



Date: November 9, 2010
To: Board of Directors
From: Clifton Karnei, Finance & Audit (F&A) Committee Chairman
Subject: 2011 Base Operating Budget and Project Priority List

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: November 16, 2010

Agenda Item No.: 9a

Issue:

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should approve ERCOT's proposed 2011 Base Operating Budget (Budget), which includes operating expenses, project spending, and debt service obligations.

Background/History:

Section 4.10 of the ERCOT Bylaws requires that the ERCOT Board approve the Budget. The Board has the responsibility for adopting an annual Budget for ERCOT that will enable the company to fulfill its obligations and responsibilities for the reliable operation of the ERCOT market.

In each month from June 2010 through October 2010 ERCOT staff discussed financial concepts, assumptions, methodologies and schedules relating to the 2011 Budget with the (F&A) Committee. All meetings were open to the public. In addition, during the months that the 2011 Budget was under development, ERCOT staff consulted with staff of the Public Utility Commission of Texas (PUCT) regarding issues related to ERCOT expenditures and funding.

Management will present its recommended 2011 Budget to the (F&A) Committee on November 15, 2010. The recommended 2011 Budget includes approximately \$118.4 million for operating expenses, \$41.9 million for project spending, and \$29.7 million for debt service obligations.

The recommended 2011 Budget includes authorized staffing of 584 full-time equivalents to perform base operational "capabilities." ERCOT will employ a minimum number of additional resources relating to planned project spending. Full-time equivalents retained for project spending is a function of the project portfolio determined and prioritized by market participants.

Management's recommended 2011 Budget anticipates the utilization of all favorable financial variances realized in 2010 to offset revenue requirements in 2011. A favorable financial forecast of \$14.4 million for year-end 2010 is currently assumed in the recommended 2011 Budget.

The recommended 2011 Budget also reflects authorization from the Board to use \$25.2 million of the Nodal Program's Board Discretionary Fund to pay for anticipated post-go-live charges directly relating to ERCOT's transition from zonal market to nodal market operations.

The recommended 2011 Budget maintains the ERCOT System Administration Fee at the same



rate used from 2006-2010. The 2011 Budget also maintains the same Nodal Surcharge Fee level currently in place. All of ERCOT's fees are summarized in Exhibit A.

<u>Funding Authorization</u>	2011 Recommended Amount (\$ in Millions)
System Administration Fee	124.3
2010 Favorable Financial Variance	14.4
NERC Pass Through Funding	12.0
Sales Tax Refund Receipts	5.0
Other Revenue	4.0
Independent Market Monitoring Funding	2.7
Protocol Compliance Funding	<u>2.5</u>
Subtotal – Revenue Requirement	164.9
Project Spend – Debt Funded	<u>25.1</u>
Total – Funding Authorization	<u>190.0</u>
Operating Expenses	118.4
Project Spend	41.9
Debt Service Obligations	<u>29.7</u>
Total – Spending Authorization	<u>190.0</u>
Excess Funding Authorization over Spending Authorization	-

The F&A Committee will meet prior to the Board meeting on Monday, November 15, 2010, and is expected to make a recommendation to the Board regarding the 2011 Budget.

Key Factors Influencing Issue:

ERCOT must have adequate funds in 2011 to:

- Staff appropriately to participate in and support full market operations;
- Implement system improvements and required functionality to support the market;
- Maintain compliance with the Financial Corporate Standard and associated financial performance measures as approved by the Board;
- Fund independent market monitoring, Public Utility Regulatory Act (PURA) and ERCOT Protocols compliance functions;
- Enhance and maintain the computer systems and associated services contracted for with vendors; and
- Maintain necessary facilities to provide secure operations and house staff.

Alternatives:

1. Approve the recommendation of the F&A Committee;
2. Approve the recommendation of the F&A Committee as modified by the Board; or
3. Remand this issue to the F&A Committee with instructions.



Conclusion/Recommendation:

ERCOT staff respectfully recommends that the Board:

- Adopt the recommended 2011 Budget, which includes \$190.0 million total spending authorization for operating expenses project spending, and debt service obligations;
- Approve recommended utilization favorable financial variance realized in 2010 to reduce 2011 revenue requirements;
- Approve the recommended continuation of the ERCOT System Administration Fee of \$0.4171 per megawatt-hour; and
- Approve the recommended ERCOT Fee Schedule attached as Exhibit A.



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

WHEREAS, after due consideration of the alternatives, the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) deems it desirable and in the best interest of ERCOT to approve ERCOT's proposed 2011 Base Operating Budget (Budget), which includes operating expenses, project spending, and debt service obligations;

WHEREAS, Section 4.10 of the ERCOT Bylaws requires that the Board approve an annual Budget for ERCOT that will enable the company to fulfill its obligations and responsibilities for the reliable operation of the ERCOT market;

WHEREAS, ERCOT staff discussed financial concepts, assumptions, methodologies and schedules relating to the 2011 Budget in public meetings with the Finance & Audit (F&A) Committee, and consulted with the staff of the Public Utility Commission of Texas (PUCT) regarding development of the 2011 Budget;

WHEREAS, ERCOT management presented a recommended 2011 Budget to the (F&A) Committee on November 15, 2010, which includes approximately \$118.4 million for operating expenses, \$41.9 million for project spending, and \$29.7 million for debt service obligations; and

WHEREAS, the 2011 Budget proposed by ERCOT management will not require a change in the current System Administration Fee, Texas Nodal Market Implementation Program Surcharge, or other ERCOT fees;

THEREFORE, BE IT RESOLVED, that ERCOT is hereby authorized and approved to:

1. Adopt the 2011 Budget, which includes approximately \$118.4 million for operating expenses, \$41.9 million for project spending, and \$29.7 million for debt service obligations;
2. Approve the utilization favorable financial variance realized in 2010 to reduce 2011 revenue requirements;
3. Approve the recommended continuation of the ERCOT System Administration Fee of \$0.4171 per megawatt-hour; and
4. Approve the recommended ERCOT Fee Schedule attached as Exhibit A.

CORPORATE SECRETARY'S CERTIFICATE

I, Bill Magness, Corporate Secretary of ERCOT, do hereby certify that, at its November 16, 2010 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of November, 2010.

Bill Magness
Corporate Secretary