



Date: June 12, 2012
To: Board of Directors
From: H.B. "Trip" Doggett, ERCOT President and Chief Executive Officer (CEO)
Subject: 2013 Budget

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: June 19, 2012

Agenda Item No.: 11a

Issue:

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should approve ERCOT staff's recommended 2013 Budget, which includes operating expenses, project spending, and debt service obligations.

Background/History:

Section 3.3 of the Board Policies and Procedures, amended effective December 13, 2011 (Board Policies), provides as follows:

The CEO will present to the Board by October of each year, or at such other time as directed by the Board, an annual Budget to carry out the Board's directives for the following year. The Budget will include projections of ERCOT's overall financial performance and financing plans, and describe the services, projects, programs, and the associated revenues and expenditures for the next fiscal year. Adoption of the Budget by the Board and as approved by the PUCT authorizes the CEO to complete work plans and make associated expenditures as provided for in accordance with the Budget.

Sections 4.10 (*Duties*) and 10.3 (*Budget*) of the Amended and Restated Bylaws of Electric Reliability Council of Texas, Inc., approved on April 16, 2010 (Bylaws), requires that the Board approve the ERCOT Budget for the ensuing fiscal year.

Public Utility Commission of Texas (PUCT) Substantive Rule Section 25.363(d) (*Commission Review and Action*) provides in part that the ERCOT annual budget and any change in the system administration fee are subject to review and approval by the PUCT. PUCT Substantive Rule Section 25.363(d) further provides that, prior to submission of the ERCOT Budget for Board approval, ERCOT shall consult with PUCT staff in connection with the development of the Budget and provide PUCT staff with information concerning budget strategies, staffing requirements, categories of expenses, capital outlays, exceptional expenses and capital items, and proposals to incur additional debt. In late 2011 and first quarter of 2012, ERCOT staff discussed financial concepts, assumptions, methodologies and schedules relating to the 2013 Budget with the PUCT staff.

ERCOT management will present its recommended 2013 Budget to the F&A Committee on June 18, 2012. The recommended 2013 Budget includes revenue requirements of \$161,679,701 and debt-funded project spending of \$9,000,000.



The recommended 2013 Budget includes funding for 626 full-time equivalents to perform base operational tasks and planned project efforts. Full-time equivalents retained for project efforts are a function of the project portfolio determined and prioritized by market participants.

The recommended 2013 Budget maintains the ERCOT System Administration Fee at the same \$0.4171 per megawatt-hour rate used from 2006-2012.

	2013 Recommended <u>Amount</u>
<u>Revenue sources</u>	
System Administration Fee	\$139,895,824
NERC/ERO pass-through cost recovery	13,248,627
2012 projected carry forward	4,800,000
Other revenue	<u>3,735,250</u>
Subtotal – Revenue sources	<u>\$161,679,701</u>
 <u>Revenue requirements</u>	
Operating and maintenance	\$123,533,394
Debt service (principal and interest)	18,897,680
NERC/ERO pass-through cost	13,248,627
Revenue-funded project spending	<u>6,000,000</u>
Subtotal – Revenue requirements	<u>\$161,679,701</u>
 <u>Spending authorization</u>	
Revenue requirements	161,679,701
Debt-funded project spending	<u>9,000,000</u>
Total – Spending authorization	<u>\$170,679,701</u>

The F&A Committee will meet prior to the Board meeting on Monday, June 18, 2012, and is expected to make a recommendation to the Board regarding the 2013 Budget. The Board is expected to consider the F&A Committee's recommendation on Tuesday, June 19, 2012.

If the F&A Committee recommends that the Board approve the 2013 Budget and the Board approves it, then ERCOT staff will seek PUCT approval of the Board-approved 2013 Budget, as required by PUCT Substantive Rule Section 25.363(d).

**Key Factors Influencing Issue:**

- Section 3.3 of the Board Policies require the ERCOT CEO to present an annual Budget to carry out the Board's directives for the following year by October of each year, or at such other time as directed by the Board.
- Sections 4.10 and 10.3 of the Bylaws require that the Board approve the annual Budget for the ensuing fiscal year.
- ERCOT requires approval of the 2013 Budget by the Board and the PUCT for funding to enable ERCOT to fulfill its statutory functions as an independent organization as required by PURA Section 39.151(a). For instance, ERCOT must have adequate funds in 2013 to:
 - 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.

Conclusion/Recommendation:

ERCOT management respectfully requests that the F&A Committee support and recommend management's recommendations for Board approval, and that the Board:

- Adopt and approve the recommended 2013 Budget as set forth in Attachment A, which includes \$170,679,701 total spending authorization for operating expenses, project spending, and debt service obligations; and
- Approve the recommended continuation of the ERCOT System Administration Fee of \$0.4171 per megawatt-hour for 2013.



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 2013 Budget (Budget), which includes operating expenses, project spending, and debt service obligations;

WHEREAS, Sections 4.10 (*Duties*) and 10.3 (*Budget*) of the Amended and Restated Bylaws of Electric Reliability Council of Texas, Inc., approved on April 16, 2010 (Bylaws), requires that the Board approve the ERCOT Budget;

WHEREAS, ERCOT staff discussed financial concepts, assumptions, methodologies and schedules relating to the 2013 Budget in a public meeting with the F&A Committee, and consulted with the staff of the Public Utility Commission of Texas (PUCT) regarding development of the 2013 Budget; and

WHEREAS, ERCOT management presented its recommended 2013 Budget, which includes a revenue requirement totaling \$161,679,701 and debt-funded project spending of \$9,000,000, to the F&A Committee on June 18, 2012; and

WHEREAS, the 2013 Budget proposed by ERCOT management will not require a change in the current System Administration Fee for 2013;

THEREFORE, BE IT RESOLVED, that the Board hereby:

1. Adopts and approves the 2013 Budget as set forth in Attachment A, which includes \$170,679,701 total spending authorization for operating expenses, project spending, and debt service obligations;
2. Approves the recommended continuation of the ERCOT System Administration Fee of \$0.4171 per megawatt-hour for 2013; and
3. Authorizes ERCOT Legal to file the Board-approved 2013 Budget for approval by the PUCT, pursuant to P.U.C. Substantive Rule Section 25.363(d)

CORPORATE SECRETARY'S CERTIFICATE

I, Bill Magness, Corporate Secretary of ERCOT, do hereby certify that, at its June 19, 2012 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of June, 2012.

Bill Magness
Corporate Secretary