



Item 4.2: Strategic Plan 2019-2023 Overview

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Board of Directors Meeting

ERCOT Public

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Strategic Plan Overview

- Preparing the strategic plan
- Defining the strategy
- Key drivers that shape ERCOT's strategies
- Strategic plan objectives
- Executing the plan



Preparing the Strategic Plan

ERCOT leadership is focused on continuing to develop an organization that can quickly adapt to provide value to those we serve.



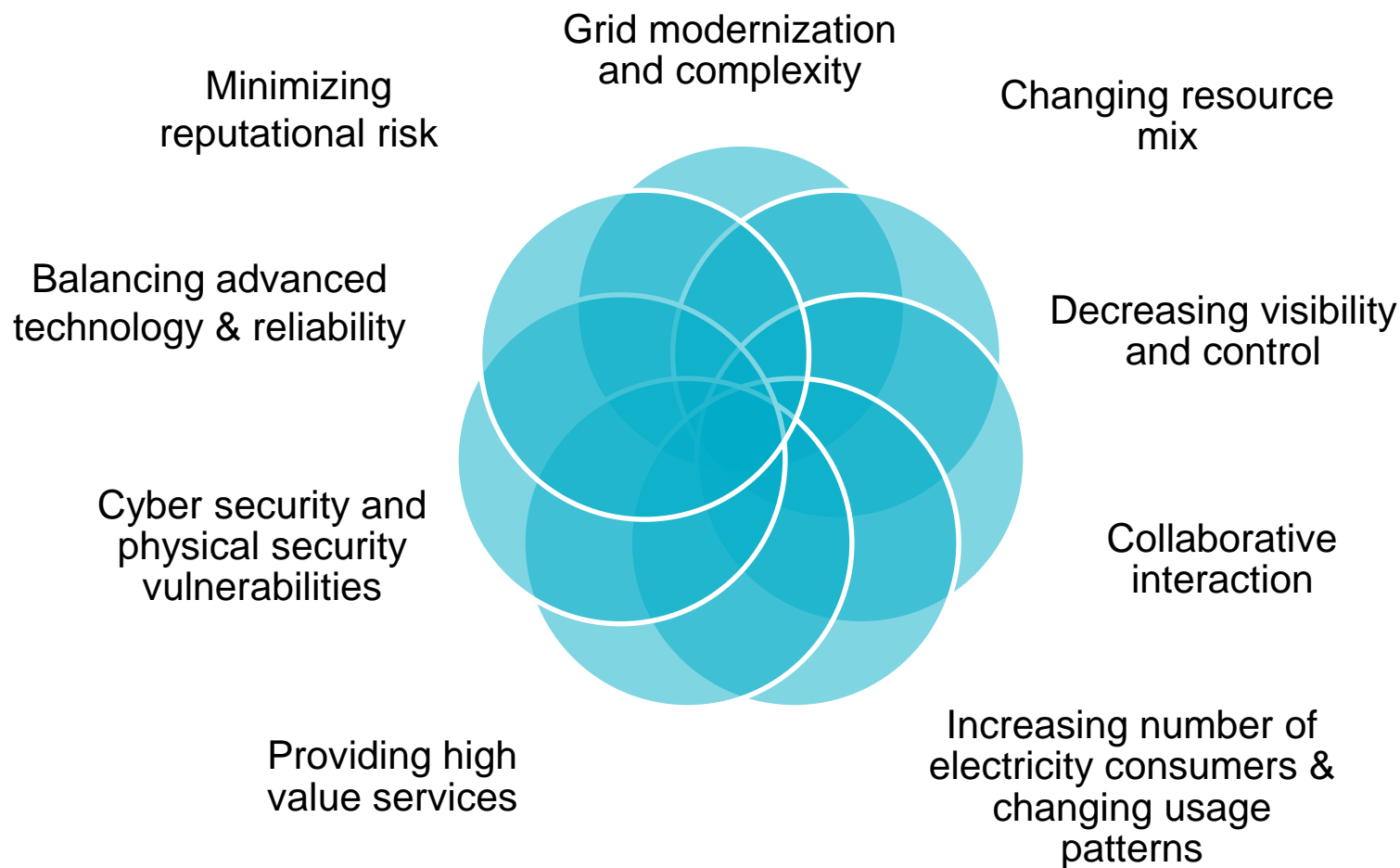
Defining the Strategy

ERCOT utilized a traditional planning process involving the Board, stakeholders, and employees.



- ✓ Executives established direction (mission, vision, areas of focus)
- ✓ Internal Strategic Planning Team defined opportunities and challenges facing organization to draft strategy
- ✓ Staff provided feedback through strategic team, focus group and surveys
- ✓ Board and stakeholders provided feedback through Board meetings and Segment sessions
- ✓ External review engaged for robustness
- ✓ Facilitated by ERCOT's ERM & Strategic Analysis team

Key Drivers that Shape ERCOT's Strategies



Strategic Plan Objectives

Enhance operating capabilities

to maintain the reliability of an increasingly complex system

Improve information exchange

to facilitate collaborative interaction

Advance competitive solutions

for a changing industry

Optimize use of ERCOT, Inc.'s resources

to continuously provide high-value services

Enhance operating capabilities

to maintain reliability of an increasingly complex system

To reliably operate an increasingly complex electric grid, ERCOT must enhance its analytical capabilities and the resilience of its critical networks and systems. These enhancements will include:

1. Advancement of ERCOT's modeling, monitoring and analytical tools
2. Assimilation of growing grid technologies into these tools and processes
3. Performance of more rigorous forward analyses and scrutiny of system events

Improve information exchange

to facilitate collaborative interaction

To improve information exchange, ERCOT will modernize business operations and data integration with stakeholders by enhancing the provision of data and reports and facilitating a more seamless process for data submission to ERCOT, while maintaining security and confidentiality.

