

## ERCOT CORPORATE STANDARD

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### 1.0 PURPOSE

This financial corporate standard is a framework from which ERCOT's financial integrity will be maintained while serving the long-term interests of the company and the ERCOT market. ERCOT recognizes that maintaining financial integrity is critical to accomplishing its corporate goals and discharging ERCOT's primary responsibilities.

### 2.0 DEFINITIONS

TERM	DEFINITION
Budget	The Budget consists of Project Budgets, an Operating and Maintenance Budget and a Texas Regional Entity Division of ERCOT ("Texas RE") Budget as a component.
Project Budgets	Project Budgets consist of proposed expenditures to be made to develop capital assets during ERCOT's Fiscal Year. Any significant projects not included in the approved project budgets will be presented to ERCOT's Board of Directors for approval as they arise.
Cash Operating and Maintenance Expenses	Cash Operating and Maintenance Expenses consist of all reasonable and necessary costs (excluding non-cash items such as depreciation and amortization) incurred in the operation and maintenance of ERCOT's facilities, equipment and systems.
Fiscal Year	ERCOT's fiscal year is January 1 <sup>st</sup> through December 31 <sup>st</sup> .
NERC	North American Electric Reliability Corporation, the entity currently certified as the Electric Reliability Organization by <a href="#">the Federal Energy Regulatory Commission ("FERC")</a> .
Operating and Maintenance Budget	The Operating and Maintenance Budget consists of all reasonable and necessary costs expected to be incurred during ERCOT's Fiscal Year.
Texas RE	The Texas RE Budget is the budget (which can include both operating

Budget	and maintenance and project budgets) for the <a href="#">Texas</a> RE which is approved by NERC and <a href="#">Federal Energy Regulatory Commission (FERC)</a> and which is used exclusively for the <a href="#">Texas</a> RE's proposal and enforcement of Reliability Standards (Federal Statutory duties) and for ERCOT Protocol and Operating Guide compliance investigation activities.
Scheduled Debt Service	Scheduled Debt Service is all interest and mandatory principal payments due on ERCOT's outstanding indebtedness (both long-term and short-term) for a stated period.
Strategic Financial Plan	The Strategic Financial Plan will provide current financial information and a five-year projection, which addresses all sources of revenues, including any proposed fee adjustments. It will include projections of operating and maintenance expenses, project expenditures, the funding sources of project expenditures, and debt service requirements as well as the resulting capital structure.
<a href="#">TCR</a>	<a href="#">Transmission Congestion Rights</a>

### 3.0 FINANCIAL OBJECTIVES

In seeking to fulfill its corporate objectives, ERCOT will maintain a high level of financial stability and will not compromise long-term financial integrity to achieve short-term benefits.

**Strategic Financial Plan and Budget.** Prior to or in conjunction with the submission of the annual Budget, the Chief Financial Officer will submit an update to the Strategic Financial Plan.

The Budget will be substantially consistent with the Strategic Financial Plan and will be submitted to the Board with sufficient time for the review and approval of the Board prior to the beginning of the Fiscal Year. The [Texas](#) RE Budget component of the Budget may be approved in advance of the full Budget if required to meet deadlines set by regulators.

In developing the Strategic Financial Plan and Budget, ERCOT staff will work to ensure that financial ratios required for compliance with debt instruments are maintained.

ERCOT will pursue financial objectives that will allow it to maintain an investment grade debt rating with Standard & Poor's, Moody's or Fitch. If a rating below investment grade is received or expected to be received, staff will promptly recommend a plan for Board consideration to recover or maintain the targeted rating within 18 months.

Overall, the Strategic Financial Plan and the related Budget will seek to assure ERCOT's financial stability. They will be approved by the Board and will guide ERCOT's financial planning process.

