



Date: June 2, 2015
To: Board of Directors
From: Jorge Bermudez, Finance and Audit (F&A) Committee Chairman
Subject: 2016-2017 Budget and Fee

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: June 9, 2015

Item No.: 9.1

Issue:

Approval by the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) of the ERCOT 2016-2017 Biennial Budget.

Background/History:

Public Utility Commission of Texas (PUCT) Substantive Rule 25.363, ERCOT Budget and Fee
P.U.C. SUBST. R. 25.363(d) provides that the ERCOT budget (Budget) and any change in the system administration fee are subject to review and approval by the PUCT. P.U.C. SUBST. R. 25.363(d) further specifies that the review and approval of the Budget, or a proceeding to authorize and set the range for the amount of the system administration fee is not a contested case.

P.U.C. SUBST. R. 25.363(e) provides that, prior to submission of the 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.

ERCOT Bylaws

Sections 4.10 (*Duties*) and 10.3 (*Budget*) of the ERCOT Bylaws require that the Board approve the Budget.

ERCOT Board Policies and Procedures

Section 3.3 of the Board Policies and Procedures provides as follows:

The CEO will present to the Board ... a Budget to carry out the Board's directives for the following year or longer as directed by the Board. 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.



F&A Committee Charter

The Duties and Responsibilities section of the Finance & Audit Committee Charter states:

With respect to budget oversight...

1. Annually or biennially, the Committee shall review staff's proposed budget for the following year(s).
2. The Committee shall review the staff's recommendation of the amount and type of financing needed, both revenue and debt financing, to support the proposed budget and meet the Company's liquidity needs.
3. Following the Committee's review of the above items, the Committee shall recommend to the Board, a proposed budget and associated financing plan for the following year(s).

The Committee is expected to recommend to the Board whether it should approve, reject or amend the 2016-2017 Biennial Budget at its June 8, 2015 meeting.

Key Factors Influencing Issue:

- 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 Section 39.151(a) of the Public Utility Regulatory Act (PURA). For instance, ERCOT must have adequate funds in 2016 and 2017 to:
 - Maintain compliance with the Financial Corporate Standard and associated financial performance measures as approved by the Board;
 - Fund independent market monitoring, PURA, and North American Electric Reliability Corporation (NERC) compliance functions;
 - Staff appropriately to participate in and support full market operations;
 - Implement system improvements and required functionality to support the market;
 - Enhance and maintain the computer systems and associated services contracted for with vendors; and
 - Maintain necessary facilities to provide secure operations and house staff.
- In the first and second quarters of 2015, ERCOT staff discussed financial assumptions, methodologies, schedules and a system administration fee relating to the 2016-2017 Biennial Budget with PUCT staff designated by the PUCT Executive Director.
- ERCOT staff will present its recommended 2016-2017 Biennial Budget to the F&A Committee on June 8, 2015.

Conclusion/Recommendation:

ERCOT staff recommends, and the F&A Committee is expected to recommend, that the Board:

- Approve the recommended 2016-2017 Biennial Budget as set forth in Attachment A, which includes \$219,931,341 and \$223,108,369 total spending authorization for operating expenses, project spending, and debt service obligations for 2016 and 2017, respectively;
- Approve the recommended increase to the ERCOT system administration fee from \$0.4650 to \$0.5550 per megawatt-hour for 2016 and 2017 as set forth in Attachment B; and



- Authorize ERCOT Legal to file the Board-approved 2016-2017 Biennial Budget for approval by the PUCT, pursuant to P.U.C. SUBST. R. 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 the ERCOT recommended 2016-2017 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 September 11, 2014 (Bylaws), requires that the Board approve the Budget; and

WHEREAS, ERCOT staff discussed financial 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 (PUCT) regarding development of the Budget; and

WHEREAS, ERCOT staff presented its recommended 2016-2017 Biennial Budget, which includes a total spending authorization of \$219,931,341 and \$223,108,369 respectively; and

WHEREAS, the Budget recommended by ERCOT staff will require an increase in the ERCOT system administration fee from \$0.4650 to \$0.5550 for 2016 and 2017;

THEREFORE, BE IT RESOLVED, that the Board hereby:

- Approves the recommended 2016-2017 Biennial Budget as set forth in Attachment A, which includes \$219,931,341 and \$223,108,369 total spending authorization for operating expenses, project spending, and debt service obligations for 2016 and 2017, respectively; and
- Approves the request for a recommended increase to the ERCOT system administration fee from \$0.4650 to \$0.5550 per megawatt-hour for 2016 and 2017 as set forth in Attachment B; and
- Authorizes ERCOT Legal to file the Board-approved 2016-2017 Biennial Budget for approval by the PUCT, pursuant to P.U.C. SUBST. R. 25.363(d).



CORPORATE SECRETARY'S CERTIFICATE

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its June 9, 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 June, 2015.

