



Item 6: System Administration Fee Analysis

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Finance & Audit Committee Meeting

ERCOT Public
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System Administration Fee Analysis

Agenda

1. Board request
2. Major assumptions
3. System Administration Fee calculation **extrapolated** for a 10-year view
4. Sources and Uses **extrapolated** for a 10-year view
 - Department and project expenditures
 - Debt & ERCOT Use of CRR Funds
5. Summary

*NOTE: Future values are **extrapolated** based on current assumptions; this is not a recommendation.*

System Administration Fee Analysis

Board Request

- Request:
 - If we project into the future, when may the Board need to consider raising the System Administration Fee (SAF)?
 - How do the projected load growth and expenditures affect the future mix between Long Term Debt and ERCOT's Use of CRR Funds?
- Options:
 - Reduce Department Net Expenditures (e.g., operational efficiencies).
 - Reduce Project Expenditures.
 - Increase Debt & ERCOT's Use of CRR Funds.
 - Increase System Administration Fee.

System Administration Fee Analysis

Major Assumptions

System Administration Fee

- Remains the same at \$0.555.

Multi-Year Planning Horizon

- Continues to incorporate known items in out years (e.g., includes major refreshes but **not** any significant unknown items).
- Accounts for the cost of inflation.
 - Labor 4%
 - Non-labor 2.3%
 - Load growth less than 2%
- Maintains 2016-2017 budgeted headcount of 749 FTEs.
- Continues to use debt and working capital to keep fee consistent across years.

System Administration Fee Analysis

System Administration Fee Calculation Extrapolated for a 10-Year View

(Dollars in Millions)

System Administration Fee Revenue Requirement		Actual	Forecast	Budget		Projection				Extrapolation			
		2016□	2017□	2018□	2019□	2020□	2021□	2022□	2023□	2024□	2025□	2026□	2027□
1	Department Net Expenditures	\$ 142.7	\$ 156.1	\$ 165.8	\$ 169.3	\$ 174.8	\$ 181.0	\$ 186.8	\$ 193.5	\$ 199.9	\$ 207.1	\$ 214.0	\$ 222.2
2	Project Expenditures	31.8	40.5	28.5	28.5	27.0	29.0	45.0	45.0	28.5	28.5	27.0	29.0
3	Total Net Expenditures	\$ 174.5	\$ 196.6	\$ 194.3	\$ 197.8	\$ 201.8	\$ 210.0	\$ 231.8	\$ 238.5	\$ 228.4	\$ 235.6	\$ 241.0	\$ 251.2
4													
5	Long Term Debt	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0
6	Change in Working Capital	17.4	(3.4)	3.5	5.6	5.5	0.5	(17.8)	(21.2)	(7.6)	(11.5)	(13.4)	(19.9)
7	Change in Debt & Working Capital	\$ 21.4	\$ 0.6	\$ 7.5	\$ 9.6	\$ 9.5	\$ 4.5	\$ (13.8)	\$ (17.2)	\$ (3.6)	\$ (7.5)	\$ (9.4)	\$ (15.9)
8													
9	System Administration Fee Requirement	\$ 195.9	\$ 197.2	\$ 201.8	\$ 207.4	\$ 211.3	\$ 214.5	\$ 217.9	\$ 221.3	\$ 224.8	\$ 228.1	\$ 231.7	\$ 235.3
10	Energy Consumption (TWh)	353.0	355.2	363.6	373.7	380.6	386.5	392.7	398.8	405.0	411.0	417.4	423.9
11	System Administration Fee Rate	\$ 0.555	\$ 0.555	\$ 0.555	\$ 0.555	\$ 0.555	\$ 0.555	\$ 0.555	\$ 0.555	\$ 0.555	\$ 0.555	\$ 0.555	\$ 0.555

(Dollars in Millions)

