-	-	NA
<i>Property Taxes</i>	-	-	-	-	-	-	NA
<i>NERC Dues</i>	-	-	-	-	-	-	NA
<i>Other</i>	167,519	329,747	120,200	127,216	148,550	28,350	23.6%
Total - Information Technology	23,376,971	26,111,669	30,029,290	13,334,744	31,505,565	1,476,275	4.9%

7. Recommended 2008 Budget – Expenditure Summary

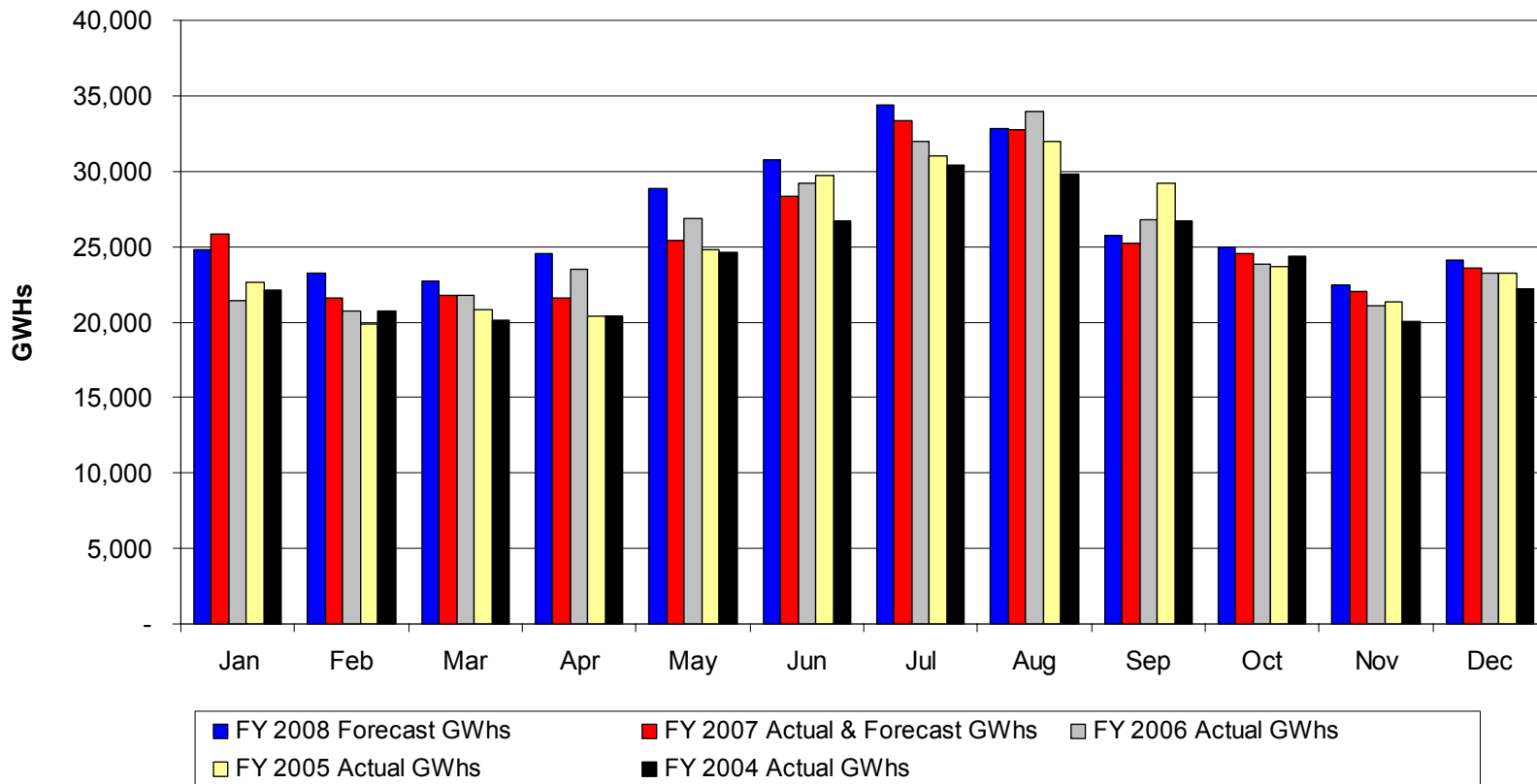
	2005 Actual	2006 Actual	2007 Budget	2007 YTD Actual (6.30.07)	2008 Recommended	2007 Budget vs. 2008 Recommended	
						\$ Variance	% Variance
Corporate Administration							
<i>Labor & Benefits</i>	11,620,276	11,049,982	10,527,739	6,366,838	13,622,271	3,094,532	29.4%
<i>Labor for Capital Projects</i>	(555,976)	39,685	(757,120)	(52,328)	(1,030,393)	(273,273)	36.1%
<i>Labor for Nodal</i>	-	(268,250)	(1,601,910)	(260,146)	(339,708)	1,262,202	-78.8%
<i>Subtotal - Labor & Benefits</i>	11,064,301	10,821,418	8,168,709	6,054,364	12,252,170	4,083,462	50.0%
<i>Support Allocations - Nodal Program</i>	-	(1,039,174)	-	(1,551,620)	(1,192,212)	(1,192,212)	NA
<i>Backfill Allocations - Nodal Program</i>	-	(21,885)	-	(30,263)	(100,000)	(100,000)	NA
<i>Facilities Allocations - Nodal Program</i>	-	(120,484)	-	(579,549)	(1,500,000)	(1,500,000)	NA
<i>Subtotal - Allocations - Nodal Program</i>	-	(1,181,543)	-	(2,161,432)	(2,792,212)	(2,792,212)	NA
<i>Material, Supplies, Tools & Equipment</i>	571,913	652,371	591,950	415,757	751,355	159,405	26.9%
<i>Special Reviews</i>	1,751,528	575,026	-	(43,472)	-	-	NA
<i>Outside Services</i>	5,390,383	5,756,207	4,312,300	1,740,446	4,388,118	75,818	1.8%
<i>Utilities, Maintenance & Facilities</i>	3,687,768	3,526,880	4,037,775	1,889,318	4,172,000	134,225	3.3%
<i>HW/SW License and Maintenance</i>	33,666	104,181	-	88,550	-	-	NA
<i>Insurance</i>	1,698,946	1,676,549	1,758,229	733,388	2,250,000	491,771	28.0%
<i>Employee Expenses</i>	300,032	287,613	428,700	140,400	403,149	(25,551)	-6.0%
<i>Interest & Fees</i>	9,188,943	7,631,714	8,031,400	2,748,650	7,904,525	(126,875)	-1.6%
<i>Property Taxes</i>	1,016,255	997,716	1,116,000	510,842	1,100,000	(16,000)	-1.4%
<i>NERC Dues</i>	924,960	964,808	-	-	-	-	NA
<i>Other</i>	1,586,597	2,354,972	810,700	171,318	780,710	(29,990)	-3.7%
Total - Corporate Administration	37,215,292	34,167,912	29,255,763	12,288,129	31,209,815	1,954,052	6.7%

7. Recommended 2008 Budget – MWh Load Budget vs. Actual



	2000	2001	2002	2003	2004	2005	2006	2007	2008
Budgeted MWh	271,073,333	280,560,900	282,549,091	289,178,000	294,396,000	295,631,627	301,917,000	312,680,098	319,399,903
Actual MWh	277,117,000	270,555,504	279,694,468	284,992,909	288,291,328	298,782,420	304,373,763	305,943,308	319,399,903
Projected MWh									
Variance	2.2%	-3.6%	-1.0%	-1.4%	-2.1%	1.1%	0.8%	-2.2%	0.0%

7. Recommended 2008 Budget – MWh Comparison



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Annual Load Growth Ratio	Actual	Actual	Actual	Budget/Forecast	Projection	Projection	Projection	Projection	Projection	Projection
	1.16%	3.64%	1.87%	0.52%	4.40%	1.61%	2.55%	2.22%	2.06%	1.98%

GWh Activity by Month

Line		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
1	FY 2008 Forecast GWhs	24,818	23,218	22,729	24,534	28,843	30,766	34,411	32,855	25,725	24,998	22,422	24,080	319,400
2	FY 2007 Actual & Forecast GWhs	25,797	21,613	21,791	21,558	25,396	28,350	33,318	32,762	25,215	24,554	22,007	23,584	305,943
3	FY 2006 Actual GWhs	21,427	20,743	21,765	23,539	26,861	29,222	31,924	33,934	26,799	23,869	21,045	23,245	304,374
4	FY 2005 Actual GWhs	22,647	19,905	20,808	20,413	24,825	29,733	31,028	32,005	29,183	23,674	21,324	23,237	298,782
5	FY 2004 Actual GWhs	22,101	20,720	20,132	20,394	24,659	26,709	30,423	29,796	26,667	24,406	20,071	22,215	288,291
6	FY 2003 Actual GWhs	22,611	20,033	19,684	20,380	25,999	27,102	29,956	30,662	24,356	22,280	20,333	21,596	284,993

7. Recommended 2008 Budget – Staffing

	Funding				Full Time Equivalency			
	2005 Actual	2006 Actual	2007 Budget	2008 Recommended	2005 Actual	2006 Actual	2007 Budget	2008 Recommended
ERCOT								
<i>Base Operations</i>	49,064,883	49,751,158	51,837,940	58,130,929	477	477	510	518
<i>Base Projects</i>	5,174,167	4,395,648	7,373,639	4,717,804	44	37	62	40
<i>Nodal Program</i>	-	4,984,423	13,776,690	17,177,910	-	42	116	145
<i>Labor & Benefits Total</i>	54,239,050	59,131,229	72,988,269	80,026,643	521	556	689	703
Corporate Administration								
<i>Base Operations</i>	11,064,301	10,821,418	8,168,709	12,252,170	87	111	110	119
<i>Base Projects</i>	555,976	(39,685)	757,120	1,030,393	5	(0)	6	9
<i>Nodal Program</i>	-	268,250	1,601,910	339,708	-	2	14	3
<i>Labor & Benefits Total</i>	11,620,276	11,049,982	10,527,739	13,622,271	92	113	130	131
System Operations								
<i>Base Operations</i>	14,968,492	14,766,502	17,527,920	18,261,808	140	139	155	155
<i>Base Projects</i>	234,302	377,686	492,128	89,908	2	3	4	1
<i>Nodal Program</i>	-	1,334,609	2,923,632	4,791,115	-	11	25	40
<i>Labor & Benefits Total</i>	15,202,794	16,478,797	20,943,680	23,142,831	142	153	184	196
Market Operations								
<i>Base Operations</i>	11,410,276	10,998,926	11,899,873	11,043,735	120	106	118	107
<i>Base Projects</i>	839,763	1,350,328	2,261,896	2,410,954	7	11	19	20
<i>Nodal Program</i>	-	1,155,163	3,584,492	4,362,772	-	10	30	37
<i>Labor & Benefits Total</i>	12,250,039	13,504,416	17,746,261	17,817,461	127	127	167	164
Information Technology								
<i>Base Operations</i>	11,621,814	13,164,312	14,241,439	16,573,216	130	121	127	137
<i>Base Projects</i>	3,544,127	2,707,319	3,862,495	1,186,549	30	23	33	10
<i>Nodal Program</i>	-	2,226,402	5,666,656	7,684,315	-	19	48	65
<i>Labor & Benefits Total</i>	15,165,941	18,098,033	23,770,590	25,444,080	160	163	208	212

7. Recommended 2008 Budget – Outside Services

Line	Division	Dept	Description of Service(s)	Type of Service	2008		Consequence(s) of Not Procuring Services	
					Recommended	Why are Services Necessary		
1	MO	550	Zonal backfill for nodal transition - 9 Contractors have been procured to operate the zonal market settlement and billing. Originally, 19 FTEs were dedicated to operating the zonal market. As we progressed towards nodal implementation during 2006, ERCOT FTEs conducting zonal operations were being replaced with contract staff. ERCOT FTEs are focused on nodal development and testing. Contract staff is trained to operate zonal settlement and billing through termination of the zonal market. Once the zonal market activities cease (2009 - 2010), the contract staff will roll off.	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	2,008,800	The Public Utility Commission (PUC) ruled that ERCOT will implement a nodal market. Current zonal market must still be operated.	Not possible or feasible. 19 additional Full Time Equivalents (FTEs) would need to be hired for zonal operations and then laid off/fired when zonal market ceases. Additionally, we couldn't ramp up to the number of Full Time Equivalent (FTEs) we need fast enough.	No resources to operate the zonal market.
2	SO	410	Potomac Economics IMM (independent market monitor) Fees (contract already in place)	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	1,750,000	Independent third party monitoring is required for compliance.	Independent third party monitoring is required for compliance.	Will be out of compliance.
3	MO	630	Outsourced 24X7 call center; postcard printing and mailing; switch cancellation processing and databases services. These services are billed on a price per unit expense based on volume of transactions processed for notification mailers, telephone calls answered, web transactions and facsimiles processed, as well as fixed monthly maintenance fee for the housing database. The budget also has contains contingency funding for market requested changes to the mailers and enhancements to the processing system for the transactions. This activity is required under the ERCOT Protocols and the Public Utility Regulatory Act as stated in the Customer Protection Rules of the Public Utility Commission of Texas.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	991,000	This activity is required under the ERCOT Protocols and the Public Utility Regulatory Act as stated in the Customer Protection Rules of the Public Utility Commission of Texas.	This function would require ERCOT to operate and maintain a 24X7 customer call center, as well as operate a mass volume printing and mailing service for the creation and distribution of the daily notices. To date, the outsourced solution has been a more viable option from a cost perspective.	Non-compliance of protocols and state utility regulations.
4	CO	180	Performance of required Statement on Auditing Standard SAS70 Type II External Audit	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	735,000	These audits are required by ERCOT By-Laws and Sarbanes-Oxley requirements that are in place for our Market Participants. PwC is performing the audit in 2007 and PwC is ERCOT's external auditor. Protocol Section 1.4 Operational Audit, requires an annual operational or "settlements" audit, otherwise commonly known as the SAS70 Type II Audit. Note: The SAS70 budget for 2009 is escalated by an additional 5 percent (plus an expected inflation adjustment of 5 percent) above the 2008 budget to allow for the uncertainties caused by the transition from Zonal to Nodal. The transition from Zonal to Nodal during the 2009 SAS70 Audit testing period of October 1, 2008, through September 30, 2009, will create an undetermined amount of additional work on the part of the external audit team.	SAS70 Audits are required to be performed by an external independent certified public accounting firm.	ERCOT could not express an independent opinion on the adequacy and effectiveness of the internal control environment. ERCOT would not be in compliance with Protocol Section 1.4 Operational Audit. This Protocol requires an annual operational or "settlements" audit, otherwise commonly known as the SAS70 Type II Audit.

7. Recommended 2008 Budget – Outside Services

Line	Division	Dept	Description of Service(s)	Type of Service	2008			
					Recommended	Why are Services Necessary	Why Can't Staff Perform Tasks	Consequence(s) of Not Procuring Services
5	SO	422	Black and Veatch contract to provide backfill support to network modeling team	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	636,576	Nodal backfill support	Current ERCOT staff will be spending 100% of their time getting the NODAL Market Monitoring Systems (MMS) requirements in place, once that is done and we can stop performing the zonal model, we will stop the contractor work.	There will not be enough resources to do both tasks.
6	CO	101	Expenses associated with the ongoing support and administration of the Board of Directors <ul style="list-style-type: none"> • Independent member compensation • Member replacement • Business expense reimbursement • Special meetings and retreats as necessary 	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	600,000	ERCOT is governed by a board of directors made up of independent members, consumers and representatives from each of ERCOT's electric market segments.	Governance structure requires board oversight and inclusion of independent members	Failure to comply with governance requirements.
7	CO	120	Outside Legal Services regarding litigation or areas requiring specialized legal knowledge and skills not possessed by in-house legal staff.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	540,000	The services are necessary because with a Legal Dept. as small as ERCOT's, it is impossible to have attorneys who possess all the knowledge and skills required for all legal issues confronting the company (e.g. Employee Retirement Income Security Act (ERISA), bankruptcy, antitrust, litigation, etc.)	The services are necessary because with a Legal Dept. as small as ERCOT's, it is impossible to have attorneys who possess all the knowledge and skills required for all legal issues confronting the company.	The legal services could not be provided and the company could decide to take the risk of not complying with the law and/or governmental rules and regulations.
8	IO	357	Address high priority application security vulnerabilities identified in 2007.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	405,000	ERCOT engaged a vendor to complete an assessment of application security which included 22 web applications, 3 code reviews, 3 threat models and 1 Web service review. Recommendations were made in the following areas: infrastructure, authentication, authorization, data validation, sensitive data, session management, configuration management and exception management. These remediation areas have been classified by Risk and Priority. Some of the applications included are: TML, REC, ERCOT.COM, Outage Scheduler, ETOD, Siebel, MarkeTrak, AppWorx, Intranet, EDW, ETOD, NAESB/Paperfree. This project will review and address recommendations that are considered and high probability and high risk.	This service will be performed along with ERCOT staff. Specific security expertise will be needed in several areas.	Potential Cyber attacks, data corruption, confidential data leaks, etc.
9	SO	450	Assist ERCOT staff with Congestion Revenue Rights (CRR) ITEST, market trials and 'live' market activity by providing consulting resources intimately knowledgeable with ERCOT's Congestion Revenue Rights (CRR) software	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	315,000	New staff will be learning new software and will need to assist market participants with their interactions with this system. Although a minimal level of vendor support (8 hours per month) is available through system license agreements, it will not be sufficient to handle the expected demand.	A highly effective way to learn new software is to work alongside an experienced user. Since ERCOT will have new staff learning new software, having access to highly knowledgeable (vendor) support should ensure a successful Congestion Revenue Rights (CRR) market implementation.	Without access to highly knowledgeable vendor support to respond to market participant questions and concerns, market participants are likely to be dissatisfied with Congestion Revenue Rights (CRR) market implementation resulting in a higher level of questions and disputes. If this situation is allowed to persist, market participants are likely to 'fix' the Congestion Revenue Rights (CRR) market through protocol revisions or Public Utility Commission of Texas (PUCT) rule changes. These activities result in a higher level of ERCOT response in other areas (Market Services / External Relations).

7. Recommended 2008 Budget – Outside Services

Line	Division	Dept	Description of Service(s)	Type of Service	2008			
					Recommended	Why are Services Necessary	Why Can't Staff Perform Tasks	Consequence(s) of Not Procuring Services
10	IO	300	Professional services for Rational Unified Process (RUP) rollout for Zonal application development	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	288,000	Outside consultants are to be used to help with software development on zonal applications prior to the Nodal Market.	Lack of internal resources	Delayed development of software changes
11	CO	130	Immigration Assistance	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	264,000	These fees cover the specialized legal expertise in the immigration area as well as the filing fees associated with the hiring of non-US citizens. These fees are increasing at a rapid rate and are required to recruit power engineers and certain Information Technology functions.	The legal expertise in immigration is a very specialized area and ERCOT does not require a full-time position. Approximate 1/2 of the expense in this area is for legal skills and the rest covers the actual fees.	If we do not pay for the immigration process for our new employees we would not be able to staff many of the functions or meet the required needs of the nodal project.
12	IO	360	IT production operations support for Zonal Systems	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	250,290	Workload assistance during Nodal project when existing team gets more involved in Nodal we will need contract assistance to help on Zonal support.	Employee bandwidth unable to support production and project workload so this is for both staff augmentation and it professional services category.	Difficulty meeting service availability requirements and targets.
13	SO	415	Provide staff augmentation to work closely with System Operations Personnel to ensure that the System Operations Division meets or exceeds the performance requirements for NERC Standards, Regional Reliability Standards, ERCOT Protocols, and ERCOT Operating Guides in transitioning to the new FERC/NERC/TRE review structure.	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	250,000	NERC Reliability Standards and ERCOT Regional Reliability Standards, both under the monitoring and enforcement of North American Electric Reliability Corporation (NERC) and Federal Energy Regulator Committee (FERC). ERCOT Protocols and ERCOT Operating Guides, both under the monitoring and enforcement of the Public Utility Commission of Texas (PUCT). The Texas Regional Entity (TRE) has been delegated monitoring and enforcement authority to represent North American Electric Reliability Corporation (NERC). Therefore, compliance activities must now be totally separated; the Texas Regional Entity (TRE) will monitor, audit, and enforce, but cannot gather data, work on documentation, etc.	Services can not be existing authorized staff due to workload.	Probable inability to meet the timelines required to ensure compliance with all the requirements of the NERC Standards with potential for fines levied by FERC and NERC for non-compliance with NERC Standards requirements and ERCOT Regional Standards requirements. In addition, due to the transition going on in the ERCOT Compliance group and the establishment of the Texas RE, there will be increased exposure to inability to meet the compliance requirements of the ERCOT Protocols and Operating Guides. There is also potential exposure to fines levied by the PUCT for non-compliance with ERCOT Protocols and Operating Guides.
14	SO	420	ERCOT has a procedure to select the Black Start units to establish black-start islands. ERCOT does not have a criteria to test or simulate synchronization of multiple black start islands.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	250,000	NERC Standard EOP-005-1 R7 states "Each Transmission Operator and balancing Authority shall verify the restoration procedure by actual testing or by simulation". ERCOT has no criteria to conduct these studies/simulations. This study was endorsed by Reliability and Operations Subcommittee (ROS) and later by Technical Advisory Committee (TAC) at the June 2007 meeting.	Requires specialized expertise.	ERCOT will not have a criteria for testing the feasibility of ERCOT Black Start plan. In addition, ERCOT will not clearly comply with North American Electric Reliability Corporation (NERC) requirement EOP-005-1 R7.
15	IO	395	Application engineer backfill	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	204,000	Contractors are necessary to provide backfill for employees currently assigned to Nodal	Contractors are necessary to provide backfill for employees currently assigned to Nodal	not enough resources to complete tasks.

