



**The Finance & Audit (F&A) Committee is  
expected to consider  
F&A Committee Agenda Item 3:  
*Recommendation Regarding  
2014-2015 Biennial Budget*  
at its meeting on July 15, 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 July 16, 2013.**

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



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## **Item 3: Recommendation Regarding 2014-15 Budget**

*Michael Petterson*

VP, Finance & Treasury

Finance & Audit Meeting

ERCOT Public

July 15, 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

# Recommendation Regarding 2014-15 Budget

## Introduction

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- ERCOT, the PUC, and Market Participants all anticipated that moving to a nodal market would increase ERCOT's operating costs.
- Since Nodal Go-Live (Dec. 2010), ERCOT has effectively managed nodal operations, but has not requested a fee increase to cover the additional costs.
- Looking toward 2014-15, ERCOT does not believe ongoing cost control initiatives will be sufficient to fully offset incremental costs of managing the nodal market (and costs of other additional work and duties).
- The ERCOT management team takes our duty to prudently manage our resources extremely seriously.
- The requested increase in the System Administration Fee from \$0.4171/MWH to \$0.4650/MWH for 2014-15 (an increase of \$0.0479/MWH or approximately 11.5%) is a reasonable response to the challenges facing ERCOT.

# ERCOT

Fiscal Years 2014 and 2015 Budget (\$ In Thousands)

## Revenue Requirements - Current Year Budget vs. Years Requested

Line	(\$ Thousands)	2013 Forecast	2013 Budget	2014 Request	2013 vs. 2014 Variance		2015 Request	2014 vs. 2015 Variance	
					\$	%		\$	%
1	<b>Operating expenses</b>								
2	* Labor	\$ 77,065	\$ 77,165	\$ 86,350	\$ 9,185	11.9	\$ 89,804	\$ 3,454	4.0
3	* Hardware & Software Support & Maintenance	19,131	19,706	20,654	949	4.8	20,972	318	1.5
4	* Facilities & Equipment	8,860	10,033	8,947	(1,086)	(10.8)	9,103	156	1.7
5	* Outside Services	4,695	4,077	4,917	840	20.6	4,341	(576)	(11.7)
6	Independent Market Monitoring	3,200	2,900	3,300	400	13.8	3,400	100	3.0
7	Protocol Services	1,029	1,029	970	(59)	(5.7)	999	29	3.0
8	Market Design Contingency	-	-	1,000	1,000		-	(1,000)	(100.0)
9	Other Expenses	4,469	4,144	4,638	494	11.9	4,709	71	1.5
10	Employee Expenses	1,601	1,601	1,909	308	19.2	1,938	29	1.5
11	Wide Area Network	2,980	2,880	3,505	625	21.7	3,559	54	1.5
12	<b>Subtotal - Operating Expenses</b>	<b>123,030</b>	<b>123,533</b>	<b>136,189</b>	<b>12,655</b>	<b>10.2</b>	<b>138,825</b>	<b>2,636</b>	<b>1.9</b>
13	<b>Debt Service Obligations</b>								
14	Principal Payments	15,242	16,570	15,031	(1,539)	(9.3)	16,030	1,000	6.7
15	Interest Expense	2,328	2,328	2,633	305	13.1	3,095	463	17.6
16	<b>Subtotal - Debt Service Obligations</b>	<b>17,570</b>	<b>18,898</b>	<b>17,663</b>	<b>(1,234)</b>	<b>(6.5)</b>	<b>19,125</b>	<b>1,462</b>	<b>8.3</b>
17	<b>Revenue-Funded Project Expenditures</b>								
18	* Project Expenditures	15,000	15,000	25,000	10,000	66.7	25,000	-	
19	Debt-Funded Project Expenditures	9,000	9,000	15,000	6,000	66.7	15,000	-	
20	<b>Subtotal - Revenue-Funded Project Expenditures</b>	<b>6,000</b>	<b>6,000</b>	<b>10,000</b>	<b>4,000</b>	<b>66.7</b>	<b>10,000</b>	<b>-</b>	
21	Reliability Organization Assessment	11,749	13,249	12,000	(1,249)	(9.4)	12,000	-	
22	<b>Subtotal - Revenue Requirements</b>	<b>158,348</b>	<b>161,680</b>	<b>175,852</b>	<b>14,172</b>	<b>8.8</b>	<b>179,951</b>	<b>4,098</b>	<b>2.3</b>
23									
24	<b>Revenue Sources</b>								
25	System Administration Fee Revenue	138,996	139,896	159,309	19,413	13.9	163,345	4,036	2.5
26	Reliability Organization Assessment Fee	11,749	13,249	12,000	(1,249)	(9.4)	12,000	-	
27	Wide Area Network Revenue	2,939	2,820	3,447	627	22.2	3,500	53	1.5
28	Other Revenue	1,175	915	1,096	181	19.8	1,105	9	0.8
29	Prior Year Carry Forward	3,490	4,800	-	(4,800)	(100.0)	-	-	
30	<b>Subtotal - Revenue Sources</b>	<b>158,348</b>	<b>161,680</b>	<b>175,852</b>	<b>14,172</b>	<b>8.8</b>	<b>179,951</b>	<b>4,098</b>	<b>2.3</b>
31									
32	<b>System Administration Fee Calculation</b>								
33	System Administration Fee Revenue	138,996	139,896	159,309	19,413	13.9	163,345	4,036	2.5
34	Energy Consumption (GWH)	333,208	335,401	342,600	7,199	2.1	351,281	8,681	2.5
35	<b>System Administration Fee</b>	<b>0.4171</b>	<b>0.4171</b>	<b>0.4650</b>	<b>0.0479</b>	<b>11.5</b>	<b>0.4650</b>	<b>-</b>	
36									
37	<b>Total Spending Authorization Computation</b>								
38	Revenue Requirements	158,348	161,680	175,852	14,172	8.8	179,951	4,098	2.3
39	Debt-Funded Project Expenditures	9,000	9,000	15,000	6,000	66.7	15,000	-	
40	<b>Total Spending Authorization</b>	<b>\$ 167,348</b>	<b>\$ 170,680</b>	<b>\$ 190,852</b>	<b>\$ 20,172</b>	<b>11.8</b>	<b>\$ 194,951</b>	<b>\$ 4,098</b>	<b>2.1</b>

\* Indicates that a waterfall chart is included for the corresponding line.

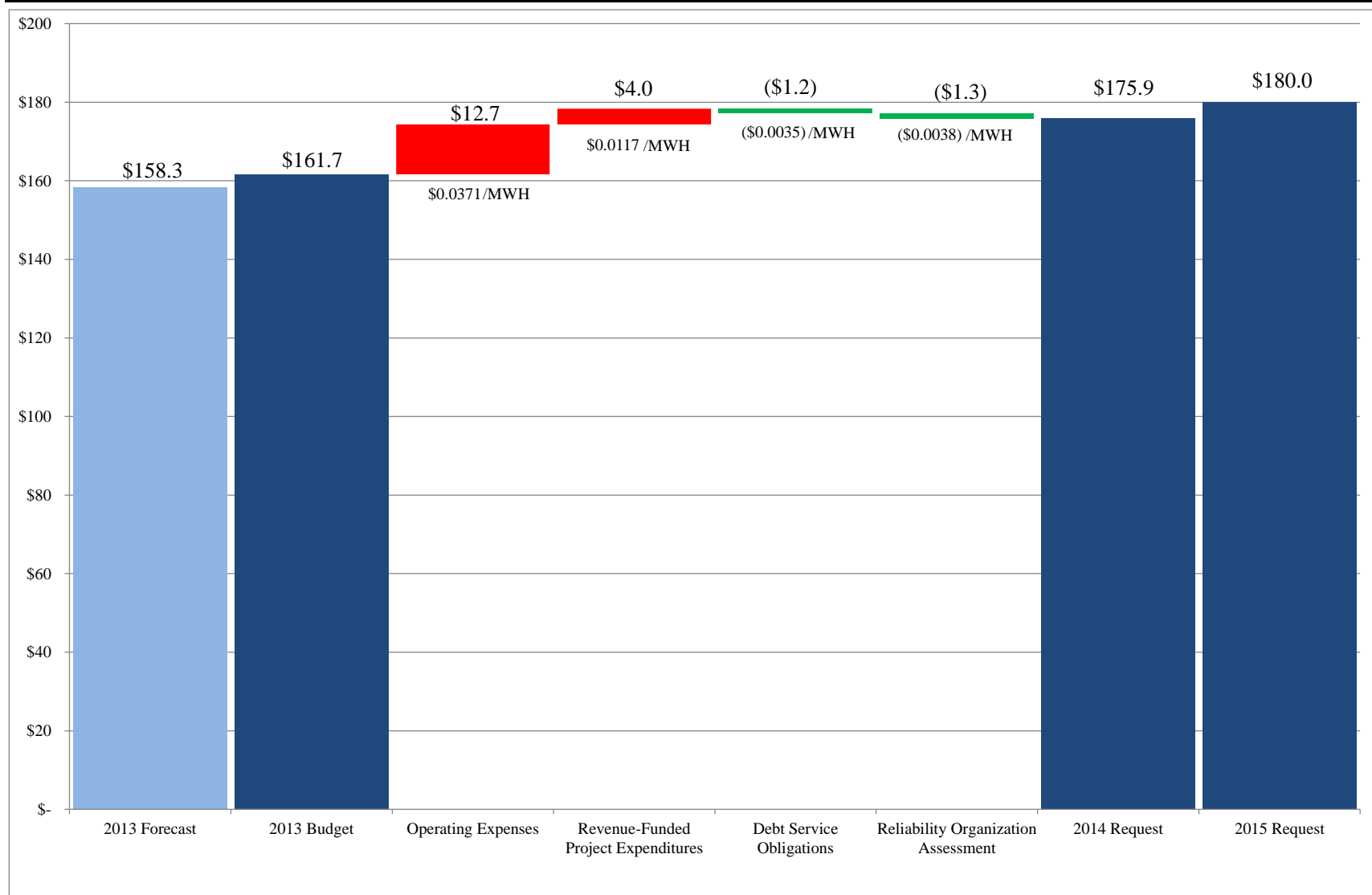
## **Appendix A**

### **2013 Budget vs. 2014 Request Variance Analysis**

# ERCOT

Fiscal Years 2014 and 2015 Budget (\$ In Millions)

