



Date: November 10, 2008
To: Board of Directors
From: Steve Byone, Chief Financial Officer
Subject: Nodal Interim Rate Relief Request

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: November 17, 2008

Agenda Item No.: 8b

Issue:

Whether the Board should authorize ERCOT to make a filing with the Public Utility Commission of Texas (PUCT), in accordance with the June 13, 2007 Order Nunc Pro Tunc in Docket No. 32686, to request:

- a) An increase in the Nodal Surcharge rate from \$0.169 per megawatt-hour (MWh) to \$0.490 per MWh, effective no later than February 1, 2009; and
- b) Deferral of Nodal debt repayment beginning in 2009 as contemplated in the most recent surcharge filing with the PUCT.

Background/History:

If, consistent with Agenda Item 6a, Nodal Interim Budget Authority, additional spending authority is granted by the Board, then ERCOT will need to establish a funding source consisting of revenue and/or debt to fund the continuation of the Texas Nodal Market Implementation Program (Nodal Program) beyond the level currently approved by the Board and authorized for recovery via the Nodal Surcharge in PUCT Docket No. 35428. Estimated average spending of \$12 million per month is necessary so that the development of the Nodal Program can move forward while the cost benefit analysis (CBA) requested by the PUCT is completed, and then the revised budget and timeline are finalized with input from stakeholders, Utilicast, and Board Committees.

More generally regarding the background of the Nodal Program, in September 2003, as part of Project No. 26376, the PUCT instructed ERCOT to replace its existing zonal wholesale market design with a nodal design. ERCOT began work on the Nodal Program once the PUCT approved the Nodal Protocols during April 2006 in Docket No. 31540. Since that time, ERCOT has pursued completion of the Nodal Program. However, in May 2008, ERCOT notified the Board and the PUCT that it would not be able to complete the Nodal Program by the January 1, 2009 deadline set by the PUCT.

Since May, ERCOT has continued work on the Nodal Program, while working with the PUCT, the Board, and Stakeholders to evaluate the Nodal Program's status and plan for its completion. However, with the CBA scheduled for completion in mid-December 2008 and a final schedule and budget to follow after the CBA, ERCOT has reached the point where current funding authority is nearly exhausted. Therefore, to continue development of the Nodal Program,



ERCOT has requested an increase in spending authority from the Board (see Agenda Item 6a, Nodal Interim Budget Authority). If the increase in spending authority is approved by the Board, ERCOT must fund the additional spending with some combination of revenue and/or debt.

In looking at funding options, ERCOT considered several factors influencing its alternatives to fund the increase. A new factor of significant influence regarding the choice of funding mechanisms is current credit market conditions. Notably, global credit markets within which borrowers and lenders operate have experienced almost unprecedented turmoil in recent months. ERCOT has been actively seeking new debt capacity during recent months and while ERCOT was successful in obtaining recent capacity increases, it was significantly more difficult and more costly than it was a year ago.

In addition, ERCOT considered:

- 1) Its current debt load. ERCOT has already borrowed nearly \$200 million to fund Nodal Program costs in addition to borrowings to fund other capital expenditures.
- 2) The need to preserve some level of borrowing capacity for unexpected future needs. Further debt funding to support the Nodal Program would further deplete potential capacity of lenders interested in making loans to ERCOT. Maintaining credit sources to address potential future borrowing needs for unexpected events is prudent.
- 3) Increased Nodal Program cost due to interest expense. The combination of potentially higher Nodal Program debt levels together with recent increases in borrowing costs add to the overall costs of the program.
- 4) The current uncertainty relating to the expected total cost to complete the Nodal Program. ERCOT lenders prefer specifics regarding the amount to be borrowed, sources of cash to facilitate repayment and the timeline for the repayment plan.

Given these considerations, ERCOT developed funding alternatives designed to increase *prospective* revenue funding above that which has occurred to date.