7. Recommended 2008 Budget – Outside Services

2008								
Line	Division	Dept	Description of Service(s)	Type of Service	Recommended	Why are Services Necessary	Why Can't Staff Perform Tasks	Consequence(s) of Not Procuring Services
16	IO	395	System analyst backfill (Supervisory Control and Data Acquisition (SCADA) group)	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	204,000	Contractors are necessary to provide backfill for employees currently assigned to Nodal	Contractors are necessary to provide backfill for employees currently assigned to Nodal	not enough resources to complete tasks.
17	IO	395	System analyst backfill (Systems group)	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	204,000	Contractors are necessary to provide backfill for employees currently assigned to Nodal	Contractors are necessary to provide backfill for employees currently assigned to Nodal	not enough resources to complete tasks.
18	IO	395	System analyst backfill (Systems group)	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	204,000	Contractors are necessary to provide backfill for employees currently assigned to Nodal	Contractors are necessary to provide backfill for employees currently assigned to Nodal	not enough resources to complete tasks.
19	CO	101	Based on historical trending, each year independent studies/reviews are requested by regulatory bodies and/or ERCOT management to ensure effective and efficient organization and market operations.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	200,000	Organizational/Market procedural assessment/review	Outside consultant brings independence and expertise that is not available within current ERCOT resources.	Ineffective and inefficient policies and processes could exist and remain unidentified with ERCOT and the market.
20	CO	352	The Planning Quality and Reporting department (PQR) currently requires a skill in Project Management, Database Administration, Reporting, Project Schedule Management in order to support ERCOT's Divisional Project Offices.	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	191,418	The Project Management Office is tasked with providing support for Projects managed by ERCOT's Directors of Program Management. In addition, the Project Management Office is responsible for capturing all project effort for capital projects and utilizes an Enterprise Project Management tool to do so. Skills in Project Management, Database Administration, Reporting, and Project Schedule Management are required in order to support ERCOT's Divisional Project Offices.	The Planning, Quality and Reporting Department (PQR) currently does not have the required combination of skills required to perform the work.	Inaccurate data reporting, decreased efficiency in managing projects and delayed project delivery.
21	CO	130	Provide recruiting/staffing support for nodal and zonal projects	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	182,000	Due to the increased number of positions required with the nodal project, we will use the part-time support of specialized recruiters in the area of System Operators, Engineers and Information Technology.	Since the staffing needs for the nodal project are temporary, it is less costly to contact to fill these needs.	Delays in staffing for both the nodal and zonal projects
22	CO	370	Creation of netIQ templates to reflect updated and new hardening requirements. There will be 9 additional hardening requirements for 2008 and 2 updated hardening requirements for a total of 11.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	175,000	Technology changes and the hardening requirements need to change accordingly. The change can be in version updates or new technology consideration. NetIQ templates allow automatic and systematic monitoring of the hardening requirements in order for ERCOT to maintain compliance with SAS70 CO 14.1.4.	Resource constraint and lack of expertise in scripting language required for creation and modification of the NetIQ templates.	Failure of SAS70 CO 14.1.4 which states "System configuration requirements have been established for operating systems and databases which include security hardening and documented exceptions. "
23	SO	420	<ul style="list-style-type: none"> Electronic Tagging Services for ERCOT Control Area and Transmission Provider OATI webTrans application to manage interchange transactions across the ERCOT DC ties, including integration via webData 	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	170,079	Electronic tagging is a North American Electric Reliability Corporation (NERC) requirement and all the transactions across ERCOT ties with the Eastern interconnection need to be tagged. Not having this service will make ERCOT non compliant with NERC standards.	Requires specialized expertise and computer systems.	A similar service from another vendor will have to be procured, since ERCOT will not be able to transfer power across the DC ties without E-tag services

7. Recommended 2008 Budget – Outside Services

Line	Division	Dept	Description of Service(s)	Type of Service	2008			Consequence(s) of Not Procuring Services
					Recommended	Why are Services Necessary	Why Can't Staff Perform Tasks	
24	CO	114	Financial Audit - Price Waterhouse Cooper	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	157,500	Public Utility Commission of Texas (PUCT) rules	Must be performed by External auditing firm	Inability to get credit, obtain affordable insurance, or establish reasonable vendor relations.
25	IO	357	Lawson has restructured the application security within the suite of applications. The security is no longer deductive where a user is given access to everything and the security administrator must strip away any access that is not required. Instead, the new version allows for additive privileges and provides real role based security. The current version requires one security class per user. This results in many unmanageable classes. The role based model is much more flexible and maintainable. A consultant with expertise in the new security model is required to assist ERCOT in this effort.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	145,800	Several audit recommendations have been made based on the current Security setup. Utilizing the new security model will remediate these audit findings.	This requires a detailed level of expertise in the Lawson Security Model.	It is currently very easy to give users too many rights to Lawson based on the deductive model. Given the confidentiality of the data and potential Health Insurance Portability Act (HIPPA) issue, the new model needs to be implemented.
26	SO	415	Staff augmentation to assist with an aggressive project of "mapping" the relationships between North American Electric Reliability Corporation (NERC) and Regional Standards requirements and the tasks related to ensuring compliant performance. Mapping to include ERCOT Protocols, Operating Guides, and other relevant ERCOT procedures.	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	140,000	Documentation of standards, Protocols, and Operating Guides requirements, tracking of reporting, audits, and business processes and procedures that are necessary to ensure compliance. Documentation of the mapping between North American Electric Reliability Corporation (NERC) and Regional Standards and the relevant ERCOT Protocols, Operating Guides, and procedures.	This project is a one-time up-front need to establish the needed documentation for the mandatory standards programs of the Electric Reliability Organization (ERO) North American Electric Reliability Corporation (NERC) and the Texas Regional Entity (TRE), along with documentation of compliance with ERCOT Protocols and Operating Guides under the oversight of the TRE and the Public Utility Commission of Texas (PUCT). Once the documentation is created, department personnel will maintain and update it on an incremental basis.	This work must be done. If the Outside Service assistance is not procured, the department personnel must develop it and it will likely take 2 to 3 times as long to do so. Risk exposure to inadequate documentation and compliance will be significantly higher until the effort is complete.
27	CO	114	Property Tax services	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	133,000	To ensure property tax rates from taxing authorities are accurate. Amount paid is directly linked to savings achieved for ERCOT.	ERCOT accounting staff does not have necessary expertise in property valuations and associated tax strategies to effectively represent ERCOT with tax authorities.	May over pay property taxes
28	SO	473	Evaluation of Impact of Advanced Metering and Price Responsiveness on Load Forecast	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	125,000	ERCOT System Assessment is required by statute to complete a Long-Term System Assessment every even-numbered year. North American Electric Reliability Corporation (NERC) requirements also specify completion of long-term analyses of expected system conditions. As ERCOT transitions to a nodal market, a key consideration in the development of expectations of future system conditions will be the extent to which future load growth and load shape will be affected by market prices.	Outside consultant brings independent viewpoint, technical expertise, market knowledge, and software that is not cost effective to maintain within ERCOT.	ERCOT System Assessment will not be able to provide a credible analysis of long-term conditions, as required by statute, without this service.
29	IO	356	Resources to support the Zonal System until such time as the Public Utility Commission of Texas (PUCT) determines we no longer have to support Zonal Settlements.	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	118,800	Zonal Settlements will not stop once the new Nodal Market has been deployed. They must run to completion which will be at least 6 months (if they are error free, all meter data is error free and no disputes are filed). The more likely scenario is 1 - 2 years. The books were finally closed for 2001 to 2003 This year.	ERCOT Staff will be focused on the new system	Not meeting protocols and unhappy customers

7. Recommended 2008 Budget – Outside Services

Line	Division	Dept	Description of Service(s)	Type of Service	2008		Why are Services Necessary	Why Can't Staff Perform Tasks	Consequence(s) of Not Procuring Services
					Recommended				
30	IO	302	Staff augmentation for administrative work relating to software license compliance activities and contract administration	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	108,000		Renewal of hardware/software maintenance and renewable license agreements and activities related to software license compliance. ERCOT compliance.	Lack of internal resources	ERCOT staff will need to perform these duties, reducing the time they are able to spend on strategic Information Technology goals
31	IO	396	Manage the implementation of additional capital projects beyond the capability of existing staff.	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	102,000		At some point, the work load becomes greater than existing staff can effectively manage. The work performed will be directly chargeable to capital projects. If the additional staffing requests are granted, there is little likelihood that contract staff augmentation will be necessary.	I would prefer this be handled by ERCOT staff, however, if staff is not available, our project load will dictate the need for contract staff.	Business requirements may not be met based on approved and prioritized projects requested for 2008.
32	CO	370	Pre-audit of North American Electric Reliability Corporation (NERC) CIP 002-009 to ensure established controls meet North American Electric Reliability Corporation (NERC) requirements of Substantially Compliant or Auditably Compliant as applicable.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	100,000		Ensure ERCOT is compliant to North American Electric Reliability Corporation (NERC) CIP:002-009 standards prior to NERC auditors review.	A significant contribution of this type of service is the peer review concept where the use of outsiders confirms or corrects the staff view of the security model.	Failure of North American Electric Reliability Corporation (NERC) audit and resulting monetary fines.
33	CO	370	Security assessment of the Telecom and Private Branch Exchange (PBX) systems to identify potential threats and vulnerabilities to the telecommunication system used at ERCOT.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	100,000		Much like a network router that routes Internet traffic, a Private Branch Exchange (PBX) sends calls to the appropriate telephone number and handles traffic restrictions in a manner analogous to packet filtering. A PBX also provides system features (e.g., conference calling), and access rights and privileges like a network server. Similar to data networks, there are risks and threats that can be identified and associated with the PBX and related systems. Some examples include theft of service, traffic analysis, data modification, internal abuse, and call sending. This type of assessment and review has never been done at ERCOT. This assessment is requested as part of security's goal to provide proactive due diligence. Other North American Electric Reliability Corporation (NERC) regions have had to absorb significant expenses which resulted from compromise of their PBX systems to unauthorized users making expensive overseas phone calls.	ERCOT staff does not have the expertise to perform a security assessment of the Telecom and Private Branch Exchange (PBX) systems.	Security breach of ERCOT's telecommunication system with or without our knowledge.
34	CO	325	Voice/Data cabling data center assistance - provides the voice, data, fiber optic, and video cabling necessary, for advanced networks at ERCOT.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	95,400		The facilities department is responsible for data center and office area voice/data fiber optic and video cabling. We have one FTE position within the department to perform the steady state work and utilize contractors for peak activities. Due to the Nodal program we are experiencing significantly higher demand for this service and therefore require the requested funding for outside services.	Due to the Nodal program we are experiencing significantly higher demand for this service and therefore require the requested funding for outside services	If ERCOT does not procure this service there will be delays on cabling requests which would likely delay projects including the nodal program.

7. Recommended 2008 Budget – Outside Services

Line	Division	Dept	Description of Service(s)	Type of Service	2008			Consequence(s) of Not Procuring Services
					Recommended	Why are Services Necessary	Why Can't Staff Perform Tasks	
35	IO	345	Areva Software Support for Non-Standard Products	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	90,000	These cost are not covered by the Standard Product Areva support agreement and these are critical to Energy and Market Monitoring Systems (EMMS) production operation.	Some Software source is not provided by Areva and some internals of the Market Operating System (MOS) are best modified by Areva.	Areva could refuse to service critical parts of the Zonal Market operating system and some sections of the Energy Monitoring System leading to excessive downtime.
36	IO	354	Accommodate peak load	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	90,000	Accommodate peak load	Accommodating Nodal and zonal capital work load.	Delayed delivery of capital projects.
37	MO	605	Prepare, distribute, and collect results of market participant survey requested by Board of Directors every two years.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	85,000	Prepare, distribute, and collect results of market participant survey requested by Board of Directors every two years.	Need for confidentiality and professional expertise in survey techniques, as well as an unbiased and objective third party.	Non-compliance with requirement of HR & Governance Committee of the Board, in regards to confidentiality and objectivity.
38	CO	130	Performance Management	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	84,000	Create easily understood metrics that establish the effectiveness of ERCOT in fulfilling duties	Third party objectivity in developing metrics and the cost of creating our own software would triple the cost of this project.	Inadequate metrics to evaluate success or failure company-wide.
39	CO	702	Non- Statutory services related to Texas Regional Entity (TRE)	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	82,000	Services such as Board of Trustee Fees, Support Allocation, Audit, Legal Fees, and Insurance are necessary for the operation of the Regional Entity	Staffing level and skills necessary are not sufficient to perform these critical services.	Risks associated with legal and insurance exposure and non compliance issues.
40	SO	473	Completion of Loss of Load Expectation Study	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	75,000	The relationship between system reserve margin and the risk of loss of load events varies depending on system characteristics. Regulators and market participants expect ERCOT to analyze and report on the risks associated with system conditions.	Outside consultant brings independent viewpoint, technical expertise, and software that is not cost effective to maintain within ERCOT.	ERCOT will not be able to maintain the required level of reliability of the transmission system without completion of a loss-of-load expectation study.
41	CO	130	Career Builder, Monster, Dice and Energy Central	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	74,500	Recruiting tools to attract candidates for staffing open positions	Services are necessary to broaden candidate searches.	Delay in filling open positions.
42	CO	114	Rate Consultation	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	70,000	Anticipated requests and expectations established by management, the Board of Directors, or the Public Utility Commission of Texas necessitated the incremental assistance.	Workload issues prevent Budget staff from taking on these special projects in addition to completing other expected activities associated with a rate review as well as day-to-day responsibilities.	Inability to produce required material to support rate review and/or Fee Filing within the established deadline
43	CO	111	Cash/Banking Services - Bank service fees including wire fees, account maintenance fees and lockbox deposits.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	65,000	ERCOT will be required to increase its banking services under the Nodal market primarily due to the addition of the Day-ahead and the Congestion Revenue Rights (CRR) markets.	Required bank services.	Inability to process cash payments and/or deposits.

7. Recommended 2008 Budget – Outside Services

Line	Division	Dept	Description of Service(s)	Type of Service	2008			Consequence(s) of Not Procuring Services
					Recommended	Why are Services Necessary	Why Can't Staff Perform Tasks	
44	SO	472	Electrical Power Research Institute (EPRI) Stability Load Modeling Project	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	65,000	Needed to determine transmission limits due to transient and voltage stability. North American Electric Reliability Corporation (NERC) compliance requirement. Needed to accurately analyze stability in planning studies.	Outside consultant brings independence and expertise that is not available within current ERCOT resources.	Over identification of stability limits will increase transmission congestion and related costs. Under identification would adversely impact reliability and could result in loss of load, blackouts, and cascading outages. Increase in North American Electric Reliability Corporation (NERC) sanctions.
45	MO	585	Analytical and data management support	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	65,000	Engage specialized expertise required on a periodic basis to supplement daily staff operations in support of ERCOT Protocols and SAS 70.	Over allocated resources	Decline in progression of work for daily operations and development of commercial operations business services
46	IO	355	Over the past two years ERCOT Enterprise Architecture has developed the following assets - Strategies - Standards - Guiding Principles - Lists of standard tools and technologies - White papers - Technical Architecture Documents These assets make up ERCOT's Enterprise Architecture. To continue to develop these artifacts and ensure they are current, Enterprise Architecture would like to investigate the use of an Enterprise Architecture Asset Management tool.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	64,800	The consulting services would be used to provide expertise on how to establish an Enterprise Architecture Asset Repository and would augment the Enterprise Architecture team by providing industry best practice.	Requires expertise we currently do not have in ERCOT.	By the end of Nodal we will require one additional Full Time Equivalent (FTE) to maintain the Enterprise Architecture strategy if we do not have a tool to facilitate the process. \$100k per year.
47	IO	360	Database Architecture, Tuning, Administration services to support critical data infrastructure for ERCOT.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	64,800	Database and Data Management services	Services will be requested due to highly specialized nature of skills needed and also due to shortage of staff and sudden increase in work load. Services will also be requested to solve operations problems where skills beyond what ERCOT staff can provide.	Delay in deliverables, potential operational problems that can impact ERCOT's business goals,
48	CO	351	Project Management – The Project Manager will be responsible for the successful implementation of Operations & Maintenance project efforts in the areas of Facilities, Physical Security, Cyber Security, Finance/Accounting, Payroll, Human Resources, Procurement, Legal and Document Management within the ERCOT organization, and will plan, direct, and coordinate activities of designated projects to ensure that goals of the project are accomplished within the prescribed time frame and funding parameters. The Project Manager will lead the technical design and development of major enhancements and additional functionality to meet ERCOT's production needs, changing business requirements and changing business processes.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	60,000	The services are necessary to support and improve ERCOT Corporate processes/procedures; for example, the Human Resources Payroll Restructure which will include job description creation/modification, job competencies creation, position control and alignment, job requisition creation, exempt vs. non-exempt payroll classification, pay period optimization and e-recruiting utilization. The planned effort to Unpack the Taylor Facility cubicles will need to be planned to minimize disruption to operational staff.	Insufficient internal resources are available to perform these tasks. The Corporate Operations Divisional Project Organization will remain dependent on contract staff augmentation to support the project management roles required to successfully deliver the projects planned on the current 2008 Corporate Operations Continuous Analysis & Review Team Project Priority List with a forecast budget of \$9.7 million. This resource will be utilized to support the Operations & Maintenance project efforts currently identified by the Business Users.	Projects currently planned within the 2008 Project Priority List will not be properly planned, managed and controlled and thus there would be substantial risk to effective completion of these projects.

7. Recommended 2008 Budget – Outside Services

2008								
Line	Division	Dept	Description of Service(s)	Type of Service	Recommended	Why are Services Necessary	Why Can't Staff Perform Tasks	Consequence(s) of Not Procuring Services
49	CO	370	Security assessment of ERCOT's network from an external unauthorized perspective. The penetration test will identify exploitable Internet facing and remote access vulnerabilities that exist on the ERCOT network.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	60,000	In order to show due diligence and non partiality, it is best practice to have these types of assessments performed by an external party. In addition, ERCOT cannot be compliant for NERC CIP 5 R4 which states "Cyber Vulnerability Assessment – The Responsible Entity shall perform a cyber vulnerability assessment of the electronic access points to the Electronic Security Perimeter(s) at least annually."	A significant contribution of this type of service is the peer review concept where the use of outsiders confirms or corrects the staff view of the security model.	ERCOT's security posture may be compromised because of changing Internet facing vulnerabilities or threats.
50	CO	130	Management Training	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	51,000	To provide training for our managers and supervisors on employment laws and improved understanding of how to manage others.	Current staff will assist in the administration of this service but we are not staffed to perform the training. About 1/2 of the cost is related to the diagnostic tools required.	Increased turnover and potential of employment litigation for failure to train managers on how to properly handle disciplinary actions, performance coaching, selection and terminations.
51	CO	111	The credit risk analysis tools -- Credit Edge and Risk Calc provide information on default probabilities for publicly held entities and also help ERCOT to analyze privately held entities.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	50,000	To provide more "real time" insight into credit quality of market participants. This tool factors in bond and stock prices and other factors that provide more current information on potential defaults by ERCOT market participants.	ERCOT staff does not have the background or tools (e.g. Bloomberg info, etc) to efficiently conduct this analysis.	Credit function will not have adequate information to make credit decisions concerning ERCOT counterparties.
52	SO	473	Advisory Service for Development of Generation Expansion Scenarios	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	50,000	ERCOT System Assessment is required by statute to complete a Long-Term System Assessment every even-numbered year. North American Electric Reliability Corporation (NERC) requirements also specify completion of long-term analyses of expected system conditions. A key input to the analysis of future system conditions is the type and potential locations of future generating units.	Outside consultant brings independent viewpoint, technical expertise, market knowledge, and software that is not cost effective to maintain within ERCOT.	ERCOT System Assessment will not be able to provide a credible analysis of long-term conditions, as required by statute, without this service.
53	CO	130	Compensation review and update of salary information	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	49,000	Database and Data Management services	To provide support to our compensation program.	Paying employee above or below market and resulting consequences of overpayment or underpayment and turnover.
54	IO	356	Siebel Technical Account Manager package. This package allows for a certain number of technical hours to aid in analysis and development.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	46,440	We currently use the Siebel System to support our Retail Choice Registration System. Based on the complexity of the business model and the fact that there is not another system even similar, it would be advantageous to have the Software Vendor engaged in our design and deployments.	ERCOT is not the software company for the development of the Siebel application and has no visibility into its code.	Does not allow vendor company to take into account ERCOT's special deployment. May cause vendor to make application changes that will adversely effect our ability to upgrade.
55	IO	347	TIBCO Services as needed to build, support, and troubleshoot Zonal/Nodal integration and web services.	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	45,000	TIBCO Services as needed to build, support, and troubleshoot Zonal/Nodal integration and web services.	Needed to accommodate peak work load.	Delayed delivery.