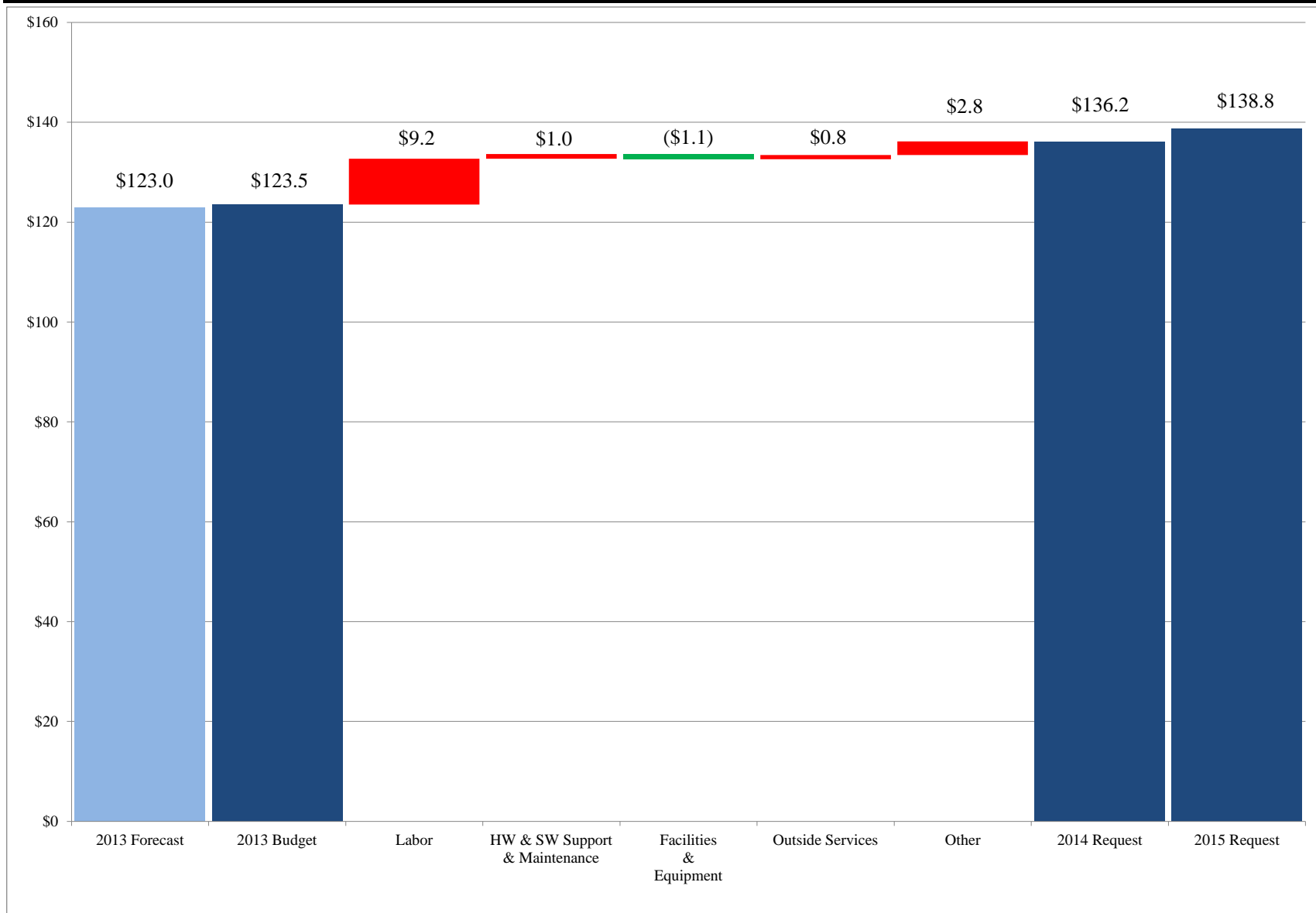
2013 Budget vs. 2014 Request Variance Analysis - All Expenditure Categories



# ERCOT

Fiscal Years 2014 and 2015 Budget (\$ In Millions)

2013 Budget vs. 2014 Request Variance Analysis - Operating Expense Categories



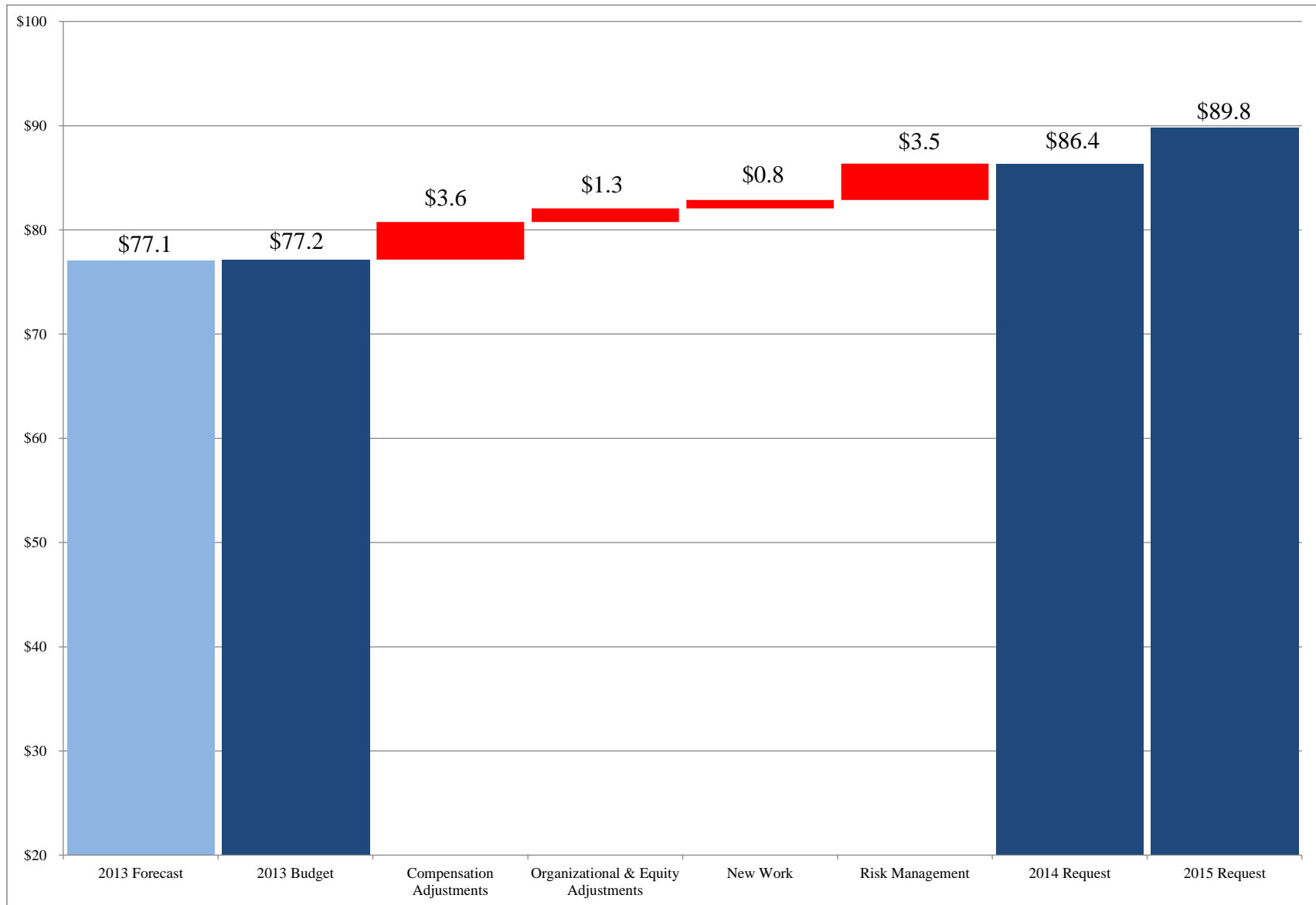


## ERCOT

Fiscal Years 2014 and 2015 Budget (\$ In Millions)

2013 Budget vs. 2014 Request Variance Analysis - Labor Expense Category

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# Recommendation Regarding 2014-15 Budget

## Labor Expense

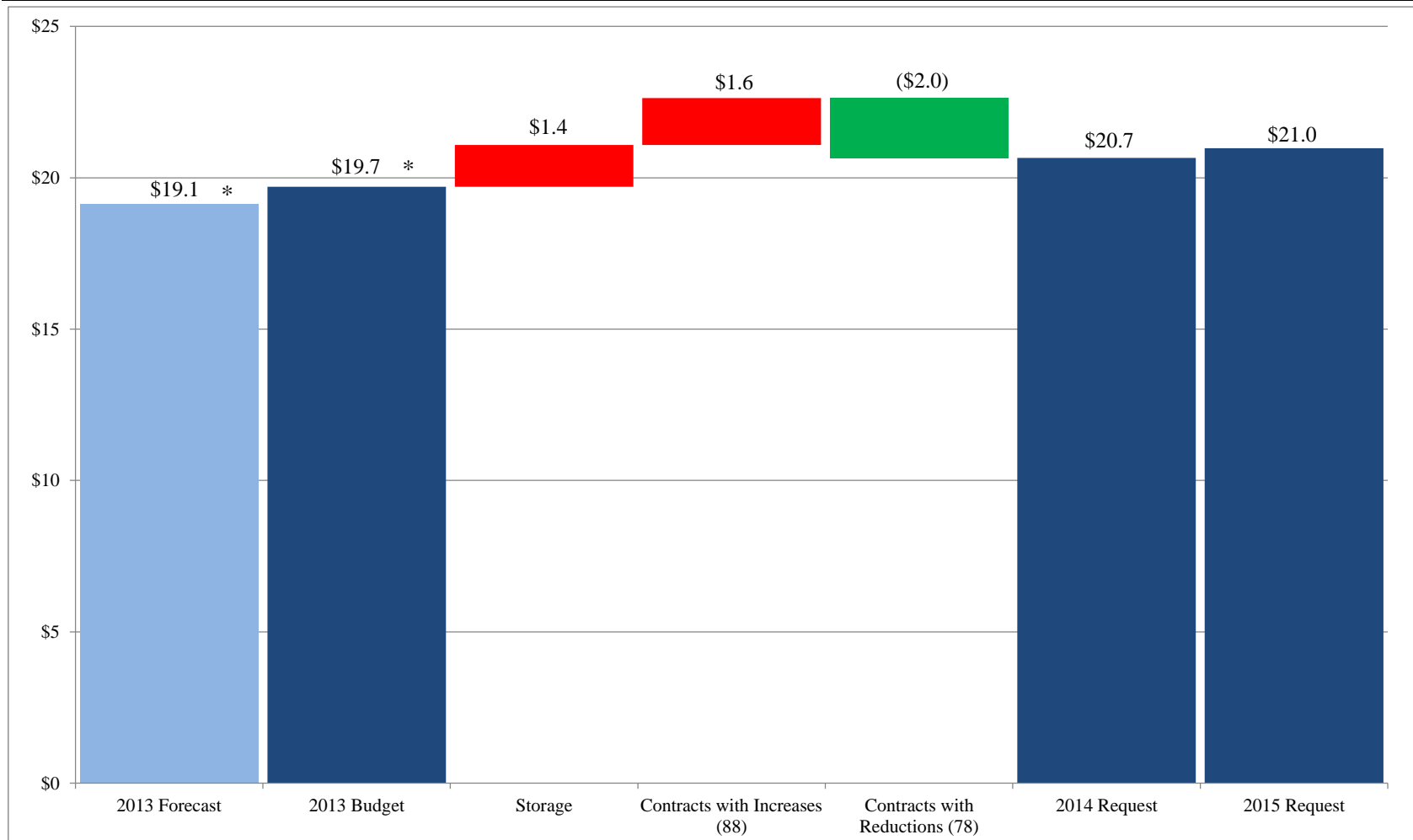
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- **Compensation adjustments based on market data (\$3.6M)**
  - Consistent with 2013: 3% merit and 1% promotions
  - Mercer, Culpepper, and Worldatwork surveys
  
- **Organizational and equity adjustments (\$1.3M)**
  
- **New Work (\$0.8M)**
  - NPRRs
  - Projects
  
- **Risk Management (\$3.5M)**
  - Development opportunities
  - Cross-training
  - Succession planning

# ERCOT

Fiscal Years 2014 and 2015 Budget (\$ In Millions)

2013 Budget vs. 2014 Request Variance Analysis - Hardware & Software Support & Maintenance Expense Category



## Note:

\* \$1.0 M of the 2013 Forecast and Budget will be managed as project expenditures.

