



# Appendix C

## Supplemental Information 04/01/08

**ERCOT Fiscal Year 2009 Budget**  
**2009 System Administration Fee Incremental Increase Preliminary Analysis**

2008 Budget System Admin. Fee	<b>\$ 0.4171</b>
2009 Preliminary System Admin. Fee	<b>0.5698</b>
Incremental Increase over 2008 Budget	<b>0.1527</b>

	<u>Nodal</u>		<u>Met</u>		<u>Other</u>		<u>Total</u>	
	\$	\$/MWh	\$	\$/MWh	\$	\$/MWh	\$	\$/MWh
Labor & Benefits	13,115	0.0411	124	0.0004	4,847	0.0152	18,086	0.0567
Allocations - Nodal Program	5,718	0.0179	-	-	-	-	5,718	0.0179
Outside Services	9,294	0.0291	-	-	(4,623)	(0.0145)	4,671	0.0146
Utilities, Maintenance & Facilities	450	0.0014	-	-	804	0.0025	1,254	0.0039
HW/SW License and Maintenance	2,180	0.0068	-	-	2,333	0.0073	4,513	0.0141
Insurance	-	-	-	-	(125)	(0.0004)	(125)	(0.0004)
Employee Expenses	83	0.0003	-	-	(259)	(0.0008)	(176)	(0.0005)
Property Taxes	-	-	400	0.0012	-	-	400	0.0012
Subtotal	30,840	0.0966	524	0.0016	2,977	0.0093	34,341	0.1075
Debt Service - Interest Expense	-	-	461	0.0014	(1,818)	(0.0057)	(1,357)	(0.0043)
Debt Service - Principal Payments	-	-	-	-	7,463	0.0234	7,463	0.0234
Revenue-Funded Capital	-	-	-	-	(120)	(0.0004)	(120)	(0.0004)
Revenue-Funded Facility (Met Center)	-	-	8,160	0.0256	-	-	8,160	0.0256
Less Other Revenue	-	-	-	-	(447)	(0.0014)	(447)	(0.0014)
Less Interest Income	-	-	-	-	550	0.0017	550	0.0017
GWh	-	-	-	-	177	0.0006	177	0.0006
Subtotal	-	-	8,621	0.0270	5,805	0.0182	14,426	0.0452
Total ERCOT	30,840	0.0966	9,145	0.0286	8,782	0.0275	48,767	0.1527

- CO Project Highlights - 2009**

<b>Project Type</b>	<b>Budget</b>	<b>Count</b>
<b>Facilities – Met Center Disposition</b>	\$20,400,000	1
<b>Cyber-Security</b>	\$ 1,650,000	7
<b>Document Management / Workflow / Reporting</b>	\$ 800,000	7
<b>Technology Upgrades</b>	\$ 700,000	3
<b>Credit Model Integration with ROME</b>	\$ 300,000	1
<b>Physical Security</b>	\$ 100,000	2
<b>Total Funding Request</b>	<b>\$23,950,000</b>	<b>21</b>

<b>Total Unfunded Projects</b>	<b>\$ 1,355,000</b>	<b>6</b>
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- IO Project Highlights - 2009**

<b>Project Type</b>	<b>Budget</b>	<b>Count</b>
<b>Add Storage Capacity</b>	\$ 4,100,000	2
<b>Minor Capital</b>	\$ 1,750,000	1
<b>Hardware Replacement</b>	\$ 1,600,000	4
<b>Infrastructure Monitoring Enhancements</b>	\$ 500,000	1
<b>Other Projects</b>	\$ 400,000	1
<b>Total Funding Request</b>	<b>\$ 8,350,000</b>	<b>9</b>

<b>Total Unfunded Projects</b>	<b>\$ 600,000</b>	<b>2</b>
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- MO Project Highlights - 2009**

<b>Project Type</b>	<b>Budget</b>	<b>Count</b>
<b>Post-Nodal Go-Live Enhancements</b>	\$ 3,425,000	6
<b>Demand Response for Settlement</b>	\$ 425,000	1
<b>COMS Extract, Report &amp; Web Services Monitoring &amp; Usage Stats</b>	\$ 425,000	1
<b>ERCOT System Throughput for IDR (Advanced Metering)</b>	\$ 25,000	1
<b>Total Funding Request</b>	<b>\$ 4,300,000</b>	<b>9</b>