7. Recommended 2008 Budget – Outside Services

Line	Division	Dept	Description of Service(s)	Type of Service	2008			Consequence(s) of Not Procuring Services
					Recommended	Why are Services Necessary	Why Can't Staff Perform Tasks	
56	SO	473	Membership in the Utility Wind Integration Group and the Operating Impact and Wind Plant Modeling Users Groups.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	40,000	An increasing amount of wind capacity is being connected to the ERCOT transmission system. These uncontrolled generating facilities create challenges for transmission planning. Participation in the Utility Wind Integration Group provides a forum for discussions with other utility and Regional Transmission Organization (RTO) planning organizations regarding wind integration issues.	Outside consultant brings independent viewpoint and technical expertise that is not cost effective to maintain within ERCOT.	ERCOT will not be able to maintain the required level of reliability of the transmission system without the information that Utility Wind Integration Group (UWIG) provides. Without the technical expertise of this organization, ERCOT will not be able to adequately analyze the optimal methods for limiting the risks associated with increasing wind integration.
57	MO	500	Recognition of coverage for unforeseen events such as PUCT, Board or IRC requests for information and/or studies not otherwise budgeted.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	40,000	Need to have some small recognition of unforeseen events. We didn't budget anything in 2007 and have needed some services.	Will only procure if we need specialized services not performed by in house staff.	No cushion for unforeseen needs.
58	CO	325	Architectural services to ERCOT for space planning and design layout.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	36,000	These services are necessary when planning and designing new space like for example, TCC2 2nd floor build out, IMM/TRE construction at the Met Center and expansion of the TCC2 parking lot.	Requirements go above and beyond ERCOT staff capabilities.	Without this service ERCOT would likely spend a more time and money designing the most efficient and cost effective layout of space.
59	CO	130	Benefit Audit (401K and Medical Claims)	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	35,000	Federal law requires that ERCOT include audited benefit plan financial statements with its annual Internal Revenue Service (IRS) Form 5500 filing.	The benefit plan audits must be performed by an independent audit firm.	Loss of the qualified tax status of the benefit plans resulting in significant liability to the company and possible ERCOT employees.
60	SO	473	Continuation of Wind Generation Modeling Project	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	35,000	ERCOT System Planning requires models simulating the response of specific wind units to system disturbances in order to conduct system analysis of the likelihood of voltage collapse and transient stability. Development of generic models allows system studies to be shared with market participants. These studies are required to comply with North American Electric Reliability Corporation (NERC) requirements and to maintain acceptable levels of system reliability.	Outside consultant brings independent viewpoint, technical expertise, and software that is not cost effective to maintain within ERCOT.	Misidentification of stability limits within the system will lead either to excessive market costs (a result of overly conservative transfer limits) or unacceptable levels of risk of transient instability resulting from system disturbances.
61	SO	473	Econometric Data for Load Forecast Development	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	35,000	ERCOT System Assessment is responsible for the annual development of the long-term load and demand forecast. Econometric forecasts are required as an input to the process used to develop the long-term load and demand forecast. The long-term load and demand forecast is provided to regulators and stakeholders, is included in the annual system analysis of forecasted capacity and demand, and is utilized in all system planning modeling and analyses. Development of the long-term load forecast is required to meet Public Utility Commission regulations, North American Electric Reliability Corporation requirements, and numerous requests from stakeholders including State legislative committees.	Outside consultant brings independent viewpoint, technical expertise, market knowledge, and software that is not cost effective to maintain within ERCOT.	The long-term load and demand forecast cannot be developed without thoroughly researched econometric analysis and forecasts. Without a credible long-term load forecast, ERCOT System Planning will not be able to perform its required job functions of analysis of system reliability and transmission upgrades.

7. Recommended 2008 Budget – Outside Services

Line	Division	Dept	Description of Service(s)	Type of Service	2008			
					Recommended	Why are Services Necessary	Why Can't Staff Perform Tasks	Consequence(s) of Not Procuring Services
62	CO	120	Expert witness fees, court reporter fees and related items.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	34,000	The services are necessary because ERCOT does not possess all the knowledge and skills required for all issues confronting the company (e.g. property values, legal fees, etc.). Also, ERCOT must obtain copies of transcripts (from court reporters) to know exactly what transpired at legal proceedings.	The services are necessary because ERCOT does not possess all the knowledge and skills required for all issues confronting the company (e.g. property values, legal fees, etc.). Also, ERCOT must obtain copies of transcripts (from court reporters) to know exactly what transpired at legal proceedings.	The services could not be provided and the company could decide to take the risk of not prevailing on some issues in lawsuits because we did not hire an expert. Also, if ERCOT does not obtain copies of transcripts (from court reporters), we cannot know exactly what transpired at legal proceedings.
63	MO	550	Review quarterly Reliability Must Run (RMR) contracts.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	31,992	The plan is to have consultant review quarterly data for Reliability Must Run (RMR) units. (Total cost for the year is \$32,000) This is an area where it makes sense to have an outside consultant with industry wide knowledge and experience to verify the appropriateness of costs submitted by Reliability Must Run (RMR) units.	Independent review of ERCOT analysis. We are looking for someone to double check our work.	Inaccurate Reliability Must Run (RMR) contracts costing market millions of dollars.
64	CO	111	Fitch ratings service and data feed to ERCOT's new credit program for Nodal from Rome. The use of these services is contingent on the Board of Directors approving creditworthiness standards that include Fitch ratings.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	30,000	The current draft of proposed updates to the creditworthiness standards include the use of Fitch ratings. This item covers the cost of that service. The service is contingent upon approval of creditworthiness standards by the Board of Directors with Fitch included.	n/a	Inability to comply with Protocols and Creditworthiness Standards.
65	CO	325	Internal mail collection, sorting and distribution for MET Center, TCC1, TCC2 and Blue Building.	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	30,000	Facilities SLA (unwritten) is to collect, sort and distribute internal and external mail to all employees at and between the MET Center, TCC1, TCC2 and Blue Building five days a week.	To consistently meet the mail collection, sorting and delivery needs of ERCOT for over 600 employees between four buildings, a dedicated resource is required.	Without this service the facilities mail collection, sorting and delivery SLA could not be achieved on a consistent basis without negatively impacting other facility responsibilities. If deemed acceptable, the mail delivery service could be reduced to less than five days per week reducing the overall cost of the service.
66	SO	472	Automated creation of Generator Hourly Piecewise Linear Cost Curve Data	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	30,000	Needed to perform alternating current (AC) reliability analysis; to evaluate if additional reliability project(s) (besides those designed under direct current (DC) environment) is(are) needed to maintain reliability of the system.	Cost data is embedded in current vender software.	Under identification of reliability project on alternating current (AC) environment would impact system reliability and could result in loss of load, blackouts, and cascading outages.
67	MO	605	Perception surveys on conducted on various services offered to the market such as meeting management, website revisions, etc.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	30,000	ERCOT Executive management requests to gain market participant perceptions.	Need for confidentiality and professional expertise in survey techniques, as well as an unbiased and objective third party.	Non-compliance with request of CEO and CMO, in regards to confidentiality and objectivity.
68	MO	660	Lyriss outsourcing service to support ERCOT's mail list manager used to provide self-serve access to a list of email distribution lists for market participant communications (ERCOT Governance, ERCOT Market Notices).	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	30,000	There are numerous references in ERCOT Protocols specifying the Independent System Operator's (ISO's) responsibilities for timely communications with market participants, governance groups, and regulatory parties.	The Lyriss service was selected over setting up and maintaining this service in house due to cost and available resources.	ERCOT would not be able to meet obligation for timely market notification as per protocol.

7. Recommended 2008 Budget – Outside Services

Line	Division	Dept	Description of Service(s)	Type of Service	2008			
					Recommended	Why are Services Necessary	Why Can't Staff Perform Tasks	Consequence(s) of Not Procuring Services
69	IO	357	ERCOT is currently using Serena Collage for content management of ERCOT.COM. A major upgrade has not been completed since the tool was implemented 2.5 years ago. Specific application expertise is required.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	29,700	Specific application knowledge is required to more efficiently and effectively upgrade the software.	This service will be performed along with ERCOT staff. Specific application expertise will be needed.	Unsupported software
70	IO	357	ERCOT is using Sun Java Identity Manager for Access Requests of certain applications. This tool will be extended to be used at a much broader level across the organization exposing more features such as automatic provisioning will be deployed. It is likely that an upgrade will be required in 2008. Specific application expertise is required.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	29,700	Specific application knowledge is required to more efficiently and effectively upgrade the software.	This service will be performed along with ERCOT staff. Specific application expertise will be needed.	Unsupported software
71	SO	471	Competitive Constraint Modeling	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	29,000	Needed to model past events and match simulation program output with actual historical costs, generation dispatch, and branch loadings. This is a major achievement to validate the current model and methodology and give confidence to calculations estimating the benefit of future transmission projects.	Outside consultant brings expertise that is not available within current ERCOT resources.	The market simulation model used by ERCOT to justify and endorse new transmission projects will never fully be validated. Market participants will not have the confidence in the simulation to fully accept new transmission planning techniques such as the annual Five-Year Plan. As a result, duplicate and sometimes competitive effort will exist between ERCOT and market participants.
72	IO	357	This will bring ERCOT up to the latest stable version of Java and is consistent with the ERCOT technical roadmap. It is important that ERCOT upgrade as Java 5 is the preferred version for the nodal effort. Outside services are required to augment staff in order to continue service in other areas.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	28,800	Stay current with technology and provide consistency in Information technology stack as defined by the Enterprise Architecture group.	This service will be performed along with ERCOT staff. If ERCOT staff were to completely implement these changes, other critical responsibilities would be at risk.	Upgrading will help us realize immediate benefits through the richer, broader applications, and applets you develop. Also, the vendor might stop supporting the current version.
73	IO	315	Offsite storage and retrieval services for tape cartridges	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	27,000	In order to meet Protocol and audit requirements, cartridges must be stored offsite for disaster recovery.	Storing tape cartridges in an employees house or garage is not recommended	Failing to meet protocol, audits and potential disaster recovery
74	IO	330	Time and materials for Private Branch Exchange (PBX) and voicemail maintenance.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	25,500	Services are critical to maintaining communication systems.	Not enough ERCOT staff with the skills necessary to maintain these systems.	Improperly maintained systems may be subject to malfunctions.
75	CO	130	Determine the Financial Accounting Standards Board (FASB) 106 Liability for post retiree medical benefits for ERCOT	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	25,000	Accounting support for determining the Financial Accounting Standards Board (FASB) 106 liability for ERCOT	Not trained actuaries	Compliance issues
76	CO	180	Performance of required Quality Assessment Review (QAR) of the Internal Audit Department	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	25,000	The independent Quality Assessment Review (QAR) has been requested by the Finance and Audit Committee of the Board of Directors. The QAR had originally been scheduled for the Fall of 2006. At the May 16, 2006, Finance and Audit Committee meeting, the Committee voted to defer the Planned 2006 quality assessment review of Internal Audit until the first half of 2008.	The Quality Assessment Review would not be independent. The Institute of Internal Auditors (IIA) Professional Practice Framework (Practice Advisory 1312-1) states that the external assessments be conducted by a qualified, independent reviewer or review team from outside the organization.	The Quality Assessment Review could not be performed which would not be in compliance with the request of the Finance and Audit Committee and the Internal Audit Department would not be in compliance with the Professional Practices Framework put forth by the Institute of Internal Auditors.

7. Recommended 2008 Budget – Outside Services

2008								
Line	Division	Dept	Description of Service(s)	Type of Service	Recommended	Why are Services Necessary	Why Can't Staff Perform Tasks	Consequence(s) of Not Procuring Services
77	IO	357	ERCOT is utilizing several tools offered by Mercury for testing support. As Nodal demands increase, the need for this tool does as well. Upgrading the software will allow ERCOT to stay compliant with the latest release and take advantage of new functionality.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	21,600	Specific application knowledge is required to more efficiently and effectively upgrade the software.	This service will be performed along with ERCOT staff. Specific application expertise will be needed.	Unsupported software
78	CO	111	Automated data feeds of financial information (financial statements, ratings, etc) directly to Rome credit monitoring system.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	20,000	After implementation of Nodal, ERCOT will receive financial information in an automated way to reduce need to manually enter financial information, to ensure information is updated timely and to be sure information is entered accurately.	Service could be performed by ERCOT staff with the addition of new headcount within the credit department.	Manual preparation and entry of data which would be more costly and error prone.
79	CO	325	Indoor Environmental Consultants provide indoor air quality sampling and infrared thermographic inspection for all ERCOT buildings.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	18,000	ERCOT's facilities experience water penetration events and internal water leaks over the course of each year which could negatively impact indoor air quality. It is appropriate to verify the indoor air quality of ERCOT's facilities to ensure the safety and health of all occupants.	It is most cost effective to utilize outside services to perform ERCOT's air quality analysis. To perform the work internally would require additional staffing, purchase of air quality sampling and analysis equipment and on going training.	The health of ERCOT staff, contractors and visitors may be compromised if the internal air quality is not verified. Air quality testing also confirms the safety of ERCOT's internal air quality allowing staff and visitors to focus their attention on their primary duties maintaining productivity and morale.
80	IO	357	Altiris Software upgrades, optimization and maintenance. A number of issues regarding the current Altiris implementation have been identified. One of the most serious problems surfaces in the area of inventory and license reporting. It is imperative that accurate reports be generated regarding hardware and software inventory, and more importantly, license counts. The outside consultant with Asset Management expertise will address these outstanding issues and assist in an upgrade if required.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	15,300	License compliance	This requires a detailed level of expertise with the Altiris Asset Management tool.	Invalid license reporting and compliance issues that will result in negative audit findings and penalties issued by the software vendors.
81	SO	471	Create map with Global Positioning Satellite (GPS) coordinates	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	15,000	Needed to improve the transmission planning process and generation interconnection process by providing more accurate maps to plan new facilities (e.g., approximating transmission line distances and cost estimates). ERCOT currently has a resource to initiate and update AutoCAD maps; this outside service request would provide the GPS coordinate data for all stations so that our ERCOT internal resource can accurately place station symbols on Planning maps.	ERCOT staff does not have the expertise or the equipment to do this service.	Incorrect assumption for planning of transmission or generation facilities can occur. This may lead to delays in project development or less accurate estimation of facility costs during the planning process.
82	SO	471	CIM (Common Information Model) for planning	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	15,000	Several different load flow programs are used by various departments in ERCOT and some departments use more than one program. The use of multiple tools is not uncommon due to the different types of analysis required in the design and operation of a power system. A common format to exchange models between these different programs would improve the transmission planning process.	Outside consultant brings independence and expertise that is not available within current ERCOT resources.	Incorrect exchange of planning data can lead to delay and unknown errors in the planning of transmission facilities.

7. Recommended 2008 Budget – Outside Services

Line	Division	Dept	Description of Service(s)	2008		Why are Services Necessary	Why Can't Staff Perform Tasks	Consequence(s) of Not Procuring Services
				Type of Service	Recommended			
83	SO	415	Web Compliance software service amendment to the OATI ETS Service. This is a North American Electric Reliability Corporation (NERC) and Regional Standards tracking system pre-loaded with all North American Electric Reliability Corporation (NERC) and Regional Reliability Standards with automatic updates of changes to the Reliability Standards. This service was initiated in 2007. This request is to provide for the ongoing monthly recurring fee.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	14,400	Documentation of standards, Protocols, and Operating Guides requirements, tracking of reporting, audits, and business processes and procedures that are necessary to ensure compliance. This system will also provide for the documentation of the mapping between North American Electric Reliability Corporation (NERC) and Regional Standards and the delegation of tasks via Protocols, Operating Guides, or other agreements.	This system presents a readily available system to document all the relevant information. Absent this system, employees, which are just now in the process of being hired, will have to develop an equivalent system using some database management system. This is a tool that meets an emerging need that has arisen due to the implementation of the Energy Policy Act (EPACT) requirements for mandatory compliance with exposure to monetary penalties for non-compliance.	A gap analysis of existing documentation vs. the North American Electric Reliability Corporation (NERC) and Regional Standards requirements must be performed. The consequences of not procuring this service will be the need to develop a system to perform the same function.
84	IO	300	Information Technology Committee (ITC) Independent System Operators (ISO) Council - ERCOT's share of consulting fees for a council of the Chief Information Officers of the Independent System Operators that meet quarterly.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	13,500	ERCOT's share of consulting fees for a council of the Chief Information Officers for the Independent System Operator's that meet quarterly.	Council is made up of the Chief Information Officers of the Independent System Operators	
85	SO	427	CBT (Computer Based Training) software for system operators	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	11,319	Currently, all system operators are enrolled in this program. Anticipated personnel turnover will require new hires to be enrolled in the course since it is non-transferable.	Existing training staff is in preparation for Nodal startup and unavailable to perform the task. Post-nodal this service will supplement training and reduce the need for additional training staff.	Loss of operator certification.
86	IO	356	Meta Data changes to the LODESTAR Database Schema	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	10,800	Any need to add meta-data to support the Settlements process and generally tied to ERCOT Protocols.	We can actually do the changes, but if the changes are not included in the vendor product (which is what we are paying for), we will be unable to upgrade or patch the product as the meta data definition would cause a data relationship issue.	Same as above - We would not be able to upgrade or patch our LODESTAR application
87	CO	130	Diversity and Harassment Training	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	10,000	Provide training for our managers and supervisors on employment laws which require training on diversity and sexual harassment.	We are currently not staffed to provide training.	Non-compliance with legal requirements and potential for increased employment litigation or administrative charges.
88	SO	422	This is in support and development of Common Information Model (CIM) for Planning Models. The industry is in support of this and Electrical Power Research Institute (EPRI) has provided the conduit to move forward. This is important for ERCOT (both in terms of Planning and the Nodal Market Monitoring System technology) to manage model data flow for Planners. Operations Support provided support last year due to the Nodal Market Monitoring System (NMMS) development.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	10,000	This is needed to prepare for future developments with the industry and Nodal Market Monitoring System (NMMS) technology.	This service is a conduit for the entire industry and ERCOT sponsors a piece of the overall cost. Meetings have been held this year that involved International Electrotechnical Committee (IEC) Working Group members, ERCOT Market Participant (MP) members, and multiple members from utilities across the nation.	ERCOT involvement will help ensure that ERCOT meets its needs and the needs of ERCOT MPs.
89	SO	427	Update the ERCOT Fundamental Computer Based Training from Zonal to Nodal.	<input type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	10,000	To maintain currency with market and system conditions.	Resource and time constraints.	The information that is being disseminated will be inaccurate.

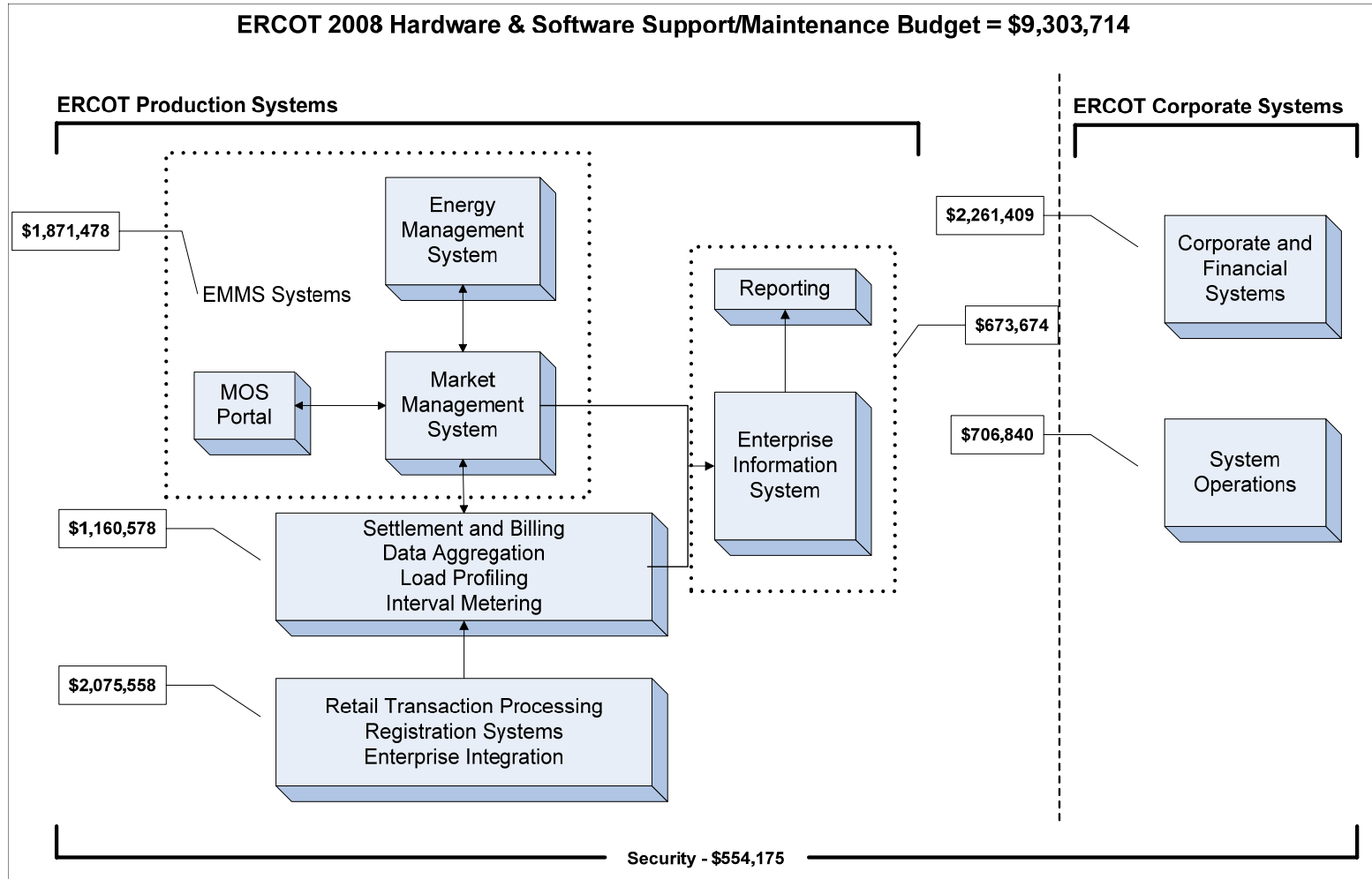
7. Recommended 2008 Budget – Outside Services