# Recommendation Regarding 2014-15 Budget

## Hardware and Software Support and Maintenance Expense

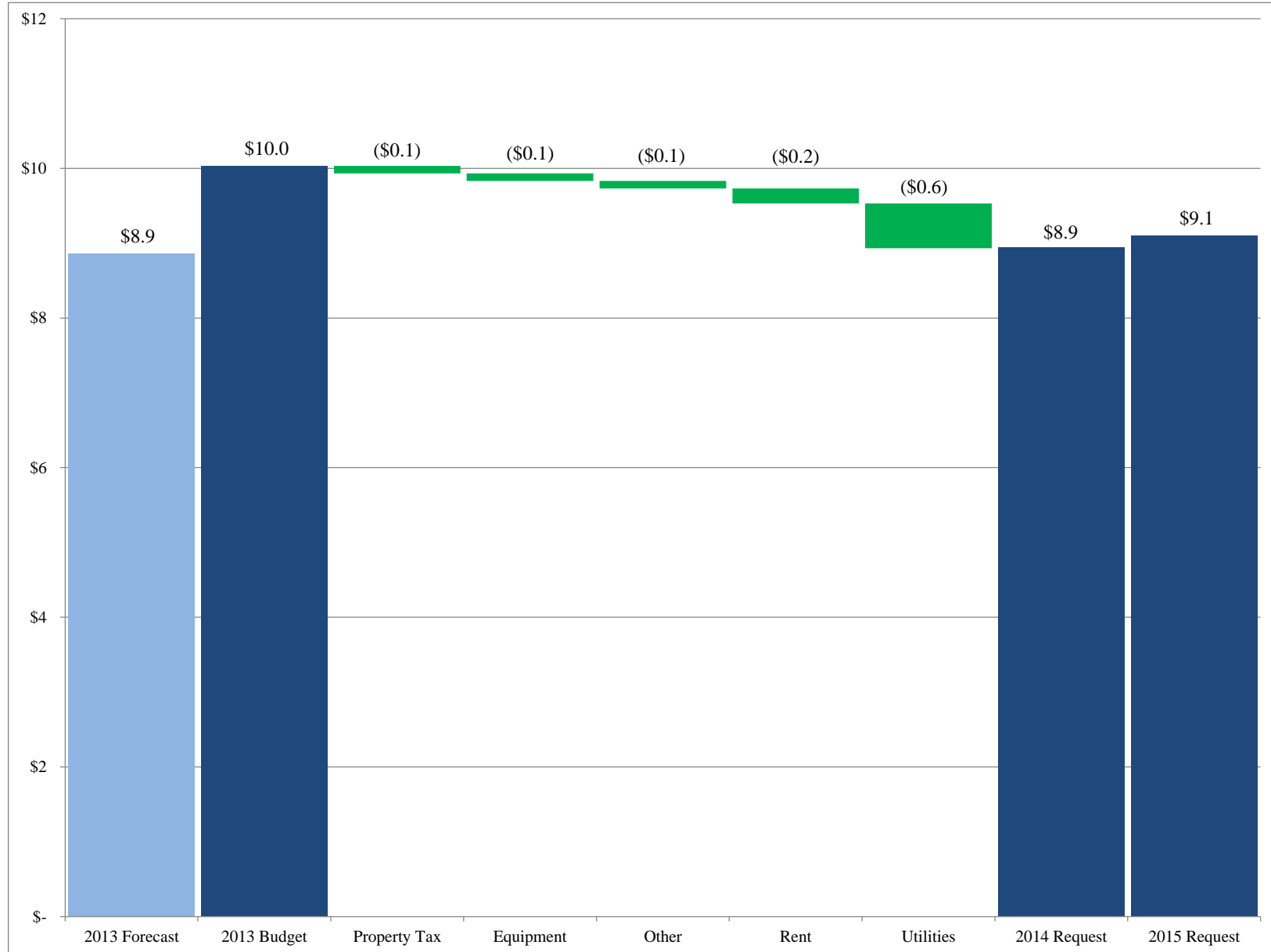
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- **Key driver: Increase in storage licensing and storage growth due to Nodal**
  - Enterprise license agreement requires renewal in 2014
  - Organic growth of storage forecasted at 9.75%
  
- **Increases across 88 maintenance contracts**
  - New or 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 Market Management System (MMS), Energy Management System (EMS), Network Model Management System (NMMS), and Congestion Revenue Rights (CRR)
  - Efficiencies (retirement, reduced services, credits)

## ERCOT

Fiscal Years 2014 and 2015 Budget (\$ In Millions)

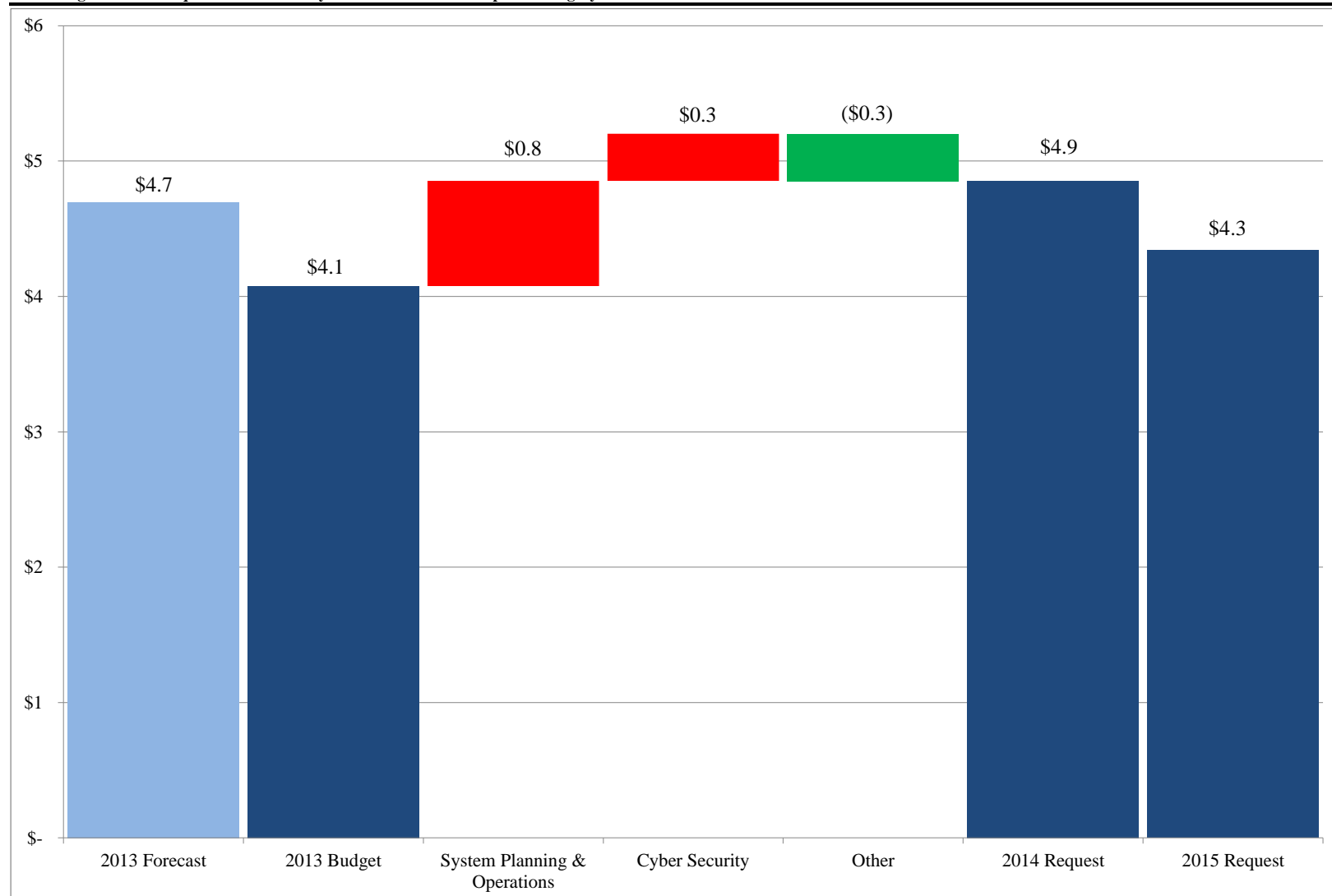
2013 Budget vs. 2014 Request Variance Analysis - Facilities & Equipment Expense Category



## ERCOT

Fiscal Years 2014 and 2015 Budget (\$ In Millions)

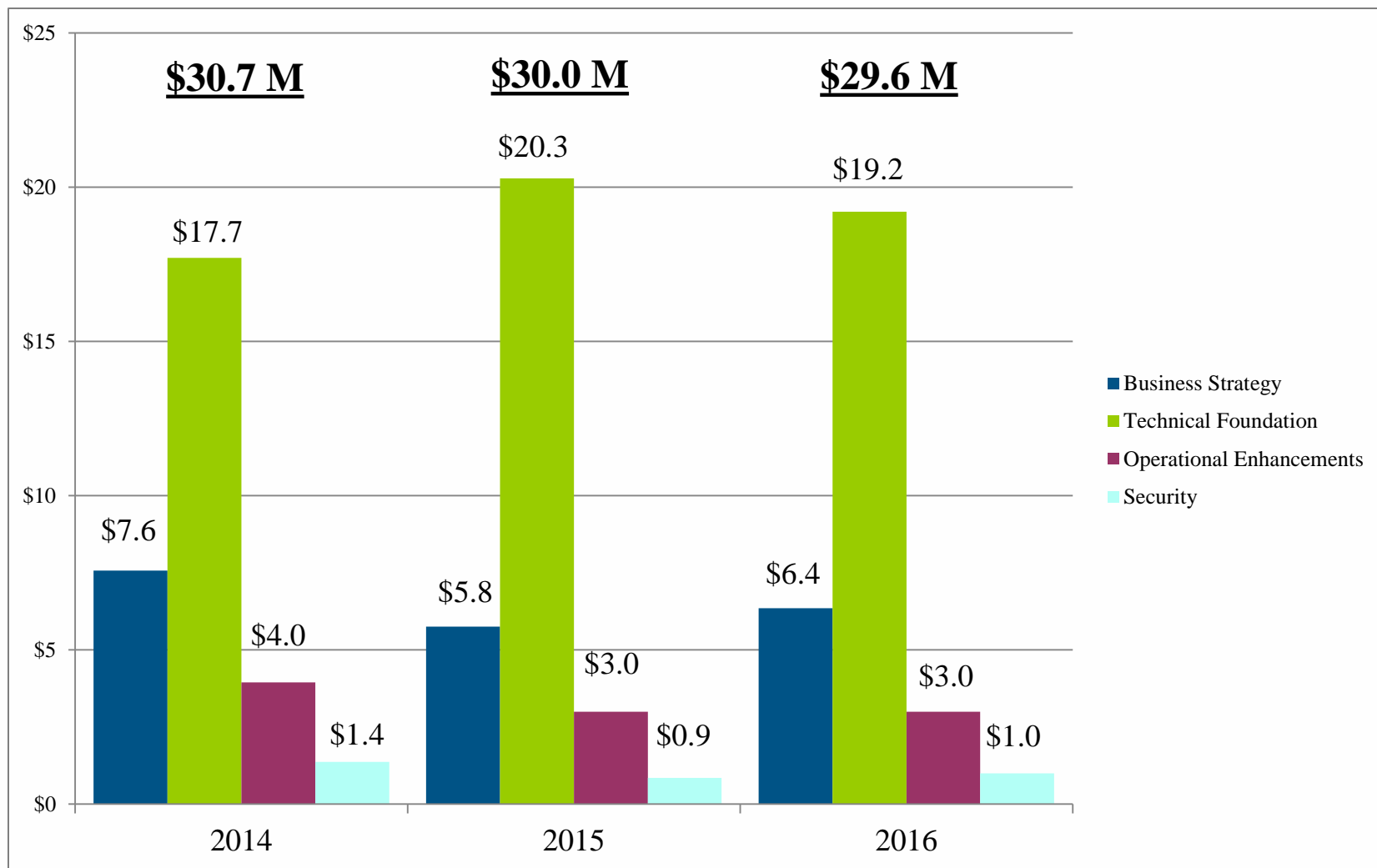
2013 Budget vs. 2014 Request Variance Analysis - Outside Services Expense Category



