



# 2010 Budget

## Review by Spending Category and Five-Year Forecast

Mike Petterson, Controller

Special Finance & Audit Committee Meeting  
August 17, 2009

## ***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

# 2010 Budget Assumptions

## **System Admin. Fee Billing Determinant Change**

- Cost Recovery Methodology
  - Fluctuating System Admin. Fee based on revenue requirement and MWh load

## **Staffing**

- Headcount growth
  - Held headcount to 2009 budget level – 739
- Salary Administration
  - Assume increase of 2% for merit and 1% for other salary adjustments
- Benefit/Tax Load
  - Assume 33.5%
- Reward & Recognition
  - Assume 1% of base compensation
- Vacancy Savings
  - Calculated based on turnover rate and average number of days to fill a position
  - Assume 2.5%

# 2010 Budget Assumptions

## **Contra Labor for Nodal and Base Projects**

- Internal resource requirements for projects
- Reconciled to resource utilization plans compiled by PMO and Nodal Program

## **Employee Expenses**

- Reduced to \$2,200 per employee

## **Allocations**

- Support
  - Calculate based on Nodal expenditure projections
- Facilities
  - Calculate based on Nodal headcount (Internal & external) estimates
- Backfill
  - Reconcile to Nodal budget

# 2010 Budget Assumptions

## **Outside Services**

- Detailed description provided in supplemental file

## **HW/SW Maintenance and Support**

- Estimated by IT based on utilization

## **Interest Expense**

- Estimated based on projected spend & debt requirements

## **Capital Spending**

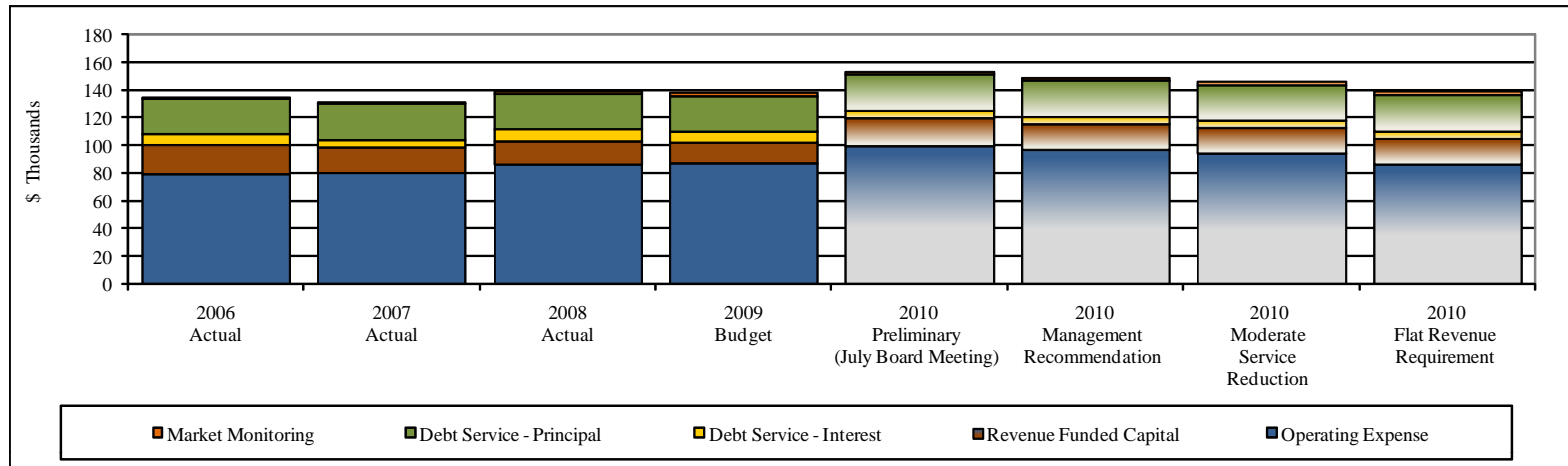
- Submitted by PMO Office based on CART & TAC input/approval

## **Other Categories**

- Reduced spending below prior year budget

- **2010 Management Recommendation scenario reflects**
  - Elimination of 23 positions relative to the preliminary budget
  - Unchanged core and non-core services
- **2010 Moderate Service Reduction scenario reflects**
  - Elimination of 31 additional positions (54 cumulative positions)
  - Unchanged core service levels
  - Degradation or elimination some non-core services
- **2010 Flat Revenue Requirement scenario reflects**
  - Elimination of 48 additional positions (102 cumulative positions)
  - Degradation or elimination some core and some non-core services

# 2010 Budget



Line	(\$ Thousands)	2006 Actual	2007 Actual	2008 Actual	2009 Budget	2010 Preliminary (July Board Meeting)	2010 Management Recommendation	2010 Moderate Service Reduction	2010 Flat Revenue Requirement
1	Operating Expense	79,580	80,153	86,312	87,225	99,773	97,067	94,100	86,943
2	Revenue Funded Capital	20,989	18,435	16,815	15,260	19,857	18,520	18,520	18,520
3	Debt Service - Interest	7,632	5,442	8,653	7,580	5,680	5,272	5,272	5,272
4	Debt Service - Principal	26,137	26,137	26,137	26,137	26,137	26,137	26,137	26,137
5	Protocol Services	-	477	451	872	872	1,184	1,184	1,184
6	Market Monitoring	600	1,650	1,750	2,100	2,300	2,300	2,300	2,300
7	<b>Total Revenue Requirement</b>	<b>134,938</b>	<b>132,294</b>	<b>140,118</b>	<b>139,174</b>	<b>154,619</b>	<b>150,480</b>	<b>147,513</b>	<b>140,356</b>
8	GWh	304,374	305,482	312,401	319,392	315,065	319,392	319,392	319,392
9	System Administration Fee	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4737	\$0.4488	\$0.4395	\$0.4171
10									
11	<b>Total Project Spending</b>	<b>34,465</b>	<b>42,871</b>	<b>25,318</b>	<b>38,150</b>	<b>49,642</b>	<b>46,300</b>	<b>46,300</b>	<b>46,300</b>
12									
13	<b>(\$ / MWh)</b>								
14	Operating Expense	0.2460	0.2527	0.2569	0.2614	0.3056	0.2895	0.2804	0.2584
15	Revenue Funded Capital	0.0649	0.0581	0.0501	0.0457	0.0608	0.0552	0.0552	0.0550
16	Debt Service - Interest	0.0236	0.0172	0.0258	0.0227	0.0174	0.0157	0.0157	0.0157
17	Debt Service - Principal	0.0808	0.0824	0.0778	0.0783	0.0801	0.0780	0.0779	0.0777
18	Protocol Services (Texas RE)	0.0000	0.0015	0.0013	0.0026	0.0027	0.0035	0.0035	0.0035
19	Market Monitoring	0.0019	0.0052	0.0052	0.0063	0.0070	0.0069	0.0069	0.0068
20	<b>Total Revenue Requirement</b>	<b>\$0.4171</b>	<b>\$0.4171</b>	<b>\$0.4171</b>	<b>\$0.4171</b>	<b>\$0.4737</b>	<b>\$0.4488</b>	<b>\$0.4395</b>	<b>\$0.4171</b>
21									
22	Notes:								
23	(1) Other revenue will supplement System Administration Fee to meet total funding requirement.								
24	(2) Revenues collected in excess of funding requirement are generally utilized to reduce debt funding with Board approval.								



# 2010 Budget – Revenue Requirement Increase Drivers

Driver Description	\$ Variance	Fee Impact \$.00 /per MWh	Comments
Increased Benefit Cost	1.8	0.0056	Actual medical claim costs driving benefit load requirement from budget of 30% in 2009 to 33.5% in 2010.
Decreased Merit	(0.3)	(0.0009)	Merit percentage decreased from 3% in 2009 to 2% in 2010.
Vacancy Savings Assumption Reduction	2.9	0.0091	2009 vacancy savings of 8 % of 739 full-time equivalents reduced to 2.5%.
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.
<b>Subtotal - Labor &amp; Benefits Increases</b>	<b>8.8</b>	<b>0.0274</b>	
Decreased Zonal Project Spending	(4.3)	(0.0136)	Project spending decreased from \$17.8 million in 2009 to \$6.9 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 Equipment	3.0	0.0094	Project spending budget of \$7.5 million on Data Center equipment refresh in 2010.
Increased Revenue	(1.2)	(0.0037)	Anticipate increase in fee revenue from REC program, WAN, and Interconnection Projects.
Decreased Allocations	1.5	0.0048	Support services provided to the Nodal Program anticipated to decrease in 2010 as project nears completion.
Other Operating Expenses	(0.2)	(0.0007)	Reduced outside services with increase in market monitoring, sunset review and HW/SW maintenance.
<b>Subtotal - Labor &amp; Other Cost Increases</b>	<b>12.1</b>	<b>0.0380</b>	
Decreased Internal Labor Charged to Projects	0.3	0.0010	\$ .9 million more internal labor supporting Nodal Program activity and \$1.2 million less internal labor engaged in Zonal projects.
Reduced Interest Expense	(2.3)	(0.0072)	Overall portfolio interest rate down to ~5%.
<b>Subtotal - Cost Reductions</b>	<b>(2.0)</b>	<b>(0.0063)</b>	
<b>Total - Net Cost Increase</b>	<b>10.1</b>	<b>0.0317</b>	