Line	Division	Dept	Description of Service(s)	Type of Service	2008		Why are Services Necessary	Why Can't Staff Perform Tasks	Consequence(s) of Not Procuring Services
					Recommended				
90	SO	471	Create Powerworld map with Global Positioning Satellite (GPS) coordinates	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	10,000		The Power world map is used as a representation of the ERCOT transmission system within the Power world steady-state power flow simulator. This system provides a versatile graphical user interface that allows engineers to view and analyze power flows throughout the ERCOT system. The current Power world map does not reflect actual locations of stations. Updating this map would increase the effectiveness of internal planning staff and increase the department's capability to accurately analyze and display the ERCOT system.	ERCOT does not have resources to re-create the Power world map using GPS data obtained through a separate Outside Services Request.	Without incorporating GPS location data, incorrect assumption for planning of transmission or generation facilities can occur. This may lead to delays in project development or less accurate estimation of facility costs during the planning process.
91	MO	540	Statistical consulting services in the areas of load profiling, sample design, or other related areas.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	10,000		To assist load profiling staff in analysis required by Protocols.	Given the volume of current workload, these types of ad-hoc analyses can be performed using consulting services without requiring additional Full Time Equivalents (FTEs).	Analysis may not be completed on-time. Other high priority work items may be impacted as well.
92	CO	114	Tax Service -Internal Revenue Service (IRS) Form 990 (Price Waterhouse Cooper)	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	6,300		Required statutory audit.	External audit required.	Non compliance with law.
93	SO	427	Fees for ERCOT CEH (Continuing Education Hours) Provider status.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	2,100		To maintain System Operation's North American Electric Reliability Corporation (NERC) Continuing Education Hours (CEH) provider status.	License must be obtain from North American Electric Reliability Corporation (NERC).	Loss of provider status, which will diminish the value of Black Start training and the ERCOT seminar. Also, ERCOT System Operators will not obtain continuing education hours through in-house training and their North American Electric Reliability Corporation (NERC) certifications will be at risk.
94									
95			Total		14,600,214				

7. Recommended 2008 Budget – Facility Summary

Description	2005 Actual	2006 Actual	2007 Budget	2007 Forecast	2008 Recommended	2007 Forecast vs. 2008	2007 Forecast vs. 2008
						Recommended \$ Variance	Recommended % Variance
Utilities							
Electricity	967,597	1,194,744	1,045,000	1,260,000	1,323,000	63,000	5.0%
Water Service	23,637	45,512	32,400	-	20,000	20,000	NA
Fuel Oil	8,503	6,020	10,000	16,440	12,000	(4,440)	-27.0%
Water/Gas/Sewer/Trash	32,445	2,203	8,100	79,818	55,000	(24,818)	-31.1%
Subtotal - Utilities	1,032,182	1,248,479	1,095,500	1,356,258	1,410,000	53,742	4.0%
Rent							
Office Rental	730,186	831,127	741,500	840,000	864,000	24,000	2.9%
Miscellaneous Rental	-	-	-	-	-	-	NA
Storage Rental	20,580	6,341	5,000	35,000	25,000	(10,000)	-28.6%
Subtotal - Rent	750,766	837,468	746,500	875,000	889,000	14,000	1.6%
Telecom							
PBX Lease for ISO	16,785	6,268	-	-	-	-	NA
Telephone - Local	682,805	737,121	658,147	125,625	174,000	48,375	38.5%
Telephone - Long Distance	116,284	78,640	74,666	102,299	126,000	23,701	23.2%
Telephone - Conf. Calls	35,712	43,381	55,000	31,847	147,650	115,803	363.6%
Internet Service	86,340	92,323	99,549	87,973	85,000	(2,973)	-3.4%
Subtotal - Telecom	937,926	957,733	887,362	347,744	532,650	184,906	53.2%
WAN	1,972,119	2,364,889	2,324,965	2,217,028	2,846,000	628,972	28.4%
Building Maintenance							
Building Maintenance	721,602	445,493	813,500	791,895	525,000	(266,895)	-33.7%
Grounds Maintenance	52,868	58,300	60,000	42,116	45,000	2,884	6.8%
Custodial Service	222,545	212,895	235,000	240,198	248,000	7,802	3.2%
Miscellaneous Services	84,189	118,885	106,800	99,930	117,000	17,070	17.1%
Bldg Security Services	817,091	848,453	973,000	971,032	1,050,000	78,968	8.1%
Subtotal - Maintenance	1,898,295	1,684,027	2,188,300	2,145,170	1,985,000	(160,170)	-7.5%
Nodal Facilities Allocation	-	(373,564)	-	(1,941,642)	(2,500,000)	(558,358)	28.8%
Total	6,591,288	6,719,033	7,242,627	4,999,558	5,162,650	163,092	3.3%

7. Recommended 2008 Budget – Maintenance & Support



7. Recommended 2008 Budget – Employee Related

	2005 Actual	2006 Actual	2007 Budget	2007 Forecast	2008 Recommended	2007 Forecast vs. 2008 Recommended	
						\$ Variance	% Variance
ERCOT							
Professional Dues	23,729	31,658	33,870	40,000	53,726	13,726	34.3%
Training Registration Fees	607,300	437,277	681,213	500,000	519,963	19,963	4.0%
Business Registration Fees	-	2,150	1,294	10,000	80,484	70,484	704.8%
College Education Reimbursement	1,549	4,585	78,027	106,602	112,608	6,006	5.6%
Training Mileage Reimbursement	142,606	155,993	208,151	120,000	63,624	(56,376)	-47.0%
Business - Mileage Reimbursement	6,853	6,860	9,440	30,000	215,867	185,867	619.6%
Cellular Phone	177,714	123,407	202,425	155,000	170,433	15,433	10.0%
Remote System Access	61,733	69,072	87,748	60,000	81,601	21,601	36.0%
Misc Entertainment	1,240	1,400	1,358	-	-	-	NA
Training - Meals	59,248	48,238	93,397	50,000	55,050	5,050	10.1%
Business - Meals	739	792	1,308	16,000	61,888	45,888	286.8%
Training -Travel-Other	33,983	37,499	50,111	20,000	25,161	5,161	25.8%
Business - Travel - Other	4,308	2,019	51,861	15,000	49,709	34,709	231.4%
Training -Travel-Airfare	95,610	133,953	160,747	80,000	136,592	56,592	70.7%
Business-Travel - Airfare	16,242	8,864	13,031	50,000	139,403	89,403	178.8%
Training -Travel-Lodging	150,215	184,349	247,140	120,000	125,525	5,525	4.6%
Business - Travel - Lodging	13,292	11,789	14,178	50,000	102,611	52,611	105.2%
Wireless PC Card	-	-	-	3,000	22,038	19,038	634.6%
<i>Total - ERCOT</i>	1,396,360	1,259,905	1,935,300	1,425,602	2,016,283	590,681	41.4%
FTEs	521	556	689	619	703	84	13.6%
Average \$/FTE	2,680	2,266	2,809	2,303	2,868	565	24.5%

7. Recommended 2008 Budget – Other

	2005 Actual	2006 Actual	2007 Budget	2007 Forecast	2008 Recommended	2007 Forecast vs. 2008 Recommended	
						\$ Variance	% Variance
ERCOT							
Dues	16,772	48,216	26,100	26,000	78,150	52,150	200.6%
Late Fee Payment	24,965	17,047	-	8,000	-	(8,000)	-100.0%
Write Off Adjustments	(4)	(9,721)	-	-	-	-	NA
Dues - Misc Clubs	-	-	700	(0)	-	0	-100.0%
Subscriptions & Publications	136,815	315,764	225,450	375,000	414,750	39,750	10.6%
Corporate Events	52,329	5,234	-	-	-	-	NA
Sponsored Meetings	60,642	50,200	107,200	60,000	126,750	66,750	111.3%
Misc Expenses	3,492	13,582	800	8,000	7,800	(200)	-2.5%
Misc Moving Expenses	(74)	-	15,000	-	-	-	NA
Job Posting Advertising	46,112	13,288	50,000	5,000	25,250	20,250	405.0%
Recruiting Expense	35,282	314,602	10,950	150,000	148,500	(1,500)	-1.0%
Temp-to-Hire Fees	96,751	0	500	1,000	1,000	-	0.0%
Freight	63	2,219	-	-	-	-	NA
Relocation Benefit	570,839	335,343	626,400	300,000	350,000	50,000	16.7%
Postage and Delivery	48,954	51,101	32,700	40,000	38,460	(1,540)	-3.9%
Express Shipping	-	-	-	4,000	-	(4,000)	-100.0%
Report Printing	26,113	55,488	41,850	59,000	59,700	700	1.2%
Stationery & Office Forms	-	-	-	500	-	(500)	-100.0%
Media - Print	913	-	-	-	-	-	NA
Media - Video	285	-	-	-	-	-	NA
Reward & Recognition	2,145	(2,541)	12,000	500	96,000	95,500	19100.0%
Tax - Sales, Excise and Use	768,421	56,970	500	-	-	-	NA
Gain/Loss on Sale of Assets	170,871	1,747,447	-	-	-	-	NA
Operator Training Services	(19,070)	(17,777)	-	-	-	-	NA
Training Cost Recovery	-	1,185	-	-	-	-	NA
Claim Settlements	1,078	20,482	-	-	-	-	NA
	2,043,694	3,018,129	1,150,150	1,037,000	1,346,360	309,360	29.8%

7. 2008 Project Priority List / Funding Level Review

- **2008 Project Prioritization Approval Status**
 - CO (Corporate Operations) approved by CO CART on 6/14
 - IO (IT Operations) approved by IO CART on 5/28
 - MO (Market Operations) approved by COPS on 6/11
 - RO (Retail Operations) approved by RMS on 6/13
 - SO (System Operations)
 - ROS approved on 6/19 (via e-mail vote)
 - WMS approved on 6/20
 - PRS approved all lists on 6/21
 - TAC approved all lists on 6/28
- **All lists were reviewed by the ERCOT Executive Committee on 6/4 and 6/11**
- **Since this approval, the 2008 budget has been reduced by \$5.3M by accelerating four CO and IO projects into 2007**

7. 2008 Project Priority List / Funding Level Review

2008 Project Budgets and Counts by Program Area and Priority

Program Area	Budget Request	Project Count	<u>Counts By Priority (above line)</u>			
			Previously Approved	Critical	High	High/Med
CO	\$ 8,450,000	30	5	8	17	0
IO	\$ 6,400,000	10	0	10	0	0
MO	\$ 1,200,000	4	1	0	3	0
RO	\$ 6,100,000	18	8	2	8	0
SO	\$ 50,000	2	2	0	0	0
Subtotal	\$ 22,200,000	64	16	20	28	0
Nodal	\$ 5,300,000	3	3	0	0	0
Total	\$ 27,500,000	67	19	20	28	0

7. 2008 Project Priority List / Funding Level Review

2008 Project Budgets by Program Area and Priority

Program Area	Budget Request	<u>Budgets By Priority (above line)</u>		
		Previously Approved	Critical	High
CO	\$ 8,450,000	\$ 1,145,000	\$ 2,345,000	\$ 4,960,000
IO	\$ 6,400,000	\$ 0	\$ 6,400,000	\$ 0
MO	\$ 1,200,000	\$ 150,000	\$ 0	\$ 1,050,000
RO	\$ 6,100,000	\$ 2,850,000	\$ 1,000,000	\$ 2,250,000
SO	\$ 50,000	\$ 50,000	\$ 0	\$ 0
Subtotal	\$ 22,200,000	\$ 4,195,000	\$ 9,745,000	\$ 8,260,000
Nodal	\$ 5,300,000	\$ 5,300,000	\$ 0	\$ 0
Total	\$ 27,500,000	\$ 9,495,000	\$ 9,745,000	\$ 8,260,000

7. 2008 Project Priority List / Funding Level Review

- **2008 Project Prioritization Notes by Program Area**
 - CO
 - Large number of projects in multiple areas
 - Strong focus on security and process improvement
 - IO
 - Keeping up with computing infrastructure needs
 - MO
 - Focus on Demand Response projects
 - RO
 - Funding request is similar to previous years
 - Several projects anticipating PUCT rulemakings
 - SO
 - Reduced budget request due to Nodal
 - No new projects are proposed for 2008 (two are being carried over for the closing phase)
- **Market lists posted at:**
 - <http://www.ercot.com/services/comm/projects/pp/index.html>

7. 2008 Project Priority List / Funding Level Review

CO Project Highlights - 2008

Project Type	Budget	Count
Facilities – Taylor Sys Ops Control Room (Display System Replacement and Two Story Expansion)	\$ 1,650,000	2
Document Management / Workflow / Reporting	\$ 1,950,000	8
Cyber-Security	\$ 1,225,000	5
Technology Upgrades	\$ 1,075,000	8
Physical Security	\$ 975,000	3
Other Projects	\$ 575,000	4
Total Funding Request	\$ 8,450,000	30

Total Unfunded Projects	\$ 2,200,000	10
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7. 2008 Project Priority List / Funding Level Review

IO Project Highlights - 2008

Project Type	Budget	Count
Blade Refresh and Other Hardware Replacement	\$ 1,850,000	4
Add Storage Capacity	\$ 1,500,000	2
Minor Capital	\$ 1,500,000	1
Infrastructure Monitoring Enhancements	\$ 1,400,000	2
Other Projects	\$ 150,000	1
Total Funding Request	\$ 6,400,000	10

Total Unfunded Projects	\$ 5,740,000	8
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7. 2008 Project Priority List / Funding Level Review

MO Project Highlights - 2008

Project Type	Budget	Count
COMS Extract, Report, and Web Services Monitoring & Usage Stats	\$ 425,000	1
Direct Load Control / Lagged Dynamic Samples	\$ 425,000	1
ERCOT System Throughput for IDR (Advanced Metering)	\$ 200,000	1
Application Upgrades	\$ 150,000	1
Total Funding Request	\$ 1,200,000	4

Total Unfunded Projects	\$ 0	0
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7. 2008 Project Priority List / Funding Level Review

RO Project Highlights - 2008

Project Type	Budget	Count
PUCT Rulemakings	\$ 2,000,000	4
Internal ERCOT Process Automation and System Design Enhancements	\$ 1,760,000	9
Retail Application Upgrades	\$ 1,000,000	1
MarkeTrak Enhancements	\$ 700,000	2
EDW (Enterprise Data Warehouse)	\$ 640,000	2
Total Funding Request	\$ 6,100,000	18

Total Unfunded Projects	\$ 0	0
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7. 2008 Project Priority List / Funding Level Review

SO Project Highlights - 2008

Project Type	Budget	Count
Mid Term Load Forecast Enhancements - Phase II	\$ 25,000	1
Improvements to VSA/DSA - Phase II	\$ 25,000	1
Total Funding Request	\$ 50,000	2

Total Unfunded Projects	\$ 0	0
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7. 2008 Project Priority List – Funded Projects

Source	Prog Area	Source Doc	Project	2008 Priority	2008 Rank	2008 Budget Range	2008 Running Range	Summary Description
ERCOT	CO		Lawson 9.x Upgrade	0 - Previously Approved	0.1	\$100k-\$250k	<\$1M	Upgrade the Lawson application to the most current 9.x version
ERCOT	CO		Corporate Document Management	0 - Previously Approved	0.2	\$250k-\$500k	<\$1M	Provide a document management system within the area of Corporate Operations for policies, procedures, department documentation, etc.
ERCOT	CO		Enterprise Document Management	0 - Previously Approved	0.3	\$250k-\$500k	<\$1M	Provide a document management system to be used across the enterprise for policies, procedures, department documentation, etc.
ERCOT	CO		Physical Security Project #1	0 - Previously Approved	0.4	\$250k-\$500k	<\$1M	
ERCOT	CO		CyberSecurity Project #1	0 - Previously Approved	0.5	<\$100k	<\$1M	
ERCOT	CO		MET Facility Analysis Phase 2 Deployment	1 - Critical	1	\$250k-\$500k	\$1M-\$2M	Begin to respond to the recommendations documented during MET Facility Analysis Phase 1 with regard to housing the activities currently performed at the MET Center.
ERCOT	CO		Physical Security Project #2	1 - Critical	2	\$250k-\$500k	\$1M-\$2M	
ERCOT	CO		Employee Performance Management	1 - Critical	3	\$100k-\$250k	\$1M-\$2M	The business process whereby employees' performance is rated against established criteria derived from job competencies. As part of the overall process a software package is used to capture, categorize, standardize, and meet legal compliance requirements. This project encompasses the creation and implementation of business process and software enablement.
ERCOT	CO		Vendor Contract Management Phase 3	1 - Critical	4	\$100k-\$250k	\$2M-\$3M	Enhancements to VCM for required automated reporting capabilities not provided by the Managed Service Provider.
ERCOT	CO		Asset Management Integration (Altiris, Remedy, Lawson)	1 - Critical	5	\$100k-\$250k	\$2M-\$3M	ERCOT currently has several Asset Management tools including Altiris, Aperture, Remedy and Lawson. Each of these tools provide a unique purpose and data. Integration between the systems is necessary to eliminate errors resulting from duplicate data and to tie components together such as the purchase order, asset tag number and receiving information.
ERCOT	CO		CyberSecurity Project #2	1 - Critical	6	\$100k-\$250k	\$2M-\$3M	
ERCOT	CO		Arcsight Enhancement	1 - Critical	7	\$250k-\$500k	\$2M-\$3M	This project is to upgrade Arcsight to the latest version, migrate all Linux components to AIX and upgrade & increase the Windows Agent servers to the latest version of the Blade server (by next year the 8 core Xeon processor should be available). Additionally, if the database has not been migrated to the Oracle RAC, it will be accomplished in this project. We are planning to investigate systems for improved Windows log consolidation, the current method of polling Windows servers is clumsy and slow, wasting resources checking for events on servers with nothing to report. Also, we plan to explore log reporting by the Areva software in EMMS.

7. 2008 Project Priority List – Funded Projects

Source	Prog Area	Source Doc	Project	2008 Priority	2008 Rank	2008 Budget Range	2008 Running Range	Summary Description
ERCOT	CO		Taylor Control Room Display System Replacement <i>(Proposed for partial acceleration to 2007)</i>	1 - Critical	8	\$500k-\$1M	\$3M-\$4M	The projector currently in use in the control rooms has become obsolete. Parts are increasingly difficult to come by. The replacement projector will use less expensive lamps and less power. The projector in the Austin Control Room will not be replaced, pending the outcome of the decision on continuing use of the Met Center facility. Parts from the existing Taylor system will be used to maintain the Austin system.
ERCOT	CO		Procurement Process Flows	2 - High	9	\$250k-\$500k	\$3M-\$4M	Programs developed with the Lawson Process Flow toolset which automates the flow of information during various steps to business processes. The number, type, and requirements will be determined as part of the overall Procurement business process review.
ERCOT	CO		Blue Building Generator <i>(Proposed for acceleration to 2007)</i>	2 - High	10	0	\$3M-\$4M	The generator that was originally installed for the Blue Building was moved to TCC2 as a cost-saving measure and in anticipation that the Blue Building would be used for storage. The Blue Building has come back into full use as an ERCOT facility and needs back-up power beyond that supplied by the UPS.
ERCOT	CO		CyberSecurity Project #3	2 - High	11	\$250k-\$500k	\$4M-\$5M	
ERCOT	CO		Physical Security Project #3	2 - High	12	\$250k-\$500k	\$4M-\$5M	
ERCOT	CO		Ruby Standardization	2 - High	13	<\$100k	\$4M-\$5M	This project is intended to provide a standard 3-tier development/deployment environment for Ruby on Rails-based applications. Ruby on Rails is a web application framework that increases the speed and ease with which database driven web sites can be created. Ruby on Rails is open source software, so there will be no licensing costs. However, Corporate Applications will need to install Ruby server build environments on each of these servers. This will take approximately 50 hours. This budget assumes the availability of Oracle database servers in each of the environments.
ERCOT	CO		Application Server Standardization (JBOSS)	2 - High	14	<\$100k	\$4M-\$5M	Deployment of a J2EE 1.4 compliant application server consistent with the ERCOT technical roadmap. This has nodal dependencies as vendors have been advised that this is our preferred application server.
ERCOT	CO		Java Upgrade	2 - High	15	\$100k-\$250k	\$4M-\$5M	This will bring ERCOT up to the latest stable version of Java and is consistent with the ERCOT technical roadmap. It is important that ERCOT upgrade as Java 5 is the standard version for the nodal effort.
ERCOT	CO		Finance Process Flows	2 - High	16	\$250k-\$500k	\$5M-\$6M	Programs developed with the Lawson Process Flow toolset which automates the flow of information during various steps to business processes. The number, type, and requirements will be determined as part of the overall Finance business process review.
ERCOT	CO		Quality Initiative (Mercury/SDLC/RUP Integration)	2 - High	17	<\$100k	\$5M-\$6M	The Application Services division of IT is implementing the RUP methodology. In order to fully utilize the value of RUP, some integration of tools is required to support the process from requirements gathering through testing phases.
ERCOT	CO		Mercury -- SOA Framework	2 - High	18	\$100k-\$250k	\$5M-\$6M	Mercury's Systinet software is required by the testing team to test SOA services at ERCOT. Systinet provides services in the following areas: SOA Governance - provides the visibility you need to create trust and to gain complete control over your SOA environment. SOA Quality - helps you to validate the functionality and performance of your services as well as manage your testing to mitigate the risk of delivering services. SOA Management - enables you to manage end-user experiences, service levels, and ongoing changes to ensure SOA delivers business results.

