

Requirements

- Provide sufficient staff for base operations and Nodal Program Implementation
- Provide essential facilities including the Met Center Replacement
- Accommodate software upgrades and hardware refreshes necessitated by delay in the Nodal Program including expansion of the data center
- Accommodate principal and interest payments on the Senior Note and Term Loan

Major Assumptions

- Nodal Program remains on schedule and budget
- Protocol compliance verification is paid for by ERCOT via System Administration Fee
- Capital Spend Funding
 - 60% Debt
 - 40% Equity

System Admin. Fee Billing Determinant Change

- Develop alternate methodology to eliminate revenue variances

Staffing

- Headcount growth – 23 positions
 - Under further review by Management
 - Confirming with Nodal Program reforecast
- Staff compensation market based

Contra Labor for Nodal Program and Base Projects

- Reconcile internal resource utilization to approved project plans

Capital Spending

- In accordance with standard PPL approval processes
- Includes amounts necessary for new/upgraded facilities

5. Preliminary 2010 Budget and PPL

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Line	(\$ Thousands)	2009 Budget	2010 Preliminary	Variance	
				\$	%
1	ERCOT O&M Expense				
2	Labor & Benefits	\$ 81,620	\$ 94,855	\$ 13,234.821	16.2%
3	Contra Labor - Base Projects	(4,071)	(2,929)	1,142	-28.1%
4	Contra Labor - Nodal Program	(22,593)	(25,725)	(3,132)	13.9%
5	Subtotal - Labor & Benefits	54,956	66,201	11,245	20.5%
6	Support Allocations	(4,728)	(2,747)	1,981	-41.9%
7	Incremental Resource Allocations	(1,297)	(1,066)	230	-17.8%
8	Facilities Allocations	(1,373)	(1,466)	(93)	6.8%
9	Info Technology Svcs Allocations	-	(246)	(246)	NA
10	Subtotal - Allocations	(7,398)	(5,525)	1,873	-25.3%
11	Equipment & Tools	1,156	1,227	71	6.1%
12	Special Reviews	-	750	750	NA
13	Outside Services	11,984	10,365	(1,619)	-13.5%
14	Utility, Maintenance, & Facilities	7,484	8,079	595	8.0%
15	Hardware & Software License & Maint.	9,628	9,385	(243)	-2.5%
16	Insurance	2,125	1,877	(249)	-11.7%
17	Employee Expenses	1,771	1,618	(154)	-8.7%
18	Property Taxes	1,100	1,478	378	34.3%
19	NERC Dues	2,141	2,141	0	0.0%
20	Other Expenses	2,277	2,178	(99)	-4.3%
21	Subtotal - O&M Expenses	87,225	99,773	12,548	14.4%
22	Debt Service - Interest	7,580	5,680	(1,900)	-25.1%
23	Debt Service - Principal	26,137	26,137	-	
24	Revenue Funded Capital	7,100	2,711	(4,389)	-61.8%
25	Revenue Funded Data Center	-	4,400	4,400	NA
26	Revenue Funded Facility (Met Center Replacement)	8,160	12,746	4,586	56.2%
27	Protocol Services (Texas RE)	872	872	-	
28	Market Monitoring	2,100	2,300	200	9.5%
29	Total Revenue Requirement	139,174	154,618	15,445	11.1%
30	Less: Other Revenue	5,855	5,304	(551)	-9.4%
31	Less: Interest Income	100	81	(19)	-19.0%
32	Revenue Rqmt from System Admin Fee	133,218	149,233	16,015	12.0%
33	GWh	319,392	315,065	(4,327)	-1.4%
34	% GWh Growth	2.2%	-1.4%	-3.6%	-160.6%
35	ERCOT System Administration Fee	\$ 0.4171	\$ 0.4737	0.0566	13.6%

Line	(\$ Thousands)	2009 Budget	2010 Preliminary	Variance	
				\$	%
36	Zonal Capital Spending - Revenue Funded	7,100	2,711	(4,389)	-61.8%
37	Zonal Capital Spending - % Revenue Funded	40%	40%	-	NA
38	Zonal Capital Spending - Debt Funded	10,650	4,066	(6,584)	-61.8%
39	Zonal Capital Spending - % Debt Funded	60%	60%	-	NA
40	Subtotal - Zonal Capital Project Spending	17,750	6,776	(10,974)	-61.8%
41	Data Center Refresh Spending - Revenue Funded	-	4,400	4,400	NA
42	Data Center Refresh Spending - % Revenue Funded	40%	40%	-	NA
43	Data Center Refresh Spending - Debt Funded	-	6,600	6,600	NA
44	Data Center Refresh Spending - % Debt Funded	60%	60%	-	NA
45	Subtotal - Data Center Refresh Spending	-	11,000	11,000	NA
46	Facility Spending - Revenue Funded	8,160	12,746	4,586	56.2%
47	Facility Spending - % Revenue Funded	40%	40%	-	NA
48	Facility Spending - Debt Funded	12,240	19,119	6,879	56.2%
49	Facility Spending - % Debt Funded	60%	60%	-	NA
50	Total Facility (Met Center) Spending	20,400	31,866	11,466	56.2%
51	Total Project/Facility Spending	38,150	49,642	11,492	30.1%
52	Total ERCOT Spending Authorization	162,064	184,404	22,340	13.8%