# 2010 Budget – Assumptions 2011 thru 2015

## **Staffing**

- Position Growth
  - 2011 – increased authorized staffing by 6 positions – from 739 to 745
  - 2012 – 2014 increased authorized staffing by 5 positions – from 745 to 750
  - 2015 increased authorized staffing by 1 position
- Salary Adjustment
  - 2% merit increase
  - 1% promotion and other market adjustments
  - Vacancy savings 2.5%

## **Contra Labor**

- Capital Projects
  - Based on project portfolio forecast and historical effort trend

## **Employee Expenses**

- Assumed \$2,200 average per headcount

## **Allocations**

- 2011 - 2015 Nodal allocation eliminated (go live assumed in 2010)
- 2011 – 2015 assumed Texas Re spin-off

# 2010 Budget – Assumptions 2011 thru 2015

## **Outside Services**

- 1.2% growth based on CPI
- Exceptions
  - Sunset Review completed in 2010
  - Independent Market Monitoring per existing contract

## **HW/SW Maintenance & Support**

- Estimated by IT based on application/hardware requirements
- Assumed Nodal renewals in Base post go live

## **Other Categories**

- 1.2% growth based on CPI

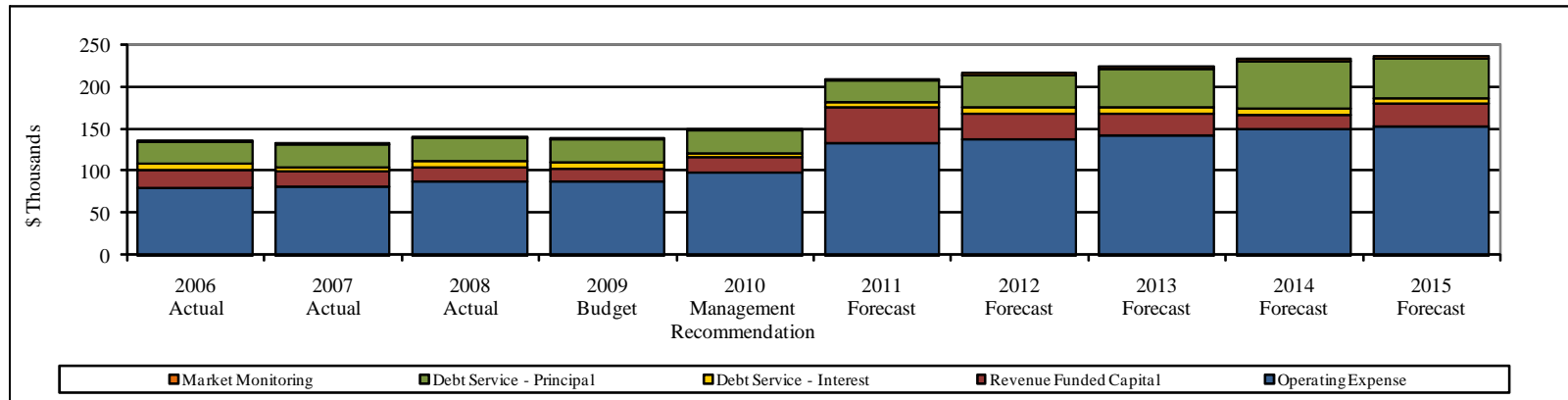
## **Interest Expense**

- Updated based on estimated spend and debt requirements

## **Project Spending**

- Updated with the 5 year forecast submitted by CART to PMO office

# 2010 Budget & Financial Forecast



Line	(\$ Thousands)	2006 Actual	2007 Actual	2008 Actual	2009 Budget	2010 Management Recommendation	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
1	Operating Expense	79,580	80,153	86,312	87,225	97,067	131,822	136,914	141,438	149,212	152,383
2	Revenue Funded Capital	20,989	18,435	16,815	15,260	18,520	43,304	30,188	25,800	17,120	26,970
3	Debt Service - Interest	7,632	5,442	8,653	7,580	5,272	6,309	7,729	7,560	6,466	5,539
4	Debt Service - Principal	26,137	26,137	26,137	26,137	26,137	24,700	38,600	45,200	56,800	47,400
5	Protocol Services	-	477	451	872	1,184	1,198	1,212	1,227	1,242	1,257
6	Market Monitoring	600	1,650	1,750	2,100	2,300	2,700	2,800	2,800	2,800	2,800
7	<b>Total Revenue Requirement</b>	<b>134,938</b>	<b>132,294</b>	<b>140,118</b>	<b>139,174</b>	<b>150,480</b>	<b>210,033</b>	<b>217,443</b>	<b>224,025</b>	<b>233,640</b>	<b>236,349</b>
8	GWh	304,374	305,482	312,401	319,392	319,392	319,392	319,392	319,392	319,392	319,392
9	System Administration Fee	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4488	\$0.6368	\$0.6593	\$0.6796	\$0.7090	\$0.7171
10											
11	Total Project Spending	34,465	42871.0	25,318	38,150	46,300	108,260	75,470	64,500	42,800	67,425
12											
13	<b>(\$ / MWh)</b>										
14	Operating Expense	0.2460	0.2527	0.2569	0.2614	0.2895	0.3997	0.4152	0.4291	0.4528	0.4623
15	Revenue Funded Capital	0.0649	0.0581	0.0501	0.0457	0.0552	0.1313	0.0915	0.0783	0.0520	0.0818
16	Debt Service - Interest	0.0236	0.0172	0.0258	0.0227	0.0157	0.0191	0.0234	0.0229	0.0196	0.0168
17	Debt Service - Principal	0.0808	0.0824	0.0778	0.0783	0.0780	0.0749	0.1170	0.1371	0.1724	0.1438
18	Protocol Services (Texas RE)	0.0000	0.0015	0.0013	0.0026	0.0035	0.0036	0.0037	0.0037	0.0038	0.0038
19	Market Monitoring	0.0019	0.0052	0.0052	0.0063	0.0069	0.0082	0.0085	0.0085	0.0085	0.0085
20	<b>Total Revenue Requirement</b>	<b>\$0.4171</b>	<b>\$0.4171</b>	<b>\$0.4171</b>	<b>\$0.4171</b>	<b>\$0.4488</b>	<b>\$0.6368</b>	<b>\$0.6593</b>	<b>\$0.6796</b>	<b>\$0.7090</b>	<b>\$0.7171</b>

Notes:

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- (2) Revenues collected in excess of funding requirement are generally utilized to reduce debt funding with Board approval.