## ➤ **System Planning and Operations**

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

# Recommendation Regarding 2014-15 Budget Capital Project Demand





# Recommendation Regarding 2014-15 Budget Capital Projects

## ➤ Project Funding Request Balances Capacity and Demand

- Balance across years to avoid excessive funding needs and resource demands in any given year

Demand Drivers
Technical foundation (derived from IT roadmap)
Security (both cyber and physical)
Business strategy (includes NPRRs & other revision requests)
Operational enhancements

Capacity Drivers
Internal ERCOT labor
Vendor labor
Application environments for development and testing
Risk management

## ➤ Why is \$25M the right amount?

- Project estimate developed from the bottom up – we believe \$25M in project funding is appropriate for the projects that need to be done in 2014
- Maximizes internal and vendor labor capacity
- There will be several projects in flight at the end of 2013 that will consume \$11.4M in 2014 funds
  - Examples: Energy Management System (EMS) Upgrade, Market Management System (MMS) Tech Refresh, Settlement System Upgrade
- We need to proceed with several projects that have been deferred in recent years due to limited funding
  - Taylor Control Room Upgrade, Data Warehouse Upgrade, SQL Server Upgrade

# Recommendation Regarding 2014-15 Budget Load Forecast

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## 2014 Forecast:

- **342.6 TWh – adjusted Moody’s low 2013 Forecast**
  - Forecasted a 2.1% growth rate over 2013
  
- **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)
  
- **Sharyland load added to ERCOT region**
  
- **15-year normal weather (1998 – 2012)**

# Recommendation Regarding 2014-15 Budget Load Forecast

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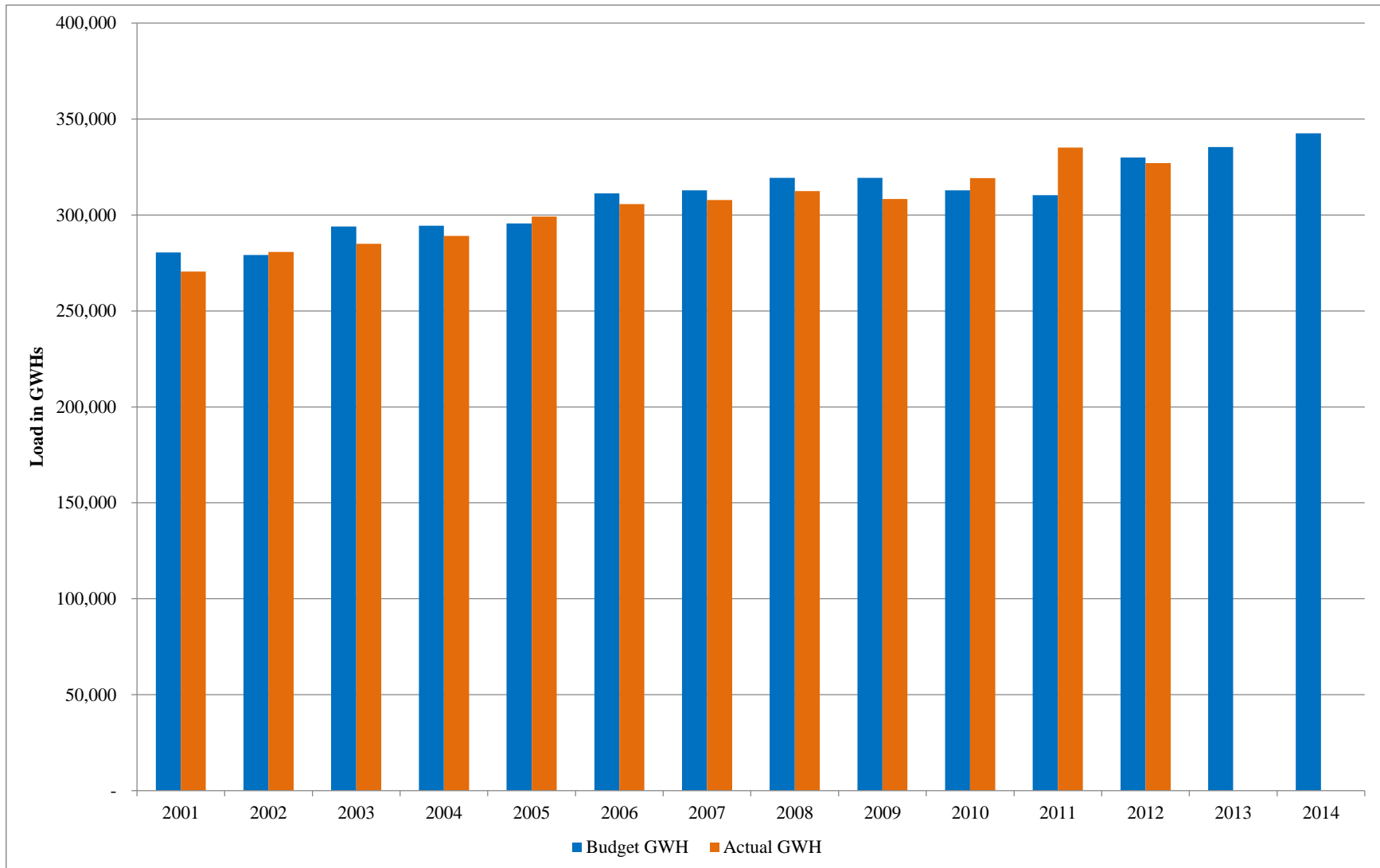
## 2015 through 2019 Forecast:

- **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**
  - More level growth from Global Insight
  - 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

Fiscal Years 2014 and 2015 Budget (\$ In Millions)

Load Trend (2001-2014)



## **Appendix B**

### **Detailed Schedules and Workpapers**

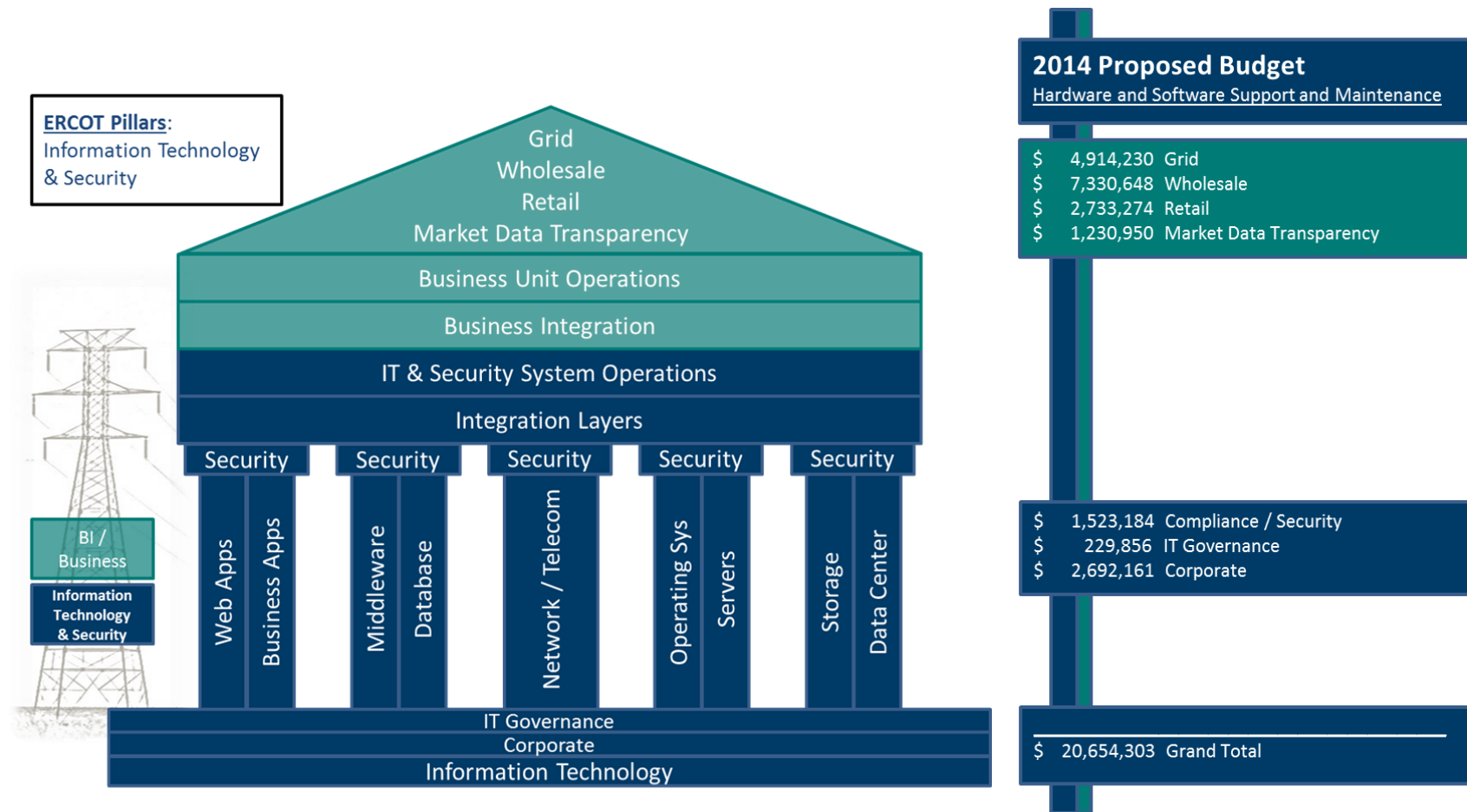
**ERCOT**  
**Fiscal Years 2014 and 2015 Budget (\$ in Thousands)**  
**Revenue Requirements**