<b>Total Unfunded Projects</b>	<b>\$ 0</b>	<b>0</b>
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- RO Project Highlights - 2009**

<b>Project Type</b>	<b>Budget</b>	<b>Count</b>
<b>PUCT Rulemakings</b>	\$ 1,275,000	3
<b>Retail Application Upgrades</b>	\$ 1,000,000	1
<b>TML Transition to MIS</b>	\$ 500,000	1
<b>EDW (Enterprise Data Warehouse)</b>	\$ 475,000	3
<b>MarkeTrak Enhancements</b>	\$ 250,000	2
<b>Total Funding Request</b>	<b>\$ 3,500,000</b>	<b>10</b>

<b>Total Unfunded Projects</b>	<b>\$ 2,350,000</b>	<b>9</b>
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- SO Project Highlights - 2009**

<b>Project Type</b>	<b>Budget</b>	<b>Count</b>
<b>Post-Nodal Go-Live Enhancements</b>	\$ 4,250,000	10
<b>Conversion of Operator Training Simulator to Nodal</b>	\$ 1,700,000	1
<b>Placeholder for Future NPRRs &amp; Mandates</b>	\$ 1,000,000	1
<b>Implementation of Functionality Developed by Nodal but not Implemented at Go-Live</b>	\$ 550,000	4
<b>Total Funding Request</b>	<b>\$ 7,500,000</b>	<b>16</b>

<b>Total Unfunded Projects</b>	<b>\$ 0</b>	<b>0</b>
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# 2009 Project Priority List / Unfunded Projects

<b>CART</b>	<b>Budget</b>	<b>Count</b>
<b>CO – Corporate Operations</b>	\$ 1,355,000	6
<b>IO – IT Operations</b>	\$ 600,000	2
<b>MO – Market Operations</b>	\$ 0	0
<b>RO – Retail Operations</b>	\$ 2,350,000	9
<b>SO – System Operations</b>	\$ 0	0
<b>Total Unfunded Projects</b>	<b>\$ 4,305,000</b>	<b>17</b>

- **Comments**

- Due to accelerated timeline and uncertainty due to Nodal implementation, the project teams focused on identifying the most critical needs in 2009
- This resulted in a limited number of lower priority projects that remain unfunded

## 2009 Unfunded Initiatives by CART

CART	Rank	Project Name / Type	Estimated Budget Range	Candidate Projects / Additional Details	Source
CO	9	Physical Security Project	\$250k-\$500k		ERCOT
CO	13	Proxy Refresh	\$250k-\$500k	The current hardware components that provide us with our proxy systems to the Internet will be three years old in 2009 and approaching end of life. This project is to do a one for one replacement of the current systems hardware components and add load balancing.	ERCOT
CO	15	Quality Center	\$250k-\$500k	5 Major components Defect Manager, WinRunner, LoadRunner, QTP, Quality Center:	ERCOT
CO	17	Application Services Quality Initiative	\$100k-\$250k	Implement a process and tool to track defects during the development cycle of a project in order to create a more agile application services environment and improve quality.	ERCOT
CO	18	Mercury -- SOA Framework	\$100k-\$250k	Mercury's Systinet software is required by the testing team to test SOA services at ERCOT.	ERCOT
CO	19	Cyber Security Project	\$100k-\$250k		ERCOT
		<b>Subtotal</b>	<b>\$ 1,355,000</b>		
IO	4	Network - Misc.	\$250k-\$500k	Allotment for additional network maintenance projects	ERCOT
IO	9	Computing Hardware - TBD	\$250k-\$500k	Allotment for additional computing hardware projects	ERCOT
		<b>Subtotal</b>	<b>\$ 600,000</b>		
RO	6	Website Enhancements for ERCOT Outages	\$250k-\$500k	ERCOT requested enhancements to automate the email notification and the helpdesk alert. Dependent on Remedy Helpdesk tool expected to deliver in	ERCOT
RO	7	Exception Reporting / Monitoring Enhancements	\$250k-\$500k	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	8	Systematic Exception Reprocessing Functionality	\$500k-\$1M	Automate current exception processing to meet protocol. Create reporting features after processing occurs.	ERCOT
RO	10	EDI Transaction Logging	\$100k-\$250k	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	11	814 inbound XML rewrite (impacts input from portal only)	\$100k-\$250k	Rewrite of Inbound 814 XML maps to Increase Efficiency, Reliability and Stability of ERCOT transaction data processing.	ERCOT
RO	12	Commercial Apps - Calendar Consolidation	\$250k-\$500k	Develop single business calendar for use by all retail applications	ERCOT
RO	13	Name to DUNS Conversion	\$100k-\$250k	Change the Paper Free application system to utilize DUNS numbers as opposed to Market Participant company names.	ERCOT