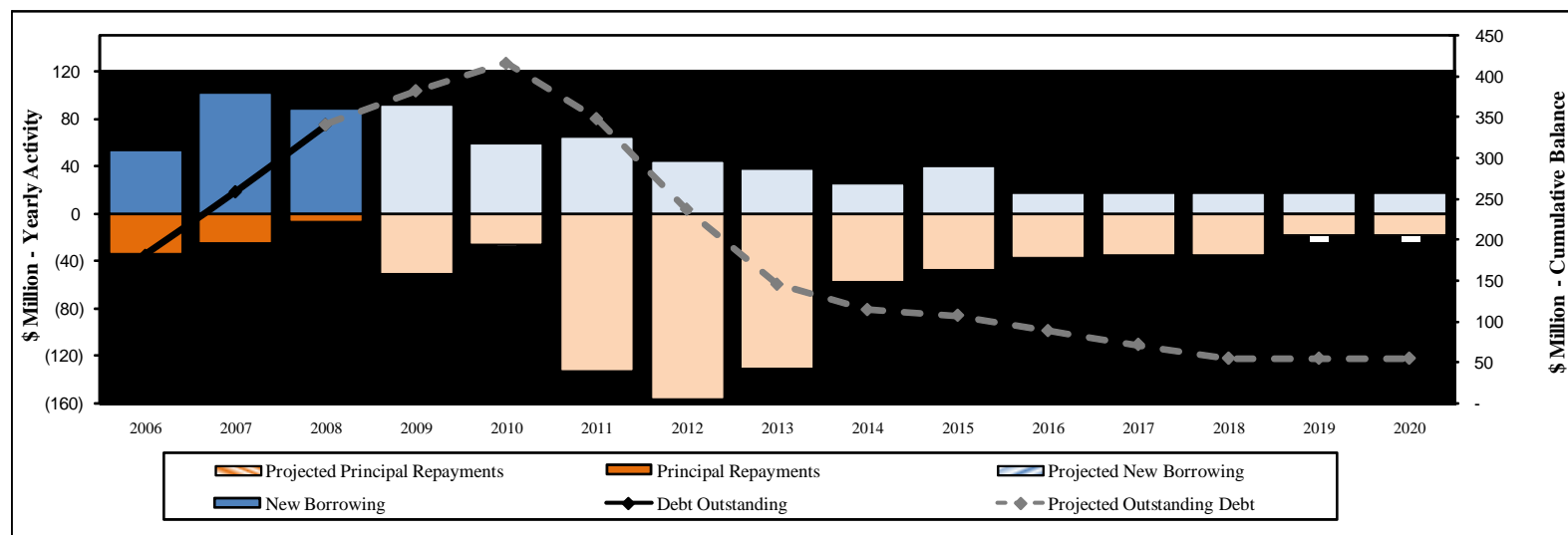
# 2010 Budget & Financial Forecast

Line	(\$ Thousands)	2006 Actual	2007 Actual	2008 Actual	2009 Budget	2010 Preliminary (July Board Meeting)		Variance		Mgmt Adjustments	2010 Management Recommendation	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
						\$	%	\$	%							
1	ERCOT O&M Expense															
2	Labor & Benefits	\$ 59,241	\$ 68,666	\$ 72,707	\$ 81,620	\$ 94,865	\$ 13,245	16.2%		(4,493)	90,372	93,838	97,302	100,221	103,228	106,467
3	Contra Labor - Base Projects	(4,580)	(2,841)	(2,977)	(4,071)	(2,929)	1,142	-28.1%		99	(2,830)	(10,300)	(9,749)	(9,249)	(5,628)	(6,529)
4	Contra Labor - Nodal Program	(5,260)	(12,666)	(14,578)	(22,593)	(25,734)	(3,142)	13.9%		2,209	(23,525)	-	-	-	-	-
5	Subtotal - Labor & Benefits	49,402	53,159	55,153	54,956	66,202	11,245	20.5%		(2,186)	64,016	83,539	87,554	90,972	97,600	99,938
6	Support Allocations	(1,695)	(4,939)	(4,261)	(4,728)	(2,747)	1,981	-41.9%		(353)	(3,100)	-	-	-	-	-
7	Incremental Resource Allocations	(381)	(1,593)	(1,913)	(1,297)	(1,066)	230	-17.8%		-	(1,066)	-	-	-	-	-
8	Facilities Allocations	(120)	(2,818)	(2,651)	(1,373)	(1,466)	(93)	6.8%		-	(1,466)	-	-	-	-	-
9	Info Technology Svcs Allocations	-	(13)	(188)	-	(246)	(246)	NA		-	(246)	-	-	-	-	-
10	Subtotal - Allocations	(2,196)	(9,350)	(8,825)	(7,398)	(5,525)	1,873	-25.3%		(353)	(5,878)	-	-	-	-	-
11	Equipment & Tools	1,093	1,241	1,146	1,156	1,227	71	6.1%		-	1,227	1,242	1,257	1,272	1,287	1,302
12	Special Reviews				-	750	750	NA			750	-	-	-	-	-
13	Outside Services	10,433	12,354	14,432	11,984	10,365	(1,619)	-13.5%		(236)	10,129	10,250	10,373	10,498	10,624	10,751
14	Utility, Maintenance, & Facilities	6,940	6,735	8,016	7,484	8,079	595	8.0%		160	8,239	8,338	8,438	8,539	8,642	8,745
15	Hardware & Software License & Maint.	7,740	9,629	9,797	9,628	9,385	(243)	-2.5%		(285)	9,101	17,441	17,957	18,495	19,058	19,287
16	Insurance	1,677	1,692	1,671	2,125	1,877	(249)	-11.7%		-	1,877	1,899	1,922	1,945	1,969	1,992
17	Employee Expenses	1,260	1,357	1,868	1,771	1,618	(154)	-8.7%		12	1,630	1,639	1,650	1,650	1,650	1,652
18	Property Taxes	998	903	1,533	1,100	1,478	378	34.3%		(152)	1,326	2,673	2,807	2,948	3,095	3,250
19	NERC Dues	971	962	1,674	2,141	2,141	-			321	2,462	2,585	2,714	2,850	2,992	3,142
20	Other Expenses	1,264	1,471	(151)	2,277	2,178	(99)	-4.3%		11	2,189	2,215	2,242	2,269	2,296	2,323
21	Subtotal - O&M Expenses	79,580	80,153	86,312	87,225	99,773	12,549	14.4%		(2,706)	97,067	131,822	136,914	141,438	149,212	152,383
22	Debt Service - Interest	7,632	5,442	8,653	7,580	5,680	(1,900)	-25.1%		(408)	5,272	6,309	7,729	7,560	6,466	5,539
23	Debt Service - Principal	26,137	26,137	26,137	26,137	26,137	-			-	26,137	24,700	38,600	45,200	56,800	47,400
24	Revenue Funded Base Capital	20,989	18,435	16,275	7,100	2,711	(4,389)	-61.8%		49	2,760	23,830	27,788	25,800	17,120	26,970
25	Revenue Funded Data Center	-	-	-	-	4,400	4,400	NA		(1,400)	3,000	19,074	-	-	-	-
26	Revenue Funded Facility (Met Center Replacement)	-	-	539	8,160	12,746	4,586	56.2%		14	12,760	400	2,400	-	-	-
27	Protocol Services (Texas RE)	-	477	451	872	872	-			312	1,184	1,198	1,212	1,227	1,242	1,257
28	Market Monitoring	600	1,650	1,750	2,100	2,300	200	9.5%		-	2,300	2,700	2,800	2,800	2,800	2,800
29	Total Revenue Requirement	134,938	132,294	140,118	139,174	154,619	15,446	11.1%		(4,139)	150,480	210,033	217,443	224,025	233,640	236,349
30	Less: Other Revenue	5,795	3,737	8,268	5,855	5,304	(551)	-9.4%		1,740	7,044	6,562	6,775	6,893	7,117	7,247
31	Less: Interest Income	2,200	1,138	1,554	100	81	(19)	-19.0%		-	81	81	81	81	81	81
32	Revenue Rqmt from System Admin Fee	126,943	127,419	130,296	133,218	149,234	16,016	12.0%		(5,879)	143,355	203,390	210,587	217,051	226,443	229,021
33	GWh	304,374	305,482	312,401	319,392	315,065	(4,327)	-1.4%		319,392	319,392	319,392	319,392	319,392	319,392	319,392
34	% GWh Growth		0.4%	2.3%	2.2%	-1.4%	-3.6%	-160.5%		-1.4%	-1.4%	1.4%				
35	ERCOT System Administration Fee	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4737	0.0566	13.6%		\$ (0.0184)	\$ 0.4488	\$ 0.6368	\$ 0.6593	\$ 0.6796	\$ 0.7090	\$ 0.7171

# 2010 Budget & Financial Forecast

Line	(\$ Thousands)	2006 Actual	2007 Actual	2008 Actual	2009 Budget	Variance		Mgmt Adjustments	2010 Management Recommendation	2011 Forecast	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast
						2010 Preliminary (July Board Meeting)	\$ %							
36	Zonal Capital Spending - Revenue Funded	20,989	18,435	16,275	7,100	2,711	(4,389) -61.8%	49	2,760	23,830	27,788	25,800	17,120	26,970
37	Zonal Capital Spending - % Revenue Funded	61%	43%	68%	40%	40%	- NA	-	40%	40%	40%	40%	40%	40%
38	Zonal Capital Spending - Debt Funded	13,476	24,436	7,694	10,650	4,066	(6,584) -61.8%	74	4,140	35,745	41,682	38,700	25,680	40,455
39	Zonal Capital Spending - % Debt Funded	39%	57%	32%	60%	60%	- NA	-	60%	60%	60%	60%	60%	60%
40	Subtotal - Zonal Capital Project Spending	34,465	42,871	23,970	17,750	6,776	(10,974) -61.8%	124	6,900	59,575	69,470	64,500	42,800	67,425
41	Data Center Equipment Spending - Revenue Funded	-	-	-	-	4,400	4,400 NA	(1,400)	3,000	19,074	-	-	-	-
42	Data Center Equipment Spending - % Revenue Funded	40%	40%	40%	40%	40%	- NA	-	40%	40%	40%	40%	40%	40%
43	Data Center Equipment Spending - Debt Funded	-	-	-	-	6,600	6,600 NA	(2,100)	4,500	28,611	-	-	-	-
44	Data Center Equipment Spending - % Debt Funded	60%	60%	60%	60%	60%	- NA	-	60%	60%	60%	60%	60%	60%
45	Subtotal - Data Center Equipment Spending	-	-	-	-	11,000	11,000 NA	(3,500)	7,500	47,685	-	-	-	-
46	Facility Spending - Revenue Funded	-	-	539	8,160	12,746	4,586 56.2%	14	12,760	400	2,400	-	-	-
47	Facility Spending - % Revenue Funded	-	-	40%	40%	40%	- NA	-	40%	40%	40%	40%	40%	40%
48	Facility Spending - Debt Funded	-	-	809	12,240	19,119	6,879 56.2%	21	19,140	600	3,600	-	-	-
49	Facility Spending - % Debt Funded	-	-	60%	60%	60%	- NA	-	60%	60%	60%	60%	60%	60%
50	Total Facility (Met Center) Spending	-	-	1,348	20,400	31,866	11,466 56.2%	34	31,900	1,000	6,000	-	-	-
51	Total Base Project/Data Center/Facility Capital Spending	34,465	42,871	25,318	38,150	49,642	11,492 30.1%	(3,342)	46,300	108,260	75,470	64,500	42,800	67,425
52	Total ERCOT Spending Authorization	148,414	156,730	148,621	162,064	184,404	22,341 13.8%	(6,144)	178,260	274,989	262,725	262,725	259,320	276,804