Revenue Requirements										
Line	(\$ Thousands)	2012 Actual	2013 Forecast	2013 Budget	2014 Request	2015 Request	2016 Projection	2017 Projection	2018 Projection	2019 Projection
1	<b>Operating Expenses</b>									
2	Labor	\$ 71,591	\$ 77,065	\$ 77,165	\$ 86,350	\$ 89,804	\$ 93,396	\$ 97,132	\$ 101,017	\$ 105,058
3	Hardware & Software Support & Maintenance	18,478	19,131	19,706	20,654	20,972	21,330	21,735	22,160	22,595
4	Facilities & Equipment	8,931	8,860	10,033	8,947	9,103	9,273	9,458	9,651	9,848
5	Outside Services	7,782	4,695	4,077	4,917	4,341	4,442	4,280	4,666	4,461
6	Independent Market Monitoring	2,800	3,200	2,900	3,300	3,400	3,500	3,600	3,670	3,743
7	Protocol Services	999	1,029	1,029	970	999	1,029	1,060	1,092	1,124
8	Market Design Contingency	-	-	-	1,000	-	-	-	-	-
9	Other Expenses	4,463	4,469	4,144	4,638	4,709	4,789	4,880	4,976	5,073
10	Employee Expenses	1,498	1,601	1,601	1,909	1,938	1,971	2,008	2,048	2,088
11	Wide Area Network	3,363	2,980	2,880	3,505	3,559	3,619	3,688	3,760	3,834
12	<b>Subtotal - Operating Expenses</b>	119,906	123,030	123,533	136,189	138,825	143,350	147,841	153,040	157,826
13	<b>Debt Service Obligations</b>									
14	Principal Payments	26,200	15,242	16,570	15,031	16,030	16,568	14,660	18,757	15,644
15	Interest Expense	3,382	2,328	2,328	2,633	3,095	3,218	3,340	3,463	3,585
16	<b>Subtotal - Debt Service Obligations</b>	29,582	17,570	18,898	17,663	19,125	19,786	18,000	22,220	19,229
17	<b>Revenue-Funded Project Expenditures</b>									
18	Project Expenditures	16,366	15,000	15,000	25,000	25,000	25,000	25,000	25,000	25,000
19	Debt-Funded Project Expenditures	9,820	9,000	9,000	15,000	15,000	15,000	15,000	15,000	15,000
20	<b>Subtotal - Revenue-Funded Project Expenditures</b>	6,546	6,000	6,000	10,000	10,000	10,000	10,000	10,000	10,000
21	Reliability Organization Assessment	13,062	11,749	13,249	12,000	12,000	12,000	12,000	12,000	12,000
22	<b>Subtotal - Revenue Requirements</b>	169,096	158,348	161,680	175,852	179,951	185,136	187,841	197,260	199,054
23										
24	<b>Revenue Sources</b>									
25	System Administration Fee Revenue	136,273	138,996	139,896	159,309	163,345	168,461	171,088	180,423	182,132
26	Reliability Organization Assessment Fee	13,062	11,749	13,249	12,000	12,000	12,000	12,000	12,000	12,000
27	Wide Area Network Revenue	3,276	2,939	2,820	3,447	3,500	3,560	3,627	3,698	3,771
28	Other Revenue	1,126	1,175	915	1,096	1,105	1,115	1,127	1,139	1,151
29	Prior Year Carry Forward	15,359	3,490	4,800	-	-	-	-	-	-
30	<b>Subtotal - Revenue Sources</b>	169,096	158,348	161,680	175,852	179,951	185,136	187,841	197,260	199,054
31										
32	<b>System Administration Fee Calculation</b>									
33	System Administration Fee Revenue	136,273	138,996	139,896	159,309	163,345	168,461	171,088	180,423	182,132
34	Energy Consumption (GWH)	326,715	333,208	335,401	342,600	351,281	362,281	367,930	372,007	375,531
35	<b>System Administration Fee</b>	0.4171	0.4171	0.4171	0.4650	0.4650	0.4650	0.4650	0.4850	0.4850
36										
37	<b>Total Spending Authorization Computation</b>									
38	Revenue Requirements	169,096	158,348	161,680	175,852	179,951	185,136	187,841	197,260	199,054
39	Debt-Funded Project Expenditures	9,820	9,000	9,000	15,000	15,000	15,000	15,000	15,000	15,000
40	<b>Total Spending Authorization</b>	\$ 178,916	\$ 167,348	\$ 170,680	\$ 190,852	\$ 194,951	\$ 200,136	\$ 202,841	\$ 212,260	\$ 214,054

# ERCOT

Fiscal Years 2014 and 2015 Budget

Hardware and Software Support and Maintenance



# ERCOT

## Fiscal Years 2014 and 2015 Budget

### Facilities & Equipment

Line	Description	2012 Actual	2013 Budget	2014 Request	2015 Request	2016 Projection	2017 Projection	2018 Projection	2019 Projection
1	<b><u>Building Maintenance</u></b>								
2	Building Security Services	\$ 1,333,292	\$ 1,435,000	\$ 1,385,345	\$ 1,406,677	\$ 1,430,692	\$ 1,457,807	\$ 1,486,349	\$ 1,515,544
3	Building Maintenance	999,432	1,048,888	1,002,200	1,017,633	1,035,006	1,054,622	1,075,269	1,096,389
4	Custodial Service	253,730	250,000	260,000	264,004	268,511	273,600	278,957	284,436
5	Miscellaneous Facilities Services	145,218	155,654	137,000	139,110	141,485	144,167	146,989	149,876
6	Grounds Maintenance	64,950	60,000	65,000	66,001	67,128	68,400	69,739	71,109
7	Subtotal - Building Maintenance	2,796,622	2,949,542	2,849,545	2,893,425	2,942,822	2,998,596	3,057,303	3,117,354
8									
9	<b><u>Property Tax</u></b>	2,352,298	2,299,260	2,168,259	2,211,624	2,255,856	2,300,973	2,346,992	2,393,932
10									
11	<b><u>Utilities</u></b>								
12	Electricity	1,623,978	2,000,000	1,500,000	1,523,097	1,549,100	1,578,459	1,609,363	1,640,974
13	Water/Gas/Sewer/Trash	112,073	150,000	105,000	106,617	108,437	110,492	112,655	114,868
14	Fuel Oil	52,235	75,000	51,996	52,797	53,698	54,716	55,787	56,883
15	Subtotal - Utilities	1,788,286	2,225,000	1,656,996	1,682,511	1,711,235	1,743,667	1,777,805	1,812,725
16	<b><u>Rent</u></b>								
17	Office Rental	636,854	900,000	588,000	605,640	623,809	642,523	661,799	681,653
18	Storage Rental	86,829	66,000	84,000	85,293	86,749	88,392	90,123	91,893
19	Miscellaneous Rental	69,072	-	67,000	68,032	69,193	70,504	71,884	73,296
20	Subtotal - Rent	792,756	966,000	739,000	758,965	779,751	801,419	823,806	846,842
21	<b><u>Telecom</u></b>								
22	Telephone	184,535	204,000	239,000	242,680	246,823	251,501	256,425	261,462
23	Conferencing	204,845	289,100	217,700	221,053	224,827	229,088	233,574	238,162
24	Internet Service	99,190	88,000	142,000	144,186	146,648	149,427	152,353	155,345
25	Frame Relay (NERC)	22,695	30,000	24,000	24,370	24,786	25,256	25,750	26,256
26	Subtotal - Telecom	511,265	611,100	622,700	632,289	643,084	655,272	668,102	681,225
27	<b><u>Equipment &amp; Tools</u></b>								
28	Equipment & Tools < \$1,000	192,347	119,992	198,200	201,252	204,688	208,567	212,650	216,826
29	Software < \$1,000	54,153	175,000	180,000	182,772	185,892	189,415	193,123	196,916
30	Hardware < \$1,000	76,581	246,751	174,000	176,680	179,696	183,101	186,686	190,353
31	Equipment Maintenance	110,526	156,000	126,000	127,940	130,124	132,591	135,187	137,842
32	Office Supplies	88,801	104,775	107,184	108,834	110,698	112,790	114,997	117,255
33	Chemical Supplies	45,375	52,500	50,000	50,770	51,637	52,616	53,646	54,700
34	Equipment Rental	98,556	83,160	38,000	38,585	39,244	39,988	40,771	41,572
35	Misc Equip Repairs	-	31,200	23,200	23,557	23,959	24,413	24,891	25,380
36	Vehicle Maintenance	23,850	12,600	14,000	14,216	14,459	14,733	15,021	15,316
37	Total - Equipment & Tools	690,188	981,978	910,584	924,606	940,397	958,214	976,972	996,160
38									
39	Total - Facilities & Equipment	\$ 8,931,415	\$ 10,032,880	\$ 8,947,084	\$ 9,103,420	\$ 9,273,145	\$ 9,458,141	\$ 9,650,980	\$ 9,848,238



# ERCOT

## Fiscal Years 2014 and 2015 Budget

### Outside Services

Line	Description	2012 Actual	2013 Budget	2014 Request	2015 Request	2016 Projection	2017 Projection	2018 Projection	2019 Projection
1	Consulting and Staff Augmentation	5,540,550	2,463,405	3,259,608	2,648,891	2,714,339	2,516,090	2,865,300	2,622,876
2	Immigration Services	125,676	190,000	190,000	193,990	198,064	202,223	206,470	210,806
3	Legal Services	301,205	600,000	600,000	612,600	625,465	638,600	652,011	665,703
4	Independent Board Compensation & Expenses	483,289	554,000	542,100	553,484	565,107	576,974	589,090	601,461
5	Accounting/Audit Services	208,708	269,100	325,000	331,825	338,794	345,909	353,172	360,587
6	Special Audits	1,122,628	-	-	-	-	-	-	-
7	Total - Outside Services	\$ 7,782,056	\$ 4,076,505	\$ 4,916,708	\$ 4,340,790	\$ 4,441,769	\$ 4,279,796	\$ 4,666,043	\$ 4,461,433

**ERCOT**  
**Fiscal Years 2014 and 2015 Budget**  
**Outside Services**

Line	Department	Description of Requested Outside Service(s)	2013 Budget	2014 Request	2013 vs. 2014 Variance	2015 Request	2014 vs. 2015 Variance
<b>Mandated Outside Services</b>							
1	General Counsel	Statement on Standards for Attestation Engagements (SSAE 16) audit required to be performed by external, independent certified public accounting (CPA) firm.	86,100	126,000	39,900	128,646	2,646
2	Human Resources & Strategic Planning	Federal law requires independently audited benefit plan financial statements be filed via Internal Revenue Service (IRS) Form 5500.	18,000	21,000	3,000	21,441	441
3	Human Resources & Strategic Planning	Actuarial support to assist with the Financial Accounting Standards Board (FASB) 106 liability for post retiree medical benefits.	15,000	18,000	3,000	18,378	378
4	Accounting & Budget	Required statutory audit and filing of annual Internal Revenue Service (IRS) Form 990 which provides financial information for tax-exempt entities.	20,000	20,000	-	20,420	420
5	Accounting & Budget	Department of Energy (DOE) grant audit to be performed independently.	20,000	20,000	-	20,420	420
6	Accounting & Budget	Annual financial statement audit, which must be performed externally, is mandatory to be compliant with PUCT rules.	125,000	120,000	(5,000)	122,520	2,520
7	Board of Directors	Expenses associated with the ongoing support and administration of the Board of Directors: <ul style="list-style-type: none"> <li>• Independent member compensation</li> <li>• Business expense reimbursement</li> <li>• Special meetings and retreats</li> </ul>	554,000	542,100	(11,900)	553,484	11,384
8	Board of Directors	Court reporting services for Board meetings.	36,000	20,000	(16,000)	20,420	420
9	Treasury	Investment rating review by independent recognized rating agency required by state law for bond issuance.	30,000	9,500	(20,500)	9,700	200
10	Retail Operations	PUCT mandated end user switch notifications.	580,400	400,000	(180,400)	408,400	8,400
11		<b>Subtotal - Mandated Outside Services</b>	<b>\$ 1,484,500</b>	<b>\$ 1,296,600</b>	<b>\$ (187,900)</b>	<b>\$ 1,323,829</b>	<b>\$ 27,229</b>

