



Date: November 10, 2008
To: Board of Directors
From: Ron Hinsley, Chief Information Officer
Subject: Nodal Interim Budget Authority

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: November 17, 2008

Agenda Item No.: 6a

Issue:

Whether to approve \$12 million per month for 14 months through the end of 2009 (not to exceed \$168 million) of additional budget authority for the Texas Nodal Market Implementation Program (Nodal Program), in addition to the currently approved \$319.5 million Nodal Program budget.

Background/History:

The Public Utility Commission (PUC) has instructed ERCOT to modify its existing wholesale market structure to implement a nodal design in place of the existing zonal market design. ERCOT began work on the Nodal Program once the Nodal Protocols were approved. The Board of Directors has approved a budget for the Nodal Program of \$319.5 million to cover development coinciding with the PUC-mandated go-live date of January 1, 2009. However, with the anticipated delay of go-live beyond January 1, 2009, the program will exceed the approved budget.

The Nodal program anticipates an average spend of about \$12 million per month for 14 months through December 2009, inclusive of November and December 2008. ERCOT is respectfully requesting Board approval of \$12 million per month (not to exceed \$168 million or a total of \$487.5 million) to allow for the continued advancement of the program while an updated schedule and budget are developed and approved.

By way of background, the Nodal budget has gone through several iterations. The first 2006 figure of \$125 million was a preliminary budget to begin the program and to set a basis for establishing an initial regulatory Nodal Surcharge recovery amount. This budget was established before the completion of the Nodal protocols and development of business requirements. A second Nodal budget was established at \$267 million based on the first set of Nodal protocols and completion of the first set of business requirements. Finally, the Nodal budget was increased to \$319.5 million to account for new Protocols (baseline 1 and 2) and to cover other new requirements of the program.

In May 2008, ERCOT informed the Board that ERCOT would not be in a position to complete the program requirements on time due to several factors. These factors include key vendor software delays, higher data volumes than initially anticipated resulting in more hardware implementations, increased testing needs to resolve defects and new protocols to resolve market defects. A new program schedule is under development, which will explain in detail the need to extend the program into 2009, assuming the PUC decides to keep the Nodal Program intact following the Cost-Benefit Analysis (CBA) re-refresh currently underway and scheduled for completion on or around December



15, 2008. However, ERCOT projects the current budget of \$319.5 million will be exceeded in 2008 and therefore additional spending authority is required to keep the program moving forward while the updated CBA is completed and ERCOT’s schedule and budget forecasts are finalized.

Key Factors Influencing Issue:

There are several key factors that must be considered in determining the budget needs for the Nodal program.

- 1) The program is at its expected highest spending rate now through June 2009:

\$ Amounts represented in millions

2008		2009											
Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
11.0	19.0	13.0	12.0	17.7	12.5	10.6	12.2	11.0	9.9	10.5	8.7	10.2	10.0

- 2) The Nodal Program will require continued use of contractors, internal labor, software and hardware charges through completion.
- 3) A final, all-inclusive schedule and budget will not be complete until after the CBA re-fresh is completed and the PUCT gives further instructions regarding the Nodal Program.

Alternatives:

- A. Approve an increase in spending authority averaging \$12 million per month until the budget is complete and schedule is approved.
- B. Halt spending on the Nodal Program at the currently approved budget amount or seek another option apart from full implementation of the Nodal Protocols.

Conclusion/Recommendation:

ERCOT staff respectfully recommends that the Board approve a Nodal Program budgetary limit of \$487.5 million, an average of \$12 million per month, through the end of 2009, pending a complete schedule and budget decision at some point in 2009.



ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, Electric Reliability Council of Texas, Inc. (ERCOT) will exceed existing the existing Board-approved budget for the Texas Nodal Market Implementation Program (Nodal Program) of \$319.5 million in or around December 2008; and

WHEREAS, the Nodal Program will not be complete as originally expected by January 1, 2009; and

WHEREAS, the Public Utility Commission of Texas (PUCT) has asked ERCOT to refrain from moving forward with a revised schedule and budget until the PUCT completes and reviews an updated Cost-Benefit Analysis of the decision to move to Nodal operations; and

WHEREAS, without additional interim budget authority ERCOT will not be able to keep operating the Nodal Program;

NOW, THEREFORE, BE IT RESOLVED, that ERCOT is authorized to spend an average of \$12 million per month for 14 months through the end of 2009 (not to exceed an increase of \$168 million) on the Nodal Program, in addition to the currently approved \$319.5 million Nodal Program budget.

CORPORATE SECRETARY'S CERTIFICATE

I, Michael G. Grable, Corporate Secretary of ERCOT, do hereby certify that, at its November 17, 2008 meeting, the ERCOT Board of Directors passed a motion approving the above Resolution by a vote of _____.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of _____, 2008.

Michael G. Grable
Corporate Secretary