# 2010 Budget – Debt Forecast



Line		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1	Debt Outstanding	181.1	258.9	340.9	382.6	416.2	348.4	237.4	145.4	114.3	107.3
2	New Borrowing	54.4	102.3	89.0	91.9	59.8	65.0	45.3	38.7	25.7	40.4
3	Principal Repayment	(33.6)	(24.5)	(7.0)	(50.2)	(26.2)	(132.8)	(156.3)	(130.7)	(56.8)	(47.4)
4	Beginning Balance	160.3	181.1	258.9	340.9	382.6	416.2	348.4	237.4	145.4	114.3
5	<b><u>New Borrowing</u></b>										
6	Project Expenditures - Base	-	-		37.7	46.3	108.3	75.5	64.5	42.8	67.4
7	Debt Funding %				0.6	0.6	0.6	0.6	0.6	0.6	0.6
8	New Borrowing - Base	14.9	5.7	15.1	22.6	27.8	65.0	45.3	38.7	25.7	40.4
9	New Borrowing - Nodal	39.5	96.6	73.9	69.3	32.0	-	-	-	-	-
10	Total - New Borrowing	54.4	102.3	89.0	91.9	59.8	65.0	45.3	38.7	25.7	40.4
11	<b><u>Principal Repayment</u></b>										
12	Debt repayments	26.1	26.2	13.7	26.2	26.2	132.8	156.3	130.7	56.8	47.4
13	Cash flow impacts	7.5	(1.7)	(6.7)	24.0	-	-	-	-	-	-
14	Total Repayments	33.6	24.5	7.0	50.2	26.2	132.8	156.3	130.7	56.8	47.4
15	<b><u>Ending Balance</u></b>	<b>181.1</b>	<b>258.9</b>	<b>340.9</b>	<b>382.6</b>	<b>416.2</b>	<b>348.4</b>	<b>237.4</b>	<b>145.4</b>	<b>114.3</b>	<b>107.3</b>
16	<b><u>Change in debt outstanding</u></b>	20.8	77.8	82.0	41.7	33.6	(67.8)	(111.0)	(92.0)	(31.1)	(7.0)
17	Total debt repayments for Base	26.1	26.2	13.7	26.2	26.2	132.8	156.3	130.7	56.8	47.4
18	Less: repayments from Nodal Surcharge					0	108.1	117.7	85.5	0	
19	Net repayments from System Admin	26.1	26.2	13.7	26.2	26.2	24.7	38.6	45.2	56.8	47.4

# 2010 Supporting Schedules



# 2010 Budget

## Staffing - Headcount

Line	Office & Department	FY 2009 Budget	2010 Preliminary (July Board Meeting)	Mgmt. Adjustments	2010 Management Recommendation	Increase/(Decrease) 2010 Recommendation vs. 2009 Budget
1	<b>ERCOT</b>					
2	Corporate Administration	129	137	(11)	126	(3)
3	Information Technology	231	236	(4)	232	1
4	Program Operations	158	164	(2)	162	4
5	System Operations & Planning	198	192	(5)	187	(11)
6	Compliance	23	32	(1)	31	8
7	Chief Technology Office	-	1	-	1	1
8	<b>Total - ERCOT</b>	<b>739</b>	<b>762</b>	<b>(23)</b>	<b>739</b>	<b>-</b>

Note:  
Schedule excludes headcount related to the Texas Regional Entity.

# 2010 Budget

## FTE Equivalency

Line	Funding					Full Time Equivalency				
	2006 Actual	2007 Actual	2008 Actual	2009 Budget	2010 Management Recommendation	2006 Actual	2007 Actual	2008 Actual	2009 Budget	2010 Management Recommendation
1	<b>ERCOT</b>									
2	49,402,038	53,158,790	55,152,796	54,956,495	64,013,224	463	476	453	518	521
3	4,579,821	2,840,781	2,976,583	4,070,703	2,829,924	39	24	25	34	23
4	5,259,598	12,666,156	14,577,694	22,592,724	23,543,439	44	107	191	187	195
5	59,241,457	68,665,726	72,707,073	81,619,922	90,386,587	546	607	669	739	739

Notes:

- (1) The former Compliance department is excluded from 2006; the Texas RE is excluded from 2007 - 2010.
- (2) The full-time equivalency columns are based on a calculation which may result in a slight variance due to rounding.
- (3) 2009 - 2010 Equivalency calculation has been modified to utilize 1,860 hours per year instead of 1,820 used in prior years. This change was necessary to ensure consistency with the Nodal Program budget assumptions for a verage work hours.

**See Supplemental - Outside Services  
For a complete description of services requested**

# 2010 Budget

## Employee Expenses

**2009 Budget  
vs.  
2010  
Management  
Recommendation**

Line		2010					Management Recommendation	
		FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Budget	Management Recommendation	\$ Variance	% Variance
1	Corporate Administration	\$ 242,363	\$ 260,027	\$ 338,250	\$ 364,197	\$ 289,535	\$ (74,662)	-22.1%
2	Information Technology	397,326	381,189	646,463	506,000	464,000	(42,000)	-6.5%
3	Operations	620,216	714,420	878,682	901,127	874,477	(26,650)	-3.0%
4	Chief Technology Office	-	1,215	4,320	-	2,000	2,000	46.3%
5	<b>Total - ERCOT</b>	<b>\$ 1,259,905</b>	<b>\$ 1,356,851</b>	<b>\$ 1,867,715</b>	<b>\$ 1,771,324</b>	<b>\$ 1,630,012</b>	<b>\$ (141,312)</b>	<b>-7.6%</b>
6								
7	FTE's	546	607	669	739	739	-	
8								
9	Average per FTE	2,308	2,235	2,792	2,397	2,206	(191)	

Charges within Employee Expenses relate to the following:

Business - Meals	Business - Mileage Reimbursement
Business - Travel - Lodging	Business - Travel - Other
Business Registration Fees	Business-Travel - Airfare
Training - Meals	Training Mileage Reimbursement
Training Registration Fees	Training -Travel-Airfare
Training -Travel-Lodging	Training -Travel-Other
Professional Dues	College Education Reimbursement
Remote System Access	Wireless PC Card
Cellular Phone	

## Commitment to Cost Control – 2009 Budget

### ***Achieving a \$0.4171 System Administration Fee for 2009 was accomplished by taking the following steps:***

- Relative to previous 2009 approved budget, reduced staffing projections for base operations from 753 to 739
- Reduced budget for employee benefit cost estimates based on recent years' spending
- Reduced budget for employee training, development and reimbursable business expenses based on recent years' spending
- Reduced utilization of outside services
- Postponing outside services required for Nodal Program bug fixes until post-implementation in 2011
- Incorporating Nodal labor “contra” for the continuation of ERCOT staff effort on the Nodal Program
- Incorporating overhead allocations to the Nodal Program
- Removed hardware and software support and maintenance costs relating to Nodal from the base operations budget

# Commitment to Cost Control - Ongoing Initiatives

## Automation

- Implemented a procurement card program
- Implemented a web-based expense reimbursement program
- Implemented video conference capability between ERCOT's Austin and Taylor facilities
- Implemented web-based learning management system for on-line training of staff and contractor/consultants
- Instituted periodic asset inventories based on barcodes to improve speed, accuracy, and efficiency
- Automated performance review processes
- Increased usage of electronic invoices
- Converted to electronic employee communications rather than printed newsletters and other communication

## Competition

- Competitively bid contracts where possible

## Benchmarking

- Use Gartner Group and other experts to benchmark and otherwise ensure competitive rates for hardware and software support and maintenance costs
- Implemented a contingent workforce management system
- Employ services of tax professionals to ensure lowest possible property tax liability
- Maintain consolidated banking relationships to control bank fees
- Ensure market-based compensation

## Audit/Controls

- Instituted continuous fraud audit program relating to employee expense reimbursement requests
- Adopted standards for personal computer features and functionality

