



Date: December 2, 2008
To: Board of Directors
From: Clifton Karnei, Chair, Finance & Audit Committee
Subject: Review and Approval of January 2009 Operating Budget

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: December 9, 2008

Agenda Item No.: 13a

Issue:

Whether to approve the proposed one-month base operating budget for planned activities (excluding Nodal activities) in January 2009, which includes capital requirements and operating and maintenance expenses (excluding depreciation and amortization).

Background/History:

In May 2008, the Board of Directors (Board) approved a significantly increased 2009 budget and permission to seek a corresponding System Administration Fee increase from the Public Utility Commission of Texas. However, because the increase was primarily driven by Nodal operating costs, this budget became stale when the Nodal Go-Live date was significantly delayed.

As discussed at the Board of Directors (Board) meeting held on November 17, 2008, delays in the preparation of an updated Nodal Program budget led ERCOT management to pursue a two-step budget approval process for base operations. This month, ERCOT management is seeking approval of a one-month base operating budget (excluding Nodal activities) for January 2009. At the January 2009 Board meeting, ERCOT management will seek approval of a revised 2009 base operating budget incorporating all planned activities (excluding Nodal activities) for fiscal year 2009.

| <u>Funding Authorization</u> | | January 2009 Proposed Amount (\$ in thousands) |
|---|--|---|
| System Administration Fee | | 10,518.6 |
| Interest Income | | 60.0 |
| Other Revenue | | 762.0 |
| Total – Funding Authorization | | <u>11,340.6</u> |
| <u>Spending Authorization</u> | | |
| Operating Expenses | | 7,980.6 |
| Debt Service – Interest | | 614.3 |
| Debt Service – Principal | | - |
| Project Spending | | <u>1,058.3</u> |
| Total – Spending Authorization | | <u>9,653.2</u> |
| Excess Funding Authorization over Spending Authorization | | <u>1,687.4</u> |



Key Factors Influencing Issue:

- In May 2008, the Board approved a 2009 budget and System Administration fee increase which assumed Nodal implementation in December 2008.
- Nodal Program schedule extension directly impacts Operating Budget.

ERCOT must have adequate funds in January 2009 to:

- Implement system improvements and required functionality to support the market.
- Staff appropriately to participate in and support full market operations and single control area functions.
- Maintain compliance with the Financial Corporate Standard and associated financial performance measures as approved by the Board.
- Fund independent market monitoring and PURA functions of Texas RE.
- Enhance and maintain the computer systems and associated services contracted for with vendors.
- Maintain necessary facilities to provide secure operations and house staff.

Alternatives:

1. Approve the recommendation of the Finance and Audit Committee, as recommended or as modified by the Board; or
2. Remand this issue to the Finance and Audit Committee with instructions.

Conclusion/Recommendation:

ERCOT staff respectfully recommends that the Board of Directors:

- Adopt the proposed January 2009 Budget, which includes \$9.7 million total spending authorization for base operations (including independent market monitoring and PURA functions of Texas RE and excluding Nodal activities) and capital projects.



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

WHEREAS, the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) deems it desirable and in the best interest of ERCOT to approve the proposed January 2009 Budget (Budget), including capital requirements and operating and maintenance expenses (excluding depreciation and amortization), totaling \$9.7 million to support the planned activities of ERCOT for the month of January 2009.

THEREFORE, IT IS HEREBY RESOLVED, that the Board hereby adopts the proposed January 2009 Budget, which includes \$9.7 million total spending authorization for base operations (including independent market monitoring and PURA functions of Texas RE and excluding Nodal activities) and capital projects.

CORPORATE SECRETARY'S CERTIFICATE

I, Michael G. Grable, Corporate Secretary of ERCOT, do hereby certify that, at its December 9, 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 _____, 200__.

Michael G. Grable
Corporate Secretary