**ERCOT**  
**Fiscal Years 2014 and 2015 Budget**  
**Outside Services**

Line	Department	Description of Requested Outside Service(s)	2013 Budget	2014 Request	2013 vs. 2014 Variance	2015 Request	2014 vs. 2015 Variance
<b>Discretionary Outside Services</b>							
1	Transmission Planning	Continuing electric/gas pipeline infrastructure dependency analysis: consultant would further evaluate the increasing reliance on gas-fired resources for energy and ancillary services in ERCOT and how gas pipeline contingencies could affect the grid; such a scenario is listed as a possible condition to study under the Extreme Events analysis in the new NERC TPL-001-2 standard, but it is not required. Funding would allow the consulting firm to acquire the necessary pipeline hydraulic data and to develop a model that will allow this type of contingency analysis. This request could have combined benefits for ERCOT Operations and could support blackstart analysis.	-	250,000	250,000	-	(250,000)
2	Resource Adequacy	Loss of Load study: results are included in the NERC Long Term Resource Adequacy data request.	-	250,000	250,000	-	(250,000)
3	Database Administration	Staff augmenting contractor for information technology storage/backup services.	-	211,200	211,200	215,635	4,435
4	Critical Infrastructure Security	Co-hosted managed security solution to support and maintain security applications.	150,000	350,000	200,000	357,350	7,350
5	Board of Directors	Outside facilitation of two-year Board Strategic Planning.	-	150,000	150,000	153,150	3,150
6	Transmission Planning	Contractor to assist in implementing TPL-001-2: the new NERC TPL-001-2 standard will require significantly more resource time in Transmission Planning in order to complete the additionally required studies. A short term contractor is needed to assist in setting up the processes and working through the issues that arise due to the increased analysis.	-	135,200	135,200	-	(135,200)
7	System Operations Training	Rework of the ERCOT Black Start Selection Process to include consideration for gas transmission infrastructure and support.	-	120,000	120,000	122,520	2,520
8	Critical Infrastructure Security	Security assessment to be provided by independent third party.	-	100,000	100,000	102,100	2,100
9	Human Resources & Strategic Planning	External hosting of employee wellness incentive program & 3-touch screening.	-	93,000	93,000	94,953	1,953
10	Load Forecasting & Analysis	Consulting services for statistical model review for long-term and mid-term load forecasting models.	-	48,000	48,000	49,008	1,008
11	Training & Development	Partnership with University of Texas for two management leadership/training programs: <ul style="list-style-type: none"> <li>Professional Development Center (PDC)</li> <li>Cockrell School of Engineering's Center for Lifelong Engineering Education (CLEE)</li> </ul>	162,645	208,932	46,287	213,320	4,388
12	External Affairs	Contracted graphic designer support services.	-	35,000	35,000	35,735	735

**ERCOT**  
**Fiscal Years 2014 and 2015 Budget**  
**Outside Services**

Line	Department	Description of Requested Outside Service(s)	2013 Budget	2014 Request	2013 vs. 2014 Variance	2015 Request	2014 vs. 2015 Variance
13	Transmission Planning	Short circuit analysis training: per the new NERC TPL-001-2 standard, ERCOT Planning staff will be required to perform short circuit analysis which is a new responsibility; therefore, in-house training is being requested.	-	30,000	30,000	-	(30,000)
14	Network, Telecom & Deskside Support	IT network equipment planning and implementation services.	-	13,200	13,200	13,477	277
15	Human Resources & Strategic Planning	External data and compensation reviews/comparisons for specific employee positions.	80,000	83,000	3,000	84,743	1,743
16	Database Administration	Contractor for Database Administrator services	-	-	-	-	-
17	System Operations Training	Operations Training Seminar outside contractor (to be paid from the Operator Training Seminar Fees)	-	-	-	-	-
18	Human Resources & Strategic Planning	External hosting of candidate tracking system to assist with employee recruiting process.	13,600	13,600	-	13,886	286
19	Settlements & Billing Operations	Consultant review of Reliability Must Run (RMR) actual cost submittals - protocol optional requirement (Nodal Protocols Section 22, Attachment B, Section 13).	35,000	35,000	-	35,735	735
20	Resource Integration	Assistance with defining processes and software to routinely validate generator dynamic model parameters using data collected from Phasor Measurement Units and Fault Recorders (continuation from 2013).	192,000	192,000	-	196,032	4,032
21	Resource Integration	Outside consultant review of Sub Synchronous Control Interaction studies completed by ERCOT staff to review technical accuracy.	38,400	38,400	-	39,206	806
22	Human Resources & Strategic Planning	Specialized legal expertise in the area of immigration assistance, as well as, filing fees associated with hiring non-US citizens. These services assist in recruiting Power Engineers and certain Information Technology functions. Approximately half of the estimated amount is for legal services and the remaining half is for filing fees.	190,000	190,000	-	193,990	3,990
23	Facilities Management	Courier services necessary for mail collection, routing, and distribution.	50,000	50,000	-	51,050	1,050
24	General Counsel	Outside legal services for specialized legal knowledge and skills not possessed by in-house legal staff or not requiring a full time position (e.g., litigation, expert witness fees, court reporting fees, employment/employee benefits, information technology, intellectual property, security/compliance, tax/financing, governance, insurance/risk management, and records management).	600,000	600,000	-	612,600	12,600
25	Accounting & Budget	Assistance with annual inventory of fixed assets.	17,000	17,000	-	17,357	357
26	Business Integration	Contract resource to assist with project initiation and impact analysis.	14,400	14,400	-	14,702	302

**ERCOT**  
**Fiscal Years 2014 and 2015 Budget**  
**Outside Services**

Line	Department	Description of Requested Outside Service(s)	2013 Budget	2014 Request	2013 vs. 2014 Variance	2015 Request	2014 vs. 2015 Variance
27	Database Administration	Professional Information Technology storage services and training (Project Manager services as part of the 2010 storage acquisition).	71,464	71,464	-	72,965	1,501
28	Accounting & Budget	Invoice management automation tool to allow for soft-copy invoice routing and manager approval.	20,000	19,200	(800)	19,603	403
29	External Affairs	Media Training Seminar to educate employees internally.	6,500	-	(6,500)	-	-
30	Training & Development	Instructor Based Training: • Excel, SQL Level 1 and 2, Cognos, SharePoint and Other	50,516	43,512	(7,004)	44,426	914
31	Physical Security	Lenel system upgrade to newer version. System information requested by NERC auditors and Statement on Standards for Attestation Engagements (SSAE 17), and necessary to remain compliant with CIP 6R8, CIP 7R3, R4 and R5.	10,000	-	(10,000)	-	-
32	Business Integration Administration	Outside facilitation for the Advanced Metering Implementation Team (AMIT) meetings.	37,600	-	(37,600)	-	-
33	Internal Audit	External Quality Assessment Review (QAR) of the Internal Audit department which is required every five years by the International Professional Practices Framework (IPPF) by the Institute of Internal Auditors (IIA Standard 1312 - External Assessments). The last QAR was performed in Q1 of 2008, therefore, the next one needs to be completed in 2013 in order to remain in compliance with the IIA Standards.	40,000	-	(40,000)	-	-
34	Settlements & Billing Operations	Contractor to assist with Verifiable Cost task.	51,480	-	(51,480)	-	-
35	General Counsel	Senior Paralegal staff augmenting services dedicated to support corporate functions, including procurement, vendor contracts, and real estate matters.	62,400	-	(62,400)	-	-
36	Resource Adequacy	Evaluation of Capacity Value (Effective Load Carrying Capability [ELCC]) of new technologies. The Generation Adequacy Task Force (GATF) has requested that ERCOT evaluate the ELCC of solar generation when greater than 300 MW of solar generation are connected to the ERCOT grid. Also, ERCOT will need an analysis of how to incorporate energy storage devices into the Capacity, Demand and Reserves (CDR) report.	75,000	-	(75,000)	-	-
37	Technology Services Administration	Lawson hosting services: it is cost beneficial to procure external hosting, since it would require hardware and three support specialists to host internally.	336,000	258,000	(78,000)	263,418	5,418
38	Commercial Services	Contracted software support resources needed for application development (for settlements and credit applications) due to cancellation of vendor maintenance contracts.	288,000	-	(288,000)	-	-
<b>Subtotal - Discretionary Outside Services</b>			<b>\$ 2,592,005</b>	<b>\$ 3,620,108</b>	<b>\$ 1,028,103</b>	<b>\$ 3,016,961</b>	<b>\$ (603,147)</b>
<b>Total - Outside Services</b>			<b>\$ 4,076,505</b>	<b>\$ 4,916,708</b>	<b>\$ 840,203</b>	<b>\$ 4,340,790</b>	<b>\$ (575,918)</b>

# ERCOT

## Fiscal Years 2014 and 2015 Budget

### Employee Expenses

Line	Description	2012 Actual	2013 Budget	2014 Request	2015 Request	2016 Projection	2017 Projection	2018 Projection	2019 Projection
1	Travel & Training	\$ 1,062,312	\$ 1,045,918	\$ 1,436,765	\$ 1,460,197	\$ 1,486,576	\$ 1,516,362	\$ 1,547,709	\$ 1,579,780
2	Cellular Phone/PDA	235,373	236,421	244,973	248,745	252,992	257,787	262,834	267,996
3	Remote System Access	86,732	112,639	98,732	100,252	101,964	103,896	105,930	108,011
4	College Education Reimbursement	75,365	150,000	85,000	85,000	85,000	85,000	85,000	85,000
5	Professional Dues	38,083	55,551	43,083	43,746	44,493	45,337	46,224	47,132
6	Total - Employee Expenses	\$ 1,497,864	\$ 1,600,529	\$ 1,908,553	\$ 1,937,941	\$ 1,971,025	\$ 2,008,381	\$ 2,047,697	\$ 2,087,919

Expenses included in "Travel & Training"
Registration Fees
Mileage Reimbursement
Meals
Car Rental
Airfare
Lodging
Taxi, Bus or Other
Gasoline
Parking
Tips
Hotel Telephone/Internet

# ERCOT

## Fiscal Years 2014 and 2015 Budget

### Other Expenses

Line	Description	2012 Actual	2013 Budget	2014 Request	2015 Request	2016 Projection	2017 Projection	2018 Projection	2019 Projection		
1	Insurance Premiums	\$ 1,813,905	\$ 1,892,202	\$ 2,033,079	\$ 2,064,385	\$ 2,099,629	\$ 2,139,422	\$ 2,181,308	\$ 2,224,154		
2	Data Services	1,304,525	1,596,108	1,559,874	1,583,895	1,610,935	1,641,467	1,673,602	1,706,475		
3	Sponsored Meetings	184,002	98,120	130,800	132,813	135,080	137,639	140,334	143,090		
4	Dues	23,943	93,617	109,094	110,774	112,665	114,800	117,048	119,347		
5	Web Based Training	55,968	60,000	60,000	60,924	61,964	63,138	64,374	65,638		
6	Job Posting Advertising	25,416	55,000	30,000	30,462	30,982	31,569	32,187	32,819		
7	Recruiting Expense	446,806	50,000	38,400	38,991	39,657	40,409	41,200	42,009		
8	Reward & Recognition	46,827	40,000	80,740	81,986	83,381	84,961	86,624	88,328		
9	Report Printing	9,347	31,693	24,540	24,918	25,343	25,823	26,328	26,844		
10	Employment Screening	26,576	25,000	25,000	25,385	25,818	26,307	26,822	27,349		
11	Express Shipping	16,378	21,863	16,827	17,085	17,377	17,707	18,055	18,410		
12	Publications	36,860	14,870	10,596	10,758	10,940	11,147	11,366	11,588		
13	Corporate Events	21,567	12,000	61,376	62,321	63,385	64,586	65,850	67,143		
14	Postage & Delivery	3,762	7,164	7,240	7,352	7,478	7,620	7,769	7,921		
15	Miscellaneous	(340)	-	-	-	-	-	-	-		
16	Operator Training Services	128,218	146,005	200,000	203,080	206,547	210,462	214,583	218,798		
17	Legal Expense- Claims & Settle	33,926	-	-	-	-	-	-	-		
18	Public Service Announcements	285,022	-	250,000	253,850	258,184	263,077	268,228	273,497		
19	Total - Other Expenses	\$ 4,462,707	\$ 4,143,642	\$ 4,637,566	\$ 4,708,979	\$ 4,789,365	\$ 4,880,134	\$ 4,975,678	\$ 5,073,410		

