



**Date:** May 13, 2008  
**To:** Board of Directors  
**From:** Clifton Karnei, Chairman of the Finance and Audit Committee  
**Subject:** Application of the 2007 Actual vs. Budget Revenue Requirement Variance

**Issue for the ERCOT Board of Directors**

**ERCOT Board of Director Meeting Date:**

**Agenda Item No.:** 10b

**Issue:**

At the May 20, 2008 meeting of the ERCOT Finance and Audit Committee, Committee members reviewed schedules of the 2007 revenue requirement variance and considered alternatives for the use of the funds made available by the favorable variance. At this time, it is expected the Finance and Audit Committee will recommend the following action to the Board:

*The Finance and Audit Committee recommends that the Board direct ERCOT staff to apply any favorable budget variances from the 2007 budget year to fund up to 40 percent of spending on the Met Center replacement initiative approved by the ERCOT Board of Directors in February 2008 and employ remaining favorable 2007 financial variance, if any, to reduce debt-funding of other 2008 projects.*

**Background/History:**

ERCOT staff presented financial forecasts of its results of operations for fiscal 2007 to the Finance and Audit Committee and Board of Directors at various times throughout 2007. Each time, ERCOT indicated that a favorable revenue requirement variance was expected.

Based on audited financial information, ERCOT recorded income totaling approximately \$2.5 million in excess of revenue requirements for the year. The projected favorable budget variance is primarily the result of lower-than-budgeted operating expenses, higher-than-budgeted interest income, and higher than budgeted income relating to generation interconnection study fees.

The Committee considered several options regarding how to address the utilization of ERCOT's favorable financial variance, including (1) reducing the ERCOT System Administration Fee, (2) refunding of a portion of ERCOT System Administration Fee proceeds, (3) increasing 2008 project funding, (4) reducing ERCOT debt or reducing the debt-funded portion of 2008 capital project expenditures. The first two options would require approval of the Public Utility Commission.

After final discussion at the May 20, 2008 Committee meeting, it is anticipated the Committee will arrive at the recommendation described above.



**Key Factors Influencing Issue:**

In recent years, the Finance and Audit Committee and Public Utility Commission of Texas have consistently directed or encouraged ERCOT to maintain 40 percent revenue-funding of all project expenditures.

When ERCOT's 2008 budget was prepared by management and subsequently approved by the ERCOT Board of Directors it included many projects, each of which was planned to be funded 40 percent from current year revenue and 60 percent from borrowed money. However, the 2008 budget did not include planned expenditures for the replacement of ERCOT's Met Center facility and relocation of all business conducted in that facility. As a result, when the ERCOT Board of Directors authorized the replacement of the Met Center facility, they authorized 100 percent debt funding of expenditures incurred in connection with the initiative during 2008. It was assumed expenditures incurred in 2009 and subsequent years would be factored into ERCOT's future budget submissions and would be funded with 40 percent revenue and 60 percent debt.

If the favorable financial variance realized in 2007 is used to revenue fund a portion of expenditures incurred in 2008 relating to the replacement of the Met Center facility ERCOT can more closely adhere to past direction from the Finance and Audit Committee and Public Utility Commission of Texas and, as a result, reduce interest costs and other operating expenses borne by the citizens of Texas.

**Alternatives:**

1. Approve the recommendation of the Finance and Audit Committee, as recommended or as modified by the Board;
2. reject the recommendation of the Finance and Audit Committee;
3. remand this issue to the Committee with instructions; or
4. defer action until a later Board meeting.

**Conclusion/Recommendation:**

The Finance and Audit Committee is expected to recommend that the Board approve the recommendation described above. ERCOT Staff respectfully recommends that the Board follow the recommendation of the Committee.



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

WHEREAS, the Board of Directors (“Board”) of Electric Reliability Council of Texas, Inc. (“ERCOT”) deems it desirable and in the best interest of ERCOT to formalize its direction to ERCOT management with regard to favorable financial variance realized from its operations in 2007, and

WHEREAS, the Board deems it desirable and in the best interest of ERCOT for the variance to be applied so as to: (1) fund up to 40 percent of spending on the Met Center replacement initiative; and (2) reduce debt-funding of other 2008 projects,

THEREFORE, BE IT RESOLVED that ERCOT is hereby directed to apply any favorable budget variances from the 2007 budget year to fund up to 40 percent of spending on the Met Center replacement initiative approved by the ERCOT Board of Directors in February 2008 and employ remaining favorable financial variance, if any, realized in 2007 to reduce debt-funding of other 2008 projects.

**CORPORATE SECRETARY’S CERTIFICATE**

I, Michael G. Grable, Corporate Secretary of ERCOT, do hereby certify that, at its May 20, 2008 meeting, the ERCOT Board of Directors passed a motion approving the above Resolution by a vote of \_\_\_\_\_.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

\_\_\_\_\_  
Michael G. Grable  
Corporate Secretary