DIRECT TESTIMONY OF

MICHAEL W. PETTERSON

CONTROLLER

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

IN SUPPORT OF
ERCOT'S APPLICATION FOR APPROVAL
OF A REVISED NODAL MARKET
IMPLEMENTATION SURCHARGE

DIRECT TESTIMONY OF MR. MICHAEL W. PETTERSON

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Michael W. Petterson. My business address is 7620 Metro Center Drive, Austin, Texas 78744.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Electric Reliability Council of Texas, Inc. ("ERCOT") as its Controller.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS OR ANY OTHER STATE UTILITY COMMISSION?

A. Yes. I was a witness in Docket No. 31824 (ERCOT System Administrative Fee case) and filed testimony in Docket Nos. 32686 and 35428 (ERCOT Nodal surcharge cases).

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I have a Bachelor of Business Administration degree from the University of Wisconsin at Madison (1985), and a Master of Business Administration degree from the University of Texas at Austin (1991). I am a Certified Public

Accountant ("CPA"), licensed in the State of Texas. Prior to joining ERCOT, I held positions as a bank examiner, a financial analyst for an oil and gas company, and a senior consultant at PricewaterhouseCoopers. I joined the Lower Colorado River Authority ("LCRA") in 1994, and left LCRA in 2001 as a Finance and Accounting Business Manager. I joined ERCOT in 2001. As Controller, I am responsible for directing the daily financial affairs of the organization and preparing financial analyses of operations, including monthly and annual financial statements with supporting Schedules. I also supervise ERCOT's general accounting, asset accounting, payroll, budget and reporting, financial analysis, and billing and revenue functions.

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.

A. At the direction of ERCOT Vice-President and Chief Financial Officer ("CFO") Steve Byone, I prepared or directed the preparation of information intended to fulfill ERCOT's obligations to provide data supporting its request for the proposed revised Nodal Surcharge, the fee ERCOT charges to pay for the costs of the Texas Nodal Market Implementation Program ("Nodal Program"). My testimony sponsors the Schedules and Workpapers presented by ERCOT, although the underlying information in those Schedules and Workpapers was developed by many people in ERCOT, particularly those working in the Nodal Program.

Q. PLEASE IDENTIFY THE SCHEDULES AND WORKPAPERS YOU ARE SPONSORING AS PART OF YOUR DIRECT TESTIMONY.

A. ERCOT prepared the following Schedules and Workpapers in support of its application for a revised Nodal Surcharge. ERCOT was guided in this respect by the Commission's "ERCOT Fee Filing Package" ("FFP") and by the rulings in Docket No. 32686 concerning requirements specifically applicable to filings for approval of fees to fund the Nodal transition. In its *Order Nunc Pro Tunc*, dated June 13, 2007, the Commission provided that "ERCOT may initiate Commission proceedings to change the nodal surcharge only if the change in the Nodal Program cost estimate leading to the request is more than 10 percent higher or lower than the amounts presented in this proceeding."[1] In addition, the Commission ordered that "[i]n future proceedings in which ERCOT requests to change the nodal surcharge, ERCOT may use the modified ERCOT Fee Filing Package format" adopted in Docket No. 32686. The Schedules and Workpapers filed herewith comply with the requirements established in Docket No. 32686.

The numbering scheme for the Schedules follows the way the particular Schedules are identified in the FFP. The Schedules and Workpapers filed herewith include the following:

<u>Schedules</u>

<u>Schedule 1 – Nodal Program Revenue Requirement and Surcharge Summary</u>

- Annual revenue and surcharge requirements for the Nodal Program.

[1] Docket No. 32686, *Order Nunc Pro Tunc*, at 2 (June 13, 2007).

- Quantifies surcharge by use.

Schedule 2 – Summary of Estimated Income Sources

- Details revenue sources and provides anticipated income.

Schedule 3 – Sources & Uses of Funds Summary

- Summarizes annual funding sources and anticipated uses of funds by the Nodal Program.

Schedule 4 – Nodal Program Expenses by Project

- Summarizes program revenue requirements by project and expenditure category.

Schedule 5 – Nodal Program Expenses by Project

- Summarizes budgeted expenses for each project of the Nodal Program.

Schedule 6 – Nodal Program Expenses by Expense Type

- Summarizes budgeted expenses for the Nodal Program by expense type.

Schedule 7 – Nodal Program – 2008 Operating Activity as of December 31, 2008

- Summarizes Nodal Program revenue, operating expenses and allocated interest expenses incurred through December 31, 2008.

Schedule 8 – Nodal Program – Annual Project Expenses as of December 31, 2008

- Summarizes annual Nodal Program expenditures by expense category as of December 31, 2008.

Schedule 9 – Capital Project Budget to Actual Comparison

- Schedule is not required per Docket No. 32686 Order No. 13.

Schedule 10 – ERCOT – Pro Forma Statements of Financial Position

Schedule 11 – ERCOT – Pro Forma Statements of Activities

Schedule 12 – ERCOT – Pro Forma Statements of Cash Flows

Schedule 13 – Financial Analyses

Schedule 14 – Workforce Requirements

- Schedule is not required per Docket No. 32686 Order No. 13.

Schedule 15 – Staffing Activities

- Schedule is not required per Docket No. 32686 Order No. 13.

Schedule 16 – Consultant Activities

- Schedule is not required per Docket No. 32686 Order No. 13.

Workpapers

Workpaper 1.1 Summary Comparison of Revised Nodal Surcharge Alternatives

- Comparison of revised Nodal Surcharge alternatives based on implementation date.

Workpaper 1.2 - MWh Forecast

- Graphical and table representation of forecasted generation utilized to calculate revenue received from the Nodal Surcharge.

Workpaper 1.3 – Workpaper 1.8 Increase Nodal Surcharge Option (one Workpaper for each option considered)

- Calculation of revised surcharge, interest, and revenue requirement based on various implementation dates and surcharge levels.

Workpaper 3.1 – Nodal Program Interest Calculations

- Summarizes calculation of financing charges incurred as a result of Nodal Program expenditures.

Workpaper 3.2 – Zonal/Nodal Dependent Projects

- Summarizes the expected cash flows of each Zonal/Nodal dependent project.

Workpaper 4.1 – Original Budget vs. Current Budget Reconciliation by Expense Type

- Identifies original budget (approved in Docket No. 35428) reallocations by expense type.

Workpaper 4.2 – Workpaper 4.17 - Project Expenses by Expense Type (one Workpaper for each Nodal Program project)

Workpaper 5.1 - Original Budget vs. Current Budget Reconciliation by Project

- Identifies original budget (approved in Docket No. 35428) reallocations by project.

Workpaper 17.1 – Account Listing

- Lists ERCOT's general ledger chart of accounts.

Workpaper 17.2 - Nodal Program Project Listing

- Numerical listing of Nodal Program projects utilized in the ERCOT financial system for expenditure tracking and reporting.

Workpaper 17.3 - ERCOT Time Tracking Activity Listing

- Listing of work activities utilized to record, track, and report resource efforts.

Q. TO THE BEST OF YOUR KNOWLEDGE, ARE THE SCHEDULES AND WORKPAPERS SUBMITTED BY ERCOT TRUE AND CORRECT?

A. Yes.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?

A. Yes, it does.