



Date: October 12, 2010
To: Board of Directors
From: Trip Doggett, President and Chief Executive Officer, and
Mike Cleary, Senior Vice President and Chief Operating Officer
Subject: Approval for Nodal Post Go-Live Charges

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: October 19, 2010

Agenda Item No.: 9a

Issue:

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should approve the funding for expenses related to the Nodal Program after Go-Live (that is, after the expected Go-Live date of December 1, 2010), including those related to Nodal stabilization, Nodal Parking Deck, and Nodal deferred defects (collectively, Proposed Post Go-Live Charges), from the Board's Discretionary Fund.

Background/History:

ERCOT management anticipates launching the Nodal market systems on the Go-Live date of December 1, 2010. Immediately after such launch, ERCOT expects to incur post Go-Live expenses primarily related to the stabilization of the Nodal market (including primarily hardware, software and staffing), planning and design activities for the release of the Nodal Parking Deck items, and the resolution of deferred defects and workarounds.

In March 2009, the Board established a discretionary fund in relation to the Nodal Program to allow for sufficient funds to address potential program risks (Discretionary Fund). Please see the attached *Exhibit A*. The Board has exclusive control over the use of the Discretionary Fund.

In October 2009, the Public Utility Commission of Texas (Commission) approved a revised Nodal Surcharge of \$0.375 per megawatt-hour (MWh), effective as of January 1, 2010, to enable ERCOT to recover the then-estimated cost of the Nodal Program, including debt financing costs, of \$643.8 million. Since the inception of the Discretionary Fund until October 2009, ERCOT management had directed \$58.6 million into the Discretionary Fund.

Over the last year, due to concerted cost-containment measures, ERCOT estimates that the cost of the Nodal program, including debt financing, to be \$530.2 million. Concurrently, as instructed by the Board, ERCOT management has directed all unexpended budgeted amounts for Nodal activities to the Discretionary Fund, which has grown to \$113.6 million. ERCOT management has not requested the disbursement of any funds from the Discretionary Fund since it was created in March 2009.

ERCOT management anticipates that the first several months of nodal operations after Nodal Go-Live will generate significant expenses associated with stabilizing nodal systems and processes. The experience of other markets that have made transitions similar to ERCOT's move to a nodal market indicate that ERCOT should be prepared to address numerous



challenges in the immediate period following Nodal Go-Live. ERCOT management summarizes the expenses associated with this set of challenges – which include some known risks and some that will await definition after go-live – as the Proposed Post Go-Live Charges. After Nodal Go-Live, there will be no difference between ERCOT operations and nodal operations; once the market is operational, the nodal market is the ERCOT market, as contemplated by the Nodal Protocols and the state policies they implement.

At its September 2010 meeting, the Board discussed the use of some of the Discretionary Fund to ensure that Proposed Post Go-Live Charges are adequately funded in 2011. ERCOT management committed to develop a budget for Proposed Post Go-Live Charges to be funded with a portion of the Discretionary Fund, and to present such proposal to the Board at its October 2010 meeting.

ERCOT management will present the budget including the Proposed Post Go-Live Charges at the Finance and Audit Committee meeting scheduled to be held on October 18, 2010. Although the Board developed a “Process for Board Oversight of Discretionary Funds” in conjunction with the establishment of the Discretionary Fund, the process contemplated potential requests for spending increases until Nodal Go-Live or program changes, rather than a request for expenses which would be incurred after Nodal Go-Live.

On behalf of ERCOT management, Trip Doggett, President and Chief Executive Officer, and Mike Cleary, Senior Vice President and Chief Operating Officer, respectfully request that the Board approve ERCOT’s use of \$25.2 million from the Discretionary Fund for such Proposed Post Go-Live Charges.

Key Factors Influencing Issue:

- On March 17, 2009, the Board approved the establishment of the Discretionary Fund in relation to the Nodal Program which is controlled exclusively by the Board.
- On October 14, 2009, the Commission approved a revised Nodal Surcharge of \$0.375 per MWh, effective as of January 1, 2010, to enable ERCOT to recover \$643.8 million, which represents the estimated total cost of the Nodal Program, including the costs of financing portions of the Nodal Program with debt, in Docket No. 36851.
- As of August 31, 2010, the Discretionary Fund related to the Nodal Program totals approximately \$113.6 million.
- As of this date, ERCOT staff estimates that the cost to complete the work necessary for Nodal Go-Live on December 1, 2010, including the cost of debt financing, will be approximately \$530.2 million.
- As of this date, ERCOT staff expects that there would not be a need to pursue a rate case at the Commission for an increase in the Nodal Surcharge and the Nodal Surcharge could remain flat during 2011 if the Board approved ERCOT’s use of \$25.2 million from the Discretionary Fund.

Alternatives:

The Board has the following alternatives within its discretion:

- Approve ERCOT management’s recommendation for the use of \$25.2 million from the Discretionary Fund for Proposed Post Go-Live Charges;



- Reduce the total amount of funds from the Discretionary Fund available for use by ERCOT for Proposed Post Go-Live Charges;
- Deny ERCOT management's recommendation in its entirety and not allow any use of the Discretionary Fund for Proposed Post Go-Live Charges; or
- Direct ERCOT management to pursue other alternatives.

Conclusion/Recommendation:

ERCOT's Chief Executive Officer and Chief Operating Officer, on behalf of ERCOT management, respectfully request that the Board approve ERCOT's use of \$25.2 million from the Discretionary Fund for Proposed Go-Live Charges.



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

WHEREAS, on March 17, 2009, the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) approved the establishment of a discretionary fund in relation to the Nodal Program to allow for sufficient funds to address potential program risks (Discretionary Fund); and such Discretionary Fund is exclusively controlled by the Board;

WHEREAS, ERCOT management anticipates launching the Nodal market systems on the Go-Live date of December 1, 2010; and immediately after such launch, ERCOT expects to incur post Go-Live expenses primarily related to the stabilization of the Nodal market (including primarily hardware, software and staffing), planning and design activities for the release of the Nodal Parking Deck items, and the resolution of deferred defects and workarounds as more specifically detailed in ERCOT's 2011 Budget (collectively, the Proposed Post Go-Live Charges);

WHEREAS, as of October 19, 2010, ERCOT staff estimates that the cost to complete the work necessary for Nodal Go-Live on December 1, 2010, including the cost of debt financing, will be approximately \$530.2 million; and as of August 31, 2010, the Discretionary Fund related to the Nodal Program totals approximately \$113.6 million;

WHEREAS, as of October 19, 2010, ERCOT staff expects that there would not be a need to pursue a rate case at the Commission for an increase in the Nodal Surcharge and the Nodal Surcharge could remain flat during 2011 if the Board approved ERCOT's use of \$25.2 million from the Discretionary Fund; and

WHEREAS, after due consideration of the alternatives, the Board deems it desirable and in the best interest of ERCOT to approve ERCOT's use of \$25.2 million from the Discretionary Fund for Proposed Go-Live Charges; and

THEREFORE, BE IT RESOLVED, that ERCOT is hereby authorized and approved to use \$25.2 million from the Discretionary Fund for Proposed Go-Live Charges.

CORPORATE SECRETARY'S CERTIFICATE

I, Bill Magness, Corporate Secretary of ERCOT, do hereby certify that, at its October 19, 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 October, 2010.

Bill Magness
Corporate Secretary