## Process Improvement/Efficiencies

- Seek change in tax status
- Hired contractors/consultants to be employees were appropriate
- Shared increased cost of employee health insurance benefits with employees
- Instituted lump-sum merit award option to help control salary expense increases
- Prepare ERCOT's annual report with in-house resources
- Streamlined and standardized interoffice mail delivery
- Prepare tax returns in-house
- Seek technology rebates and in-kind exchange credits

# 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	<b>Finance and Audit Committee Meeting</b> Discuss and review the 2010 Budget/PPL Status Update
Tuesday, Jun 16	<b>Finance and Audit Committee Meeting</b> Discuss and review the 2010 Budget/PPL Status Update  <b>Board of Directors Meeting</b> 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
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	<b>Finance and Audit Committee</b> 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	<b>Finance and Audit Committee Special Meeting and Public Input Meeting</b> 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
Wednesday, Aug. 19	Present and discuss with PUCT Staff the 2010 budget schedule and assumptions
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	<b>Board of Directors Meeting</b> 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

# 2010 Project Priority List



## 2010 Project Priority List – Introductory Comments

- **Nodal delivery is the focus of the organization in 2010**
- **Zonal projects are limited to:**
  - Critical projects
  - Completion of projects already executing
  - Records management project
- **On May 1, 2010, production and testing environments will be locked down to reduce risk during the months preceding Nodal implementation**
- **Resource constraints between Nodal and other efforts must be limited as much as possible**
- **One project added by TAC on 8/6/09**
  - PRR805 – Add AMS Meter Flag to Database Query Function on MIS
  - \$50k Retail Operations project

## 2010 Project Priority List - Funding Review

- 2010 Project Budgets and Project Counts by Program Area**

Program Area	Budget Request	Projects Started in 2008/2009	New 2010 Projects
CO	\$ 1,150,000	3	2
IO	1,450,000	0	3
MO	1,500,000	1	0
RO	1,900,000	3	1
SO	150,000	2	0
<b>Subtotal</b>	<b>\$ 6,150,000</b>	<b>9</b>	<b>6</b>
Met Center (CO)	31,900,000	1	0
Data Center Equipment (IO)	7,500,000	0	6
Minor Cap (CO)	750,000	0	1
<b>Total</b>	<b>\$ 46,300,000</b>	<b>10</b>	<b>13</b>

## 2010 Project Priority List - Historical Data

Program Area	2010 Budget Request	<u>Previous Year Forecast (F) / Actuals (A) (in thousands)</u>			
		2009 F	2008 A	2007 A	2006 A
CO	\$ 1,150	\$ 1,721	\$ 4,092	\$ 5,409	\$ 3,612
IO	1,450	2,809	4,609	6,701	7,261
MO	1,500	778	1,194	1,008	2,281
RO	1,900	3,992	2,622	3,257	5,648
SO	150	987	922	2,855	5,074
<b>Subtotal</b>	<b>\$ 6,150</b>	<b>\$ 10,287</b>	<b>\$ 13,439</b>	<b>\$ 19,230</b>	<b>\$ 23,876</b>
Met Center	31,900	20,000	1,113	0	0
DC Equipment	7,500	6,152	0	0	0
Minor Cap	750	893	1,334	1,895	1,308
Nodal Interdependent	0	0	6,715	21,745	9,281
<b>Total</b>	<b>\$ 46,300</b>	<b>\$ 37,332</b>	<b>\$ 22,601</b>	<b>\$ 42,870</b>	<b>\$ 34,465</b>

# 2010 Project Priority List / Funding Level Review

- CO Project Highlights - 2010**

<b>Project Type</b>	<b>Budget</b>	<b>Count</b>
Completion of Projects Started in Previous Yrs	\$ 50,000	3
Enterprise Records Mgmt – Phase 2	800,000	1
Physical Security	300,000	1
<b>Total Funding Request</b>	<b>\$ 1,150,000</b>	<b>5</b>

<b>Total Unfunded Projects</b>	<b>\$ 6,200,000</b>	<b>24</b>
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## 2010 Project Priority List / Funding Level Review

- IO Project Highlights - 2010**

<b>Project Type</b>	<b>Budget</b>	<b>Count</b>
Add Storage Capacity	\$ 900,000	1
Other Critical Projects	550,000	2
<b>Total Funding Request</b>	<b>\$ 1,450,000</b>	<b>3</b>

<b>Total Unfunded Projects</b>	<b>\$ 5,250,000</b>	<b>7</b>
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## 2010 Project Priority List / Funding Level Review

- MO Project Highlights - 2010**

<b>Project Type</b>	<b>Budget</b>	<b>Count</b>
Information Lifecycle Management	\$ 1,500,000	1
<b>Total Funding Request</b>	<b>\$ 1,500,000</b>	<b>1</b>

<b>Total Unfunded Projects</b>	<b>\$ 2,850,000</b>	<b>7</b>
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## 2010 Project Priority List / Funding Level Review

- **RO Project Highlights - 2010**

<b>Project Type</b>	<b>Budget</b>	<b>Count</b>
Complete PUCT Projects in Execution: - Advanced Metering Interim Solution – Closing activities only - POLR Rule and Expedited Switch	\$ 550,000	2
Data Research & Reporting	1,300,000	1
PRR805 – Add AMS Meter Flag	50,000	1
<b>Total Funding Request</b>	<b>\$ 1,900,000</b>	<b>4</b>

<b>Total Unfunded Projects</b>	<b>\$ 2,500,000</b>	<b>5</b>
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# 2010 Project Priority List / Funding Level Review

- SO Project Highlights - 2010**

<b>Project Type</b>	<b>Budget</b>	<b>Count</b>
Completion of Projects Started in Previous Yrs	\$ 150,000	2
<b>Total Funding Request</b>	<b>\$ 150,000</b>	<b>2</b>

<b>Total Unfunded Projects</b>	<b>\$ 0</b>	<b>0</b>
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# 2010 Project Priority List / Funding Level Review

- Other Project Highlights - 2010**

<b>Project Type</b>	<b>Budget</b>	<b>Count</b>
Met Center Disposition	\$31,900,000	1
Data Center Equipment	7,500,000	6
Minor Cap – Critical	750,000	1
<b>Total Funding Request</b>	<b>\$40,150,000</b>	<b>8</b>

<b>Total Unfunded Projects</b>	<b>\$ 1,950,000</b>	<b>2</b>
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## 2010 Project Priority List / Unfunded Projects - Summary

<b>CART</b>	<b>Budget</b>	<b>Count</b>
CO – Corporate Operations	\$ 6,200,000	24
IO – IT Operations	5,250,000	7
MO – Market Operations	2,850,000	7
RO – Retail Operations	2,500,000	5
SO – System Operations	0	0
<b>Total Unfunded Projects</b>	<b>\$ 16,800,000</b>	<b>43</b>
Met Center	1,200,000	1
Data Center Equipment	0	0
Minor Cap	750,000	1
<b>Total Unfunded Projects</b>	<b>\$ 18,750,000</b>	<b>45</b>

