



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.

	2014 Recommended Amount <u>(\$ in thousands)</u>	2015 Recommended Amount <u>(\$ in thousands)</u>
<u>Revenue sources</u>		
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>
Subtotal – Revenue sources	<u>\$175.852</u>	<u>\$179.951</u>
<u>Revenue requirements</u>		
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>
Subtotal – Revenue requirements	<u>\$175.852</u>	<u>\$179.951</u>
<u>Spending authorization</u>		
Revenue requirements	175,852	179,951
Debt-funded project spending	<u>15,000</u>	<u>15,000</u>
Total – Spending authorization	<u>\$190.852</u>	<u>\$194.951</u>

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	Operating Expenses									
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	Subtotal - Operating Expenses	119,906	123,030	123,533	136,189	138,825	143,350	147,841	153,040	157,826
13	Debt Service Obligations									
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	Subtotal - Debt Service Obligations	29,582	17,570	18,898	17,663	19,125	19,786	18,000	22,220	19,229
17	Revenue-Funded Project Expenditures									
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	Subtotal - Revenue-Funded Project Expenditures	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	Subtotal - Revenue Requirements	169,096	158,348	161,680	175,852	179,951	185,136	187,841	197,260	199,054
23										
24	Revenue Sources									
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	Subtotal - Revenue Sources	169,096	158,348	161,680	175,852	179,951	185,136	187,841	197,260	199,054
31										
32	System Administration Fee Calculation									
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	System Administration Fee	0.4171	0.4171	0.4171	0.4650	0.4650	0.4650	0.4650	0.4850	0.4850
36										
37	Total Spending Authorization Computation									
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	Total Spending Authorization	\$ 178,916	\$ 167,348	\$ 170,680	\$ 190,852	\$ 194,951	\$ 200,136	\$ 202,841	\$ 212,260	\$ 214,054

Item 9.1

ERCOT Public