5. Preliminary 2010 Budget and PPL: Fee Increase Drivers

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Driver Description	\$ Variance	Fee Impact \$.00 /per MWh	Comments
Increased Benefit Cost	4.5	0.0142	Actual medical claim costs driving benefit load requirement from budget of 30% in 2009 to 35% in 2010.
Decreased Merit	(0.3)	(0.0009)	Merit percentage decreased from 3% in 2009 to 2% in 2010.
Vacancy Savings Assumption Reduced to Zero	4.6	0.0145	2009 vacancy savings of 8 percent of 739 full-time equivalents reduced to zero.
Recurring Salary Growth	1.9	0.0060	Increase in compensation awarded in 2009 through the standard performance evaluation processes.
Additional Work Requirements (Task Analysis)	2.4	0.0076	23 new full-time equivalents working primarily in the Nodal Program, Compliance and facilities areas.
Subtotal - Labor and Benefits Increases	13.2	0.0414	
Decreased Zonal Project Spending	(4.4)	(0.0137)	Project spending decreased from \$17.8 million in 2009 to \$6.8 million in 2010.
Operations Center, Taylor and Bastrop Data Centers	4.6	0.0144	Project spending increased from \$20.4 million in 2009 to \$31.9 million in 2010 for facility expansion.
Data Center Refresh	4.4	0.0138	Project spending budget of \$11 million on Data Center equipment refresh in 2010.
Decreased Revenue	0.6	0.0018	Anticipate reduction in interest income and other miscellaneous fees.
Decreased Allocations	1.9	0.0059	Support services provided to the Nodal Program anticipated to decrease in 2010 as project nears completion.
Other Operating Expenses	(0.4)	(0.0012)	Reduced outside services with increase in market monitoring, sunset review and HW/SW maintenance.
Subtotal - Other Cost Increases	19.9	0.0623	
Increased Internal Labor Charged to Projects	(2.0)	(0.0062)	\$3.1 million more internal labor supporting Nodal Program activity and \$1.1 million less internal labor engaged in Zonal projects.
Reduced Interest Expense	(1.9)	(0.0059)	Overall portfolio interest rate down to ~5%.
Subtotal - Cost Reductions	(3.9)	(0.0122)	
Total - Net Cost Increase	16.0	0.0501	Refer to Line 32 on previous slide
Decreased Energy Consumption		0.0064	Forecasted GWh decrease of 4.3M
Total - Net Rate Increase		0.0566	Refer to Line 35 on previous slide

Next Steps

- Seeking feedback from F&A on preliminary budget
- Management developing prioritized list of functions and associated costs for possible budget reductions
- Conducting final reconciliations between Texas RE and the project plans for both the Nodal Program and Base Operations
- F&A Special Committee Meeting to be held on August 17th to review 2010 budget and obtain both F&A and public feedback.
- Management on schedule to recommend final budget at August Board Meeting

5. Preliminary 2010 Budget and PPL: 2010 Budget Development Schedule

Date	2010 Budget Preparation, Review and Approval Task
Monday, Apr. 13	Discuss with Executive Team the 2010 Strategic Plan and Budget
Monday, May 4	Discuss with the Executive Team the 2010 strategic plan, budget schedule and budget assumptions
Tuesday, May 19	Finance and Audit Committee Meeting Discuss and review the 2010 Budget/PPL Status Update
Tuesday, Jun 16	Finance and Audit Committee Meeting Discuss and review the 2010 Budget/PPL Status Update Board of Directors Meeting Discuss and review with the Board the strategic planning and budget assumptions (briefing and request for public comment)
Monday, Jun. 22	Discuss with the Executive Team the 2010 budget schedule and budget assumptions
Wednesday, Jun. 24	Obtain Resource Utilization Requirement for Nodal Program and PMO
Friday, Jun. 26	Prepare and present to Management the 2010 budget schedule, assumptions, and templates
Friday, Jun. 26 - Thursday, Jul. 2	Managers prepare departmental budget requests and review with respective Director/VP
Tuesday, Jun. 30	Present and discuss with PUCT Staff the 2010 budget schedule and assumptions
Thursday, Jul. 2	Managers submit departmental budget requests
Friday, Jul. 3	Calculate and compile DRAFT Categorical Budget (Budget team)
Saturday, Jul. 4	Distribute preliminary budget by VP/Director/Manager
Monday, Jul. 6	Begin testimony preparation
Monday, Jul. 6	Prepare and present consolidated schedules to the Executive Team for review
Tuesday, Jul. 7 - Friday, Jul. 10	Work with Management Team to incorporate adjustments
Monday, Jul. 13	Prepare and present consolidated schedules to the Executive Team for review
Tuesday, Jul. 14	Mail out for July Board & Committee Meetings
Tuesday, Jul. 21	Finance and Audit Committee Prepare and present to the Finance and Audit Committee the Preliminary Budget/PPL (Courtesy copy to all Board members)
Monday, Jul. 22 - Friday, Jul. 31	Work with Management Team to incorporate adjustments
Monday, Aug. 3	Prepare and present consolidated schedules to the Executive Team for review
Friday, Aug. 7	Submit first draft of testimony
Monday, Aug. 10	Mail out for Special Finance and Audit Meeting
Monday, Aug. 17	Finance and Audit Committee Special Meeting and Public Input Meeting Discuss and review the 2010 Budget with the Finance and Audit Committee (Courtesy copy to all Board members)
Tuesday, Aug. 18 - Friday Aug. 28	Incorporate Finance and Audit Committee feedback and make final adjustments Distribute consolidated schedules to PUCT Staff for review
Monday, Sept. 1	Prepare and present consolidated schedules to the Executive Team for FINAL review
Tuesday, Sept. 8	Mail out for Board Meeting
Friday, Sept. 11	Finalize testimony
Tuesday, Sept. 15	Board of Directors Meeting Obtain Finance and Audit Committee recommendation and obtain approval from the ERCOT Board for the 2010 base operating budget and PPL/Vote
Monday, Sept. 14 - Wednesday, Sept. 23	Review and finalize PUCT Fee Filing
Wednesday, Sept. 30	File fee case with PUCT