7. 2008 Project Priority List – Funded Projects

Source	Prog Area	Source Doc	Project	2008 Priority	2008 Rank	2008 Budget Range	2008 Running Range	Summary Description
ERCOT	CO		Lawson Security	2 - High	19	<\$100k	\$5M-\$6M	Lawson has restructured the application security within the suite of applications. The security is no longer deductive where a user is given access to everything and the security administrator must strip away any access that is not required.
ERCOT	CO		HR Process Flows	2 - High	20	\$250k-\$500k	\$5M-\$6M	Programs developed with the Lawson Process Flow toolset which automates the flow of information during various steps to business processes. The number, type, and requirements will be determined as part of the overall HR business process review.
ERCOT	CO		E-Procurement	2 - High	21	\$100k-\$250k	\$5M-\$6M	Included in Lawson's Requisition Self Service is the E-Procurement application. E-Procurement allows for designated individuals to shop for goods from pre-approved outside vendors within the Requisition Self Service screens. Vendors establish and maintain selected catalogues containing ERCOT agreed upon pricing significantly simplifying the procurement process while minimizing "maverick" purchasing.
ERCOT	CO		CyberSecurity Project #4	2 - High	22	\$250k-\$500k	\$6M-\$7M	
ERCOT	CO		CyberSecurity Project #5	2 - High	23	\$250k-\$500k	\$6M-\$7M	
ERCOT	CO		Credit Model Integration with ROME	2 - High	24	<\$100k	\$6M-\$7M	Integrate the credit exposure statistical model with the ROME Credit Management application.
ERCOT	CO		Taylor Control Room Operation Support Expansion (two story)	2 - High	25	\$1-\$2M	\$8M-\$9M	Expand control room footprint to the second floor to accommodate all Operations support personnel and additional Nodal system operations within a single controlled and hardened area. Conference rooms 252 & 253 as well as the break area will be remodeled and the control room space will be extended over the current control room.
ERCOT	IO		SLA and OpenView Integration Monitoring Modules	1 - Critical	1	\$500k-\$1M	<\$1M	Provide a single point of entry, manipulation and reporting for all problem and enhancement requests. Eliminate redundant features and enhance functionality. Reduce overall cost of ownership and enhanced usability for user population.
ERCOT	IO		Additional Production SAN Capacity - 1st 1/2 of 2008 <i>(Proposed for partial acceleration to 2007)</i>	1 - Critical	2	\$500k-\$1M	\$1M-\$2M	Acquire additional SAN Resources to meet ERCOT's production requirements for the 1 st half of 2008.
ERCOT	IO		WAN Refresh	1 - Critical	3	\$500k-\$1M	\$2M-\$3M	Replace aging equipment with newer, faster, more reliable equipment.
ERCOT	IO		Minor Capital	1 - Critical	4	\$1M-\$2M	\$3M-\$4M	Capital purchases over the course of the year: new desktop and laptop systems, SAN switch upgrades, voice recording system for Outage Coordinators, add'l Mercury Interactive licenses, etc.
ERCOT	IO		Blade Refresh <i>(Proposed for partial acceleration to 2007)</i>	1 - Critical	5	\$500k-\$1M	\$4M-\$5M	Purchase 400 IBM blades to replace existing blades that are at end of life.

7. 2008 Project Priority List – Funded Projects

Source	Prog Area	Source Doc	Project	2008 Priority	2008 Rank	2008 Budget Range	2008 Running Range	Summary Description
ERCOT	IO		Additional SAN Capacity for Projects- 1st 1/2 of 2008 <i>(Proposed for partial acceleration to 2007)</i>	1 - Critical	6	\$500k-\$1M	\$4M-\$5M	Acquire additional SAN Resources to meet ERCOT's project requirements for the 1 st half of 2008.
ERCOT	IO		PIX Firewall Replacement	1 - Critical	7	\$100k-\$250k	\$5M-\$6M	Replace existing Cisco PIX firewalls with Juniper NetScreen.
ERCOT	IO		Network Switch Refresh	1 - Critical	8	\$250k-\$500k	\$5M-\$6M	Replace aging 10/100 network switching modules in datacenter with faster 10/100/1000 modules. Also replace end-of-life supervisor engines with faster and more feature-rich engines.
ERCOT	IO		CISCO ONS Expansion	1 - Critical	9	\$100k-\$250k	\$5M-\$6M	ERCOT implemented private fiber optic services in 2006 that provided improved interconnection between Taylor and Austin. This project will expand the existing system and provide redundant facilities for remaining transport circuits.
ERCOT	IO		Enterprise Visibility	1 - Critical	10	\$500k-\$1M	\$6M-\$7M	Licenses, design and deployment of end-to-end business process monitoring and analysis.
ERCOT	MO		Lodestar 4.x Upgrade	0 - Previously Approved	0.1	\$100k-\$250k	<\$1M	Maintain efficiency, and reliability of the LodeStar application to enable ERCOT to meet Energy Aggregation and Billing & Settlements business needs.
Market	MO	PRR478 & PRR385	Use of Lagged Dynamic Samples for New Load Profiles & DLC Implementation / Demand Response for Settlement	2 - High	1	\$250k-\$500k	<\$1M	<ul style="list-style-type: none"> • Add and clarify detailed DLC implementation information in the LPG. • Modify language to be consistent with the revisions made with respect to profiling ESI IDs in DLC programs. • This is a change to the method for creating Load Profiles allowing for the use of lagged dynamic samples for new profiles adopted subsequent to market open.
ERCOT	MO		COMS Extract, Report & Web Services Monitoring & Usage Statistics	2 - High	2	\$250k-\$500k	\$1M-\$2M	Provide research capabilities for Commercial Operations extract, report and web services data for internal business users, which include monitoring functionality and usage analysis capabilities.
ERCOT	MO		ERCOT System Throughput for IDR (Advanced Metering)	2 - High	3	\$250k-\$500k	\$1M-\$2M	Provide incremental increases in IDR processing capability for ERCOT systems.
PUCT	RO	PUCT Project 33049	Performance Measures Reporting Requirements (changes to Project 33049)	0 - Previously Approved	0.1	\$500k-\$1M	<\$1M	Expected project needed to enhance reporting systems as a result of T&Cs requirements effecting PUCT Performance Measures Project 24462.
ERCOT	RO		Registration Data Model Enhancement	0 - Previously Approved	0.2	<\$100k	<\$1M	Normalize type of data associated to business objects. Multiple business objects are using the same tables which are growing large causing performance and scalability issues.
ERCOT	RO		Data Research and Reporting	0 - Previously Approved	0.3	\$250k-\$500k	\$1M - \$2M	Transition of ETS reporting from Data Archive to Enterprise Data Warehouse
ERCOT	RO		EDW EAI Transition (inc. PaperFree & NAESB)	0 - Previously Approved	0.4	\$100k-\$250k	\$1M - \$2M	Transition of EAI reporting from Data Archive to Enterprise Data Warehouse

7. 2008 Project Priority List – Funded Projects

Source	Prog Area	Source Doc	Project	2008 Priority	2008 Rank	2008 Budget Range	2008 Running Range	Summary Description
Market	RO	PRR672 PRR707	Terms and Conditions requirements, not limited to Texas SET changes	0 - Previously Approved	0.5	\$250k-\$500k	\$1M - \$2M	Protocol Timing changes not Covered by TX SET 3.0 (PRR672, 693, 707)
Market	RO	SCR749	MarkeTrak Enhancements (Workflow & Reporting)	0 - Previously Approved	0.6	\$500k-\$1M	\$2M - \$3M	Enhancements to the functionality of MarkeTrak
ERCOT	RO		Exception Reporting / Monitoring Enhancements	0 - Previously Approved	0.7	\$100k-\$250k	\$2M - \$3M	Automate current exception reporting to monitor protocol compliance for processing exceptions. Create new exception reports using new data available from RBP and/or EDW projects.
ERCOT	RO		Systematic Exception Reprocessing Functionality	0 - Previously Approved	0.8	\$250k-\$500k	\$2M - \$3M	Automate current exception processing to meet protocol. Create reporting features after processing occurs.
Market	RO		Advanced Metering - RMWG/TX SET	1 - Critical	1	\$250k-\$500k	\$3M - \$4M	TX SET changes related to Advanced Metering
Market	RO		Small renewables - RMWG	1 - Critical	1	\$250k-\$500k	\$3M - \$4M	TX SET changes related to small renewables
ERCOT	RO		Enrollment Postcard Notification Process	2 - High	2	\$100k-\$250k	\$3M - \$4M	Re-Write the Customer Care Post Card process internally at ERCOT for Efficiency Reliability and stability to mitigate current compliance issues occurring today.
ERCOT	RO		EDI Transaction logging	2 - High	3	\$100k-\$250k	\$4M - \$5M	Change the Paper Free application system to log all ANSI records to TRLOG and to log all TXSET records to a new table which will better support current and future business needs.
ERCOT	RO		814 inbound XML rewrite (impacts input from portal only)	2 - High	4	\$100k-\$250k	\$4M - \$5M	Re-Write of Inbound 814 XML maps to Increase Efficiency, Reliability and Stability of ERCOT transaction data processing.
ERCOT	RO		Commercial Apps - Calendar Consolidation	2 - High	5	\$250k-\$500k	\$4M - \$5M	Develop single business calendar for use by all retail applications.
ERCOT	RO		Name to DUNS conversion	2 - High	6	\$100k-\$250k	\$4M - \$5M	Change the Paper Free application system to utilize DUNS numbers as opposed to Market Participant company names.
ERCOT	RO		MP configuration Table	2 - High	7	\$100k-\$250k	\$4M - \$5M	Remove all of the MPDB.conf files in the MB/PF systems and consolidate all of the configurations into a single table. The complexity of adding new MP to the system must be reduced in order to remove the number of errors that are encountered when adding / modifying MP information.
ERCOT	RO		MarkeTrak phase 3	2 - High	8	\$100k-\$250k	\$5M - \$6M	Expand capabilities and efficiencies of the MarkeTrak Retail Issue Resolution System. ERCOT wants to leverage upgrades from Serena.
ERCOT	RO		Retail application upgrades	2 - High	9	\$500k-\$1M	\$6M - \$7M	Application upgrades not covered within other projects on the PPL IE: Oracle 10g, PFREE, Siebel, TIBCO, etc.

7. 2008 Project Priority List – Funded Projects

Source	Prog Area	Source Doc	Project	2008 Priority	2008 Rank	2008 Budget Range	2008 Running Range	Summary Description
ERCOT	SO		Mid Term Load Forecast Enhancements - Phase II	0 - Previously Approved	0.1	<\$50k	<\$1M	Phase II deliverables: - Upgrade AREVA Load Forecast from v2.2 to v2.5 of latter. - Integrate multiple sources of MTLF data into one application. - Allow Operators to select & choose the source of forecast data. - Archive all Forecast data. - Provide the ability to view metrics & error statistics for all MTLF sources.
ERCOT	SO		Improvements to VSA/DSA - Phase II	0 - Previously Approved	0.2	<\$50k	<\$1M	This project will address the upgrade of two important software applications to the business users: 1) Open Access Gateway applications upgrade; 2) 2. OSI-soft Historian upgrade.
Nodal			NMMS/State Estimator	0 - Previously Approved		\$1M-\$2M	\$1M - \$2M	Nodal effort to replace software that would have otherwise been done in the Zonal market
Nodal			EMS Upgrade	0 - Previously Approved		\$1M-\$2M	\$2M - \$3M	Nodal effort to replace software that would have otherwise been done in the Zonal market
Nodal			Nodal Hardware	0 - Previously Approved		\$1M-\$2M	\$5M - \$6M	Nodal hardware additions that would have otherwise been done for the Zonal market

7. 2008 Project Priority List – Projects Not Funded

Source	Prog Area	Source Doc	Project	2008 Priority	2008 Rank	2008 Budget Range	2008 Running Range	Summary Description
ERCOT	CO		Corporate Development Environment	3 - High / Medium	26	\$100k-\$250k	\$8M-\$9M	Allow the corporate development environment to expand so that the resources are available to the development team so that Corporate Applications is able to follow the ERCOT standard Software Development Lifecycle.
ERCOT	CO		Corporate i-Test Environment	3 - High / Medium	27	\$100k-\$250k	\$8M-\$9M	Allow the corporate test environment to expand so that the resources are available to ERCOT so that Corporate Applications is able to follow the ERCOT Software Development Lifecycle.
ERCOT	CO		Intranet Re-architecture	3 - High / Medium	28	\$100k-\$250k	\$9M-\$10M	Re-architect the intranet which is based on ColdFusion Technology.
ERCOT	CO		Report Writer	3 - High / Medium	29	<\$100k	\$9M-\$10M	Provide enhanced reporting for ERCOT's standard applications and allow end users reporting self service.
ERCOT	CO		Project Portfolio Management System	3 - High / Medium	30	\$500k-\$1M	\$10M-\$11M	Provide additional portfolio analysis features to existing project scheduling tool that allows for tracking and reporting on project portfolio health, performance, budgets, costs and issues.
ERCOT	CO		Lawson Expense Management	3 - High / Medium	31	<\$100k	\$10M-\$11M	Implement Lawson Expense management in order to track expenses online.
ERCOT	CO		Absence Management	3 - High / Medium	32	<\$100k	\$10M-\$11M	Replace the existing Time Accrual component in Lawson with Absence Management.
ERCOT	CO		Physical Security Project #4	3 - High / Medium	33	\$100k-\$250k	\$10M-\$11M	
ERCOT	CO		Continuous Monitoring Software	9 - Parking Lot	N/A	\$100k-\$250k	\$10M-\$11M	Provide automated capabilities to review and interrogate data from ERCOT's key business systems to help ensure there are no fraudulent transactions being processed throughout the organization.
ERCOT	CO		NERC Tracking Database	9 - Parking Lot	N/A	<\$100k	\$10M-\$11M	Track NERC recommendations, Compliance audit issues, mitigation plans, investigations and correspondence to market participants.

7. 2008 Project Priority List – Projects Not Funded

Source	Prog Area	Source Doc	Project	2008 Priority	2008 Rank	2008 Budget Range	2008 Running Range	Summary Description
ERCOT	IO		Additional Production SAN Capacity - 2nd 1/2 of 2008	2 - High	11	\$1M-\$2M	\$12M-\$13M	Acquire additional SAN Resources to meet ERCOT's production requirements for the 2nd half of 2008.
ERCOT	IO		ERCOT Wireless Solution	3 - High / Medium	12	\$100k-\$250k	\$12M-\$13M	Expand wireless offering for Guest and Corp services.
ERCOT	IO		Office 2007 Installation	3 - High / Medium	13	\$250k-\$500k	\$12M-\$13M	Upgrade enterprise to MS Office 2007.
ERCOT	IO		I.E. 7 Installation	3 - High / Medium	14	\$250k-\$500k	\$13M-\$14M	Upgrade enterprise to Internet Explorer 7.
ERCOT	IO		SAN Director Replacement	3 - High / Medium	15	\$1M-\$2M	\$14M-\$15M	Replace San Directors that are reaching their end of life.
ERCOT	IO		Powderhorn Tape Library Replacement	3 - High / Medium	16	\$500k-\$1M	\$15M-\$16M	Replace the Powderhorn Tape Library in TCC purchased in 2002 with more efficient and lower cost backup/restore capabilities.
ERCOT	IO		Console Ops Buildout	3 - High / Medium	17	\$250k-\$500k	\$15M-\$16M	Provide a permanent and suitable location for Console Operations. The build-out will provide a 1500 sq.ft. location in the hardened area of TCC adjoining the Data Center. The objective is to design and construct a work area with the proper communications capabilities.
ERCOT	IO		Exchange 2007 Installation	3 - High / Medium	18	\$250k-\$500k	\$16M-\$17M	Upgrade enterprise to MS Exchange 2007.
ERCOT	MO		None					
PUCT	RO	SCR745	ERCOT Outage Evaluation and Resolution (TDTWG)--Phase III	9 - Parking Lot	N/A	\$1M-\$3M	\$1M-\$2M	Recommended by ERCOT to assign to Parking Lot until AIX stabilization. Will re-evaluate the validity of this project in Q4 2007.
ERCOT	RO		Create Retail XML Transaction Format to MPs - set the national standard	9 - Parking Lot	N/A	TBD	TBD	
ERCOT	RO		NAESB Failover - TDTWG	9 - Parking Lot	N/A	TBD	TBD	

7. 2008 Project Priority List – Projects Not Funded

Source	Prog Area	Source Doc	Project	2008 Priority	2008 Rank	2008 Budget Range	2008 Running Range	Summary Description
ERCOT	SO	PRR601	15 Minute Ramping for BES and Base Power Schedule	9 - Parking Lot	N/A	\$100k-\$250k	<\$1M	The project will change the ramping period for Balancing Energy Service (BES) deployment and for Base Power Schedules from 10 minutes to 15 minutes. The ramping will be continuous, where ramping would begin at 7.5 minutes prior to the start of the interval and continue 7.5 minutes into the interval, at which point ramping for the next interval would begin.
ERCOT	SO		Automate AS Qualification Testing	9 - Parking Lot	N/A	\$100k-\$250k	<\$1M	Add automation to the existing process of providing Ancillary Service Qualification testing.
ERCOT	SO		AVR Validation	9 - Parking Lot	N/A	<\$100k	<\$1M	Develop and implement a Reactive Performance Monitoring tool for Operations Support Staff, using the data from the OSI Soft PI System database.
ERCOT	SO	PRR496	Block Bidding and Deployment of LaaRs providing Responsive Reserve Service and Non-Spinning Reserve Service	9 - Parking Lot	N/A	N/A	<\$1M	Include provisions for LaaRs to have the option to bid Responsive Reserve Service and Non-Spinning Reserve Service as a block.
ERCOT	SO	PIP210	Block Bidding for Reserve Services - Related to PRR496	9 - Parking Lot	N/A	N/A	<\$1M	
ERCOT	SO	PRR355	BLT OOME	9 - Parking Lot	N/A	N/A	<\$1M	Allows availability of Block Load Transfers for OOME deployment.
ERCOT	SO	PRR484	Changes for Implementation of Direct Load Control (DLC)	9 - Parking Lot	N/A	N/A	<\$1M	The requested changes will facilitate and specify how DLC programs participate in the BUL market.
ERCOT	SO	PRR307	Controllable Resources	9 - Parking Lot	N/A	N/A	<\$1M	This revision defines Load which can provide Regulation Service.
ERCOT	SO		DC Tie Scheduling for South	9 - Parking Lot	N/A	\$500k-\$1M	\$1M-\$2M	To automate as much as possible the current manual processes that consume considerable ERCOT resources in managing and accounting for energy flow across the DC Ties. To provide the ERCOT System Operator with a tool to properly schedule transactions across the DC Ties with Mexico.
ERCOT	SO	SCR728	Display ERCOT Deployments	9 - Parking Lot	N/A	<\$100k	\$1M-\$2M	Display ERCOT total aggregated balancing energy deployment, total aggregated responsive deployment, total aggregated non-spin deployment, ERCOT SCE and ERCOT responsive reserve on the ERCOT public website.
ERCOT	SO	PIP112	DLC for BULs	9 - Parking Lot	N/A	N/A	\$1M-\$2M	
ERCOT	SO	PRR311	DLC to BUL Transition	9 - Parking Lot	N/A	N/A	\$1M-\$2M	Permits load control or load management programs involving small energy consumers (under 1 MW) to provide a balancing-up load (BUL) without the requirement that interval data recorders (IDRs) be installed on all of the participating energy consumers. A "sampling approach," consistent with ERCOT's load profiling requirements for direct load control programs, shall suffice.
ERCOT	SO		EIS BI Foundations III	9 - Parking Lot	N/A	\$100k-\$250k	\$1M-\$2M	Central project to handle miscellaneous enhancements requested by the PUCT for changes to EDW extract and reporting applications.

7. 2008 Project Priority List – Projects Not Funded

Source	Prog Area	Source Doc	Project	2008 Priority	2008 Rank	2008 Budget Range	2008 Running Range	Summary Description
ERCOT	SO		EMMS Production Support Process Automation (Database Load Automation)	9 - Parking Lot	N/A	\$100k-\$250k	\$1M-\$2M	This project will provide the following capabilities: <ul style="list-style-type: none"> • Increased Automation of the current EMMS database load procedures • Increased Automation of the current EMMS site failover procedures • Monitoring processes and alarming
ERCOT	SO		EMMS Production Support Process Automation (Site Failover Automation)	9 - Parking Lot	N/A	\$100k-\$250k	\$1M-\$2M	This project will provide the following capabilities: <ul style="list-style-type: none"> • Increased Automation of the current EMMS database load procedures • Increased Automation of the current EMMS site failover procedures • Monitoring processes and alarming
ERCOT	SO		EMS Archive Comparison Tool Phase II	9 - Parking Lot	N/A	\$250k-\$500k	\$2M-\$3M	This project will add deferred requirements to the R4 delivered case comparison capability. Some of the deferred requirements are, The ability to compare fields on multi-dimensional tables, The ability to compare fields on records that have no key field. The ability to compare something other than all of the fields in a database is very useful. It would be ideal if a dedicated comparison attribute was added to the Habitat database schema. This field would exist for the exclusive use of the comparison tool and would allow developers to flag fields of interest from a comparison perspective and eliminate the overloading of the MODELING field.
ERCOT	SO	PRR436	Enhance LaaR/BUL Ability to Participate in Balancing Energy Up Service, Non-Spinning Reserve Service, and Responsive Reserve Service Markets	9 - Parking Lot	N/A	N/A	\$2M-\$3M	This PRR would include the changes proposed by the Demand Side Working Group to clarify the role of Loads in the Ancillary Service and BUL markets.
ERCOT	SO		Enhancement to Market Analyst Interface for Ancillary Service Schedule Monitoring	9 - Parking Lot	N/A	<\$100k	\$2M-\$3M	Create and install a display in the Operations Market Analyst Interface to display all QSE ancillary services resources and obligations based on A/S requirements, A/S schedules entered and A/S awards. This functionality is needed to allow Operations to ascertain which QSEs have changed or are deficient in their A/S schedules.
ERCOT	SO		ICCP Security Enhancements	9 - Parking Lot	N/A	\$100k-\$250k	\$2M-\$3M	Provide the Market Participants with capability to encrypt and authenticate data transfer using Inter Control Center Protocol (ICCP).
ERCOT	SO	SCR735	Include Hydro Units in Synchronous Condenser Mode in SPD RRS Allocation	9 - Parking Lot	N/A	N/A	\$2M-\$3M	This project seeks to include hydro units operating in synchronous condenser mode in the Responsive Reserve Service (RRS) allocation within SPD.
ERCOT	SO		Integrate Risk Based Transmission Reliability Analysis Tool into RT and Study Mode	9 - Parking Lot	N/A	\$250k-\$500k	\$2M-\$3M	Provide Risk based security assessment results in terms of: (1) Identify which double circuit contingency/overloads exceed a risk threshold which justifies congestion management action; (2) Provide screening to identify "most risky" contingencies, including N-2 events; (3) Evaluate consequences of contingency events, including voltage instability risk, cascading risk, low voltage risk, etc.
ERCOT	SO	PRR558	Market Notice of LaaR Proration	9 - Parking Lot	N/A	\$100k-\$250k	\$2M-\$3M	Allow market participants to be notified when LaaRs awards for Responsive Reserve are prorated by ERCOT.

