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## **Item 4: Discussion of 2014 Budget Assumptions**

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VP, Finance & Treasury

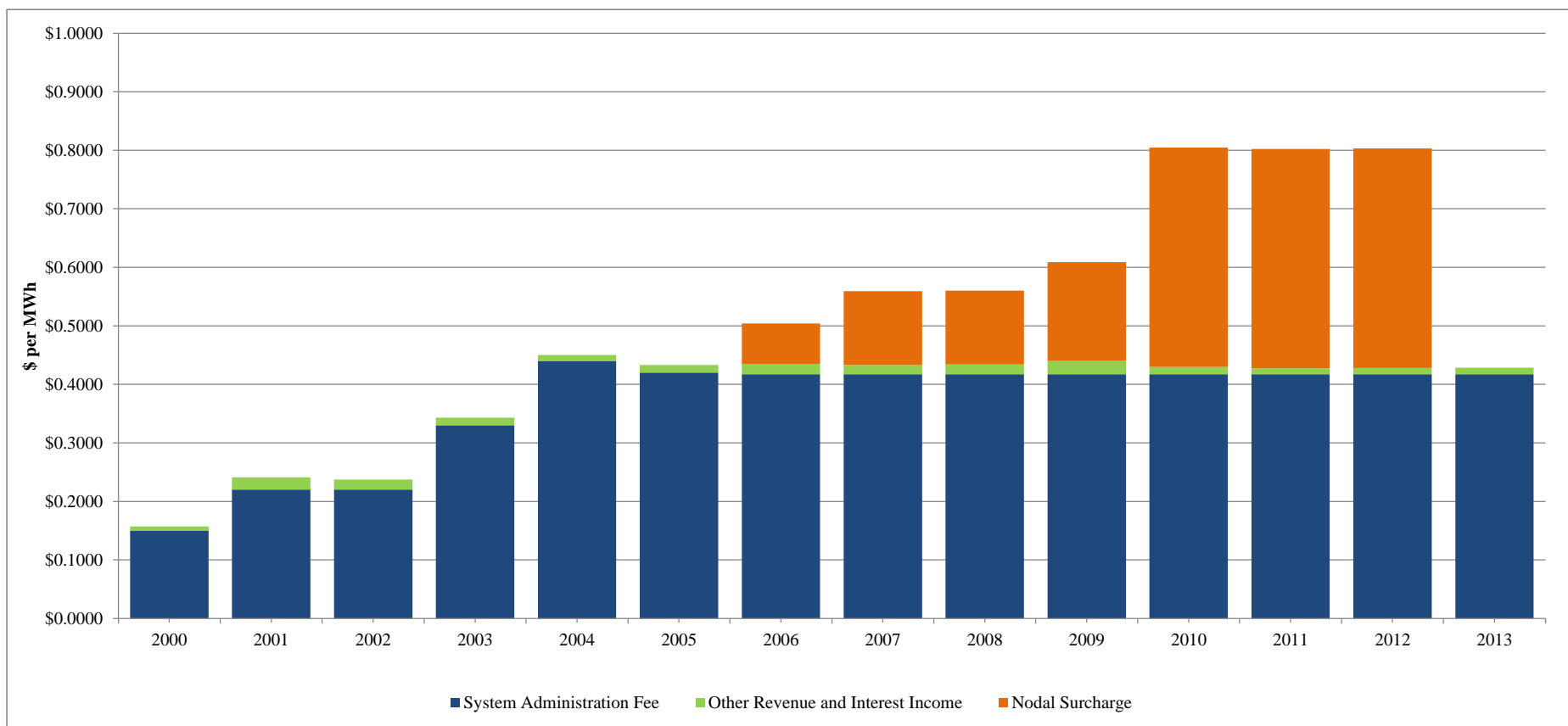
Finance & Audit Meeting

ERCOT Public

May 13, 2013

- **Bottoms up, zero-based resource requests with top-down challenge and rationalization**
  
- **Cost consciousness and efficiency**
  
- **Considers and is consistent with:**
  - Strategic plans
  - Risk assessments
  - Key performance indicators