Below are four summary scenarios that ERCOT considered:

	Revenue Contribution	Beginning January 1, 2009			
		100%	75%	66%	50%
Estimated monthly "run rate" (in thousands)	\$ 12,000				
Anticipated average monthly needs					
Fund a portion of Nodal costs based on the current "run rate"		12,000	9,000	7,920	6,000
Fund interest costs on outstanding Nodal debt		997	1,087	1,119	1,177
Total to be funded		12,997	10,087	9,039	7,177
Fee per MWh		0.49	0.38	0.34	0.27
Incremental monthly debt incurred (for Nodal)		-	3,000.00	4,080.00	6,000.00
Estimated annual additional debt incurred		-	36,000.00	48,960.00	72,000.00

After considering the alternatives and in light of ERCOT's current financial position against the backdrop of tight credit markets, ERCOT respectfully recommends revenue funding 100 percent of the additional spending required to complete the Nodal Program. Such funding may be accomplished through an increase in the Nodal Surcharge from \$0.169 to \$0.490 per MWh.



This increase in the Nodal Surcharge would fund 100 percent of the incremental monthly spend to continue development work on the Nodal Program but would ***not*** provide for ERCOT to begin scheduled retirement of Nodal Program debt expected to be outstanding at December 31, 2008 – debt that totals approximately \$200 million based upon the timeframe included in the most recent Nodal Surcharge case. Therefore, ERCOT also recommends seeking a deferral of repayment of any Nodal Program debt incurred until revenues collected from the surcharge are sufficient to cover current cash outlays and to begin servicing outstanding Nodal Program debt.

ERCOT staff anticipates that the requested interim increase in the Nodal Surcharge will be reevaluated once an approved budget and timeline are available.

Key Factors Influencing Issue:

ERCOT needs a source of funding to support the ongoing needs of the Nodal Program. Board approval is required to seek a change in the Nodal Surcharge rate.

ERCOT considered credit market conditions, current ERCOT debt levels, the need to preserve financial flexibility and the uncertainty related to the timeline and costs to complete the Nodal Program.

Alternatives:

- A. Authorize ERCOT to make a filing with the PUCT seeking:
 - a. an increase in the Nodal Surcharge rate from \$0.169 per megawatt-hour (MWh) to \$0.490 per MWh, effective no later than February 1, 2009.
 - b. a deferral of Nodal debt repayment beginning in 2009 as contemplated in the most recent surcharge filing with the PUCT.
- B. Authorize ERCOT to make a filing with the Public Utility Commission of Texas (PUCT) seeking:
 - a. an increase in the Nodal Surcharge for some amount as determined by the Board
 - b. a deferral of Nodal debt repayment beginning in 2009 as contemplated in the most recent surcharge filing with the PUCT.
- C. Suspend all Nodal Program expenditures upon reaching previously authorized spending levels.

Conclusion/Recommendation:

ERCOT respectfully requests that the Board authorize ERCOT to make a filing with the PUCT, to request:

- a) A change in the Nodal Surcharge rate from \$0.169 per megawatt-hour (MWh) to \$0.490 per MWh, effective no later than February 1, 2009.
- b) Deferral of Nodal debt repayment beginning in 2009 as contemplated in the most recent



surcharge filing with the PUCT.



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

WHEREAS, staff of Electric Reliability Council of Texas, Inc. (ERCOT) has requested that the Board of Directors (Board) authorize continued spending of up to \$12 million per month for up to 14 months (or up to \$168 million) so that the development of the Texas Nodal Market Implementation Program (Nodal Program) can move forward while the cost benefit analysis (CBA) requested by the Public Utility Commission of Texas (PUCT) is completed, and then the revised budget and timeline are finalized with input from stakeholders, Utilicast, and Board Committees, and

WHEREAS, without such authorization, work cannot continue on the Nodal Program,

NOW, THEREFORE, BE IT RESOLVED, that ERCOT is authorized to make a regulatory filing with the PUCT seeking: (a) a change in the Nodal Surcharge rate from \$0.169 per megawatt-hour (MWh) to \$0.490 per MWh, effective no later than February 1, 2009; and (b) a deferral of Nodal debt repayment beginning in 2009 as contemplated in the most recent surcharge filing with the PUCT.

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