7. 2008 Project Priority List – Projects Not Funded

Source	Prog Area	Source Doc	Project	2008 Priority	2008 Rank	2008 Budget Range	2008 Running Range	Summary Description
ERCOT	SO		MOMS Enhancements 2007	9 - Parking Lot	N/A	\$250k-\$500k	\$3M-\$4M	This Project would involve implementing some enhancements which have been identified as being valuable for MOMS (Market Oversight and Monitoring System).
ERCOT	SO	PRR675	Multiple Ramp Rates	9 - Parking Lot	N/A	\$100k-\$250k	\$3M-\$4M	This PRR would revise Sections 4.5.2 and 6.5.2 to allow QSEs to submit a ramp rate curve to ERCOT that would be used to calculate an equivalent ramp rate for clearing the Balancing Energy Service (BES) market.
ERCOT	SO	PRR454	OOME Off-line	9 - Parking Lot	N/A	N/A	\$3M-\$4M	When a generation unit receives an OOME instruction that would force it off-line, ERCOT must provide OOME instructions until the unit was scheduled to come off-line, or an OOMC instruction when the unit is requested to return.
ERCOT	SO		Operator Interface Enhancements	9 - Parking Lot	N/A	\$100k-\$250k	\$3M-\$4M	This project consists of three distinct enhancements: 1) Offset Spreadsheet Replacement; 2) Constraint Entry Check/Validation; 3) Transmission Security Spreadsheet.
ERCOT	SO	SCR744	Outage Scheduler View Only Access	9 - Parking Lot	N/A	\$250k-\$500k	\$3M-\$4M	Add view only access functionality to authority options for the User Security Administrator (USA).
ERCOT	SO		Outage Sensitive Factor Screening Technique	9 - Parking Lot	N/A	\$100k-\$250k	\$3M-\$4M	To reduce the computational time in the calculation of the OSF tool to less than 5 minutes; thereby increasing efficiency and productivity within Outage Coordination.
ERCOT	SO		Remodel Control Room Console Configuration	9 - Parking Lot	N/A	\$500k-\$1M	\$4M-\$5M	The objectives of this project are to improve operator efficiency and eliminate ergonomic concerns by redesigning the console footprint. The improved design should minimize side-to-side movement currently required to view all of the computer monitors an operator must use to perform his/her duty. This project would provide for 8 operator positions in each control room.
ERCOT	SO	PRR428	RMR Process Automation	9 - Parking Lot	N/A	\$500k-\$1M	\$5M-\$6M	The proposed functionality will automate the Availability/Delivery plan interaction between ERCOT and QSE and provide an interface to run the reliability study that uses the RPRS Market Clearing engine. The requirements were already gathered during Release 4 planning. External effort is for any AREVA work.
ERCOT	SO		Security Constrained Power Flow for Feasible Generation for Outage Evaluation	9 - Parking Lot	N/A	\$250k-\$500k	\$6M-\$7M	This project will provide the capability for the outage coordinator to simultaneously study multiple planned generation outages over a time range taking into account all defined contingencies and feasible generation patterns. The intent of this project is to automate the process of determining a feasible generation solution that would meet the system load demand and keep the flows on the transmission elements within their thermal limit, as part of the Outage Evaluation process.
ERCOT	SO	PIP128	Synchronous Condenser Compensation	9 - Parking Lot	N/A	N/A	\$6M-\$7M	

7. 2008 Project Priority List – Projects Not Funded

Source	Prog Area	Source Doc	Project	2008 Priority	2008 Rank	2008 Budget Range	2008 Running Range	Summary Description
ERCOT	SO	SCR729	Unit Status Information	9 - Parking Lot	N/A	N/A	\$6M-\$7M	New screen should be made available on the ERCOT Portal, which indicates current and projected unit generation information. This should include Economic generation, as well as Out Of Merit (OOM) and any other non-economic generation, scheduled for the current and next day's operations. In addition, this information should also be made available in ASCII format for downloading into transmission application study programs.
ERCOT	SO	PRR590	Update Unit Telemetry Requirement	9 - Parking Lot	N/A	<\$100k	\$6M-\$7M	This revision proposes to add a requirement for QSEs to submit real-time AGC status and Ramp Rate for all online units in their portfolio. This addresses Potomac Economics Recommendation #14.
ERCOT	SO		Use of Synchronized Sampling in Substations and System Wide	9 - Parking Lot	N/A	N/A	\$6M-\$7M	Co-sponsor the research and development of emerging technology using the Synchronized Sampling of data from substations. Matching funds will also provided by the Emerging Technology Fund, EPRI, and the DOE.
ERCOT	SO		Voltage Scheduler	9 - Parking Lot	N/A	\$250k-\$500k	\$6M-\$7M	It is expected some of the framework developed for Security Constrained Power flow tool will be used in this project. A tool is required to compute the set point voltages for all generators in the ERCOT grid such that the post contingency voltages at the transmission buses are greater than 0.95 per unit. Calculating the generator voltage points would vastly help guard the transmission grid against voltage problems and improve the system efficiency for transferring power from one region to another region.
ERCOT	SO	PRR409	Voltage Support Service	9 - Parking Lot	N/A	\$1M-\$2M	\$7M-\$8M	The current Protocols allow for excessive reactive dispatching on the part of TSPs without compensation to generation owners. This PRR changes the power factor envelope from +/- .95 to +/- .98, and allows for payment to generators.
ERCOT	SO	SCR720	Zone Forecast and Actual Generation	9 - Parking Lot	N/A	<\$100k	\$7M-\$8M	ERCOT will provide real-time posting of Forecasted Net Zonal Energy and Actual Zonal Generation as an interim means of making a portion of the QSE data requirements available between now and the time that real-time XML queries are made available by ERCOT.

Appendix B

**Summary of revenue requirements and fees currently projected
for the five-year period 2009 - 2013**

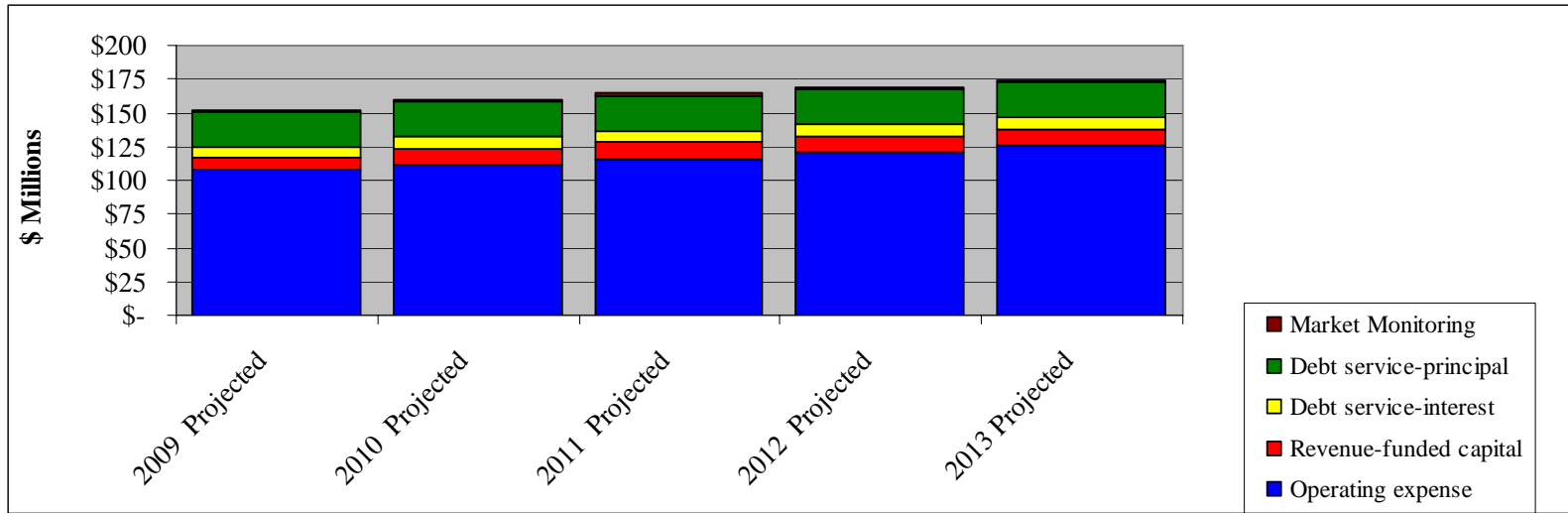
7. Preliminary 2009 - 2013 Budget Assumptions

- **Operating expenses –**
 - Staffing
 - Maintained at 643 employees
 - Employee benefits assumed at 33% of base salaries
 - Average annual merit award consistent with long-term market trend assumed at 3% of base salaries
 - Average annual allowance for employee moves, promotions and other salary administration assumed at 1% of base salaries
 - Labor allocated to project priority list activity based on historical trends and anticipated project budgets
 - Consultants and contractors
 - 2009 based on specific request
 - Remaining years based on historical trend
 - Hardware and software maintenance and support
 - Based on specific identification by information technology staff

7. Preliminary 2009 - 2013 Budget Assumptions (continued)

- **Operating expenses –**
 - All other categories
 - Increased for average long-term inflation of approximately 2% per year
- **Project expenditures**
 - \$22 million planned for 2009
 - No funds allocated for the following:
 - Follow-on project work related to implementation of the nodal market
 - Potential relocation of the back-up control center
 - Assumed at \$30 million per year for 2010 – 2013
 - 40% revenue-funded and 60% debt-funded
- **Energy consumption**
 - Approximately 2% MWh growth per year based on analysis prepared by ERCOT's planning staff

7. Recommended 2008 Budget Recap – Fee Projection

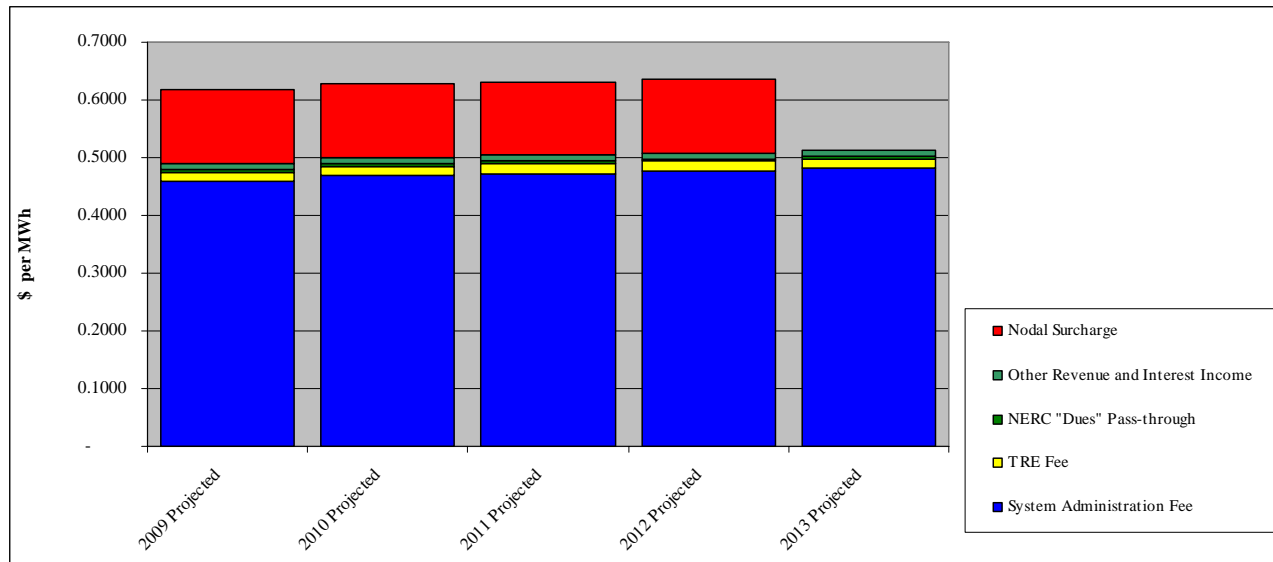


Line	(\$Millions)	2009 Projected	2010 Projected	2011 Projected	2012 Projected	2013 Projected
1	Operating expense	107.6	111.5	116.0	120.7	125.4
2	Revenue-funded capital	8.8	12.0	12.0	12.0	12.0
3	Debt service-interest	8.2	8.3	8.5	8.7	8.9
4	Debt service-principal	26.1	26.1	26.1	26.1	26.1
5	Market Monitoring	1.7	1.7	1.7	1.7	1.7
6	Total revenue requirement	152.4	159.7	164.3	169.3	174.1
7	GWh	324.5	332.8	340.2	347.2	354.1
8	System Administration Fee	\$0.4590	\$0.4694	\$0.4730	\$0.4776	\$0.4820
9						
10	Total Project Spending	22.0	30	30	30	30
11						
12	(\$ / MWh)					
13	Operating expense	0.3241	0.3278	0.3338	0.3407	0.3471
14	Revenue-funded capital	0.0265	0.0353	0.0345	0.0339	0.0332
15	Debt service-interest	0.0246	0.0245	0.0245	0.0246	0.0246
16	Debt service-principal	0.0787	0.0768	0.0752	0.0737	0.0724
17	Market Monitoring	0.0051	0.0050	0.0049	0.0048	0.0047
18	Total revenue requirement	\$0.4590	\$0.4694	\$0.4730	\$0.4776	\$0.4820

Note:

- (1) Other revenue will supplement System Administration Fee to meet total funding requirement.
- (2) Revenues collected in excess of funding requirement are utilized to reduce debt funding.

7. Recommended 2008 Budget Recap – Projected Income on a per MWh basis



Line	(\$ per MWh)	Note	2009 Projected	2010 Projected	2011 Projected	2012 Projected	2013 Projected
1	System Administration Fee	(1)	0.4590	0.4694	0.4730	0.4776	0.4820
2	Other Revenue and Interest Income	(2)	0.0106	0.0103	0.0101	0.0099	0.0097
3	TRE Fee	(3)	0.016	0.016	0.016	0.016	0.016
4	NERC "Dues" Pass-through	(4)	0.0054	0.0053	0.0051	0.0050	0.0049
5	Subtotal	(6)	0.4910	0.5010	0.5042	0.5086	0.5126
6	Nodal Surcharge	(5)	0.1270	0.1270	0.1270	0.1270	0.0000
7	Total		0.6180	0.6280	0.6312	0.6356	0.5126
8	MWh		324,545,782	332,810,713	340,192,303	347,200,449	354,064,731

- Notes:**
- (1) System Administration Fee covers ERCOT's "base operations".
 - (2) Other revenue and interest income is comprised of wide-area network revenue, non-ERCOT load serving entity revenue, generation interconnection revenue, membership dues, map sales, interest income, and other non-operating income.
 - (3) Texas Regional Entity Fee commenced in 2007. Favorable budget variance from 2007 is expected to reduce the fee in 2008. It is assumed that the balance is restored in 2009 at the 2007 fee level of \$0.016 per MWh. The method by which the Texas Regional Entity Fee is assessed and collected is subject to an active Protocol Revision Request (PRR 720).
 - (4) NERC "Dues" Pass Through was reflected in the System Administration Fee until 2007. In 2007, the System Administration Fee includes approximately \$967,000 for "NERC Dues". New responsibility and reorganizations at NERC resulted in significant increases to the organization's dues assessments. Organization of the Texas Regional Entity brought better understanding of the nature of "NERC Dues".
 - (5) The Nodal Surcharge will remain in effect until the costs of implementing the Nodal Program, as approved by the Public Utility Commission of Texas, are fully recovered. It is currently expected the Nodal Surcharge will cease to be collected in late-2012.
 - (6) The cost of ERCOT activity, on a per MWh basis, excluding the Nodal Program, has declined by 2 percent since 2004. Load growth over the five-year period (approximately 11 percent) has outpaced inflation, staff growth, and the incremental cost of new responsibilities at ERCOT, such as the Texas Regional Entity.

7. Recommended 2008 Budget Recap – Projected Revenue Requirement & Fee Summary

Line		2009 Projected	2010 Projected	2011 Projected	2012 Projected	2013 Projected
1	ERCOT O&M Expense					
2	<i>Labor & Benefits</i>	\$ 78,314	\$ 81,447	\$ 84,705	\$ 88,093	\$ 91,617
3	<i>Contra-Labor to Base Projects</i>	(8,033)	(9,900)	(9,900)	(9,900)	(9,900)
4	<i>Contra-Labor to Nodal</i>	-	-	-	-	-
5	<i>Subtotal - Labor & Benefits</i>	70,282	71,547	74,805	78,193	81,717
6	<i>Support Allocations - Nodal Program</i>	-	-	-	-	-
7	<i>Backfill Allocations - Nodal Program</i>	-	-	-	-	-
8	<i>Facilities Allocations - Nodal Program</i>	-	-	-	-	-
9	<i>Subtotal - Allocations - Nodal Program</i>	-	-	-	-	-
10	<i>Tools, Equipment, &Supplies</i>	1,147	1,172	1,198	1,224	1,251
11	<i>Hardware & Software Expenses</i>	11,804	15,372	16,579	17,180	17,695
12	<i>Outside Services</i>	9,558	8,150	7,811	8,183	8,371
13	<i>Special Audits</i>	-	-	-	-	-
14	<i>Utilities, Maintenance & Facilities</i>	7,887	8,061	8,238	8,419	8,605
15	<i>Employee Expenses</i>	1,906	2,046	2,099	2,174	2,233
16	<i>Insurance</i>	2,465	2,519	2,575	2,631	2,689
17	<i>Property Taxes</i>	1,250	1,278	1,306	1,334	1,364
18	<i>NERC Dues</i>	-	-	-	-	-
19	<i>Other</i>	1,313	1,342	1,371	1,402	1,432
20	<i>Subtotal - O&M Expenses</i>	107,612	111,486	115,982	120,741	125,358
21	Debt service - interest expense	8,155	8,334	8,517	8,705	8,896
22	Debt service - principal payments	26,137	26,137	26,137	26,137	26,137
23	Revenue-funded capital	8,800	12,000	12,000	12,000	12,000
24	Market Monitoring	1,700	1,700	1,700	1,700	1,700
25	Total Revenue Requirement	152,403	159,657	164,336	169,282	174,091
26	Less Other Revenue	2,642	2,642	2,642	2,642	2,642
27	Less Interest Income	800	800	800	800	800
28	Revenue Rqmt from System Admin Fee	\$ 148,961	\$ 156,215	\$ 160,894	\$ 165,840	\$ 170,649
29	GWh	324,546	332,811	340,192	347,200	354,065
30	% GWh Growth	1.6%	2.5%	2.2%	2.1%	2.0%
31	ERCOT System Administration Fee	\$ 0.4590	\$ 0.4694	\$ 0.4730	\$ 0.4776	\$ 0.4820
32	Capital Spending - Revenue Funded	8,800	12,000	12,000	12,000	12,000
33	Capital Spending - % Revenue Funded	40%	40%	40%	40%	40%
34	Capital Spending - Debt Funded	13,200	18,000	18,000	18,000	18,000
35	Capital Spending - % Debt Funded	60%	60%	60%	60%	60%
36	Total Project Spending	22,000	30,000	30,000	30,000	30,000
37	Total ERCOT Spending Authorization	165,603	177,657	182,336	187,282	192,091

7. Recommended 2008 Budget Recap – Projected Expenditure Summary

	2009 Projected	2010 Projected	2011 Projected	2012 Projected	2013 Projected	Basis of Forecast
ERCOT						
<i>Labor & Benefits</i>	78,314,421	81,446,998	84,704,878	88,093,073	91,616,796	4% Annual Increase
<i>Labor for Capital Projects</i>	(8,032,691)	(9,900,000)	(9,900,000)	(9,900,000)	(9,900,000)	2005 Contra % of Capital Project Spend
<i>Labor for Nodal</i>	-	-	-	-	-	Nodal Program to be Completed 2009
<i>Subtotal - Labor & Benefits</i>	70,281,730	71,546,998	74,804,878	78,193,073	81,716,796	
<i>Support Allocations - Nodal Program</i>	-	-	-	-	-	Nodal Program to be Completed 2009
<i>Backfill Allocations - Nodal Program</i>	-	-	-	-	-	Nodal Program to be Completed 2009
<i>Facilities Allocations - Nodal Program</i>	-	-	-	-	-	Nodal Program to be Completed 2009
<i>Subtotal - Allocations - Nodal Program</i>	-	-	-	-	-	
<i>Material, Supplies, Tools & Equipment</i>	1,146,951	1,172,184	1,197,972	1,224,327	1,251,263	U.S. CPI of 2.2% Annual Increase
<i>Special Reviews</i>	-	-	-	-	-	No Special Reviews to be Completed
<i>Outside Services</i>	11,257,928	9,849,803	9,511,092	9,883,371	10,071,212	Departmental Submissions
<i>Utilities, Maintenance & Facilities</i>	7,887,213	8,060,732	8,238,068	8,419,305	8,604,530	U.S. CPI of 2.2% Annual Increase
<i>HW/SW License and Maintenance</i>	11,803,714	15,371,929	16,579,365	17,179,746	17,695,138	2010-2013 Estimates from IT
<i>Insurance</i>	2,465,000	2,519,230	2,574,653	2,631,295	2,689,184	U.S. CPI of 2.2% Annual Increase
<i>Employee Expenses</i>	1,905,949	2,046,011	2,098,723	2,173,581	2,233,342	Departmental Submissions
<i>Interest & Fees</i>	8,154,525	8,333,925	8,517,271	8,704,651	8,896,153	U.S. CPI of 2.2% Annual Increase
<i>Property Taxes</i>	1,250,000	1,277,500	1,305,605	1,334,328	1,363,684	U.S. CPI of 2.2% Annual Increase
<i>NERC Dues</i>	-	-	-	-	-	NERC dues being paid out of Regional Entity
<i>Other</i>	1,313,019	1,341,905	1,371,427	1,401,598	1,432,433	U.S. CPI of 2.2% Annual Increase
Total - ERCOT	117,466,028	121,520,215	126,199,053	131,145,276	135,953,734	

Please refer to Board materials under agenda item # 11.