## ERCOT

### Fiscal Years 2014 and 2015 Budget

#### Other Expenses: Insurance Premiums

Line	Description	2013 Budget	2014 Request	2013 vs. 2014 Variance	2015 Request	2014 vs. 2015 Variance
1	Excess Liability	\$ 1,343,297	\$ 1,489,065	\$ 145,768	\$ 1,511,994	\$ 22,929
2	Board of Directors & Officers	253,329	265,328	12,000	269,414	4,086
3	Property	124,389	119,387	(5,002)	121,225	1,838
4	Workers' Compensation	77,749	81,400	3,652	82,654	1,253
5	Pollution	26,360	8,238	(18,122)	8,365	127
6	Commercial General Liability	24,607	23,774	(833)	24,140	366
7	Crime/Theft	20,612	21,495	883	21,826	331
8	Fiduciary Liability	14,149	16,828	2,679	17,087	259
9	Automobile	7,712	7,564	(147)	7,681	116
10	Total - Insurance Premiums	\$ 1,892,202	\$ 2,033,079	\$ 140,877	\$ 2,064,385	\$ 31,306



## ERCOT

### Fiscal Years 2014 and 2015 Budget

#### Other Expenses: Data Services

Line	Description	2013 Budget	2014 Request	2013 vs. 2014 Variance	2015 Request	2014 vs. 2015 Variance
1	Wind Generation Forecasting Software	672,000	725,000	\$ 53,000	736,164	\$ 11,164
2	Information Technology industry research and related services	81,299	150,000	68,701	152,310	2,310
3	Generation and transmission data integration tool for energy scheduling and trading systems	146,438	145,929	(509)	148,176	2,247
4	Economic Forecasting Data	113,760	120,000	6,240	121,848	1,848
5	Miscellaneous Other	82,438	117,006	34,568	118,807	1,801
6	Credit Subscriptions	136,907	76,302	(60,605)	77,477	1,175
7	Daily fuel index price (FIP) subscription	62,040	60,000	(2,040)	60,924	924
8	Subscription to Employee Performance Management portal	56,772	56,772	-	57,646	874
9	Enterprise Vulnerability Intelligence data	37,667	57,000	19,333	57,878	878
10	Weather forecasting software for load forecasting	45,510	41,965	(3,544)	42,612	647
11	Compensation and Benefit data subscriptions	46,000	9,900	(36,100)	10,052	152
12	Modeling Software tools to support internal load forecasting	115,278	-	(115,278)	-	-
13	Total - Data Services	\$ 1,596,108	\$ 1,559,874	\$ (36,234)	\$ 1,583,894	\$ 24,020

**ERCOT****Fiscal Years 2014 and 2015 Budget****Project Priority List Detail**

Line	Project Category	Project Name	2014 Budget Range	2015 Budget Range
1	Business Strategy	Sync with PRR787, Add Non-Compliance Language to QSE Performance Standards	\$80k-\$120k	-
2	Business Strategy	MP Online Data Entry - Ph 2	\$1M-\$2M	-
3	Business Strategy	Revisions to Congestion Revenue Rights Credit Calculations and Payments	\$150k-\$300k	-
4	Business Strategy	Credit Monitoring Posting Requirements - CRR Portion	\$80k-\$100k	-
5	Business Strategy	ERCOT System Change Allowing Independent Master QSE to Represent Split Generation Resources	\$40k-\$55k	-
6	Business Strategy	CRRAH Digital Certificate New Role for Read Only Access	\$80k-\$100k	-
7	Business Strategy	Updating a Counter-Party's Available Credit Limit for Current Day DAM	\$120k-\$130k	-
8	Business Strategy	MarkeTrak Enhancements - Remaining SCR756 Items	\$200k-\$250k	-
9	Business Strategy	Daily Grid Operations Summary Report	\$200k-\$250k	-
10	Business Strategy	Setting the Shadow Price Caps and Power Balance Penalties in Security-Constrained Economic Dispatch	\$35k-\$45k	-
11	Business Strategy	CRR Shift Factors Report	\$245k-\$270k	-
12	Business Strategy	Balancing Account Resettlement Due to DAM Resettlement	\$80k-\$90k	-
13	Business Strategy	Clarification for Fuel Adder Provisions	\$15k-\$30k	-
14	Business Strategy	New Extract for Five Minute Interval Settlement Data	\$80k-\$90k	-
15	Business Strategy	Posting of Generation that is Off but Available	\$60k-\$75k	-
16	Business Strategy	QSGR Dispatch Adjustment	\$25k-\$45k	-
17	Business Strategy	Revision Request Funding - 2014	\$3M-\$4M	-
18	Business Strategy	Blackstart Facilities Enhancements	\$500k-\$1M	-
19	Business Strategy	Program Control - 2014	\$250k-\$500k	-
20	Business Strategy	MP Online Data Entry - Ph 3	-	\$1M-\$2M
21	Business Strategy	Revisions to Congestion Revenue Rights Credit Calculations and Payments - S&B Portion	-	\$100k-\$120k
22	Business Strategy	Revise Real Time Energy Imbalance and RMR Adjustment Charge	-	\$25k-\$30k
23	Business Strategy	Day-Ahead Market Self-Commitment of Generation Resources	-	\$260k-\$285k
24	Business Strategy	Revision Request Funding - 2015	-	\$4M-\$5M
25	Business Strategy	Program Control - 2015	-	\$250k-\$500k

**ERCOT****Fiscal Years 2014 and 2015 Budget****Project Priority List Detail**

Line	Project Category	Project Name	2014 Budget Range	2015 Budget Range
26	Technical Foundation	Settlement System Upgrade	\$1.0M-\$1.5M	<\$50k
27	Technical Foundation	EMS Upgrade	\$2M-\$4M	\$2M-\$4M
28	Technical Foundation	REC Rewrite & Refresh	\$100k-\$200k	-
29	Technical Foundation	Replace Sun IDM	\$500k-\$1M	-
30	Technical Foundation	Windows 2003 Retirement - Phase 1	\$50k-\$150k	-
31	Technical Foundation	ABB MMS OS Technology Refresh	\$2M-\$3M	\$200k-\$300k
32	Technical Foundation	EIS Reporting and Control Systems Upgrade	\$500k-\$1M	-
33	Technical Foundation	IBM AIX Operating System Upgrades	<\$10k	-
34	Technical Foundation	SQL Server 2012 Upgrade / Cluster Consolidation	\$700k-\$750k	-
35	Technical Foundation	Net Backup Architecture Redesign	\$75k-\$100k	-
36	Technical Foundation	Red Hat Jboss Operations Network	\$200k-\$225k	-
37	Technical Foundation	Email Redundancy	\$60k-\$80k	-
38	Technical Foundation	Appworx Replaces TIBCO Code in CSI Framework	\$75k-\$125k	-
39	Technical Foundation	Symposium Call Center Replacement	\$100k-\$150k	-
40	Technical Foundation	Replace Paperfree	\$200k-\$300k	-
41	Technical Foundation	Voice Over IP (VOIP) Replacement for PBX	\$650k-\$665k	-
42	Technical Foundation	Minor Cap - 2014	\$2M-\$3M	-
43	Technical Foundation	Improvements to Conference Bridge for Training Events	\$145k-\$155k	-
44	Technical Foundation	EDW Platform Transition Phase 2	\$500k-\$750k	\$3M-\$5M
45	Technical Foundation	EIF Database Utilization	\$400k-\$500k	-
46	Technical Foundation	EMMS Database Load Automation	\$50k-\$100k	-

**ERCOT****Fiscal Years 2014 and 2015 Budget****Project Priority List Detail**

Line	Project Category	Project Name	2014 Budget Range	2015 Budget Range
47	Technical Foundation	EMMS Site Failover Automation	\$50k-\$100k	-
48	Technical Foundation	IBM AIX Operating System Upgrades - Next Phase	\$250k-\$400k	\$100k-\$200k
49	Technical Foundation	Network Refresh - Phase 1	\$750k-\$1.25M	-
50	Technical Foundation	OSI PI Ace	\$250k-\$350k	-
51	Technical Foundation	Production Virtualization Expansion	\$1M-\$3M	\$1M-\$2M
52	Technical Foundation	Red Hat 7.x Upgrade	\$250k-\$500k	-
53	Technical Foundation	Remedy Upgrade/Replacement	\$200k-\$300k	-
54	Technical Foundation	Replace Actional Policy Manager	\$200k-\$300k	-
55	Technical Foundation	SOTE/MOTE Upgrade	\$50k-\$100k	-
56	Technical Foundation	SAN Array Preparation	\$100k-\$200k	-
57	Technical Foundation	Replace Sun DSEE	-	\$500k-\$1M
58	Technical Foundation	UC4 Automation Upgrade v9	-	\$300k-\$400k
59	Technical Foundation	Minor Cap - 2015	-	\$1M-\$2M
60	Technical Foundation	Data Center Growth & Asset Replacement - 2015	-	\$3M-\$4M
61	Technical Foundation	ERCOT.com Tech Refresh	-	\$150k-\$300k
62	Technical Foundation	Network Refresh - Phase 2	-	\$400k-\$800k
63	Technical Foundation	Oracle 12c Upgrade	-	\$100k-\$250k
64	Technical Foundation	TIBCO Monitoring Tool	-	\$200k-\$300k
65	Technical Foundation	VoIP WAN System	-	\$600k-\$800k
66	Technical Foundation	Windows 2003 Retirement - Phase 2	-	\$200k-\$400k
67	Technical Foundation	SAN Array Upgrade/Replacement	-	\$3M-\$5M

**ERCOT****Fiscal Years 2014 and 2015 Budget****Project Priority List Detail**

<b>Line</b>	<b>Project Category</b>	<b>Project Name</b>	<b>2014 Budget Range</b>	<b>2015 Budget Range</b>
68	Operational Enhancements	MP Online Data Entry - Ph I	\$300k-\$500k	-
69	Operational Enhancements	CMSDK/MIR Replacement	<\$10k	-
70	Operational Enhancements	MP Communications Tool	\$50k-\$75k	-
71	Operational Enhancements	Replace N2N System	\$50k-\$100k	-
72	Operational Enhancements	Taylor Control Room Upgrade	\$2.0M-\$2.5M	-
73	Operational Enhancements	RTCA Enhancements	\$90k-\$100k	-
74	Operational Enhancements	On-Site Storage	\$150k-\$250k	-
75	Operational Enhancements	AV Upgrades to TCC1 Conference Rooms	\$150k-\$200k	-
76	Operational Enhancements	Upgrade TCC1 Safety Equipment	\$50k-\$100k	-
77	Operational Enhancements	External TCC Enhancements	\$25k-\$50k	-
78	Operational Enhancements	Capital Efficiencies and Enhancements - 2014	\$500k-\$750k	-
79	Operational Enhancements	Efficiencies and Enhancements Funding - 2015	-	\$2M-\$3M

**ERCOT****Fiscal Years 2014 and 2015 Budget****Project Priority List Detail**

Line	Project Category	Project Name	2014 Budget Range	2015 Budget Range
80	Security	Cyber Security Project #7	\$40k-\$60k	-
81	Security	Cyber Security Project #10	\$250k-\$500k	-
82	Security	Cyber Security Project #11	\$250k-\$500k	-
83	Security	Cyber Security Project #14	\$425k-\$475k	-
84	Security	Cyber Security Project #12	-	\$250k-\$350k
85	Security	Cyber Security Project #13	-	\$150k-\$250k
86	Security	Cyber Security Project #15	-	\$300k-\$500k

# ERCOT

## Fiscal Years 2014 and 2015 Budget

### Revenue Sources

Line	Description	2012 Actual	2013 Budget	2014 Request	2015 Request	2016 Projection	2017 Projection	2018 Projection	2019 Projection
1	ERCOT System Administration Fee	\$ 136,273,013	\$ 139,895,824	\$ 159,309,000	\$ 163,345,466	\$ 168,460,853	\$ 172,248,147	\$ 177,422,393	\$ 182,178,176
2	NERC Electric Reliability Organization Fee	13,062,260	13,248,627	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
3	Private Wide-Area Network Fee	3,276,325	2,820,000	3,446,905	3,499,982	3,559,735	3,627,201	3,698,216	3,770,857
4	Generation Interconnection Study Fees	488,127	300,000	300,000	304,619	309,820	315,692	321,873	328,195
5	Membership Dues	288,150	320,000	270,000	270,000	270,000	270,000	270,000	270,000
6	Operations Training Seminar	198,821	215,250	215,250	218,564	222,296	226,509	230,944	235,480
7	Risk Management Verification Fee	-	-	180,000	180,000	180,000	180,000	180,000	180,000
8	Blackstart Training	77,464	65,000	65,000	66,001	67,128	68,400	69,739	71,109
9	Market Participant Registration Fees	39,000	15,000	66,000	66,000	66,000	66,000	66,000	66,000
10	Other Miscellaneous Income	34,331	-	-	-	-	-	-	-
11		\$ 153,737,490	\$ 156,879,701	\$ 175,852,155	\$ 179,950,633	\$ 185,135,831	\$ 189,001,949	\$ 194,259,165	\$ 199,099,816

## Closing Comments





**Date:** July 9, 2013  
**To:** Board of Directors  
**From:** H.B. "Trip" Doggett, ERCOT President and Chief Executive Officer (CEO)  
**Subject:** 2014 / 2015 Biennial Budget

**Issue for the ERCOT Board of Directors**

**ERCOT Board of Directors Meeting Date:** July 16, 2013

**Item No.:** 9.1

**Issue:**

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should approve ERCOT staff's recommended 2014 / 2015 Biennial Budget, which includes operating expenses, project spending, and debt service obligations, with funding sources to include an increase to the ERCOT System Administration Fee.