Debt & Working Capital		Actual	Forecast	Budget		Projection				Extrapolation			
		2016□	2017□	2018□	2019□	2020□	2021□	2022□	2023□	2024□	2025□	2026□	2027□
12	Debt & Working Capital Balance at End of Year	\$ 99.5	\$ 98.9	\$ 91.4	\$ 81.9	\$ 72.4	\$ 67.8	\$ 81.7	\$ 98.9	\$ 102.5	\$ 110.0	\$ 119.4	\$ 135.3
13	Yearly Change in Debt & Working Capital	\$ (21.4)	\$ (0.6)	\$ (7.5)	\$ (9.6)	\$ (9.5)	\$ (4.5)	\$ 13.8	\$ 17.2	\$ 3.6	\$ 7.5	\$ 9.4	\$ 15.9
14	Cumulative Change in Debt & Working Capital		\$ (0.6)	\$ (8.1)	\$ (17.7)	\$ (27.2)	\$ (31.7)	\$ (17.9)	\$ (0.7)	\$ 3.0	\$ 10.5	\$ 19.9	\$ 35.8
15	Interest Expense	\$ 1.9	\$ 2.1	\$ 2.1	\$ 2.0	\$ 1.9	\$ 1.8	\$ 1.5	\$ 1.3	\$ 1.2	\$ 1.1	\$ 1.0	\$ 0.9

Schedule may not foot due to rounding.

CAGR 2018-2027

Department Net Expenditures = 3.3%
Energy Consumption = 1.7%



System Administration Fee Analysis

Sources and Uses Extrapolated for a 10-Year View

(Dollars in Millions)

Sources and Uses	Actual	Forecast	Budget		Projection				Extrapolation			
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1 System Administration Fee Revenues	\$ 195.9	\$ 197.2	\$ 201.8	\$ 207.4	\$ 211.3	\$ 214.5	\$ 217.9	\$ 221.3	\$ 224.8	\$ 228.1	\$ 231.7	\$ 235.3
2 Reliability Organization Assessment *	14.0	14.3	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
3 Other Revenues	5.6	5.9	5.4	5.6	5.7	5.8	5.9	6.1	6.2	6.4	6.5	6.6
4 Decrease in Working Capital	-	3.4	-	-	-	-	17.8	21.2	7.6	11.5	13.4	19.9
5 Total Sources	\$ 215.5	\$ 220.8	\$ 222.3	\$ 228.0	\$ 232.0	\$ 235.3	\$ 256.7	\$ 263.6	\$ 253.6	\$ 261.0	\$ 266.5	\$ 276.8
6												
7 Department Expenditures	\$ 148.4	\$ 162.0	\$ 171.3	\$ 174.9	\$ 180.5	\$ 186.8	\$ 192.7	\$ 199.6	\$ 206.1	\$ 213.5	\$ 220.5	\$ 228.8
8 Project Expenditures	31.8	40.5	28.5	28.5	27.0	29.0	45.0	45.0	28.5	28.5	27.0	29.0
9 Reliability Organization Assessment *	14.0	14.3	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
10 Repayment of Long Term Debt	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
11 Increase in Working Capital	17.4	-	3.5	5.6	5.5	0.5	-	-	-	-	-	-
12 Total Uses	\$ 215.5	\$ 220.8	\$ 222.3	\$ 228.0	\$ 232.0	\$ 235.3	\$ 256.7	\$ 263.6	\$ 253.6	\$ 261.0	\$ 266.5	\$ 276.8
* Reliability Organization Assessment is a pass-through collected on behalf of the Texas Regional Entity; it is not set by ERCOT.												
Schedule may not foot due to rounding.												