ERCOT Market Credit Status

as of 6/30/2007

as of 7/31/2007

Exposure in the ERCOT Market (owed to ERCOT)

QSEs that meet ERCOT Creditworthiness Standards

Ratings over BBB-

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
9	21,383,742	6%	60,943,758	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	39	199,072,000	54%	292,321,121 S
Guarantee Agreements	12	145,291,161	40%	419,747,955 S
Total Exposure	60	365,746,903	100%	

# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
10	20,943,316	5%	82,155,245	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	41	223,982,104	56%	324,248,412 S
Guarantee Agreements	11	154,265,884	39%	442,379,236 S
Total Exposure	62	399,191,304	100%	

Other QSEs in the ERCOT Market (ERCOT owes)

QSEs that meet ERCOT Creditworthiness Standards

Ratings over BBB-

QSEs that do not meet ERCOT Creditworthiness Standards

Ratings below BBB- or not rated

Cash & Letters of Credit

Guarantee Agreements

9	(3,867,227)	-6%	65,906,991	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	46	(28,695,661)	-44%	21,235,661 S
Guarantee Agreements	9	(32,887,850)	-50%	192,700,000 S
Total	64	(65,450,738)	-100%	

8	(22,080,193)	-28%	58,892,906	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>				
Ratings below BBB- or not rated				
Cash & Letters of Credit	46	(26,745,817)	-33%	26,753,957 S
Guarantee Agreements	9	(31,462,078)	-39%	187,700,000 S
Total	63	(80,288,088)	-100%	

Total

124

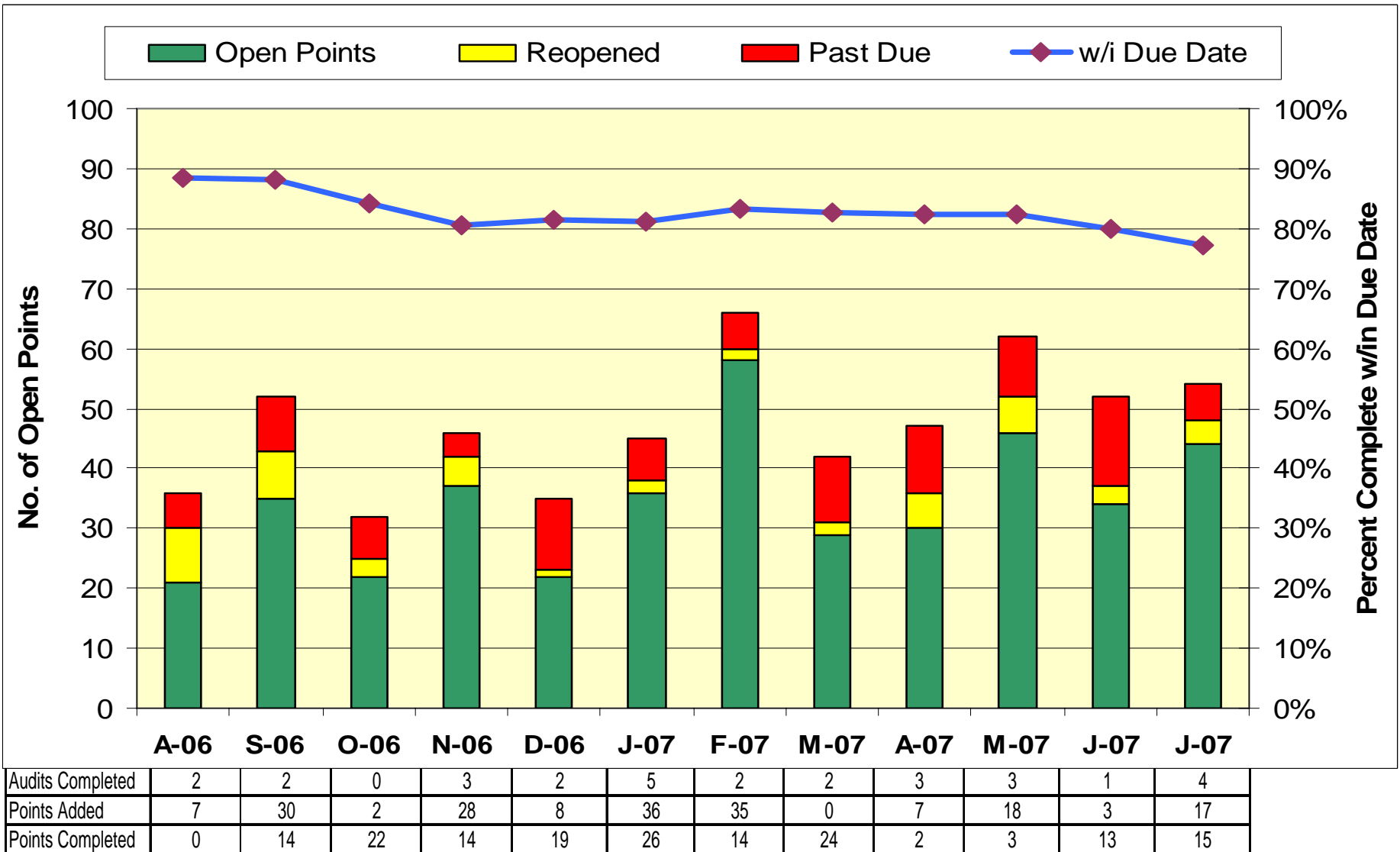
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U: Unsecured since these QSEs meet the creditworthiness standards

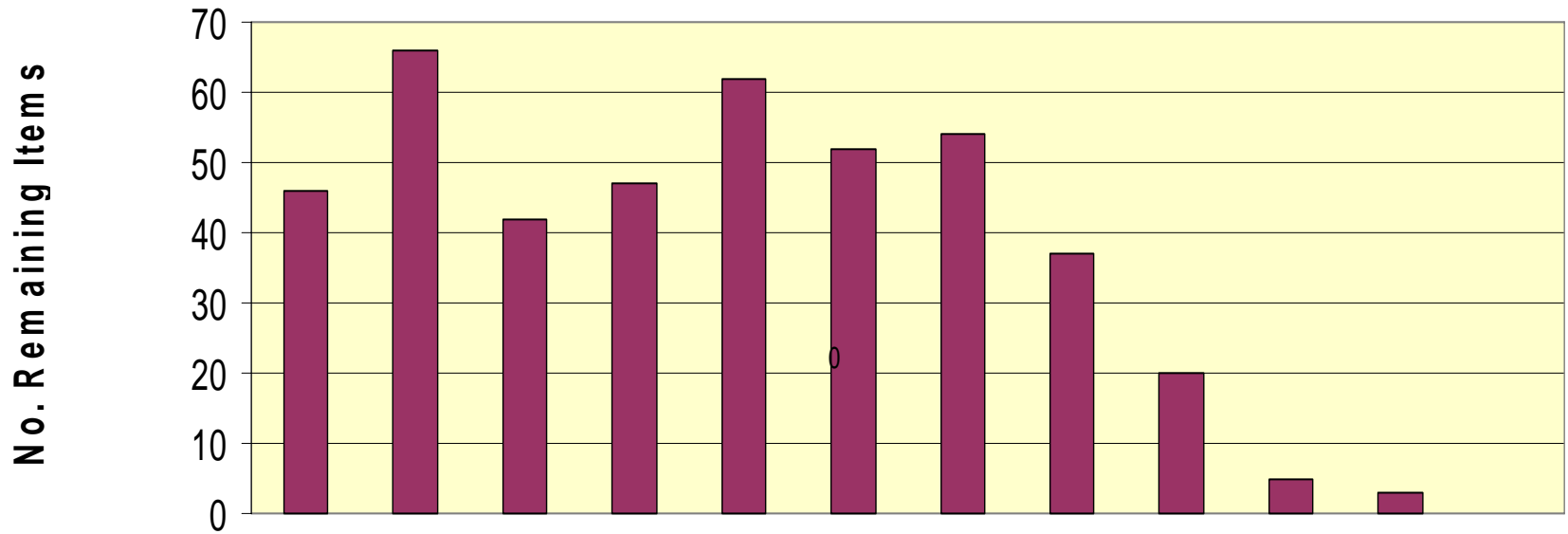
S: Secured i.e. required to post collateral since these QSEs do not meet the creditworthiness standards

9. Committee Brief: ICMP – Status of Open Audit Points

Cheryl Moseley



Projected Audit Point Progress



	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
■ Audit Points	46	66	42	47	62	52	54	37	20	5	3	0

Audits Completed (last 3 months)

Internal Audits

- PMO (Non-Nodal)
- Contract Audit of 21st Century
- Nodal Timetracking
- Nodal Delegation of Authority
- Employee Background/Reference Checks & Drug Screens (Targeted Review)
- Nodal Procurement

External Audits

- 2006 Final MPP
- Texas Nodal Program Controls - Review #3 (IBM-managed by IAD)

Open Audits

Internal Audits

- Nodal Acctg./Allocation
- Nodal Vendor Billings
- Cash & Investments
- QSE Credit
- Contractor Background/Reference Checks & Drug Screens

External Audits

- 2007 SAS70 (PwC)
- 2007 401K Audit (Maxwell, Locke & Ritter)
- Texas Nodal Program Controls – Review #4 (Managed by IAD)

Planned Audits

(next 3 months)

Internal Audits

- Nodal PMO (Targeted Review)
- Congestion Mgmt./TCRs
- Disaster Recovery Plan
- Ethics Agreement Reaffirmation
- Protocol/Market Guide Approvals/Revisions
- Debt Financing

External Audits

- Texas Nodal Program Controls – Review #5 - IBM (Managed by IAD)

* NOTE: Conducted by internal resources other than Internal Audit

**Consultation/
Analysis Reports
Completed**
(last 3 months)

External Assessments

1 security assessment
completed in June

**Open Consultation/
Analysis Reviews**

External Assessments

**Planned Consultation/
Analysis Reviews**
(next 3 months)

External Assessments

1 security assessment
planned

ALERT RISK MANAGEMENT EVENT PROFILE MATRIX (as of August 1st, 2007)

Strategic Position	Operational Excellence	Market Facilitation	Grid Reliability	Reporting	Compliance
Strategy Development <i>Objective setting adequately incorporates informed stakeholder input, market realities and management expertise</i>	Performance Monitoring <i>Clearly defined performance metrics linked to mission and goals; actively monitored, status communicated and corrective action taken</i>	Customer Choice <i>Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.</i>	Grid Operations <i>Information required to operate the grid is efficiently gathered and appropriate tools are prudently configured to efficiently operate the system</i>	Review Practices <i>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading</i>	Legal & Legislative <i>Operations are conducted in compliance with all laws and regulations and current and proposed legislation is understood and communicated</i>
<p>The Executive Officer Team holds regular discussions with Board members and senior staff which provide an opportunity to discuss both short and long-term goals.</p>	<p>Management monitors key performance indicators and has instituted regular Quarterly Business Reviews to discuss key business activities in addition to weekly executive team meetings, constant grid monitoring, IT SLA's, and generation / transmission assessments.</p>	<p>Successful replacement of SeeBeyond Application with TIBCO has reduced overall levels of risk, however other IT related Retail issues continue. Working to improve database backup processes, clarification of business and IT communication, issues with storage devices and failover process to DR environment in case of emergencies.</p>	<p>Significant improvements made in the State Estimator and the accuracy and availability of SCADA data in preparation for Nodal operation. Simulator in place and will be used in operator training program. Load Forecast accuracy improved.</p>	<p>Board of Director's review of management activities on an ongoing basis assists in ensuring proper review and disclosure practices.</p>	<p>Increased efforts have been made to inform members of the legislature about ERCOT and the performance of its functions. Enhanced efforts are being undertaken to maintain records according to established record retention policies.</p>
Mission and Goals <i>Corporate objectives and performance standards are understood and followed</i>	Business Practices <i>Business planning, processes and management standards are effective and efficient</i>	Nodal Implementation <i>Nodal Implementation is progressing in a timely fashion on budget and schedule within a defined scope.</i>	Planning <i>Long-range planning methods enable efficient responses to necessary system changes to maintain reliability standards</i>	Disclosure <i>Reporting and other disclosures to intended parties is timely, accurate and effective</i>	Internal Control Compliance <i>Internal Control Compliance, processes and management standards are effective and efficient</i>
<p>Current management initiatives have increased awareness of organizational goals and related high-level corporate objectives and priorities for individual divisions, departments, and employees.</p>	<p>Disaster recovery plans currently below desired expectations. Additional activities required to implement and test procedures. However solid overall business practices are confirmed via: Internal and External audit, Operational review, Regional Entity / Compliance, and RMC and Disclosure Committee review.</p>	<p>Scope management and deliverable tracking risks continue. Working closely with market management system vendor to bring back in line. Reviewing testing plans and considering putting "testing czar" in place to oversee testing requirements and traceability to protocols.</p>	<p>Completed study of need for transmission and generation capacity over longer-term (over 5 years out) scenarios. Plan to perform additional studies for multiple generation interconnection scenarios. Reviewing stakeholder requests for longer planning studies (10-20 years).</p>	<p>A Disclosure Committee has been institutionalized to discuss and report issues related to external reporting and compliance.</p>	<p>Audit findings actively monitored by management and Internal Audit. Additional training activities are required to ensure all staff members are aware of ongoing internal control compliance processes and procedures. Care must be taken to ensure nodal demands do not unreasonably diminish audit finding remediation.</p>
Reputation <i>Positive perceptions by stakeholders typically lead to less cost and greater flexibility resulting in enhanced enterprise value</i>	Workforce <i>Organization design, managerial and technical skills, bench strength and reward systems are aligned with corporate goals value</i>	Counterparty Credit <i>Bankruptcies and other capital deficiencies increase market participant costs and potentially impact Grid reliability of participant failure</i>	Bulk System Resources <i>Market Participants have constructed and made available adequate bulk electric grid resources</i>	Communication <i>Internal and external communications are timely and effective</i>	Industry Standards <i>Business practices provide assurance of quality to stakeholders</i>
<p>Approval of Nodal Fee filing and improved performance of retail systems have increased positive perception by stakeholders. Specific concerns of Market Participants are being addressed on an ongoing basis.</p>	<p>We continue to face an increased demand for the skill sets of our employees. Compensation redesign, tuition reimbursement, and succession planning are ongoing mitigation activities.</p>	<p>The rollout of Texas SET 3.0 at the end of June has reduced credit exposure by an additional 5 days. However, a medium to large market participant default could materially impact the ERCOT market, grid reliability, and ERCOT's reputation. An RFP to obtain a 3rd party assessment to quantify credit risk is in process.</p>	<p>Load forecast for 2007 is 500 MW above last year's forecast for the same period. Reserves dropped by 1% in ERCOT. The planning process is increasingly "open" to all affected stakeholders improving data corrections and highlighting the importance of model assumptions.</p>	<p>ERCOT has restructured its legal and communications departments and has implemented comprehensive Crisis Communications Procedures for internal and external communications. As of July, the procedures have been tested "in the field" during 10 EECF events and during over 40 pre-EECF events.</p>	<p>CY2006 SAS 70 Audit and Qualification issues have been remediated. CY2007 SAS 70 Audit underway with no new issues identified to date. New NERC Cyber Security Standards CIP002-009 were approved in CY2006 and will be implemented over next 36 months.</p>
Fiscal Management <i>ISO design requires competent, prudent and cost effective provision of services</i>	Technology Infrastructure <i>Information systems and data are effectively managed and are reliable</i>	Administration, Settlement & Billing <i>Market rules are fairly applied to all participants and accounting is timely and accurately reflects electricity production and delivery</i>	Operational Responsibility <i>Market participants conduct their operations in a manner which facilitates consistent grid reliability</i>	Adequacy and Integrity <i>Robust processes exist to support management assertions embodied within financial reports</i>	Regulatory Filings <i>Evidence, testimony and other supporting materials are compelling and successful</i>
<p>Current fiscal practices are effective in managing and controlling costs.</p>	<p>Finding replacement for Disaster Recovery Coordinator continues. AIX conversion project underway and database migration risk to new platforms are being mitigated. Retail systems reliability has improved. Technology strategy development is complete. Quality Assurance environments rolling out Q3 2007.</p>	<p>Significant number of ADR's related to the RPRS policy debate outstanding, however these are being addressed in a timely fashion. Increased levels of ADR's may pose a future risk if they are no longer able to be timely addressed.</p>	<p>Response of generators to grid operation events has been improving. Enhanced enforcement of NERC standards and ERCOT Protocols and Operating Guides will exist through the ERO / TRE and IMM. Increased wind generation presents additional operational challenges.</p>	<p>Financial and Operations management information has been redesigned to enable management to effectively monitor and manage the business.</p>	<p>Filings are completed timely and accurately.</p>

Legend: Elevated Risk Level Reduced Risk Level (New Risk Categories / Descriptions Indicated in Green)

Rationale for Category Risk Assessment Changes

Communications Downgrade: Yellow/Green > Green Crisis Communication procedures have been implemented and tested.

9. Committee Brief – PMO

David Troxtell

2007 Year to Date Project Activity by Division

	Phase	Not Started	Initiation	Planning	Execution	Closing	Closed	Cancelled	On Hold	Deferred	Totals by CART	Go-Live*
CART	Corporate Operations	11	4	4	7	3	3	2	0		34	3
	IT Operations	7	0	2	8	2	0	0	0		19	1
	Market/Retail Operations	0	2	6	4	5	5	6	1		29	3
	System Operations	1	0	4	5	2	9	2	2		25	4
	TRE	0	0	2	0	0	0	1	1		4	0
	Totals by Phase	19	6	18	24	12	17	11	4	8	119	11

Note: Additional Projects Gone Live in June 2007

PR-50059: Siebel Transition to ODS (MORO - 6/4/07)

PR-50123_03: Document Management Phase 3 (CO - 6/22/07)













9. Committee Brief – PMO

David Troxtell

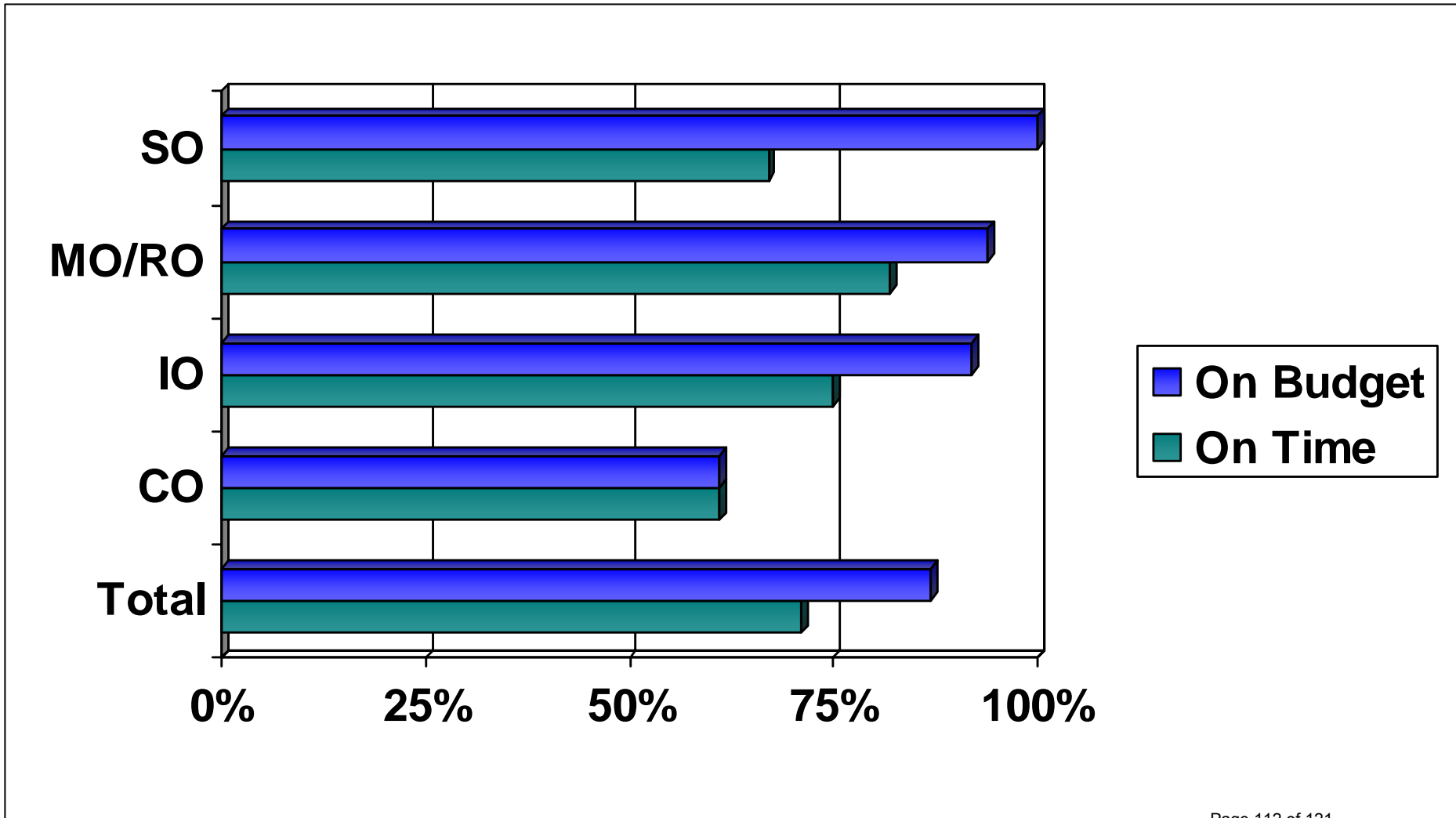
Year to Date Project Priority List (PPL) Status

