Nodal Program Budgeting Guidelines

Introduction

This document contains budgeting instructions, guidelines, and a FAQ of budgeting topics. As project budgets are being built based on the integrated schedule, keep cost-consciousness in mind and avoid any 'finish at any cost' or 'cost is no object' mentalities but build a realistic budget based on project plans and schedules and act as stewards of the ratepayers money entrusted to you.

The current EAC will be used for budgeting and after the budgeting process is complete the conversion to a standardized EAC will be performed. The other key document that will be used in the budget process is a 'budget bridge' spreadsheet that highlights differences between the current 'revised' EAC and what will be the new budget and new EAC. It is important that the comments in the 'budget bridge' are detailed and explain budget increases accurately.

Project Budgeting Guidelines

Budgets should be built on activities identifiable in project plans and specific expenses. Simply put, if resources are required to complete tasks in the project plans, EAC's should represent the resources and expenses required to accomplish tasks within the project plan.

This will be a 'bottom up' budget development approach – and simply extending resource timelines in the current budget until project completion will not be adequate. When preparing the budget submissions, please keep in mind and be prepared to demonstrate which resources in the EAC tie to which activities in the project plan and for what duration.

<u>Project Level Budgeting:</u>

EAC

- EAC categories will match Lawson categories going forward. Those categories are:
    - Internal Labor
    - External Labor
    - Vendor Labor
    - Travel & Misc.
    - Software
    - Hardware
    - Backfill
- Taxes will no longer be forecast since ERCOT is a Texas Sales & Use tax exempt entity
- Vendor spend will be consolidated into the External Labor category after the budget cycle is complete

Actual Spend to Date

- Project to Date actuals will equal Lawson as of 7/31/2008

Labor

- Hours are determined by resource loaded project schedules for FTEs and contractors
- Rates
    - FTEs: Determined by AHILR (Average Hourly Internal Labor Rate) average for first half of 2008 (see Table 1)
    - Identified Contractors: Determined by actual rates in SOW / Contract
    - Unidentified Contractors: Determined by rate card maintained by ERCOT Contract Administration – we will provide you with this information as needed
    - Escalators: 3% upward adjustment to FTE rate after April 1 of any future years

Expenses

- Travel costs will be trended based on August 2007 through July 2008 historical averages
- Hardware
- Software
- Maintenance & Support will be budgeted within the INF budget, except for discrete statements of work for specific vendor supported software
- Other Materials and Supplies will be trended based on August 2007 through July 2008 historical averages

Indirect Spend

- Indirect Support Allocation equals 3.8% of total project expenditures (less support costs)
- Backfill equals total backfill hours times the incremental rate by project, which is determined by 2008 historical average (see Table 2)

<u>Program Level Budgeting:</u>

EAC

- EAC Categories handled by Nodal Finance at a program level are:
    - Facilities Allocation
    - Finance Charges
    - Contingency
    - Indirect Support Charges

Table 1 – AHILR for calculating FTE labor cost

Project		AHILR
Commercial Systems		52
Congestion Rev Rights		51
EDS		49
EMS		56
Enterprise Data Systems		52
Enterprise Integration		53
ERCOT Readiness Transition		51
ERT		53
Infrastructure		51
Integration & Design		52
Integration Testing		43
MMS		53
MPER MIS		58
MPER - MIS Real-Time Reporting		61
MPER Other		62
MPER Training		62
Network Model MS		44
PMO Office		62

Table 2 – Incremental backfill rate for calculating Backfill cost

(Your project controller has trending data available regarding the backfill cost for budgeting purposes)

Nodal Budgeting FAQ

Q) What exactly is the scope of the nodal budget?

A) All expenses needed to pay for all activities required to complete the Nodal program as specified by the Nodal Protocols, and required post-go live functions (post-program audits, transition activities, etc…)

Q) Do the home teams stop charging nodal once the 168 hour test starts?

A) No, the Nodal market would not have 'gone live' when the 168 hour test starts. All activities in support of the Nodal program by the home team should be part of the Nodal program until the delivery of the market systems is considered 'done'. 'Done' is defined as not just when the 'go live' date has passed and the Nodal market is functioning, but rather, 30 calendar days after both the Real-Time and Day-Ahead markets have been live.

Q) Where should the time between the 168 hour test and go-live be charged?

A) To Nodal. Any charges to the Nodal program, with the exception of identified post go-live expenses, should cease after the Real-Time and Day-Ahead markets have been 'live' for 30 calendar days. All projects other than INF, EDS and PC should be completed by that time.

Q) There is (and will be more) work queuing up for after go-live. Should this be included in the budget?

A) If there is work required to meet completion requirements for the Nodal program, it should be budgeted for in the Nodal program budget. Post 'go-live' expenses for the Nodal program should not consist of additional development or testing expenses, but only expenses such as post program audits and program close down activities

Q) Where should business users (who are primarily nodal) charge their time for attending nodal meetings or participating in nodal requirements gathering/testing activities?

A) They should charge their time to the Nodal project most associated with the topic of the meeting, and these expenses should be budgeted for within each project's budget. Time charging guidelines will be developed and shared with ERCOT managers so everyone will understand what the rules are.

Q) Audit has been charging time to the PMO for auditing nodal – should I expect this to continue? Where should the IBM audit charges land?

A) Yes; and external audit charges need to be budgeted within the Program Control budget

Q) Sometimes people are loaned from one project team to another (e.g., EIP to MMS or EDS to EMS) for knowledge transfer or to help out. Where should this time be charged?

A) Labor resources should be most closely identified with the project that they are providing the primary benefit to. Core projects are responsible to budget for all of their own resources, even if those resources may be providing work to other projects or activities. For example, if a DBA is supporting the MMS project, the MMS project will budget for all of the expenses associated with that DBA for the MMS project until that project is able to exit iTest and enter EDS. Once a project's application enters EDS, the core project is no longer responsible for funding that resource. Please plan accordingly.

Q) The date we assumed for the integrated schedule is June 1st (we needed to have common date where we could plan forward and not spend any time retroactively). Can we get actuals through May 31 and forecast from June 1 through project completions?

A) Budgeting will begin with September 1st and continue through project completion.

Q) Do we need to account for finance charges or allocations at the project level?

A) Interest, support allocations, facilities charges, and all other costs outside of a project manager's direct control (with the exception of unexpected internal labor charges) will no longer be handled at the project level. We will handle these at the program level.

Q**) Will the new Nodal Finance organization have sufficient access to Lawson to do a true reconciliation each month?**

A) Yes, and if not, we will work with ERCOT Corporate finance to gain all necessary information

Q) For those FTEs that are charging full time to nodal does the nodal project and the home team department get hit for the facilities charges?

A) No

Q) How will hardware and software maintenance be budgeted for Nodal considering the delay?

A) These expenses will be budgeted within the Infrastructure & Operations (INF) budget for the remainder of the Nodal program and funding will transition to ERCOT base operations once Nodal 'goes live'.

Q) Will financing costs be included?

A) Finance costs will be included and budgeted at the program level and will be dependent upon the total revised budget amount.

Q) What about hardware replacements before Nodal goes live?

A) This may be a real issue depending on the go live date driven by the schedule. If the replacement schedule for the hardware falls within the program timeline, the Nodal program will need to bear the replacement costs.