# Outside Services Detail

**ERCOT Fiscal Year 2010 Budget**  
**Outside Services Expense Detail**

Office	Description of Service(s)	Type of Service	2010 Management Recommendation	Why are Services Necessary	Why Can't Staff Perform Tasks	Consequence(s) of Not Procuring Services
COO	Potomac Economics - Independent Market Monitor (IMM) Fees - contract in place	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	2,300,000	The Independent Market Monitor is responsible for monitoring the wholesale electricity market in the ERCOT power region, including all markets for energy, ancillary services, and congestion revenue rights, and monitoring all aspects of ERCOT's operations that effect supply, demand, and the efficient functioning of the competitive wholesale electricity market.	Independent third party monitoring is required for compliance.	ERCOT would be out of compliance.
COO	Zonal backfill for FTEs working on Nodal Program - 7 contractors	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	1,490,624	ERCOT FTEs are focused on nodal development and testing. Contract staff is trained to operate zonal settlement and billing through termination of the zonal market. Once the zonal market activities cease (2009 - 2010), the contract staff will roll off.	Not possible or feasible. 19 additional FTEs would need to be hired for zonal operations and then laid off/fired when zonal market ceases. Additionally, we couldn't ramp up to the number of FTEs we need fast enough.	No resources to operate the zonal market.
CO	Performance of required Statement on Auditing Standard SAS70 Type II External Audit	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	889,332	These audits are required by ERCOT By-Laws and Sarbanes-Oxley requirements that are in place for our Market Participants. PwC is performing the audit in 2007 and PwC is ERCOT's external auditor. Protocol Section 1.4 Operational Audit, requires an annual operational or "settlements" audit, otherwise commonly known as the SAS70 Type II Audit. Note: The SAS70 budget for 2009 is escalated by an additional 5 percent (plus an expected inflation adjustment of 5 percent) above the 2008 budget to allow for the uncertainties caused by the transition from Zonal to Nodal. The transition from Zonal to Nodal during the 2009 SAS70 Audit testing period of October 1, 2008, through September 30, 2009, will create an undetermined amount of additional work on the part of the external audit team.	SAS70 Audits are required to be performed by an external independent certified public accounting firm.	ERCOT could not express an independent opinion on the adequacy and effectiveness of the internal control environment. ERCOT would not be in compliance with Protocol Section 1.4 Operational Audit. This Protocol requires an annual operational or "settlement"
COO	Outsource postcard printing and mailing for switch and POLR processing services.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	870,000	This activity is required under the ERCOT Protocols and the Public Utility Regulatory Act as stated in the Customer Protection Rules of the Public Utility Commission of Texas.	This function would require ERCOT to operate a mass volume printing and mailing service for the creation and distribution of the daily notices. To date, the outsourced solution has been a more viable option from a cost perspective.	Non-compliance of protocols and state utility regulations.
CO	Expenses associated with the ongoing support and administration of the Board of Directors <ul style="list-style-type: none"> <li>• Independent member compensation</li> <li>• Member replacement</li> <li>• Business expense reimbursement</li> <li>• Special meetings and retreats as necessary</li> </ul>	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	514,100	ERCOT is governed by a board of directors made up of independent members, consumers and representatives from each of ERCOT's electric market segments.	Governance structure requires board oversight and inclusion of independent members.	Failure to comply with governance requirements.
CO	Outside Legal Services regarding litigation or areas requiring specialized legal knowledge and skills not possessed by in-house legal staff.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	500,000	The services are necessary because with a Legal Dept. as small as ERCOT's, it is impossible to have attorneys who possess all the knowledge and skills required for all legal issues confronting the company (e.g. Employee Retirement Income Security Act (ERISA), bankruptcy, antitrust, litigation, etc.).	The services are necessary because with a Legal Dept. as small as ERCOT's, it is impossible to have attorneys who possess all the knowledge and skills required for all legal issues confronting the company.	The legal services could not be provided and the company could decide to take the risk of not complying with the law and/or governmental rules and regulations.
IO	Contractors to backfill for staff working on Nodal	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	470,000	This is necessary for EMMS Production Support to support both Zonal & Nodal systems concurrently.	Existing staff is inadequate to support 2 complete production systems (Zonal & Nodal).	Nodal involvement will be reduced during the testing and market trials phases.

**ERCOT Fiscal Year 2010 Budget**  
**Outside Services Expense Detail**

Office	Description of Service(s)	Type of Service	2010 Management Recommendation	Why are Services Necessary	Why Can't Staff Perform Tasks	Consequence(s) of Not Procuring Services
CO	Contractor expense to backfill for staff working on Nodal	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	453,600	Nodal Backfill	Will be working on the Nodal project	Not providing department hours needed for working on the Nodal project.
COO	Contractors to provide backfill support to network modeling team (Allegis Consulting)	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	410,568	This is needed to support the Zonal system, transition to Nodal, and support cross training of ERCOT FTEs necessary to transition to Nodal.	There are not enough ERCOT FTE's to perform both Zonal and Nodal modeling functions at the level required. Additionally the modeling systems are completely different in terms of technology and process.	The Zonal and Nodal modeling systems will both suffer in terms of quality because of the lack of support. Additionally the implementation of NMMS would be delayed which could cause Nodal Go-Live to be delayed.
IO	Contractors to backfill for staff working on Nodal	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	400,660	This service will ensure that all zonal production support is covered while ERCOT staff work on the nodal systems.	With the deployment of nodal systems, ERCOT staff does not have enough bandwidth to cover zonal activities.	Nodal work will not get done or production support problems will occur.
IO	Lawson Hosting	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	316,255	ERCOT is in the second year of a five year contract to provide infrastructure, patching, and management services for Lawson.	Datacenter capacity previously used to host Lawson has been reallocated to other ERCOT functions and no additional capacity exists.	ERCOT will not have an ERP system which performs accounting, procurement, payroll, and other services.
CO	Immigration Assistance	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	237,400	These fees cover the specialized legal expertise in the immigration area as well as the filing fees associated with the hiring of non-US citizens. These fees are increasing at a rapid rate and are required to recruit for power engineers and certain Information Technology functions.	The legal expertise in immigration is a very specialized area and ERCOT does not require a full-time position. Approximate 1/2 of the expense in this area is for legal services and the rest covers the actual fees.	If we do not pay for the immigration process for our new employees, we would not be able to staff many of the functions or meet the required needs of the nodal project. Ongoing expenses for current employees are approximately 70%.
COO	Dynamic Analysis study of the Low Voltage Ride-Through (LVRT) of Wind Generation and Validation of Dynamic Models	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	200,000	Requested by Technical Advisory Committee (TAC) and Board of Directors.	Outside consultant brings independence and expertise that is not available within current ERCOT resources.	Could impact system reliability and could result in loss of load, blackouts, and cascading outages. Wind generation is becoming a bigger component of generation pattern within ERCOT. Inability to provide this capability may result in loss of too much generation resulting in load loss and possible system collapse.
CO	Financial Audit - Price Waterhouse Cooper	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	193,000	Mandatory to be compliant with Public Utility Commission of Texas (PUCT) rules.	Must be performed by External auditing firm.	Inability to get credit, obtain affordable insurance, or establish reasonable vendor relations.
COO	Security assessment of a sample of ERCOT's applications for vulnerabilities and exploits. The assessment will identify exploitable Application vulnerabilities that exist in the ERCOT Information Technology systems. Creation of a remediation action plan for all identified security issues.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	160,600	In order to show due diligence and non partiality, it is best practice to have these types of assessments performed by an external party. In addition, ERCOT cannot be compliant for North American Electric Reliability Corporation (NERC) CIP 7 R8 which states "The Responsible Entity shall perform a cyber vulnerability assessment of all Cyber Assets within the Electronic Security Perimeter at least annually."	A significant contribution of this type of service is the peer review concept where the use of outsiders confirms or corrects the staff view of the security model.	ERCOT's security posture may be compromised because of changing application vulnerabilities, exploits or threats.
COO	Security assessment of ERCOT's Electronic Security Perimeter around Critical Cyber Assets in accordance with requirement R4 of North American Electric Reliability Corporation (NERC) CIP 005-01. The testing will identify exploitable access point vulnerable	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	153,000	In order to show due diligence and non partiality, it is best practice to have these types of assessments performed by an external party. In addition, ERCOT cannot be compliant for NERC CIP 5.4 which states "Cyber Vulnerability Assessment — The Responsible Entity shall perform a cyber vulnerability assessment of the electronic access points to the Electronic Security Perimeter(s) at least annually."	A significant contribution of this type of service is the peer review concept where the use of outsiders confirms or corrects the staff view of the security model.	ERCOT's security posture may be compromised because of changing Internet facing vulnerabilities or threats. Failure of North American Electric Reliability Corporation (NERC) CIP 5 R4.

**ERCOT Fiscal Year 2010 Budget**  
**Outside Services Expense Detail**

Office	Description of Service(s)	Type of Service	2010 Management Recommendation	Why are Services Necessary	Why Can't Staff Perform Tasks	Consequence(s) of Not Procuring Services
IO	Lawson Integration and Maintenance	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	144,000	These interfaces are necessary to provide services for the Corporate Operations division and all ERCOT employees. Without the interfaces, there would be a very high volume of manual work. ERCOT does not have the resources to do the work manually and it would not be cost effective.	The hosting vendor has already developed interfaces with all the major organizations such as Cigna, Fidelity, etc. It is much more cost effective to have them implement a solution they already have than it would be to write one from scratch.	Data could not be shared easily with external partners for payroll, 401K, MPP, healthcare, etc.
CO	Property Tax services (Rash & Associates)	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	140,000	To ensure property tax rates from taxing authorities are accurate. Amount paid is directly linked to savings achieved for ERCOT.	ERCOT accounting staff does not have necessary expertise in property valuations and associated tax strategies to effectively represent ERCOT with tax authorities.	May over pay property taxes.
IO	Resources to support the Zonal System until such time as the PUCT determines we no longer have to support Zonal Settlements.	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	132,000	Zonal Settlements will not stop once the new Nodal Market has been deployed. Zonal Settlements must run to completion which will be at least 6 months (if they are error free, all meter data is error free and no disputes are filed). The more likely scenario is 1 - 2 years.	Based on the amount of new business functions and complexity all ERCOT development staff has been assigned to Nodal.	ERCOT staff will have to balance the priority of Nodal and Zonal activities.
COO	Contractor resources are foreseen to augment Wholesale Client Services staff post "Go-Live" of the Nodal Market in December 2010. Budget is requested for 4 contractors in the role of business analysts supporting settlement disputes, resource registration, increased volume of market communications (market notices, general call line, ERCOT RFIs) for October through December of 2010 in case Go-Live is early.	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	131,040	Business Analyst augmenting staff to support a number of tasks, included expected increase in settlement disputes, support of MPIM MPUSA responsibilities, and scheduled registration system projects. The contract staff assistance will provide bandwidth to ERCOT staff to support market education through fourth quarter of 2010.	Expectation is that staff will have an increase work load during the transition to a Nodal market. Work force allocation of 21 FTE's for Wholesale Client Services will provide insufficient resources to support Nodal Market responsibilities (see Deep Dive).	ERCOT may not be able to meet time line for completing settlement disputes according to protocol and to support the need for market education through the first three quarters of 2009.
CO	UT Co-Op program and curriculum development	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	125,000	Services required to develop university curriculum, provide studies and internship programs.	This service will be performed along with ERCOT staff.	Missed opportunity of bringing on interns that may qualify to be future long-term employees.
IO	Consulting services to perform assessments regarding IT performance, structure, and processes.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	125,000	Consulting services to perform assessments regarding IT performance, structure, and processes.	Third party services are preferred because of objectivity and expertise.	Opportunities for improvements may not be identified.
COO	Perception/Satisfaction survey on the various services offered to the market by ERCOT such as meeting management, website revisions, account management services, etc.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	125,000	ERCOT Executive management requests this type of survey in order to obtain perceptions from external stakeholders for various services offered to the market such as meeting management, website revisions, Lessons Learned, etc.	Third party provider offers confidentiality, objectivity, and professional expertise.	Executive Team will not gain objective and unbiased feedback from the Market Participants regarding their satisfaction and perceptions of ERCOT services.
CO	Cash/Banking Services - Bank service fees including wire fees, account maintenance fees and lockbox deposits.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	120,000	ERCOT will be required to increase its banking services under the Nodal market primarily due to the addition of the Day-ahead and the Congestion Revenue Rights (CRR) markets.	Bank services are required.	Inability to process cash payments and/or deposits.
IO	Areva Software Support for Non-Standard Products	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	120,000	These cost are not covered by the Standard Product Areva support agreement and these are critical to Energy and Market Monitoring Svstems (EMMS) production operation.	Some Software source is not provided by Areva and some internals of the Market Operating System (MOS) are best modified by Areva.	Areva could refuse to service critical parts of the Zonal Market operating system and some sections of the Energy Monitoring System leading to excessive downtime.