PPL Iterations	Origination	Project Phases								Deferred Projects	Subtotal	Grand Total
		Not Started	Initiation	Planning	Execution	Closing	Closed	On Hold	Cancelled			
Original 2007 PPL											79	
	PUCT					1	1	2	1		5	
	Market		1	1	3		1		5		11	
	ERCOT	16	5	8	8	5	3	1	4	8	58	
	Compliance			3				1	1		5	
	System Maintenance										0	
Unexpected Carry Over From 2006											22	
	PUCT						2				2	
	Market	1				1	3				5	
	ERCOT				6	2	7				15	
	Compliance										0	
	System Maintenance										0	
New Projects Added (Since PPL Approval in August 2006)											18	
	PUCT			1							1	
	Market			1							1	
	ERCOT	2		4	7	3					16	
	Compliance										0	
	System Maintenance										0	
2007 PPL totals to date											119	
	PUCT	0	0	1	0	1	3	2	1	0	8	
	Market	1	1	2	3	1	4	0	5	0	17	
	ERCOT	18	5	12	21	10	10	1	4	8	89	
	Compliance	0	0	3	0	0	0	1	1	0	5	
	System Maintenance	0	0	0	0	0	0	0	0	0	0	
Totals by Project Phase		19	6	18	24	12	17	4	11	8	119	

Projects Over \$1 Million

Project (CART) Number and Description	Total Budget	Total Committed To Date	Metrics	
(Duration) Phase (Sponsor)	Scheduled Completion		Schedule	Budget
(MO/RO) PR-40038_01: TX SET 3.0	\$1.63M	\$1.30M		
<i>(2007) Currently in Closing (R. Giuliani)</i>	<i>Expected Completion 4rd Qtr 2007</i>			
(SO) PR-40090_02: Operator Training Simulator	\$3.87M	\$3.73M		
<i>(2005-2007) Currently in Closing (B. Kahn)</i>	<i>Expected Completion 3rd Qtr 2007</i>			
(MO/RO) PR-50024: Enhancements to SCR727 (consists of 2 sub-projects)	\$1.61M	\$1.51M		
<i>(2005-2008) Currently in Execution (R. Giuliani)</i>	<i>Expected Completion 1st Qtr 2008</i>			
(CO) PR-60099_01: TCC2 Build-Out Phase One	\$2.65M	\$1.10M		
<i>(2007) Currently in Execution (B. Kahn)</i>	<i>Expected Completion 3rd Qtr 2007</i>			
(IO) PR-60055_01: Enterprise Service Management	\$1.31M	\$.73M		
<i>(2006-2007) Currently in Execution (R Hinsley)</i>	<i>Expected Completion 4th Qtr 2007</i>			
(CO) PR-60075: Identity to Access Management (consists of 2 sub-projects)	\$1.49M	\$1.18M		
<i>(2006-2007) Currently in Execution/Planning (B. Kahn)</i>	<i>Expected Completion 3rd Qtr 2007/Unknown</i>			

2007 Completed and Active Projects Performance



9. Committee Brief – PMO David Troxtell

Budget vs. Actuals for Closed Projects Y.T.D.

Closed Projects In Lawson	Baseline Budget	Actuals	(Over)/Under Baseline Budget	(Over)/Under Baseline Budget
PR-30105 (Congestion Management Reports)	\$90,127	\$86,231	\$3,896	4.32%
PR-50003 (MOMS Enhancement AREVA Study)	\$1,073,389	\$958,712	\$114,677	10.68%
PR-50005 (EDW EMMS Extracts)	\$327,190	\$319,928	\$7,262	2.22%
PR-50130 (SCE Performance and Monitoring)	\$47,959	\$92,500	(\$44,541)	-(92.87%)
PR-60002_01 (Increase Number of Seats for Study Markets Clearing Engine)	\$103,610	\$86,231	\$17,379	16.77%
<i>Column Totals</i>	\$1,642,275	\$1,543,602	\$98,673	6.01%
Note: Baseline Budget does not include change controls that were approved without granting a new baseline budget.				

Go Live Projects for June

- **PR-50059: Siebel Transition to ODS**

- **Scope:** This project will result in the transition of all relevant Siebel Data to the Operational Data Store (ODS) environment, along with providing enhanced reporting capabilities inherent to the EIS environment. Siebel Extracts transitioned to pull from ODS.

- **Deliverables:**

Release 1: Configured the ODS Data Models and primed a snapshot of the Siebel source into the Siebel ODS Schema. Configured and Installed the Shareplex Replication for near real-time replication to the ODS. (12/2006)

Release 2: Build COGNOS Subject Area Views and Create User Accounts (03/2007)

Release 3: Configure Siebel Extracts (SSOE and TDSP) to pull from the ODS as scheduled extracts. (06/2007)

- **Timeline:** [April/2006 - June/2007]

Go Live Projects for June

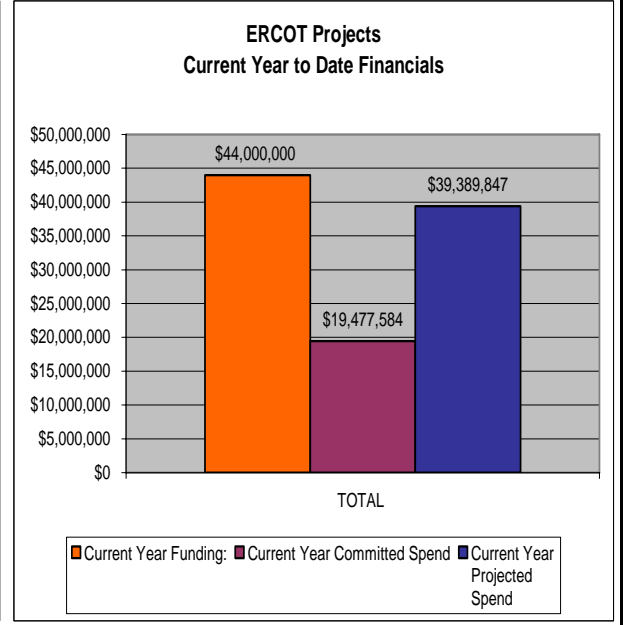
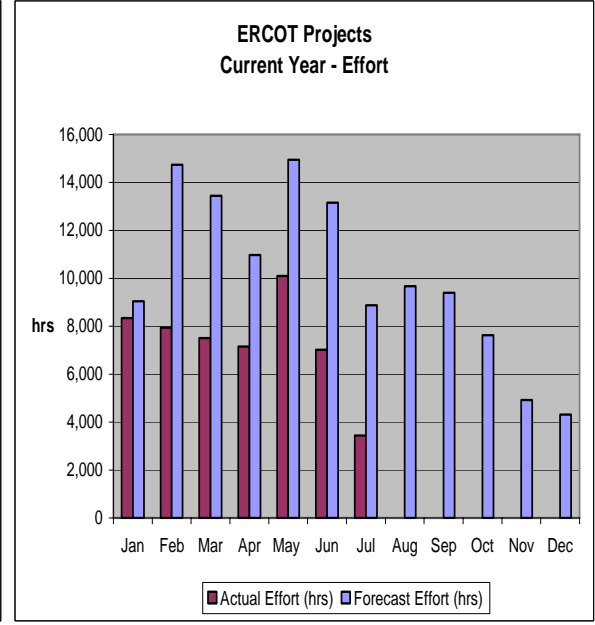
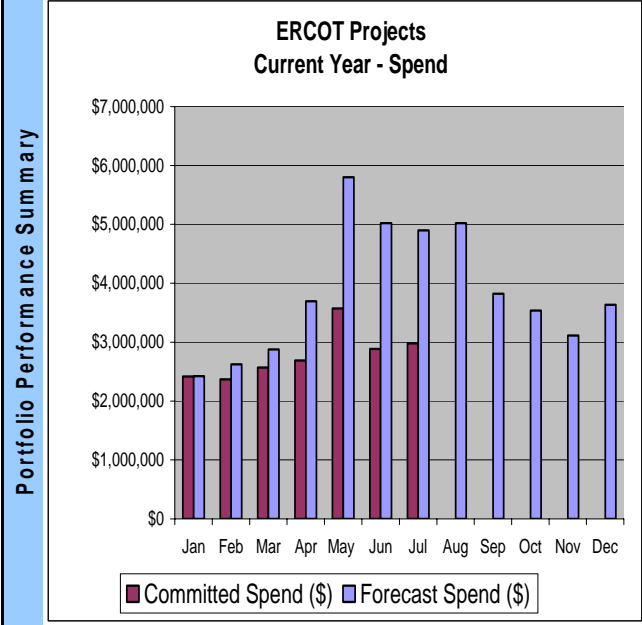
- **PR-50123_03: Document Management Ph 3**

- **Scope:** Implement a Document Management solution, beginning with the Legal Department, which could be implemented enterprise wide. This project implemented the LiveLink product from Open Text Corp to replace the Hummingbird product.
- **Deliverables:**
 - Hummingbird licenses exchanged for LiveLink 9.7 Software licenses
 - Installation & Implementation services from Open Text vendor
 - Document conversion from Hummingbird to LiveLink
 - Training for departmental users, administrators & system administrators
- **Timeline:** [April/2007 – June/2007]

ERCOT Enterprise Projects Summary Report

ERCOT Overall Projects Report Reporting Period: **7/31/2007**

Summary	ERCOT Projects Leadership					Projects in ERCOT's Portfolio					Portfolio Performance			
	Executives		On Hold	Initiation	Planning	Execution	Closing	Schedule	Budget	Risk	Milestones			
	Kent Saathoff	Ray Giuliani	3	6	16	24	12	Y	G	G	R			
Ron Hinsley	Steve Byone	Closed	17	Total Active		58								
		Cancelled	10	Projects Not Started:		19	Prior Year Funding:	\$0	Current Year Funding:	\$44,000,000				



Notes

Projections Trending Below Budget
Testing environment contentions due to HP UNIX to IBM AIX UNIX transition.
Resource contentions (mainly NODAL).
Projects On-Hold/Not Approved to start by sources (PUCT, Compliance, IMM).

Project/Status Count Variance
TRE (4) and Deferred (8) projects not included in ERCOT's Portfolio project/status count above.



Future Agenda Items – September 2007

- **Standing Internal Audit status report (s)**
- **Appointment of Independent Auditor for 2008**
- **Update on third party credit review**
- **Update on 2007 forecast**
- **Committee briefs**

F&A Yearly Schedule

Quarter 1

- √ •Elect officers and confirm financial qualifications
- √ •Review Finance Audit Committee charter
- √ •Approve the Guidelines for Engagements of External auditors for Other Services (pre-approval policy)
- √ •Required written communication and discussion of auditor independence
- √ •Review scope of annual financial audit
- √ •Report by CWG Chair on ERCOT credit policy
- √ •Vote on CWG Chair/Vice Chair

Quarter 2

- √ •Report results of annual independent audit to the Board
- √ •Report of external auditor pre-approval status/limits
- √ •Review the procedures for handling reporting violations
 - Review conflict of interest and ethics policies (Transferring to HR & Gov)
- √ •Review results of annual audit (including required communications)
- √ •Review and approve ERCOT Annual Report (N/A)
- √ •Review operating plan and budget assumptions
- √ •Review and approve Internal Audit Department Charter

Quarter 3

- Appoint the independent auditors for upcoming year
- Approval of independent auditor fees for upcoming year
- √ •Assessment of compliance, the internal control environment and systems of internal controls
 - Review and approval of annual operating budget
 - Report by CWG Chair on ERCOT credit policy
 - Review updated year-end forecast

Quarter 4

- Approve audit committee meeting planner for the upcoming year, confirm mutual expectations with management and the auditors
- Review and approval of Financial & Investment policies
- Approve scope of internal auditing plan for upcoming year
- Assessment of the adequacy and effectiveness of the Internal Audit staff
- Perform Finance & Audit committee Self Assessment
- Review requirements for membership in CWG
- Review and approve CWG charter
- Review updated year-end forecast

Recurring Items

- Review minutes of previous meeting
- Report monthly matters to the Board (chair)
- Review EthicsPoint activity
- Review significant audit findings and status relative to annual audit plan
- Review investment results quarterly

PUC/NERC/FERC Filings - FINANCE and AUDIT Excerpt as of August 21, 2007

Docket / Project No.	Docket Description	Status
P-24055	Protocol Revision Informational Filings by the Electric Reliability Council of Texas (includes Protocol Revisions and Nodal Protocol Revisions)	Systems Implementation – Cost Benefit Analysis
P-24462	PUC Proceeding to Establish Performance Measures Relating to the Competitive Retail Electric Market	08/14/07 2 nd Quarter Report Filing
P-27706	Reports of the Electric Reliability Council of Texas	08/14/07 2 nd Quarter Report Filing (Financials and Audits) Filing
P-28109	Competitive Metering Services Market Readiness Project Subst. R. §25.311(e)	08/14/07 2 nd Quarter Report Filing
D-30456	PUC Proceeding Regarding ERCOT Fee	File Quarterly Reports and Presentations at PUC Open Meetings
P-30634	Activities Related to Implementation of Recommendations from the Potomac Economics 2004 Reports on the Operation of the ERCOT Wholesale Electricity Market	Commission Staff Appeal of PRR 590 – Potomac Recommendation #14 – Procedures to Monitor QSE Reserve Obligations in Real-time – System Changes and Cost to design and installation of monitoring equipment in ERCOT Control Rooms
P-31111	Rulemaking to Address Independent Market Monitor for the Wholesale Electric Market in ERCOT	Final Order Issued 04/21/06 - ERCOT to Fund IMM
D-31243	Complaint of TXU Portfolio Management Company LP and TXU Energy Retail Company LP and Against the Electric Reliability Council of Texas	08/09/06 Final Order Issued - Load Imbalance Charges
P-31416	Evaluation of Default Service for Residential Customers and Review of Rules Relating to the Price to Beat and Provider of Last Resort	07/11/06 Order Adopting - Create two different POLR small non-residential customer classifications - Automated process is in place no later than July 1, 2007
P-31575	Improvements to the ERCOT Zonal Market Design	01/19/07 ERCOT Controllable Load Pilot Summary Report
P-31600	Transition to an ERCOT Nodal Market Design	06/26/06 PUC Market Oversight Evaluation of Options PRR 307 Controllable Loads – ERCOT Project Priority List 2001 and Estimates \$500,000 - \$1,000,000
P-31852	Rulemaking Relating to Renewable Energy Amendments	12/04/06 ERCOT Filed Analysis of Transmission Alternative for Competitive Renewable Energy Zones in Texas
P-31972	Rulemaking Concerning Resource Adequacy and Market Power in the Electric Reliability Council of Texas Power Region	Potential Resource and System Impacts
D-32025	Petition of the Electric Reliability Council of Texas for Approval of Amended and Restated Bylaws	Costs for Unaffiliated Board of Directors and TAC Representative

PUC/NERC/FERC Filings - FINANCE and AUDIT Excerpt as of August 21, 2007

Docket / Project No.	Docket Description	Status
P-32100	PUC Market Oversight Activities	03/07/07 Potomac Economics Presentation (IMM Report) – ERCOT Wholesale Market Review
D-32492	Petition of the Electric Reliability Council of Texas (ERCOT) for Approval of Unaffiliated Director	06/29/06 Final Order - Costs for Unaffiliated Board of Directors
D-32573	Petition of Commission Staff to Revoke the Retail Electric Provider Certificate of Usave Energy Services, Inc.	05/15/06 ERCOT Intervened Amount due by Usave to ERCOT is \$212,202.90 11/13/06 PUC Final Order Issued
D-32574	Petition of Commission Staff to Revoke the Retail Electric Provider Certificate of Azor Energy, L.P.	08/14/06 Final Order Issued Azor owes ERCOT \$26,394.07
D-32686	Application of the Electric Reliability Council of Texas for Approval of a Nodal Market Implementation Surcharge and Request for Interim Relief	05/23/05 Final Order Issued
P-32853	Evaluation of Demand Response Programs in the Competitive Electric Market	
D-32992	Compliance Proceeding Pursuant to Final Order in Docket No. 31243 (Complaint of TXU Portfolio Management Company LP; and TXU Energy Retail Company LP and Against the Electric Reliability Counsel of Texas)	02/28/07 Order - ERCOT Ordered to Re-settle see TXU Complaint Docket No. 31243
D-33047	Notice of Violation and Settlement Agreement Relating to FPL Energy Power Marketing Inc.'s Violation of PURA §39.151(j) and PUC Subst. R. §25.503(f)(2); Relating to Failure to Adhere to ERCOT Protocols §6.5.4(1) and §6.5.4(7) Concerning Responsive Reserve Service	09/08/06 Final Order – FPL Energy to Pay ERCOT \$2,287
P-33049	PUC Rulemaking Proceeding to Amend Commission Subst. R. §25.88 Retail Market Performance Measures Reporting	Potential Resource and System Impacts
D-33177	Notice of Violation and Settlement Agreement Relating to Constellation Energy Commodities Group, Inc.'s Violation of PURA §39.151(j) and PUC Subst. R. §25.503(f)(2); Relating to Failure to Adhere to ERCOT Protocols 6.5.4(1) and 6.5.4(7) Concerning Responsive Reserve Service	10/13/06 Final Order – Constellation to Pay ERCOT \$1,103
D-33183	Petition of the Electric Reliability Council of Texas (ERCOT) for Approval of Unaffiliated Director (Jan L. Newton)	12/15/06 Order of Approval - Costs for Unaffiliated Board of Directors
D-33185	Petition of the Electric Reliability Council of Texas (ERCOT) for Approval of Re-election of Unaffiliated Director (Mark Armentrout)	12/15/06 Order of Approval - Costs for Unaffiliated Board of Directors
D-33416	Constellation NewEnergy's Appeal and Complaint of ERCOT Decision to Approve PRR 676, PRR 674 and Request for Expedited Relief	04/13/07 Final Order
P-33457	PUC Rulemaking Concerning a Demand-Response Program for ERCOT Emergency Conditions	Potential Resource and System
P-33490	Rulemaking Proceeding to Amend 25.502 Pricing Safeguards in Markets Operated by the Electric Reliability Council of Texas	(Project 31972 Pending 3 rd Court of Appeals) Potential Resource and System Impacts
D-33491	Petition of Staff of Public Utility Commission of Texas to Revoke Retail Electric Provider Certificate No. 10078 of Freedom Group, LLC, d/b/a Freedom Power	Parties in Settlement Discussions

PUC/NERC/FERC Filings - FINANCE and AUDIT Excerpt as of August 21, 2007

Docket / Project No.	Docket Description	Status
P-33492	Rulemaking Relating to the Target for Renewable Energy Resources other than Wind Power	Potential Resource and System Impacts
P-33495	Rulemaking Project to Amend Rule Relating to the Independent Market Monitor for ERCOT	04/10/07 Order Adopting - Potential Resource and System Impacts
D-33500	Complaint of Constellation Commodities Group, Inc. Against the Electric Reliability Council of Texas	ERCOT Calculation of Constellation's RPRS Under-Scheduling Settlement Charges Questioned
D-33672	Commission Staff's Petition for Designation of Competitive Renewable Energy Zones	Potential Resource and System Impacts
D-33687	Entergy Gulf States, Inc.'s Transition to Competition Plan	Potential Resource and System Impacts – if EGSI Joins the ERCOT Region Case Abated – Hearing Resumes 07/25-27/07
P-34019	PUC Request for Proposals for a Workforce Analysis of the Electric Reliability Council of Texas	Eight Companies have submitted responses to PUC's Request for Proposal
P-34039	Rulemaking to Amend PUC SUBST. R. §25.107 Relating to Certification of Retail Electric Providers	Potential Resource and System Impacts
P-34108	Commission Staff's Requests for Qualifications Pursuant to PUC SUBST. R. §25.174(c) (to Construct Transmission Lines from the Designated CREZ)	Potential Resource and System Impacts
P-34202	Rulemaking to Repeal Subst. R. §25.53 and §25.51 and Adopting New Rule Relating to Emergency Operations Plans Under New Chapter 29	Potential Resource and System Impacts
D-34427	Petition of the Electric Reliability Council of Texas for Approval of Amended and Restated Bylaws	07/21/07 Petition Filed – TRE Included in Amended Bylaws
NERC	FERC Docket No. RR07-1-000 – Texas Regional Entity (TRE) Delegation Agreement with NERC Electric Reliability Organization (ERO)	