



**Date:** October 11, 2011  
**To:** Board of Directors  
**From:** Bert Lathrop, Director, IT Infrastructure  
**Subject:** Wide Area Network (WAN) Management Fee

**Issue for the ERCOT Board of Directors**

**ERCOT Board of Directors Meeting Date:** October 18, 2011

**Agenda Item No.:** 9

**Issue:**

Whether the ERCOT Board of Directors (Board) should accept ERCOT staff's recommendation to increase the not-to-exceed fees for the private WAN – namely, the \$18,000 cost ceiling per connection for initial equipment installations and the \$865 cost ceiling per connection for monthly network management.

**Background/History:**

Section 9.16.3, *Private Wide Area Network Fees*, of the Nodal Protocols states the following:

A Market Participant connected to the WAN shall pay a one-time installation fee and monthly maintenance fees related to access to the WAN as approved by the ERCOT Board. This fee is separate from the ERCOT System administration charge.

Additionally, pursuant to paragraph (f) of PUC Subst. R. 25.363, *ERCOT Budget and Fees*, ERCOT may charge reasonable user fees for services provided by ERCOT to any Market Participant or other entity. User fees do not include the ERCOT System administration fee and the ERCOT nodal implementation surcharge. Such user fees may be approved by the Board. The private WAN fees are considered user fees under the PUC Substantive Rules. The current ERCOT Fee Schedule indicates that the actual cost of using third party communications network for the private WAN is composed of two fees: (1) an initial equipment installation cost not to exceed \$18,000 per connection, and (2) a monthly network management fee not to exceed \$865 per connection.

Per the Nodal Operating Guides, Transmission and/or Distribution Service Providers (TDSPs) and Qualified Scheduling Entities (QSEs) with Resources are required to obtain a private WAN connection from ERCOT in order to transact, communicate telemetry data, and establish voice communications in support of operations. Historically, ERCOT only billed Market Participants for the equipment and network carrier costs that were directly attributable to that Market Participant, absorbing any other central costs such as network support, accounting, central networking equipment costs, and aggregated network carrier costs. However, ERCOT staff believes that it is a better practice to allocate these additional costs directly to Market Participants using a private WAN connection rather than recovering those costs in the ERCOT System Administration Fee (SAF) as Operations & Maintenance (O&M) expense.

**Key Factors Influencing Issue:**

- The ERCOT 2012 budget submission to the Board and the Public Utility Commission of Texas (PUCT) included the assumption that ERCOT would begin to recover the aforementioned WAN-related costs that were previously unbilled.
- ERCOT Management has performed due diligence on the costs currently unbilled and developed four (4) allocation methodologies. ERCOT staff recommends the following allocation methodology: (1) evenly distribute AT&T connectivity costs to all Market Participants; (2) evenly distribute Sprint connectivity costs to only Market Participants with MPLS connections; (3) evenly distribute ERCOT equipment management/maintenance costs to all Market Participants; and (4) evenly distribute ERCOT personnel costs to all Market Participants.
- As a result of the allocation methodology, ERCOT staff would assess an additional \$6,000 activation fee to Market Participants for connectivity requests. This fee would be in addition to vendor supplied equipment and services per connection. Furthermore, ERCOT staff would assess an additional monthly allocation fee estimated between \$390 and \$590 per connection for ERCOT staff support and currently unbilled vendor costs.
- ERCOT Internal Audit has reviewed the costs identified and the proposed allocation methodology and has provided positive feedback through a consulting report.
- ERCOT staff's recommended approach offers a more fair allocation of costs to Market Participants using these specific services. Since ERCOT has always billed for private WAN connections, this is not creating a new fee but rather correcting the existing not-to-exceed fee amounts to be all-inclusive of their respective cost components.

**Alternatives:**

1. Accept ERCOT staff's recommendation to increase the not to exceed fees for the private WAN – namely, increase the not to exceed fee from \$18,000 to \$25,000 per connection for initial equipment installations and increase the not to exceed fee from \$865 to \$1,500 per connection for monthly network management;
2. Take no action and continue to use the current not to exceed fees for the private WAN as reflected in the ERCOT Fee Schedule; or
3. Instruct ERCOT staff to further review the not to exceed fees for the private WAN based upon any additional directives from the Board.

**Conclusion/Recommendation:**

ERCOT staff respectfully requests that the Board approve ERCOT staff's recommendation to: (1) increase the not-to-exceed fee from \$18,000 to \$25,000 per connection for initial equipment installations which includes a set \$6,000 activation fee; and (2) increase the not-to-exceed fee from \$865 to \$1,500 per connection for monthly network management which includes additional unbilled ERCOT staff support and vendor costs.



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

WHEREAS, Section 9.16.3, *Private Wide Area Network Fees*, of the Nodal Protocols provides that “[a] Market Participant connected to the Wide Area Network (WAN) shall pay a one-time installation fee and monthly maintenance fees related to access to the WAN as approved by the ERCOT Board,” which fees are separate from the ERCOT System administration charge;

WHEREAS, pursuant to paragraph (f) of P.U.C. SUBST. R. Section 25.363, *ERCOT Budget and Fees*, ERCOT may charge reasonable user fees for services provided by ERCOT to any Market Participant or other entity;

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 ERCOT staff’s recommendation regarding an increase in the not-to-exceed fees for the private WAN, specifically, (1) to increase the not-to-exceed fee from \$18,000 to \$25,000 per connection for initial equipment installations which includes a set \$6,000 activation fee; and (2) to increase the not-to-exceed fee from \$865 to \$1,500 per connection for monthly network management which includes additional unbilled ERCOT staff support and vendor costs;

THEREFORE, BE IT RESOLVED, that ERCOT is hereby authorized and approved to increase the not-to-exceed fees for the private WAN, specifically, (1) to increase the not-to-exceed fee from \$18,000 to \$25,000 per connection for initial equipment installations which includes a set \$6,000 activation fee; and (2) to increase the not-to-exceed fee from \$865 to \$1,500 per connection for monthly network management which includes additional unbilled ERCOT staff support and vendor costs.

**CORPORATE SECRETARY’S CERTIFICATE**

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its October 18, 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 October, 2011.

\_\_\_\_\_  
Vickie G. Leady  
Assistant Corporate Secretary