## 2009 Unfunded Initiatives by CART

CART	Rank	Project Name / Type	Estimated Budget Range	Candidate Projects / Additional Details	Source
RO	14	MP Configuration Table	\$100k-\$250k	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	17	Enrollment Postcard Notification Process	\$100k-\$250k	Enhancements to enrollment postcard process to improve exception handling, auditability, and monitoring capabilities.	ERCOT
<b>Subtotal</b>			<b>\$ 2,350,000</b>		

<b>Grand Total</b>	<b>\$ 4,305,000</b>
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## ERCOT CORPORATE STANDARD

Document Name:	Financial Standard
Document ID:	CS3.1
Effective Date:	Upon Approval
Owner:	Board of Directors, F&A Committee
Approved:	

### 1.0 PURPOSE

This financial standard is a framework from which ERCOT's financial integrity will be maintained while serving the long-term interests of the company and the ERCOT market. ERCOT recognizes that maintaining financial integrity is critical to accomplishing its corporate goals and discharging ERCOT's primary responsibilities.

### 2.0 DEFINITIONS

TERM	DEFINITION
Budget	The Budget consists of Project Budgets, an Operating and Maintenance Budget and a Texas Regional Entity Division of ERCOT ("TRE") Budget as a component.
Project Budgets	Project Budgets consist of proposed expenditures to be made to develop capital assets during ERCOT's Fiscal Year. Any significant projects not included in the approved project budgets will be presented to ERCOT's Board of Directors for approval as they arise.
Cash Operating and Maintenance Expenses	Cash Operating and Maintenance Expenses consist of all reasonable and necessary costs (excluding non-cash items such as depreciation and amortization) incurred in the operation and maintenance of ERCOT's facilities, equipment and systems.
Fiscal Year	ERCOT's fiscal year is January 1 <sup>st</sup> through December 31 <sup>st</sup> .
Operating and Maintenance Budget	The Operating and Maintenance Budget consists of all reasonable and necessary costs expected to be incurred during ERCOT's Fiscal Year.
TRE Budget	The TRE Budget is the budget (which can include both operating and maintenance and project budgets) for the TRE which is approved by NERC and Federal Energy Regulatory Commission (FERC) and which is used exclusively for the TRE's proposal and enforcement of Reliability Standards (Federal Statutory duties) and for ERCOT Protocol and Operating Guide compliance investigation activities.

TERM	DEFINITION
Scheduled Debt Service	Scheduled Debt Service is all interest and mandatory principal payments due on ERCOT's outstanding indebtedness (both long-term and short-term) for a stated period.
Strategic Financial Plan	The Strategic Financial Plan will provide current financial information and a five-year projection, which addresses all sources of revenues, including any proposed fee adjustments. It will include projections of operating and maintenance expenses, project expenditures, the funding sources of project expenditures, and debt service requirements as well as the resulting capital structure.

### 3.0 FINANCIAL OBJECTIVES

In seeking to fulfill its corporate objectives, ERCOT will maintain a high level of financial stability and will not compromise long-term financial integrity to achieve short-term benefits.

**Strategic Financial Plan and Budget.** Prior to or in conjunction with the submission of the annual Budget, the Chief Financial Officer will submit an update to the Strategic Financial Plan.

The Budget will be substantially consistent with the Strategic Financial Plan and will be submitted to the Board with sufficient time for the review and approval of the Board prior to the beginning of the Fiscal Year. The TRE Budget component of the Budget may be approved in advance of the full Budget if required to meet deadlines set by regulators.

In developing the Strategic Financial Plan and Budget, ERCOT staff will work to ensure that financial ratios required for compliance with debt instruments are maintained.