Vickie G. Leady
Assistant Corporate Secretary

Attachment A

Fiscal Years 2016-2017 Budget: Management Recommended Flat Fee (\$0.555)

(\$ in Thousands)

Sources and Uses										
		2014	2015	2015	2016	2017	2018	2019	2020	2021
		Actual	Budget	Forecast	Request	Request	Projection	Projection	Projection	Projection
1	System Administration Fee Revenues	\$ 158,741	\$ 163,345	\$ 159,461	\$ 193,939	\$ 197,537	\$ 201,098	\$ 204,630	\$ 208,144	\$ 211,660
2	Reliability Organization Assessment Fee	14,351	14,704	14,704	15,000	15,000	15,345	15,698	16,059	16,428
3	Other Revenues	4,626	4,605	4,605	4,342	4,609	4,692	4,779	4,868	4,959
4	Decrease in Working Capital	16,684	2,970	8,354	6,650	5,963	-	-	1,513	12,996
5	Total Sources	\$ 194,403	\$ 185,624	\$ 187,124	\$ 219,931	\$ 223,108	\$ 221,134	\$ 225,106	\$ 230,583	\$ 246,043
6										
7	Department Expenditures	\$ 138,869	\$ 145,270	\$ 146,770	\$ 158,431	\$ 163,608	\$ 169,306	\$ 175,237	\$ 181,524	\$ 187,615
8	Project Expenditures	23,552	21,650	21,650	42,500	40,500	26,000	26,000	29,000	38,000
9	Reliability Organization Assessment	14,351	14,704	14,704	15,000	15,000	15,345	15,698	16,059	16,428
10	Repayment of Long Term Debt	17,630	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
11	Increase in Working Capital	-	-	-	-	-	6,483	4,171	-	-
12	Total Uses	\$ 194,403	\$ 185,624	\$ 187,124	\$ 219,931	\$ 223,108	\$ 221,134	\$ 225,106	\$ 230,583	\$ 246,043

Attachment B

Fiscal Years 2016-2017 Budget: Management Recommended Flat Fee (\$0.555)

(\$ in Thousands except per GWH Amounts)

System Administration Fee Revenue Requirement										
		2014 Actual	2015 Budget	2015 Forecast	2016 Request	2017 Request	2018 Projection	2019 Projection	2020 Projection	2021 Projection
1	Department Net Expenditures	\$ 134,243	\$ 140,665	\$ 142,165	\$ 154,089	\$ 159,000	\$ 164,614	\$ 170,459	\$ 176,656	\$ 182,656
2	Project Expenditures	23,552	21,650	21,650	42,500	40,500	26,000	26,000	29,000	38,000
3	Total Net Expenditures	\$ 157,795	\$ 162,315	\$ 163,815	\$ 196,589	\$ 199,500	\$ 190,614	\$ 196,459	\$ 205,656	\$ 220,656
4										
5	Long Term Debt	\$ 17,630	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000
6	Change in Working Capital	(16,684)	(2,970)	(8,354)	(6,650)	(5,963)	6,483	4,171	(1,513)	(12,996)
7	Change in Debt & Working Capital	\$ 946	\$ 1,030	\$ (4,354)	\$ (2,650)	\$ (1,963)	\$ 10,483	\$ 8,171	\$ 2,487	\$ (8,996)
8										
9	System Administration Fee Requirement	\$ 158,741	\$ 163,345	\$ 159,461	\$ 193,939	\$ 197,537	\$ 201,098	\$ 204,630	\$ 208,144	\$ 211,660
10	Energy Consumption (GWH)	341,379	351,281	342,928	349,440	355,922	362,338	368,702	375,034	381,369
11	System Administration Fee Rate	\$ 0.4650	\$ 0.4650	\$ 0.4650	\$ 0.5550	\$ 0.5550	\$ 0.5550	\$ 0.5550	\$ 0.5550	\$ 0.5550

Debt & Working Capital										
		2014 Actual	2015 Budget	2015 Forecast	2016 Request	2017 Request	2018 Projection	2019 Projection	2020 Projection	2021 Projection
1	Debt & Working Capital Balance at End of Year	\$ 105,018	\$ 103,988	\$ 109,372	\$ 112,022	\$ 113,985	\$ 103,501	\$ 95,330	\$ 92,843	\$ 101,839
2	Yearly Change in Debt & Working Capital	\$ (946)	\$ (1,030)	\$ 4,354	\$ 2,650	\$ 1,963	\$ (10,483)	\$ (8,171)	\$ (2,487)	\$ 8,996
3	Cumulative Change in Debt & Working Capital			\$ 4,354	\$ 7,003	\$ 8,966	\$ (1,517)	\$ (9,688)	\$ (12,175)	\$ (3,179)
4										
5	Interest Expense	\$ 2,172	\$ 3,095	\$ 3,095	\$ 2,820	\$ 3,682	\$ 3,827	\$ 3,943	\$ 4,190	\$ 4,678
6	Interest Expense (Impact on SAF Rate)	\$ 0.006	\$ 0.009	\$ 0.009	\$ 0.008	\$ 0.010	\$ 0.011	\$ 0.011	\$ 0.011	\$ 0.012