



Date: February 2, 2015
To: Board of Directors
From: Leslie Wiley, Treasurer
Subject: Financial Corporate Standard

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: February 9-10, 2015

Item No.: 14.3

Issue:

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should approve any or all of the ERCOT staff-proposed modifications or recommend and approve any other changes to 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 and respectfully proposes minor staff title changes, as reflected in *Attachment A*, to become effective upon approval by the Board. The Finance and Audit (F&A) Committee is expected to recommend the Board adopt, reject, or amend the Standard at its February 9, 2015 meeting.

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 February 9, 2015 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 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 revise the ERCOT Financial Corporate Standard (the Standard), as recommended by the Finance and Audit (F&A) Committee, consistent with the revisions reflected in *Attachment A* hereto;

THEREFORE, BE IT RESOLVED, that ERCOT is hereby authorized and approved to revise the Standard consistent with the revisions reflected in *Attachment A*, to be effective immediately.

CORPORATE SECRETARY'S CERTIFICATE

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its February 9-10, 2015 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of February, 2015.

Vickie G. Leady
Assistant Corporate Secretary

ERCOT CORPORATE STANDARD

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|-----------------|---|
| Document Name: | Financial Corporate Standard |
| Document ID: | CS3.1 |
| Effective Date: | February 11, 2014 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 |
|--|--|
| Budget | The Budget consists of Project Budgets and an Operating and Maintenance Budget. |
| Project Budgets | 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. |
| Cash Operating and Maintenance Expenses | 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. |
| Fiscal Year | ERCOT's fiscal year is January 1 st through December 31 st . |
| NERC | North American Electric Reliability Corporation, the entity currently certified as the Electric Reliability Organization by the Federal Energy Regulatory Commission ("FERC"). |
| Operating and Maintenance Budget | The Operating and Maintenance Budget consists of all reasonable and necessary costs expected to be incurred during ERCOT's Fiscal Year. |
| Scheduled Debt Service | 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. |
| Strategic Financial Plan | 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. |
| CRR | 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~~ and Chief Financial Officer 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 self-funded. 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 (self-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 self-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~~ and Chief Financial Officer 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.