



Item 6: Debt Strategy Discussion

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Treasurer

Finance & Audit Committee Meeting
ERCOT Public
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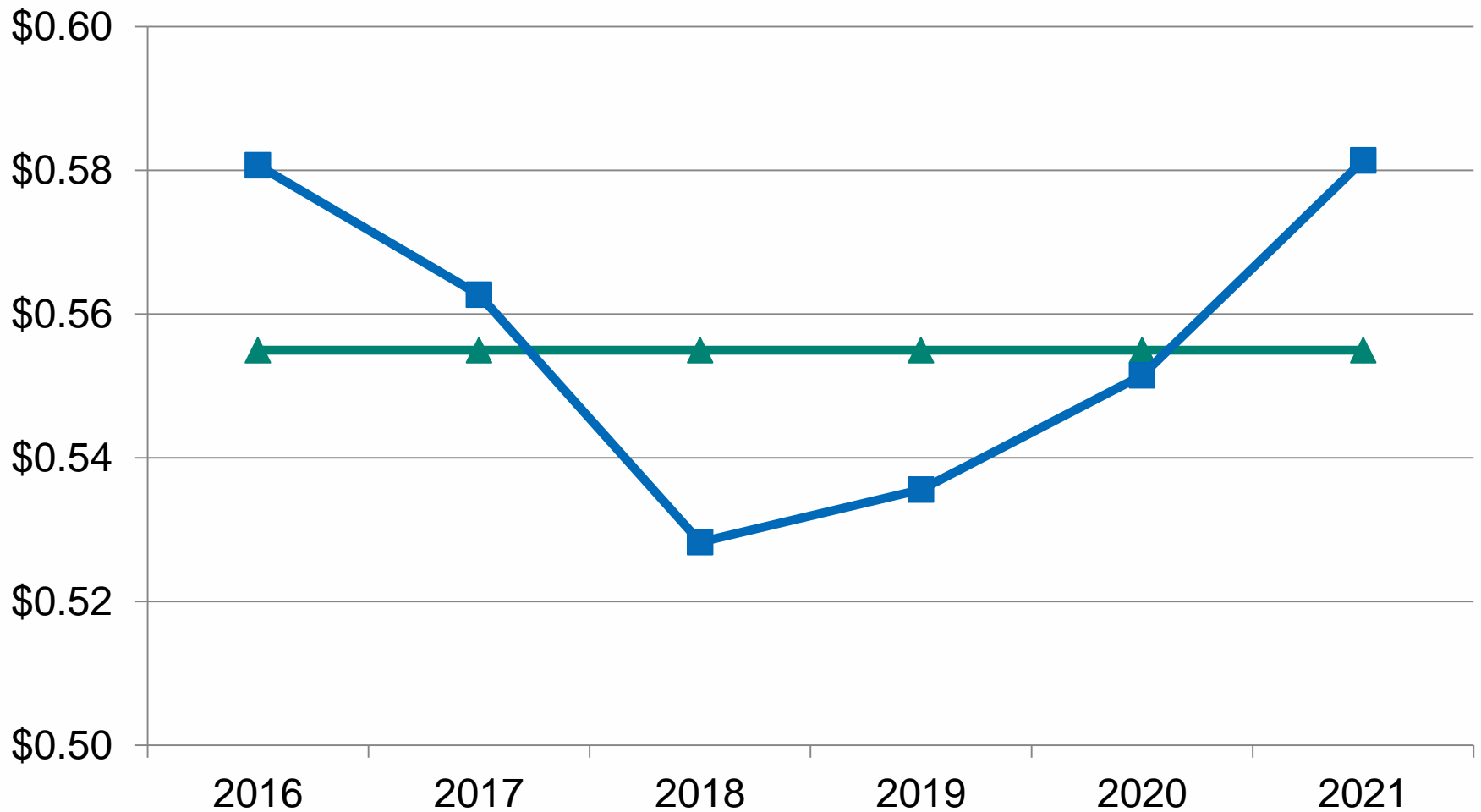
Discussion Topics

- Advantages of Debt
- General Financing Strategies
- Funding Sources
- Debt Regulations and Guidelines

Advantages of Debt

- Allows fee stabilization
- Provides Board-approved required liquidity
- Enhances financial flexibility
- Meets working capital needs
- Produces intergenerational equity

Advantages of Debt – Fee Stabilization



General Financing Strategies

Asset Breakdown	Fixed Assets	Permanent Current Assets	Fluctuating Current Assets
Maturity-Matching Strategy	Long-Term Sources		Short-Term Sources
Conservative Strategy	Long-Term Sources		Short-Term Sources
Aggressive Strategy	Long-Term Sources	Short-Term Sources	