**Fees and Charges.** ERCOT will assess fees consistent with the ERCOT Protocols and [Public Utility Commission of Texas](#) ~~UCT~~ rulings. Established fees will include payment of the portion of the [Texas](#) RE Budget for ERCOT Protocol and Operating Guide compliance investigation activities. ERCOT will also collect fees on behalf of the Electric Reliability Organization as approved by FERC. The [Texas](#) RE will also receive funding for its Federal Statutory duties from NERC, pursuant to a Delegation Agreement. Fees, funding, and charges will be requested to recover the Board-approved Operating and Maintenance Budget (excluding depreciation and amortization), Scheduled Debt Service (less any principal payments reasonably expected to be refinanced), and the portions of Project Budgets that are to be financed with revenue. Fee adjustments, if necessary, will generally be developed and proposed in connection with ERCOT's annual Budget.

ERCOT will use all reasonable means to operate within the approved Budget for the current year. When unforeseen events occur (e.g. MWh's are significantly over or under projected levels, functionality is added or removed, etc.) and as a result, ERCOT experiences or expects to experience in the next 12 month period more than a [25 percent%](#) variance from 1) its Project Budgets, 2) its Operating and Maintenance Budget (excluding depreciation and amortization), or 3) its projected revenue stream, staff will promptly recommend a plan for Board consideration, which may include cost reductions or additions, fee increases or decreases, or other means to ensure that approved functions can be maintained, capital expended and expenses paid in the normal course of business.

**Sources of Financing.** ERCOT will use a combination of equity (revenue funding) and debt to finance projects. In determining the combination of equity and debt to be used in any particular year, ERCOT will consider the impact of the current year decision on future years.

Generally, ERCOT will structure debt issues such that the average maturity of the debt approximates the average life of the assets financed; however, debt issues may be structured with a longer or shorter average maturity if economically justified.

ERCOT may use variable-rate debt to provide flexibility in its overall financing program and to manage its overall interest rate exposure. However, in no event will ERCOT allow unhedged, variable rate debt to be more than [40 percent%](#) of total debt outstanding.

ERCOT will periodically evaluate the interest rate environment and review ways to manage interest rate exposure within that environment.

As appropriate, ERCOT will periodically evaluate mechanisms to restructure or refinance debt. ERCOT will regularly evaluate alternatives to conventional financing to obtain the lowest overall cost of borrowing while still meeting the objectives of this financial corporate standard.

**Liquidity.** ERCOT will seek to maintain adequate liquidity to meet its business needs. Liquidity is the combination of available 1) operating cash on hand, 2) operating cash equivalents / short term investments and 3) undrawn borrowing capacity under credit facilities.

ERCOT's targeted minimum level of liquidity will factor in: 1) six months of forecasted Scheduled Debt Service, other than principal payments reasonably expected to be refinanced, 2) two months of average Cash Operating and Maintenance Expenses, net of projected administrative fee receipts, 3) two months of budgeted project expenditures, and 4) two months of estimated TCR [repayment obligations](#) expected to be paid, net of projected TCR [auction](#) receipts during the same period.

If at any time ERCOT's liquidity is less than or is expected to be less than the targeted minimum level set forth in this corporate standard, staff will promptly recommend a plan for Board consideration to achieve the liquidity target within six months.

Funds received in conjunction with TCR auctions may be utilized to fund ERCOT working capital and project expenditure needs so long as liquidity is at or above the target levels and ERCOT's issuer rating remains investment grade. These funds may be utilized in place of borrowing under short term credit facilities to meet liquidity needs.

## **4.0 RESPONSIBILITIES**

It is the responsibility of the Chief Executive Officer, Chief Compliance Officer and Chief Financial Officer to ensure that this corporate standard is implemented appropriately and to recommend changes in the [corporate](#) standard as needed.

## **5.0 FINANCIAL STANDARD ADOPTION**

ERCOT's financial corporate standard will be adopted by resolution of the Board of Directors. The corporate standard will be reviewed annually by the Finance and Audit Committee and any modifications made thereto must be approved by the Board of Directors.