Simplified Equation:

Department Net Expenditures + Project Expenditures = SAF Revenues + Change in Debt & Working Capital

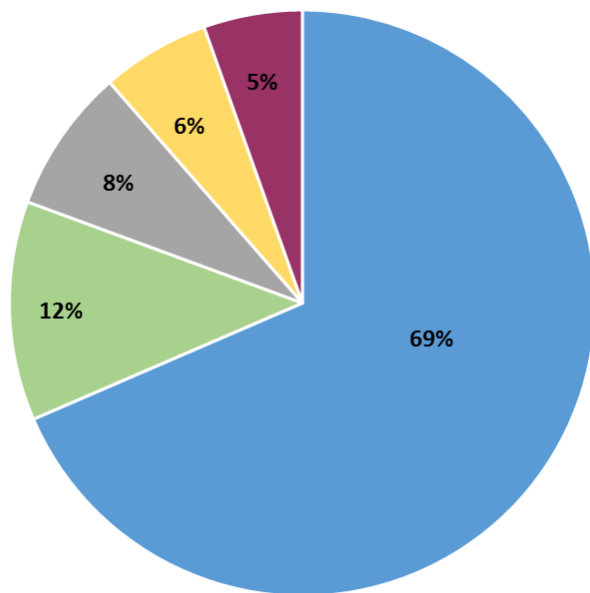


System Administration Fee Analysis

Sources and Uses Extrapolated: Department and Project Expenditures

Department Expenditures

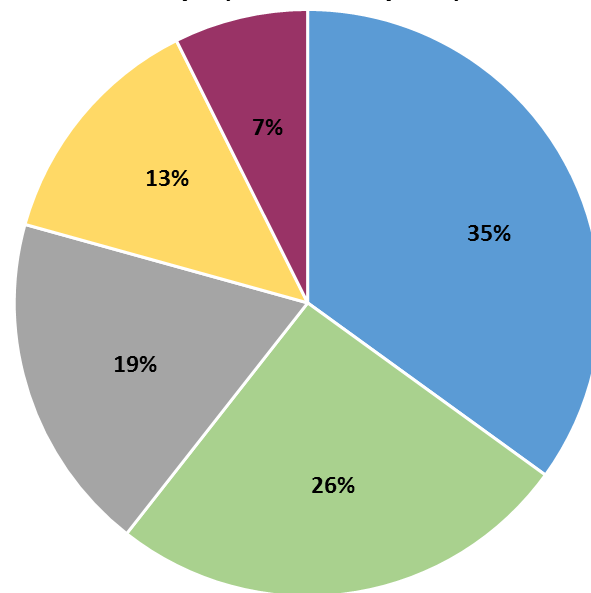
86% of Department & Project Expenditures



- Department Labor
- Hardware and Software
- Outside Services
- Utility, Maintenance & Facility
- Other Expenditures