**ERCOT  
2014 Budget  
Fee Profile Summary (2000-2013)**



**ERCOT Fees by Type**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
System Administration Fee	0.1500	0.2200	0.2200	0.3300	0.4400	0.4200	0.4171	0.4171	0.4171	0.4171	0.4171	0.4171	0.4171	0.4171
Other Revenue and Interest Income	0.0070	0.0211	0.0172	0.0129	0.0102	0.0129	0.0179	0.0160	0.0169	0.0229	0.0126	0.0103	0.0109	0.0111
Nodal Surcharge	-	-	-	-	-	-	0.0690	0.1260	0.1260	0.1690	0.3750	0.3750	0.3750	-
<b>Total</b>	<b>0.1570</b>	<b>0.2411</b>	<b>0.2372</b>	<b>0.3429</b>	<b>0.4502</b>	<b>0.4329</b>	<b>0.5040</b>	<b>0.5591</b>	<b>0.5600</b>	<b>0.6090</b>	<b>0.8047</b>	<b>0.8024</b>	<b>0.8030</b>	<b>0.4282</b>

### 2014 Energy Forecast History:

- **349.1 TWh - based on 2011 Long-Term Load Forecast**
  - Forecasted a 4.1% growth rate over 2013 (Moody's base)
  
- **340.4 TWh – based on 2012 Long-Term Load Forecast**
  - Forecasted a 2.6% growth rate over 2013 (Moody's low)
  
- **342.6 TWh – adjusted Moody's low 2013 Forecast**
  - Forecasted a 2.1% growth rate over 2013

### **2014 Forecast:**

- **Based on Moody's low case scenario (adjusted)**
  - In March, Bureau of Labor Statistics updated historical non-farm employment values from 2011 forward. Resulted in 2013 non-farm employment values increasing by approximately 1%.
  - In April, Moody's updated their forecast to reflect these changes in historical data
  - 2014 budget forecast was increased to reflect this change (overly conservative to not reflect this change)
  