**Background/History:**

Sections 4.10 (*Duties*) and 10.3 (*Budget*) of the ERCOT Bylaws requires that the Board approve the ERCOT Budget. Section 3.3 of the Board Policies and Procedures, amended effective July 1, 2012 (Board Policies), provides as follows:

The CEO will present to 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.

Public Utility Commission of Texas (PUCT) Substantive Rule Section 25.363(d) provides that the ERCOT 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. Effective September 1, 2013, H.B. No. 1600, Section 1.08, authorizes ERCOT, with PUCT approval, to charge a system administration fee, within a range determined by the PUCT, that is reasonable and competitively neutral to fund the approved budget. In the first and second quarters of 2013, ERCOT staff discussed financial concepts, assumptions, methodologies, schedules and a system administration fee range relating to the 2014 / 2015 Biennial Budget with the PUCT staff designated by the PUCT Executive Director.



ERCOT management will present its recommended 2014 / 2015 Biennial Budget to the F&A Committee on July 15, 2013. The recommended 2014 / 2015 Biennial Budget includes revenue requirements of \$175,852,155 in 2014 and \$179,950,633 in 2015. The Biennial Budget also includes debt-funded project spending of \$15,000,000 each year, which enables ERCOT to undertake projects totaling \$25,000,000 each year.

The recommended 2014 / 2015 Biennial Budget requires an increase to the ERCOT System Administration Fee from \$0.4171 to \$0.4650 per megawatt-hour. The ERCOT System Administration Fee has been the same rate of \$0.4171 from 2006-2013.

	<b>2014 Recommended Amount <u>(\$ in thousands)</u></b>	<b>2015 Recommended Amount <u>(\$ in thousands)</u></b>
<b><u>Revenue sources</u></b>		
ERCOT System Administration Fee	\$159,309	\$163,345
NERC/ERO pass-through cost recovery	12,000	12,000
Other revenue	<u>4,543</u>	<u>4,605</u>
<b>Subtotal – Revenue sources</b>	<b><u>\$175,852</u></b>	<b><u>\$179,951</u></b>
<b><u>Revenue requirements</u></b>		
Operating and maintenance	\$136,189	\$138,825
Debt service (principal and interest)	17,663	19,125
NERC/ERO pass-through cost	12,000	12,000
Revenue-funded project spending	<u>10,000</u>	<u>10,000</u>
<b>Subtotal – Revenue requirements</b>	<b><u>\$175,852</u></b>	<b><u>\$179,951</u></b>
<b><u>Spending authorization</u></b>		
Revenue requirements	175,852	179,951
Debt-funded project spending	<u>15,000</u>	<u>15,000</u>
<b>Total – Spending authorization</b>	<b><u>\$190,852</u></b>	<b><u>\$194,951</u></b>

The F&A Committee will meet prior to the Board meeting on Monday, July 15, 2013, and is expected to make a recommendation to the Board regarding the 2014 / 2015 Biennial Budget. The Board is expected to consider the F&A Committee's recommendation on Tuesday, July 16, 2013.

If the F&A Committee recommends that the Board approve the 2014 / 2015 Biennial Budget and the Board so approves the Budget, then ERCOT staff will seek PUCT approval of the Board-approved 2014 / 2015 Biennial Budget, as required by PUCT Substantive Rule Section 25.363(d).



**Key Factors Influencing Issue:**

- Sections 4.10 and 10.3 of the Bylaws require that the Board approve the ERCOT Budget for the ensuing one or more fiscal years.
- ERCOT requires approval of the 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 2014 and 2015 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 recommend management's recommendations for Board approval, and that the Board:

- Approve the recommended 2014 / 2015 Biennial Budget as set forth in Attachment A, which includes \$190,852,155 and \$194,950,633 respectively total spending authorization for operating expenses, project spending, and debt service obligations;
- Approve the recommended increase to the ERCOT System Administration Fee from \$0.4171 to \$0.4650 per megawatt-hour for 2014 and 2015; and
- Authorize ERCOT Legal to file the Board-approved 2014 / 2015 Biennial Budget for approval by the PUCT, pursuant to P.U.C. Substantive Rule Section 25.363(d).



**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 2014 / 2015 Biennial Budget (Budget), which includes operating expenses, project spending, and debt service obligations; and

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; and

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

WHEREAS, ERCOT management presented its recommended 2014 / 2015 Biennial Budget, which includes a revenue requirement totaling \$175,852,155 and \$179,950,633 respectively with debt-funded project spending of \$15,000,000 each year; and

WHEREAS, the Budget proposed by ERCOT management will require an increase in the ERCOT System Administration Fee from \$0.4171 to \$0.4650 for 2014 and 2015;

THEREFORE, BE IT RESOLVED, that the Board hereby:

- Approves the recommended 2014 / 2015 Biennial Budget as set forth in Attachment A, which includes \$190,852,155 and \$194,950,633 respectively total spending authorization for operating expenses, project spending, and debt service obligations; and
- Approves the request for a recommended increase to the ERCOT System Administration Fee from \$0.4171 to \$0.4650 per megawatt-hour for 2014 and 2015; and
- Authorizes ERCOT Legal to file the Board-approved 2014 / 2015 Biennial Budget for approval by the PUCT, pursuant to P.U.C. Substantive Rule Section 25.363(d).

**CORPORATE SECRETARY'S CERTIFICATE**

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its July 16, 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 July, 2013.

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

# Attachment A - Proposed 2014 / 2015 Biennial Budget Revenue Requirements

## ERCOT

Fiscal Years 2014 and 2015 Budget (\$ in Thousands)

### Revenue Requirements

Line	(\$ Thousands)	2012 Actual	2013 Forecast	2013 Budget	2014 Request	2015 Request	2016 Projection	2017 Projection	2018 Projection	2019 Projection
1	<b>Operating Expenses</b>									
2	Labor	\$ 71,591	\$ 77,065	\$ 77,165	\$ 86,350	\$ 89,804	\$ 93,396	\$ 97,132	\$ 101,017	\$ 105,058
3	Hardware & Software Support & Maintenance	18,478	19,131	19,706	20,654	20,972	21,330	21,735	22,160	22,595
4	Facilities & Equipment	8,931	8,860	10,033	8,947	9,103	9,273	9,458	9,651	9,848
5	Outside Services	7,782	4,695	4,077	4,917	4,341	4,442	4,280	4,666	4,461
6	Independent Market Monitoring	2,800	3,200	2,900	3,300	3,400	3,500	3,600	3,670	3,743
7	Protocol Services	999	1,029	1,029	970	999	1,029	1,060	1,092	1,124
8	Market Design Contingency	-	-	-	1,000	-	-	-	-	-
9	Other Expenses	4,463	4,469	4,144	4,638	4,709	4,789	4,880	4,976	5,073
10	Employee Expenses	1,498	1,601	1,601	1,909	1,938	1,971	2,008	2,048	2,088
11	Wide Area Network	3,363	2,980	2,880	3,505	3,559	3,619	3,688	3,760	3,834
12	<b>Subtotal - Operating Expenses</b>	119,906	123,030	123,533	136,189	138,825	143,350	147,841	153,040	157,826
13	<b>Debt Service Obligations</b>									
14	Principal Payments	26,200	15,242	16,570	15,031	16,030	16,568	14,660	18,757	15,644
15	Interest Expense	3,382	2,328	2,328	2,633	3,095	3,218	3,340	3,463	3,585
16	<b>Subtotal - Debt Service Obligations</b>	29,582	17,570	18,898	17,663	19,125	19,786	18,000	22,220	19,229
17	<b>Revenue-Funded Project Expenditures</b>									
18	Project Expenditures	16,366	15,000	15,000	25,000	25,000	25,000	25,000	25,000	25,000
19	Debt-Funded Project Expenditures	9,820	9,000	9,000	15,000	15,000	15,000	15,000	15,000	15,000
20	<b>Subtotal - Revenue-Funded Project Expenditures</b>	6,546	6,000	6,000	10,000	10,000	10,000	10,000	10,000	10,000
21	Reliability Organization Assessment	13,062	11,749	13,249	12,000	12,000	12,000	12,000	12,000	12,000
22	<b>Subtotal - Revenue Requirements</b>	169,096	158,348	161,680	175,852	179,951	185,136	187,841	197,260	199,054
23										
24	<b>Revenue Sources</b>									
25	System Administration Fee Revenue	136,273	138,996	139,896	159,309	163,345	168,461	171,088	180,423	182,132
26	Reliability Organization Assessment Fee	13,062	11,749	13,249	12,000	12,000	12,000	12,000	12,000	12,000
27	Wide Area Network Revenue	3,276	2,939	2,820	3,447	3,500	3,560	3,627	3,698	3,771
28	Other Revenue	1,126	1,175	915	1,096	1,105	1,115	1,127	1,139	1,151
29	Prior Year Carry Forward	15,359	3,490	4,800	-	-	-	-	-	-
30	<b>Subtotal - Revenue Sources</b>	169,096	158,348	161,680	175,852	179,951	185,136	187,841	197,260	199,054
31										
32	<b>System Administration Fee Calculation</b>									
33	System Administration Fee Revenue	136,273	138,996	139,896	159,309	163,345	168,461	171,088	180,423	182,132
34	Energy Consumption (GWH)	326,715	333,208	335,401	342,600	351,281	362,281	367,930	372,007	375,531
35	<b>System Administration Fee</b>	0.4171	0.4171	0.4171	0.4650	0.4650	0.4650	0.4650	0.4850	0.4850
36										
37	<b>Total Spending Authorization Computation</b>									
38	Revenue Requirements	169,096	158,348	161,680	175,852	179,951	185,136	187,841	197,260	199,054
39	Debt-Funded Project Expenditures	9,820	9,000	9,000	15,000	15,000	15,000	15,000	15,000	15,000
40	<b>Total Spending Authorization</b>	\$ 178,916	\$ 167,348	\$ 170,680	\$ 190,852	\$ 194,951	\$ 200,136	\$ 202,841	\$ 212,260	\$ 214,054