**ERCOT Fiscal Year 2010 Budget**  
**Outside Services Expense Detail**

Office	Description of Service(s)	Type of Service	2010 Management Recommendation	Why are Services Necessary	Why Can't Staff Perform Tasks	Consequence(s) of Not Procuring Services
COO	Security assessment of a sample of ERCOT's databases for vulnerabilities that may lead to exploits where critical information may be destroyed, altered or disclosed. Creation of a remediation action plan for all identified security issues.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	117,905	In order to show due diligence and non partiality, it is best practice to have these types of assessments performed by an external party. In addition, the assessment results will be used for SAS70 CO 14.1.4 which states "System configuration requirements have been established for operating systems, databases, and firewalls which include security hardening, and documented exceptions. " and NERC CIP 7 R8 which states "The Responsible Entity shall perform a cyber vulnerability assessment of all Cyber Assets within the Electronic Security Perimeter at least annually."	A significant contribution of this type of service is the peer review concept where the use of outsiders confirms or corrects the staff view of the security model.	ERCOT's security posture may be compromised because of changing database vulnerabilities, exploits or threats.
CO	Outside Legal Services regarding litigation or areas requiring specialized legal knowledge and skills not possessed by in-house legal staff.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	101,090	The services are necessary because with a Legal Dept. as small as ERCOT's, it is impossible to have attorneys who possess all the knowledge and skills required for all legal issues confronting the company (e.g. Employee Retirement Income Security Act (ERISA), bankruptcy, antitrust, litigation, etc.).	The services are necessary because with a Legal Dept. as small as ERCOT's, it is impossible to have attorneys who possess all the knowledge and skills required for all legal issues confronting the company.	The legal services could not be provided and the company could decide to take the risk of not complying with the law and/or governmental rules and regulations.
CO	Organizational Studies	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	100,000			
COO	Validation Study of Wind Dynamic Models	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	90,000	ERCOT System Planning requires models simulating the response of specific wind units to system disturbances in order to conduct system analyses of transient stability and the likelihood of voltage collapse. Development of generic models allows system studies to be shared with market participants. Several of these models have been developed, and are being used in system analyses. However, these models have not been validated through field tests, which are required in order to ensure their accuracy.	Outside consultant brings independent viewpoint, technical expertise, market knowledge, and software that is not cost effective to maintain within ERCOT.	Misidentification of stability limits within the system will lead either to excessive market costs (a result of overly conservative transfer limits) or unacceptable levels of risk of transient instability resulting from system disturbances. Field validation is required in order to ensure accuracy of simulation models, and therefore to validate the results of system wide dynamic analyses.
IO	Remedy and Atrium Configuration Management Data Base (CMDDB) Maintenance	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	88,000	Specific application knowledge is required to more efficiently and effectively upgrade the software.	This service will be performed along with ERCOT staff. Specific application expertise will be needed	Unsupported software
CO	Performance Management	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	85,400	Create easily understood metrics that establish the effectiveness of ERCOT in fulfilling duties.	Third party objectivity in developing metrics and the cost of creating our own software would triple the cost of this project.	Inadequate metrics to evaluate success or failure company-wide.
CO	Invoice Imaging	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	83,000	This is being proposed to assist with cost savings and efficiencies	Requires unique expertise for invoice imaging process.	Continue using existing processes.
CO	Compensation study for all jobs at ERCOT	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	80,300	Maintain market pricing of jobs at ERCOT as required by PUC. We told the PUC, Board of Directors and ERCOT staff we would do a formal study every 3 years. The Mercer study was based on data from 2006 and presented in 2007.	ERCOT staff does not have the data bases and appropriate number of staff to complete a large study such as this one.	Jobs might be out of alignment with the market pricing therefore we could be paying too high or too low. This can lead to employee morale issues and turnover.
IO	External Health check review for SAN, SAN Fabric, and Backups	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	72,000	Expert consulting services to maintain these storage area networks (SAN).	Lack of internal expertise with these systems.	Inefficient use of this infrastructure.
IO	Information Technology Committee (ITC) Independent System Operators (ISO) Council - ERCOT's share of consulting fees for a council of the Chief Information Officers of the Independent System Operators that meet quarterly.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	70,000	ERCOT's share of consulting fees for a council of the Chief Information Officers for the Independent System Operator's that meet quarterly.	Council is made up of the Chief Information Officers of the Independent System Operators.	ERCOT may not be able to participate in the quarterly Information Technology Committee meetings.

**ERCOT Fiscal Year 2010 Budget**  
**Outside Services Expense Detail**

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COO	Computer Based Training (CBT) software for system operators to maintain NERC certification	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	64,500	Currently, all system operators are enrolled in this program. Anticipated personnel turnover will require new hires to be enrolled in the course since it is non-transferable	This service augments the overall ERCOT training program.	Loss of operator certification.
CO	Moody's KMV - The credit risk analysis tools -- Credit Edge and Risk Calc provide information on default probabilities for publicly held entities and also help ERCOT to analyze privately held entities	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	55,000	To provide more "real time" insight into credit quality of market participants. This tool factors in bond and stock prices and other factors that provide more current information on potential defaults by ERCOT market participants.	ERCOT staff does not have the background or tools (e.g. Bloomberg info, etc) to efficiently conduct this analysis.	Credit function will not have adequate information to make credit decisions concerning ERCOT counterparties.
COO	Analyze, and produce software to analyze a unit trip in the ERCOT service area to validate units dynamic parameters from phasor and scada measurements. (CCET funding of dynamic stability parameter estimation & other University software)	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	54,000	This is necessary to produce the tools which will allow ERCOT staff to validate dynamic parameters in the future.	This is Research and Design work performed by various stakeholders.	ERCOT staff unable to validate dynamic parameters in the future.
CO	Expert witness fees, court reporter fees and related items.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	50,000	The services are necessary because ERCOT does not possess all the knowledge and skills required for all issues confronting the company (e.g. property values, legal fees, etc.). Also, ERCOT must obtain copies of transcripts (from court reporters) to know exactly what transpired at legal proceedings	The services are necessary because ERCOT does not possess all the knowledge and skills required for all issues confronting the company (e.g. property values, legal fees, etc.). Also, ERCOT must obtain copies of transcripts (from court reporters) to know exactly what transpired at legal proceedings	ERCOT's regulatory and litigatory positions would be badly compromised without expert advice and testimony or without accurate transcripts.
COO	University of Oklahoma - not interns	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	50,000	This is an existing contract with the University of OK	Lack of internal resources to support both Nodal project and Base operations.	
CO	Compensation review and update of salary information. Membership in the Executive Counsel for compensation data and benchmarking.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	43,500	To provide support to our compensation program.	ERCOT does not have access to the resources on market data on compensation levels.	Paying employee above or below market and resulting consequences of overpayment or underpayment and turnover.
CO	Statewide Bonding - bond for TCE appeal	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	40,000	This is for a bond we are required to post for a litigation appeal that is still underway.	N/A	Alternatives include providing an LC or paying the full judgment amount upfront. Both of these options would be more expensive.
COO	Econometric Data for Load Forecast Development	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	35,000	ERCOT System Assessment is responsible for the annual development of the long-term load and demand forecast. Econometric forecasts are required as an input to the process used to develop the long-term load and demand forecast. The long-term load and demand forecast is provided to regulators and stakeholders, is included in the annual system analysis of forecasted capacity and demand, and is utilized in all system planning modeling and analyses. Development of the long-term load forecast is required to meet PUC regulations, NERC requirements, and numerous requests from stakeholders including State legislative committees.	Outside consultant brings independent viewpoint, technical expertise, market knowledge, and software that is not cost effective to maintain within ERCOT.	The long-term load and demand forecast cannot be developed without thoroughly researched econometric analysis and forecasts. Without a credible long-term load forecast, ERCOT System Planning will not be able to perform its required job functions of analysis of system reliability and transmission upgrades.
CO	Audit Health, Dental and Vision plan.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	33,000	Audit claims paid by Health plan third party administrator to make sure they are not overpaying claims.	Staff does not have access to proprietary owned software to audit claims at the vendor. Also we do not want claims on site due to Health Insurance Portability and Accountability Act (HIPAA).	Last audit done for 2007-2008 plan year. Good business practice to do every other year.
COO	Consultant review of Reliability Must Run (RMR) actual cost submittals	<input checked="" type="checkbox"/> Staff Augmentation <input type="checkbox"/> Professional Service	31,992	To verify the appropriateness of costs submitted by Reliability Must Run units.	External consultants with industry wide knowledge and experience offer independence and confirmation of accurate costs submitted by Reliability Must Run units	Possibility of inaccurate Reliability Must Run contracts costing the market millions of dollars.