- **Acquisition of Sharyland**
  
- **15-year normal weather (1998 – 2012)**

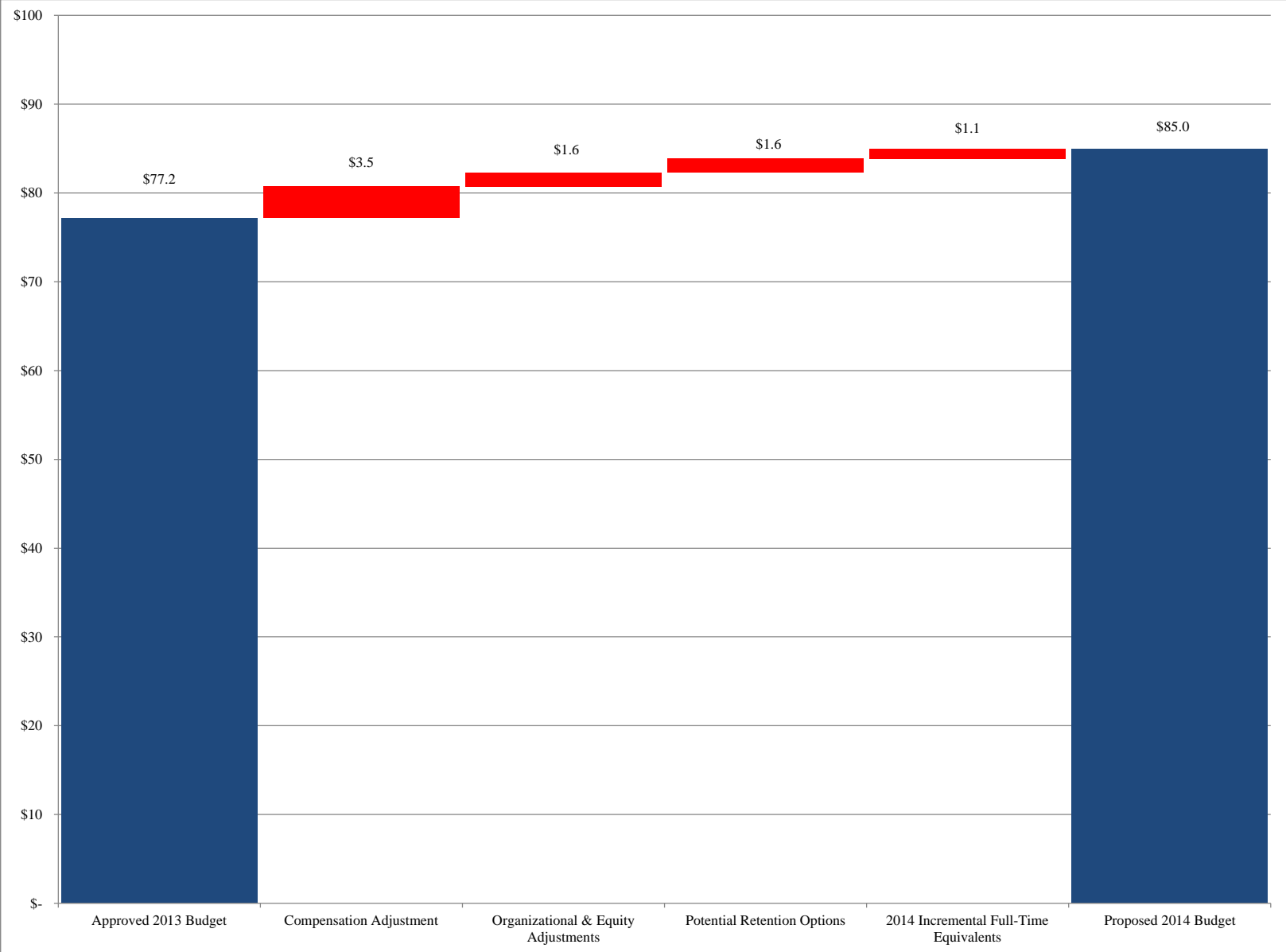
### **2015 through 2019 Forecast:**

- **Based on Moody's low case scenario**
  - Strong growth in 2014 and 2015 then slows down significantly
  
- **Performed a high level comparison with the base forecast from Global Insight for the State of Texas**
  - Moody's forecast has higher growth rate in the first few years
  - Global Insight forecast is smoother over the forecast time frame
  - Forecasts converge in 2017
  
- **15-year normal weather (1998 – 2012)**

**ERCOT**

2014 Budget (\$ In Millions)

**Revenue Requirements Variance - Labor Expense Category**



### Authorized Positions

- **Compensation adjustment based on market data (\$3.5M)**
  - Consistent with 2013
  - Mercer, Culpepper, and Worldatwork surveys
  
- **Organizational and equity adjustments (\$1.6M)**
  
- **Potential retention options (\$1.6M)**
  - Further review in executive session
  
- **2014 Incremental Full Time Equivalents (\$1.1M)**
  - Create IT Development Program (4 FTEs)
  - Convert long-term contractors to employees (3 FTEs)
  - NPRR and project requirements (6 FTEs)

