



Date: August 9, 2011
To: Board of Directors
From: Clifton Karnei, Finance & Audit (F&A) Committee Chairman
Subject: 2012 Budget

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: August 16, 2011

Agenda Item No.: 9a

Issue:

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should approve ERCOT's recommended 2012 Budget, which includes operating expenses, project spending, and debt service obligations.

Background/History:

Section 4.10 of the ERCOT Bylaws requires that the Board approve the ERCOT 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.

Beginning April 2011, ERCOT staff held monthly collaboration meetings with Public Utility Commission of Texas (PUCT) staff to discuss budget strategies and financial objectives. In May 2011 and extending through July 2011 ERCOT staff discussed financial concepts, assumptions, methodologies and schedules relating to the 2012 Budget with the F&A Committee. All F&A Committee meetings were open to the public.

ERCOT management will present its recommended 2012 Budget to the F&A Committee on August 15, 2011. The recommended 2012 Budget includes revenue requirements of \$168.1 million and debt-funded project spending of \$9.0 million.

The recommended 2012 Budget includes authorized staffing of 573 full-time equivalents to perform base operational tasks. In addition, 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.

ERCOT management's recommended 2012 Budget anticipates the utilization of all favorable financial variances realized in 2011 to offset revenue requirements in 2012. A favorable financial forecast of \$13.7 million for year-end 2011 is currently assumed in the recommended 2012 Budget.

The recommended 2012 Budget maintains the ERCOT System Administration Fee at the same \$0.4171 per megawatt-hour rate used from 2006-2011.



	2012 Recommended Amount <u>(\$ in Millions)</u>
<u>Revenue requirements</u>	
Operating and maintenance	116.0
Debt service (principal and interest)	29.2
NERC/ERO pass-through cost	13.1
Revenue-funded project spending	6.0
Independent Market Monitoring funding	2.8
Protocol compliance funding	<u>1.0</u>
Subtotal – Revenue requirements	168.1
Less:	
2011 favorable financial variance carried forward to 2012	13.7
NERC/ERO pass-through cost recovery	13.1
Other revenue	<u>3.6</u>
Subtotal – Revenue requirements from the System Admin. Fee	<u>137.7</u>
<u>Spending authorization</u>	
Revenue requirements	<u>168.1</u>
Debt-funded project spending	<u>9.0</u>
Total – Spending authorization	<u>177.1</u>
<p>The F&A Committee will meet prior to the Board meeting on Monday, August 15, 2011, and is expected to make a recommendation to the Board regarding the 2012 Budget.</p>	
<p><u>Key Factors Influencing Issue:</u> ERCOT must have adequate funds in 2012 to:</p> <ul style="list-style-type: none">• 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 and Public Utility Regulatory Act (PURA) 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. <p>ERCOT is required to file its Board-approved budget for consideration by the PUCT, pursuant to P.U.C. SUBST. R. 25.363(d).</p>	

**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 requests that the F&A Committee support and recommend ERCOT staff's recommendations and that the Board:

- Adopt the recommended 2012 Budget, which includes \$177.1 million total spending authorization for operating expenses, project spending, and debt service obligations;
- Approve recommended utilization of favorable financial variance realized in 2011 to reduce 2012 revenue requirements; and
- Approve the recommended continuation of the ERCOT System Administration Fee of \$0.4171 per megawatt-hour.



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 accept the recommendations of ERCOT staff and the Finance and Audit (F&A) Committee that the Board approve ERCOT's proposed 2012 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 2012 Budget in public meetings with the F&A Committee, and consulted with the staff of the Public Utility Commission of Texas regarding development of the 2012 Budget;

WHEREAS, ERCOT management presented a recommended 2012 Budget to the F&A Committee on August 15, 2011, which includes a revenue requirement totaling \$168.1 million and debt-funded project spending of \$9.0 million; and

WHEREAS, the 2012 Budget proposed by ERCOT management will not require a change in the current System Administration Fee;

THEREFORE, BE IT RESOLVED that the Board hereby accepts the recommendations of ERCOT staff and the F&A Committee and that ERCOT is hereby authorized and approved to:

1. Adopt the 2012 Budget, which includes \$177.1 million total spending authorization for operating expenses, project spending, and debt service obligations;
2. Approve the utilization of favorable financial variance realized in 2011 to reduce 2012 revenue requirements; and
3. Approve the recommended continuation of the ERCOT System Administration Fee of \$0.4171 per megawatt-hour.

CORPORATE SECRETARY'S CERTIFICATE

I, Bill Magness, Corporate Secretary of ERCOT, do hereby certify that, at its August 16, 2011 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of August, 2011.

Bill Magness
Corporate Secretary