



**The Finance and Audit (F&A) Committee is expected to consider F&A Committee Agenda Item 10: *Recommendation regarding Financial Corporate Standard* at its meeting on January 14, 2013.**

**The Board of Directors is expected to hear the F&A Committee's recommendation on this matter as part of the F&A Committee Report at the Board meeting on January 15, 2013.**

**Attached are the F&A Committee and Board materials in relation to these agenda items.**



# Item 10: Recommendation Regarding Financial Corporate Standard

Leslie Wiley  
Treasury Manager

Finance & Audit Committee Meeting

ERCOT Public  
January 14, 2013

- **The Financial Corporate Standard's objective is to assure financial stability with ERCOT's strategic plan and ERCOT's budget.**
- **The Board of Directors established the Standard, which is reviewed annually. Seeking a vote from Finance and Audit Committee members.**
- **No revisions to the Standard are being proposed for 2013.**

## **The Financial Corporate Standard defines:**

- **Revenue funded portion of capital expenditures**
- **Fixed to Floating interest rate ratio on debt**
- **Targeted liquidity factors:**
  1. **Six months of forecasted Debt Service**
  2. **Two months average operating and Maintenance expenses net of administrative fee receipts**
  3. **Two months of budgeted project expenditures**
  4. **Two months of CRR repayment obligations net of CRR receipts.**

- **ERCOT staff respectfully recommends that the Finance and Audit Committee recommend that the Board of Directors approve ERCOT's Financial Corporate Standard with no revisions.**

**<Vote>**



**Date:** January 8, 2013  
**To:** Board of Directors  
**From:** Michael Petterson, Vice President of Finance and Treasury  
**Subject:** Approval of Financial Corporate Standard

**Issue for the ERCOT Board of Directors**

**ERCOT Board of Directors Meeting Date:** January 15, 2013

**Item No.:** 13.3

**Issue:**

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should approve the ERCOT Financial Corporate Standard (Standard) to become effective upon approval by the Board.

**Background/History:**

The Board has established a Financial Corporate Standard, which is reviewed annually and updated as needed. The Board must approve any modifications to the document.

This Standard establishes a framework from which ERCOT's financial integrity is 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. The Standard defines the principles by which ERCOT performs its financial planning and budgeting.

ERCOT staff has reviewed the Standard, does not propose any changes or clarifications, as reflected in *Attachment A*. The Finance and Audit (F&A) Committee is expected to recommend that the Board adopt, reject, or amend the Standard at its January 14, 2013 meeting, and that the Standard would become effective upon approval by the Board.

**Key Factors Influencing Issue:**

The key factors influencing the issue are adherence to provisions of Board-approved Corporate Standards, improved clarity and consistency of policy documents, and the need to provide sound financial guidance for ERCOT's exempt purposes.

**Conclusion/Recommendation:**

The F&A Committee is expected to review the Standard at its meeting on January 14, 2013 and is expected to recommend to the Board whether any revisions should be made to the Standard and whether they should become effective upon approval by the Board.



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

WHEREAS, after its meeting on January 14, 2013, the Finance and Audit (F&A) Committee of the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) has recommended that the Board approve revisions to the Financial Corporate Standard as forth in *Attachment A*;

WHEREAS, after due consideration of the alternatives, the Board deems it desirable and in the best interest of ERCOT, in order to provide sound financial guidance for its exempt purposes, to approve revisions to the Financial Corporate Standard as recommended by the F&A Committee; and

THEREFORE, BE IT RESOLVED, that the revised Financial Corporate Standard, as set forth in *Attachment A*, which is attached hereto and incorporated herein by reference for all purposes, is hereby authorized and approved by the Board in each and every respect to be effective immediately.

**CORPORATE SECRETARY'S CERTIFICATE**

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its January 15, 2013 meeting, the ERCOT Board passed a motion approving the above Resolution by \_\_\_\_\_.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_ day of January, 2013.

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

## ERCOT CORPORATE STANDARD

Document Name:	Financial Corporate Standard
Document ID:	CS3.1
Effective Date:	Upon Approval
Owner:	Board of Directors, Finance & Audit Committee
Governs:	ERCOT Personnel
Approved:	Board of Directors, Finance & Audit Committee

### 1. 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. DEFINITIONS

Acronyms & Terms	Definition and Description
<b>Budget</b>	The Budget consists of Project Budgets and an Operating and Maintenance Budget.
<b>Project Budgets</b>	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.
<b>Cash Operating and Maintenance Expenses</b>	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.
<b>Fiscal Year</b>	ERCOT's fiscal year is January 1 <sup>st</sup> through December 31 <sup>st</sup> .
<b>NERC</b>	North American Electric Reliability Corporation, the entity currently certified as the Electric Reliability Organization by the Federal Energy Regulatory Commission ("FERC").
<b>Operating and Maintenance Budget</b>	The Operating and Maintenance Budget consists of all reasonable and necessary costs expected to be incurred during ERCOT's Fiscal Year.
<b>Scheduled Debt Service</b>	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.
<b>Strategic Financial Plan</b>	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.
<b>CRR</b>	Congestion Revenue Rights



### 3. 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 Vice President of Finance and Treasury or Controller 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.

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 rulings. ERCOT will also collect fees on behalf of the Electric Reliability Organization as approved by FERC. 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 any overspending of the Budget or under collection of revenue, or more than a 5 percent under spending of the Budget or over collection of revenue, 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 may use a combination of equity (revenue funding) and debt to finance current year Project Budgets. In determining the combination of equity and debt to be used, ERCOT will consider the impact of the current year decision

on future years, but in no event will ERCOT propose to revenue fund less than 40 percent of Project Budgets during the project development phase.

Generally, ERCOT will structure debt issues such that the average maturity of the debt does not exceed 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 un-hedged, 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) to the extent CRR auction revenues have been utilized to fund ERCOT working capital and project expenditure needs, two months of estimated CRR repayment obligations expected to be paid, net of projected CRR 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 CRR 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. RESPONSIBILITIES**

It is the responsibility of the Chief Executive Officer and Vice President of Finance and Treasury to ensure that this Corporate Standard is implemented appropriately and to recommend changes in the Corporate Standard as needed.

## **5. FINANCIAL STANDARD ADOPTION**

ERCOT's Financial Corporate Standard was 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.