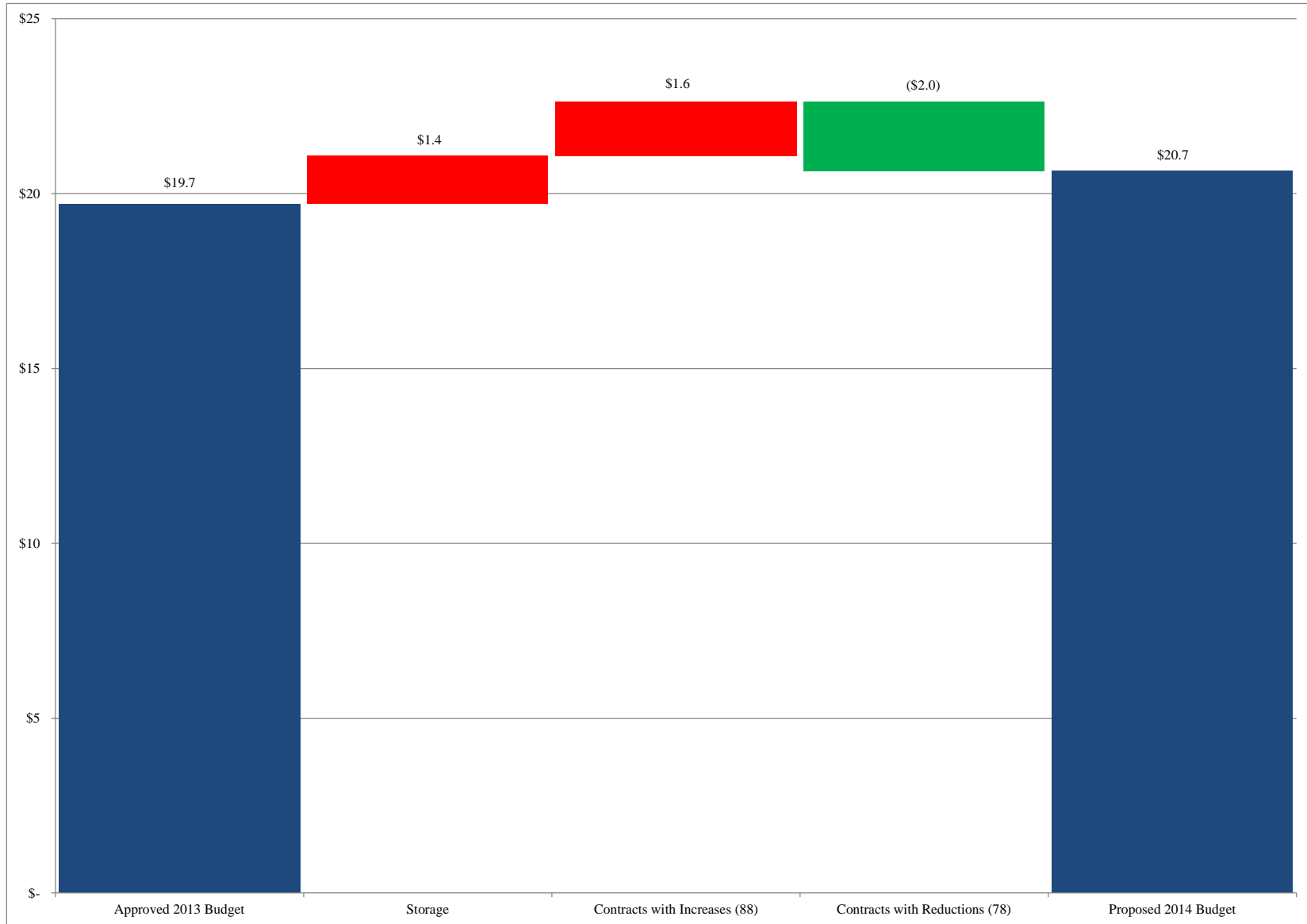


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**2014 Budget**

**Revenue Requirements Variance - Hardware and Software Support and Maintenance Expense (\$ In Millions)**

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# Discussion of 2014 Budget Assumptions