Project Expenditures

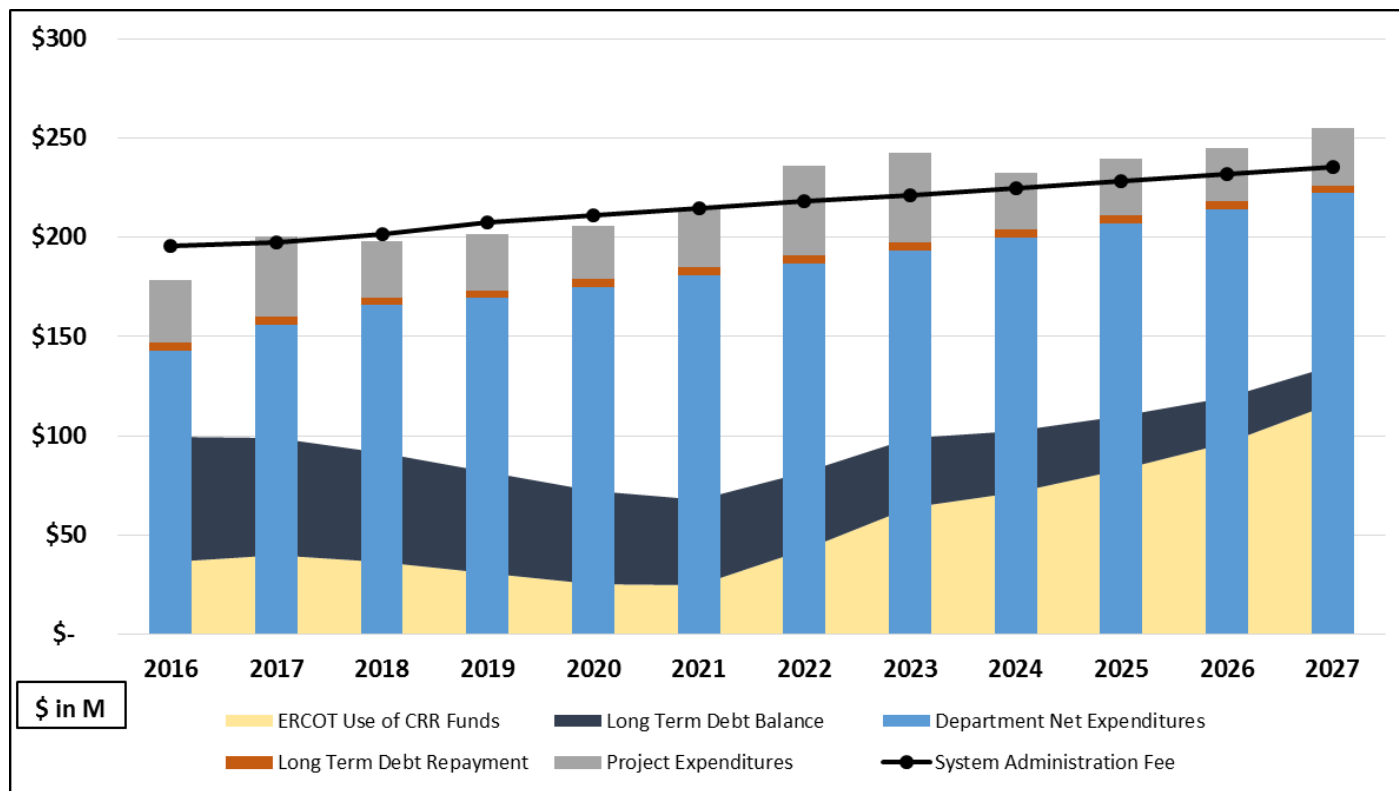
14% of Department & Project Expenditures



- Technical Foundation - Software
- Technical Foundation - Hardware Refreshes
- Internal Enhancements
- Revision Requests
- Regulatory