Source: Association for Finance Professionals

Funding Sources

- **Long Term Sources**

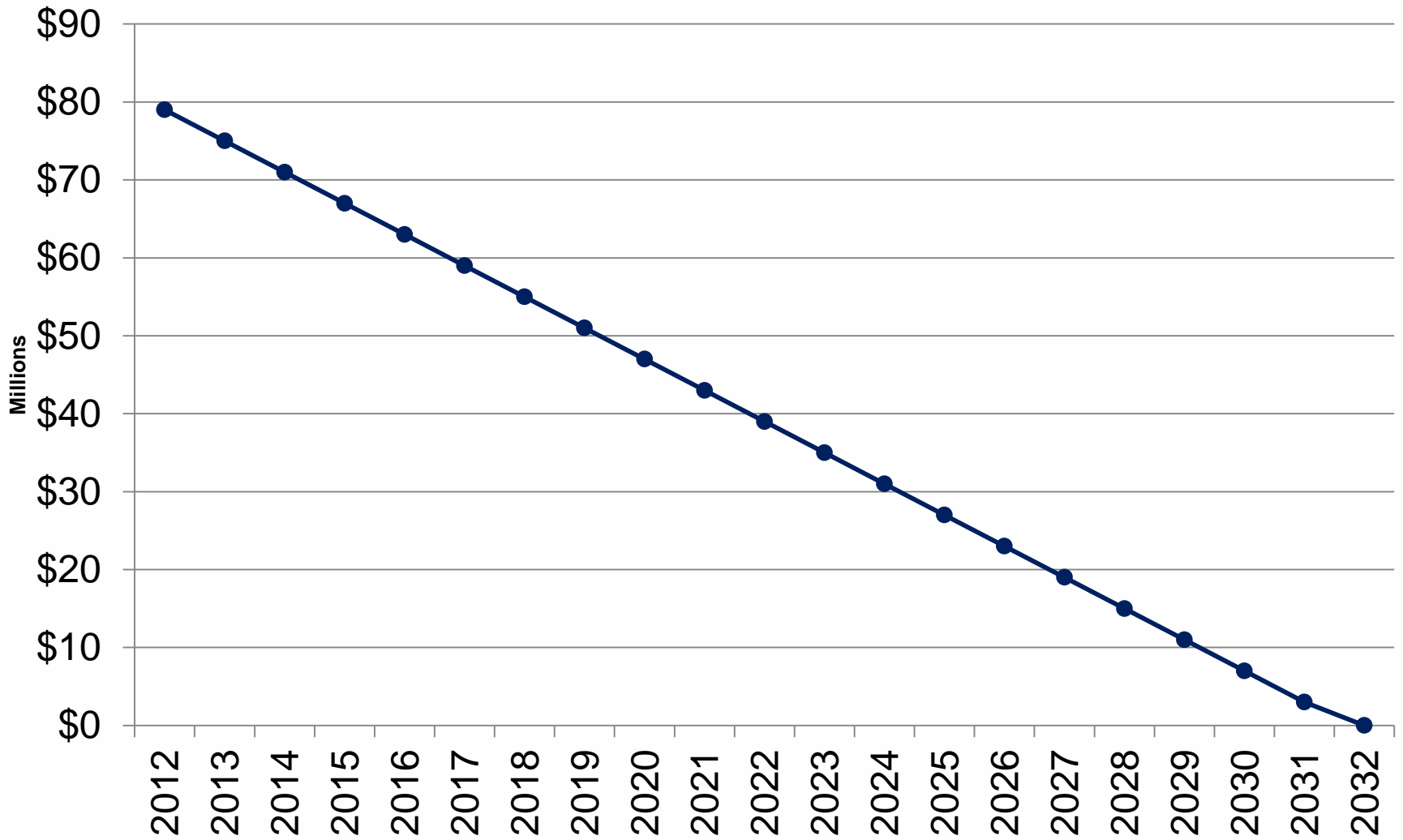
 - Private Placement

- **Short Term Sources**

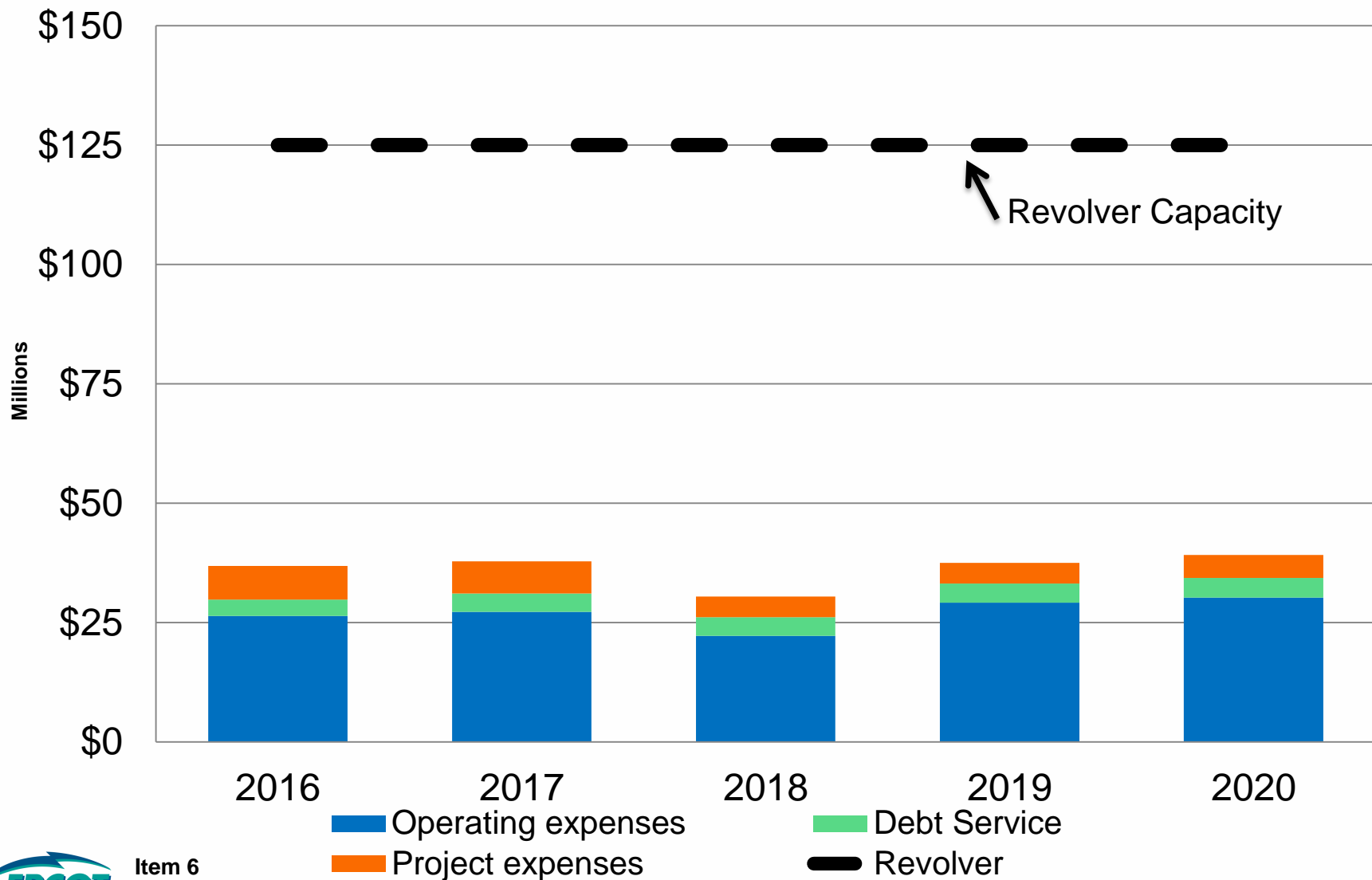
 - Revolver

 - Congestion Revenue Rights (CRRs)

Funding Source – Private Placement



Funding Source - Revolver



Funding Source - Congestion Revenue Rights (CRRs)

- Financial impact on ERCOT Inc.
- 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
- Funds may be utilized in place of borrowing under short term credit facilities to meet liquidity needs
- Revolver loan documents limit CRR usage

Regulations and Guidelines

- **Board bylaws**
Adopt policy regarding borrowing money or establishing a line of credit
- **Board policy**
Approve indebtedness exceeding \$1 million
- **Finance and Audit Committee charter**
Review and recommend annual financing plan
Review and recommend transactions throughout the year
- **Board-approved Financial Corporate Standard**
Establish constraints regarding debt use
- **Public Utility Commission of Texas rules**
Approve debt transactions

Regulations and Guidelines

- **Loan documents**
Covenants
- **Moody's Rating– Aa3**
Rating drivers

Conclusion

- **Advantages of debt**
 - Allows fee stabilization
 - Provides Board-approved required liquidity
 - Enhances financial flexibility
 - Meets working capital needs
 - Produces intergenerational equity
- **ERCOT utilizes the most cost effective debt funding consistent with the Maturity-Matching Strategy**