## Hardware and Software Support and Maintenance Expense

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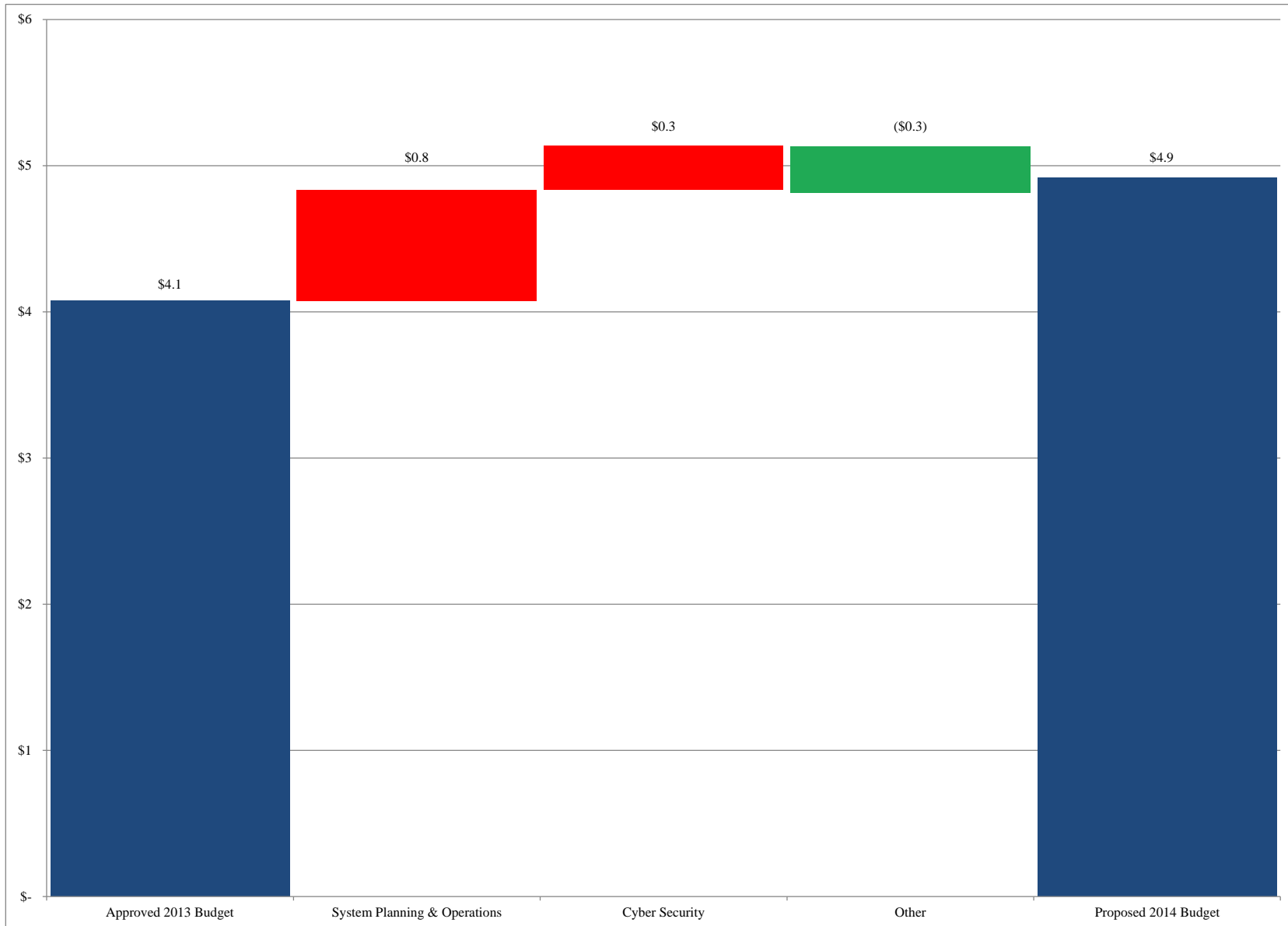
- **Key driver: Increase in storage licensing and storage growth**
  - Enterprise License agreement requires renewal in 2014
  - Organic growth of storage is forecast at 9.75%
  
- **Increases across 88 maintenance contracts**
  - New or expanding services deployed in 2013 or 2014
  - Maintenance for Minor Capital purchases (previously unbudgeted)
  - Cyber Security, Network, Servers, Operating Systems maintenance
  - Corporate Monitoring and Control tools
  
- **Decreases across 78 maintenance contracts:**
  - Reduced Operation and Maintenance cost for MMS, EMS, NMMS, CRR
  - Efficiencies (Retirement, reduced services, credits, etc.)

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2014 Budget (\$ In Millions)

**Revenue Requirements Variance - Outside Services Expense Category**

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### ➤ **System Planning and Operations**

- Electric/Gas Pipeline Infrastructure Dependency Analysis
- Loss of Load Expectation (LOLE) Study Update for 2014
- Need for Outside Assistance with Implementation of New NERC Planning Standard (TPL-001-2)

Summary of 2014 Project Demand by Category



# Discussion of 2014 Budget Assumptions

## Revenue-Funded Project Expenditures

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**~\$30M demand for capital projects in 2014**

**\$25M requested for project funding**

- **\$13.6M to maintain existing systems (no functionality change)**
  - Maintain/upgrade technology layers including storage, servers, operating systems, network, database, security capabilities, and software applications
  - Current systems aging – periodic refreshes needed to maintain ability to perform core functions
  - \$6.4M for major projects
    - EMS Upgrade, Settlements System Upgrade, MMS Tech Refresh
  
- **\$7.9M changes to enhance market design/improve functionality**
  - \$4.0M for future Revision Requests
  - \$1.5M for Revision Requests that are Board approved or pending Board approval
  - \$2.4M for other strategic enhancements
    - \$1.0M for MP Data Entry
    - \$0.9M for security initiatives
  
- **\$3.5M for projects to enhance internal efficiency and effectiveness**

## Closing Comments