ERCOT will pursue financial objectives that will allow it to maintain an investment grade debt rating with Standard & Poor's, Moody's or Fitch. If a rating below investment grade is received or expected to be received, staff will promptly recommend a plan for Board consideration to recover or maintain the targeted rating within 18 months.

Overall, the Strategic Financial Plan and the related Budget will seek to assure ERCOT's financial stability. They will be approved by the Board and will guide ERCOT's financial planning process.

**Fees and Charges.** ERCOT will assess fees consistent with the ERCOT Protocols and PUCT rulings. Established fees will include payment of the portion of the TRE Budget for ERCOT Protocol and Operating Guide compliance investigation activities. ERCOT will also collect fees on behalf of the Electric Reliability Organization as approved by FERC. The TRE will also receive funding for its Federal Statutory duties from NERC, pursuant to its Delegation Agreement. Fees, funding, and charges will be requested to recover the Board-approved Operating and Maintenance Budget (excluding depreciation and amortization), Scheduled Debt Service (less any principal payments reasonably expected to be refinanced), and the portions of Project Budgets that are to

be financed with revenue. Fee adjustments, if necessary, will generally be developed and proposed in connection with ERCOT's annual Budget.

ERCOT will use all reasonable means to operate within the approved Budget for the current year. When unforeseen events occur (e.g. MWh's are significantly over or under projected levels, functionality is added or removed, etc.) and as a result, ERCOT experiences or expects to experience in the next 12 month period more than a 25% variance from 1) its Project Budgets, 2) its Operating and Maintenance Budget (excluding depreciation and amortization), or 3) its projected revenue stream, staff will promptly recommend a plan for Board consideration, which may include cost reductions or additions, fee increases or decreases, or other means to ensure that approved functions can be maintained, capital expended and expenses paid in the normal course of business.

**Sources of Financing.** ERCOT will use a combination of equity (revenue funding) and debt to finance projects. In determining the combination of equity and debt to be used in any particular year, ERCOT will consider the impact of the current year decision on future years.

Generally, ERCOT will structure debt issues such that the average maturity of the debt approximates the average life of the assets financed; however, debt issues may be structured with a longer or shorter average maturity if economically justified.

ERCOT may use variable-rate debt to provide flexibility in its overall financing program and to manage its overall interest rate exposure. However, in no event will ERCOT allow unhedged, variable rate debt to be more than 40% of total debt outstanding.

ERCOT will periodically evaluate the interest rate environment and review ways to manage interest rate exposure within that environment.

As appropriate, ERCOT will periodically evaluate mechanisms to restructure or refinance debt. ERCOT will regularly evaluate alternatives to conventional financing to obtain the lowest overall cost of borrowing while still meeting the objectives of this financial standard.

**Liquidity.** ERCOT will seek to maintain adequate liquidity to meet its business needs. Liquidity is the combination of available 1) operating cash on hand, 2) operating cash equivalents / short term investments and 3) undrawn borrowing capacity under credit facilities.

ERCOT's targeted minimum level of liquidity will factor in: 1) six months of forecasted Scheduled Debt Service, other than principal payments reasonably expected to be refinanced, 2) two months of average Cash Operating and Maintenance Expenses, net of projected administrative fee receipts, 3) two months of budgeted project expenditures, and 4) two months of estimated TCRs expected to be paid, net of projected TCR receipts during the same period.

If at any time ERCOT's liquidity is less than or is expected to be less than the targeted minimum level set forth in this standard, staff will promptly recommend a plan for Board consideration to achieve the liquidity target within six months.

Funds received in conjunction with TCR auctions may be utilized to fund ERCOT working capital and project expenditure needs so long as liquidity is at or above the target levels and ERCOT's issuer rating remains investment grade. These funds may be utilized in place of borrowing under short term credit facilities to meet liquidity needs.

#### **4.0 RESPONSIBILITIES**

It is the responsibility of the Chief Executive Officer, Chief Compliance Officer and Chief Financial Officer to ensure that this standard is implemented and to recommend changes in the standard as needed.

#### **5.0 FINANCIAL STANDARD ADOPTION**

ERCOT's financial standard will be adopted by resolution of the Board of Directors. The standard will be reviewed annually by the Finance and Audit Committee and any modifications made thereto must be approved by the Board of Directors.