System Administration Fee Analysis

Sources and Uses Extrapolated: Debt & ERCOT Use of CRR Funds



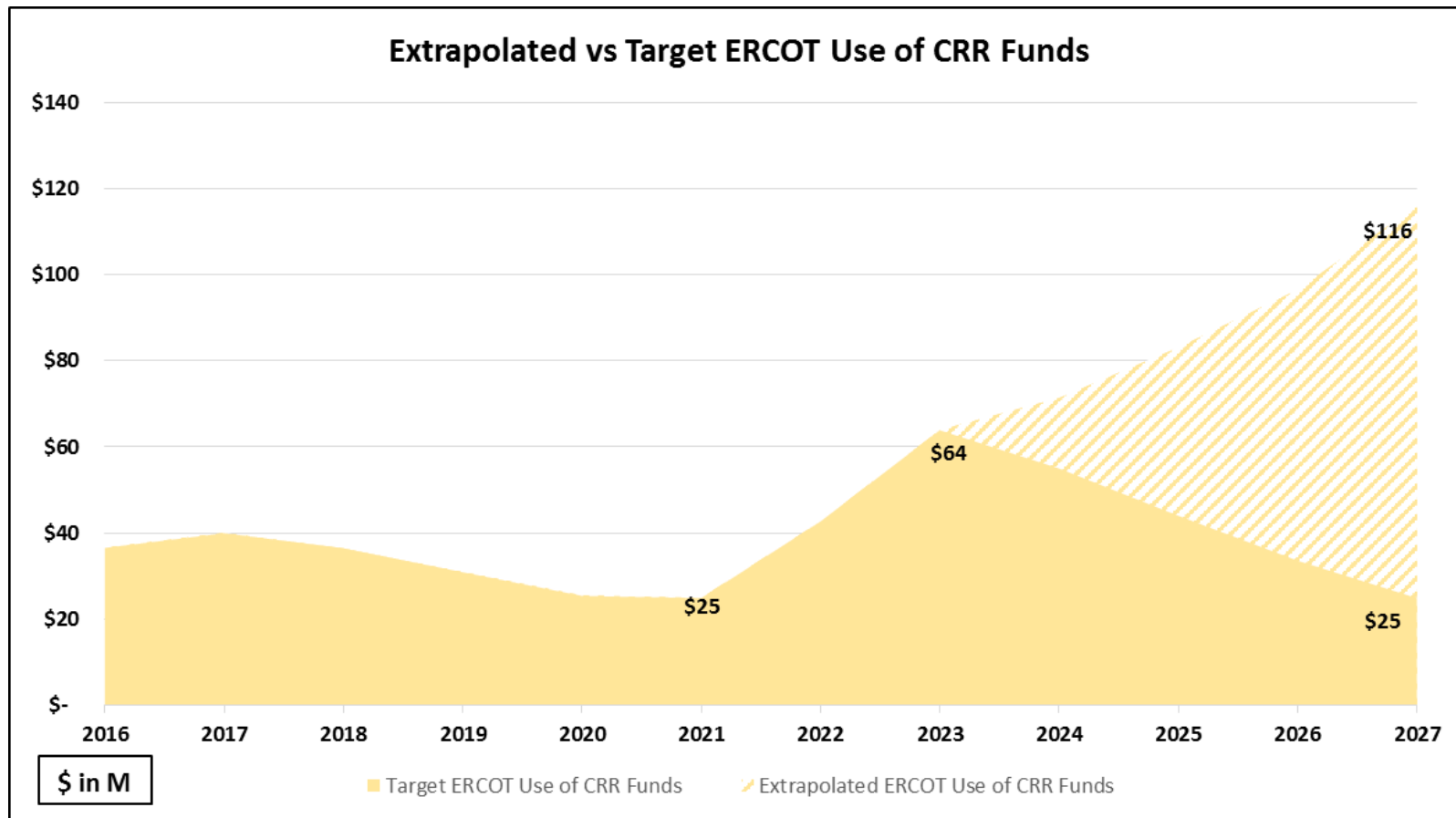
(Dollars in Millions)

Debt & Working Capital	Actual	Forecast	Budget		Projection				Extrapolation			
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Debt & Working Capital Balance at End of Year	\$ 99.5	\$ 98.9	\$ 91.4	\$ 81.9	\$ 72.4	\$ 67.8	\$ 81.7	\$ 98.9	\$ 102.5	\$ 110.0	\$ 119.4	\$ 135.3
Long Term Debt Balance	\$ 63.0	\$ 59.0	\$ 55.0	\$ 51.0	\$ 47.0	\$ 43.0	\$ 39.0	\$ 35.0	\$ 31.0	\$ 27.0	\$ 23.0	\$ 19.0
ERCOT Use of CRR Funds	\$ 36.5	\$ 39.9	\$ 36.4	\$ 30.9	\$ 25.4	\$ 24.8	\$ 42.7	\$ 63.9	\$ 71.5	\$ 83.0	\$ 96.4	\$ 116.3
Long Term Debt Balance %	63%	60%	60%	62%	65%	63%	48%	35%	30%	25%	19%	14%
ERCOT Use of CRR Funds %	37%	40%	40%	38%	35%	37%	52%	65%	70%	75%	81%	86%



System Administration Fee Analysis

Sources and Uses Extrapolated: Extrapolated vs Target ERCOT Use of CRR Funds



System Administration Fee Analysis Summary

This was a review of the **extrapolated** System Administration Fee Calculation and Sources and Uses for a 10-year view based on current assumptions. ***This is not a recommendation.***

- Current challenge:
 - Rate of inflation is outpacing load growth in the ERCOT region.
- Options:
 - Reduce Department Net Expenditures (e.g., operational efficiencies).
 - Reduce Project Expenditures.
 - Increase Debt & ERCOT's Use of CRR Funds.
 - Increase System Administration Fee.