**ERCOT Fiscal Year 2010 Budget**  
**Outside Services Expense Detail**

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CO	Management Training	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	30,700	To provide training for our managers and supervisors on employment laws and improved understanding of how to manage others.	Current staff will assist in the administration of this service but we are not staffed to perform the training. About 1/2 of the cost is related to the diagnostic tools required.	Increased turnover and potential of employment litigation for failure to train managers on how to properly handle disciplinary actions, performance coaching, selection and terminations.
CO	Fitch ratings service and data feed to ERCOT's new credit program for Nodal from Rome. The use of these services is contingent on the Board of Directors approving creditworthiness standards that include Fitch ratings.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	30,000	The current draft of proposed updates to the creditworthiness standards include the use of Fitch ratings. This item covers the cost of that service. The service is contingent upon approval of creditworthiness standards by the Board of Directors with include the use of Fitch.	Some level of credit analysis is performed by ERCOT staff as well; however, not at the depth provided by Fitch.	Inability to comply with Protocols and Creditworthiness Standards.
CO	Inventory/Fixed Asset Review	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	30,000	Public Utility Commission of Texas (PUCT) / Board of Directors directive to ensure ERCOT's fixed assets are properly maintained and tracked.	Bringing in outside specialists provides greater expertise with the fixed asset inventory process. A third party also provides greater internal controls with the inventory process .	Existing Fixed Asset Staff would perform A inventory.
CO	Benefits Survey	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	30,000	Directed by Human Recourses and the Board of Directors to conduct a benefits survey	Staff does not have access to technology and data required to complete a comprehensive study.	Fail to meet requirements of the Board of Directors. Benefits could be out of line with the market.
CO	Drug Testing and background check program	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	29,000	Drug testing and Background checks as required by standards and/or North American Electric Reliability Corporation (NERC).	Third party must provide these services.	We would be out of compliance.
COO	Membership in the Utility Wind Integration Group and the Operating Impact and Wind Plant Modeling Users Groups	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	27,000	An increasing amount of wind capacity is being connected to the ERCOT transmission system. These uncontrolled generating facilities create challenges for transmission planning. Participation in the Utility Wind Integration Group provides a forum for discussions with other utility and Regional Transmission Organization (RTO) planning organizations regarding wind integration issues.	Outside consultant brings independent viewpoint and technical expertise that is not cost effective to maintain within ERCOT.	ERCOT will not be able to maintain the required level of reliability of the transmission system without the information that the Utility Wind Integration Group (UWIG) provides. Without the technical expertise of this organization, ERCOT will not be able to adequately analyze the optimal methods for limiting the risks associated with increasing wind integration.
CO	Determine the Financial Accounting Standards Board (FASB) 106 Liability for post retiree medical benefits for ERCOT (Rudd and Wisdom Actuaries)	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	26,600	Accounting support for determining the Financial Accounting Standards Board (FASB) 106 liability for ERCOT.	This is performed by actuaries.	We would have compliance and tax reporting issues.
CO	Outside Legal Services regarding litigation or areas requiring specialized legal knowledge and skills not possessed by in-house legal staff.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	25,000	The services are necessary because with a Legal Dept. as small as ERCOT's, it is impossible to have attorneys who possess all the knowledge and skills required for all legal issues confronting the company (e.g. Employee Retirement Income Security Act (ERISA), bankruptcy, antitrust, litigation, etc.).	The services are necessary because with a Legal Dept. as small as ERCOT's, it is impossible to have attorneys who possess all the knowledge and skills required for all legal issues confronting the company.	The legal services could not be provided and the company could decide to take the risk of not complying with the law and/or governmental rules and regulations.
CO	Diversity and Harassment Training	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	20,000	Provide training for our managers and supervisors on employment laws which require training on diversity and sexual harassment.	We are currently not staffed to provide training and if we staffed up for this training, it would be more costly.	Non-compliance with legal requirements and potential for increased employment litigation or administrative charges.
CO	Architectural services to ERCOT for space planning and design layout.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	20,000	These services are necessary when planning and designing new space like for example, TCC2 2nd floor build out, Independent Market Monitoring (IMM)/Texas Regional Entity (TRE) construction at the Met Center and expansion of the TCC2 parking lot	Requirements go above and beyond ERCOT staff capabilities.	Without this service ERCOT would likely spend a more time and money designing the most efficient and cost effective layout of space.

**ERCOT Fiscal Year 2010 Budget**  
**Outside Services Expense Detail**

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COO	L-Soft-ListPlex outsourcing service for "List Net" email distribution services, which provides self-serve access to a list of email distribution lists for market participant communications (ERCOT Governance, ERCOT Market Notices, etc).	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	19,275	There are numerous references in ERCOT Protocols specifying the Independent System Operator's (ISO's) responsibilities for timely communications with market participants, governance groups, and regulatory parties.	The ListPlex service was selected over setting up and maintaining this service in house due to cost and available resources.	ERCOT would not be able to meet obligation for timely market notification and governance communications per protocol.
CO	Indoor Environmental Consultants provide indoor air quality sampling and infrared thermo graphic inspection for all ERCOT buildings.	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	18,900	ERCOT's facilities experience water penetration events and internal water leaks over the course of each year which could negatively impact indoor air quality. It is appropriate to verify the indoor air quality of ERCOT's facilities to ensure the safety and health of all occupants.	It is most cost effective to utilize outside services to perform ERCOT's air quality analysis. To perform the work internally would require additional staffing, purchase of air quality sampling and analysis equipment and on going training.	If this service isn't procured ERCOT runs the risk of employees becoming ill due to inhalation of toxic air.
CO	Career Builder, Monster, Dice and Energy Central	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	18,700	These are recruiting tools to attract candidates for staffing open positions.	Services are necessary to provide for candidate searches.	Inability to fill open positions.
CO	Benefit Audit (401K and Medical Claims)	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	18,000	Federal law requires that ERCOT include audited benefit plan financial statements with its annual Internal Revenue Service (IRS) Form 5500 filing.	The benefit plan audits must be performed by an independent audit firm.	Loss of the qualified tax status of the benefit plans resulting in significant liability to the company and possible ERCOT employees.
CO	Tax Service -Internal Revenue Service (IRS) Form 990 (Price Waterhouse Cooper)	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	12,000	This is a required statutory audit.	External audit is required.	Non compliance with U.S. law.
IO	Meta Data changes to the LODESTAR Database Schema	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	6,900	Any need to add meta-data to support the Settlements process and generally tied to ERCOT Protocols.	We can actually do the changes, but if the changes are not included in the vendor product (which is what we are paying for), we will be unable to upgrade or patch the product as the meta data definition would cause a data relationship issue.	We would not be able to upgrade or patch our LODESTAR application.
CO	1099-Misc and 1099-INT Programming portion only for Reporting Service (NEPS)	<input type="checkbox"/> Staff Augmentation <input checked="" type="checkbox"/> Professional Service	1,000	NEPS's proprietary software requires coding from the same company.	Additional Lawson expertise must be obtained to ensure modifications are done properly.	Violation of Federal Tax requirements to issue 1099 tax forms.
	TOTAL		<u>12,428,941</u>			