ERCOT will collaborate with Market Participants, regulators, industry, researchers, and our peers to share expertise, expand learning opportunities, and proactively plan for change.

Advance competitive solutions

for a changing industry

To support efficient electric markets, open access, and retail choice, ERCOT will use its expertise to provide fact-based, objective analysis to policy and decision-makers to advance competitive solutions for an evolving industry.

ERCOT will partner with stakeholders and industry experts to :

1. Facilitate entry and participation in markets by new and existing resource types
2. Continue to evolve the necessary Ancillary Services
3. Improve the reliable and efficient management of regional transmission constraints
4. Pursue opportunities to enhance the flexibility of ERCOT's systems to more readily accommodate such changes

Optimize use of ERCOT, Inc.'s resources

to continuously provide high-value services

To ensure the responsible use of the funds it is entrusted with while rising to the challenges of an increasingly complex and changing industry, ERCOT will proactively drive strategic requirements to:

1. Optimize allocation of resources to strategic priorities
2. Leverage innovative and efficient solutions
3. Promote enterprise-wide thinking
4. Ensure staff has the knowledge, skills, and abilities to match the evolving state of technology and the industry
5. Foster employee engagement and accountability

Executing the Plan

- Finalize the Strategic Plan
- Establish corporate objectives and key results
- Communicate with employees
- Measure and evaluate

Strategic Plan
2019-2023



Strategic Plan

2019-2023

A message from the CEO

One of the most important things an organization can work on is its strategy. Developing strategy requires an enterprise to look beyond its current operations and consider developments that may alter what it takes to successfully operate in the future. Strategy looks for threats and opportunities and formulates ways to meet them successfully.

ERCOT develops our strategy by looking ahead in five-year increments. There is no magic in this particular time period, but a five-year period does require us to think far enough into the future to consider potential technological, economic and policy changes. Some changes beyond the horizon may soon shape ERCOT's ability to deliver its mission of serving the public by ensuring a reliable grid, efficient electricity markets, open access and retail choice. Planning ahead in this way is essential to ERCOT leading with independent insight amidst the many changes impacting electricity markets and technology.

As our 2019-2023 Strategic Plan highlights, ERCOT is prepared to maintain excellent operations and to improve and modernize our business processes as necessary to meet emerging challenges. The plan sets a course for building on the success of the ERCOT system and for providing employees with the tools they need to achieve strategic objectives in every part of the ERCOT enterprise.

This plan was developed by numerous ERCOT stakeholders: the ERCOT Board of Directors, representatives of our Market Segments, ERCOT executive management and a Strategic Planning Team comprised of ERCOT employees.

ERCOT employees provided feedback and helped identify key issues facing the company's future. I appreciate the efforts of all those who participated, in particular our Enterprise Risk Management & Strategic Analysis team, who provided leadership throughout the process.

The main point of defining strategy is to direct action that will move the strategy forward. With a well-considered strategy in place for 2019-2023, ERCOT's job moving forward is to establish strategic priorities, align our efforts to those priorities and execute successfully to deliver on our critical public service mission.



Sincerely,

A handwritten signature in black ink, appearing to read "B.M. Magness", written in a cursive style.

Bill Magness
President and CEO

About ERCOT

Founded in 1970, the Electric Reliability Council of Texas (ERCOT) is an independent, not-for-profit organization responsible for overseeing the reliable and safe transmission of electricity over the power grid serving most of Texas.

As the Independent System Operator (ISO) since 1996, ERCOT has been the broker between competitive wholesale power buyers and sellers. In 1999, the Texas Legislature restructured the Texas electric market by unbundling the investor-owned utilities and creating retail customer choice in those areas. ERCOT was assigned four primary responsibilities:

- System reliability – planning and operations
- Wholesale market settlement for electricity production and delivery
- Retail registration process for customer choice
- Open access to transmission

ERCOT provided the platform upon which Texas' electric utility industry made the transition to retail competition on January 1, 2002. Today, ERCOT manages the flow of electric power to more than 25 million Texas customers – representing about 90 percent of the state's electric load. As the ISO for the region, ERCOT schedules power on an electric grid that connects more than 46,500 miles of transmission lines and 600+ generation units. It also performs financial settlement for the competitive wholesale bulk-power market and administers retail switching for 7 million premises in competitive choice areas.

ERCOT is a membership-based 501(c)(4) nonprofit corporation, governed by a 16-member Board of Directors and subject to oversight by the Public Utility Commission of Texas (PUC) and the Texas Legislature. Its members include consumers, cooperatives, generators, power marketers, retail electric providers, investor-owned electric utilities, transmission and distribution providers and municipally-owned electric utilities.

How ERCOT is funded

The PUC has authorized ERCOT to charge the ERCOT System Administration Fee to fund its budget. ERCOT converts the fee into a charge to each Qualified Scheduling Entity using the formula set forth in the ERCOT Protocols, which is based on actual volume consumption of electricity. ERCOT submits a biennial budget to its Board, and ultimately, the PUC for final approval. The 2018-2019 budget maintained the System Administration Fee at 55.5 cents per MWh (no increase from the 2016-2017 budget). ERCOT anticipates maintaining a flat System Administration Fee through 2024, and as a result, management and staff remain dedicated to seeking opportunities to improve operational efficiency, as well as continue cost-management initiatives that have enabled the ISO to postpone or minimize fee increases in spite of additional costs associated with the increasingly complex electric market.



ERCOT executives established direction

Vision: Lead with independent insight on the future of electricity reliability, markets and technology in Texas in order to facilitate grid and market change for the benefit of all stakeholders.

Mission: We serve the public by ensuring a reliable grid, efficient electricity markets, open access and retail choice.

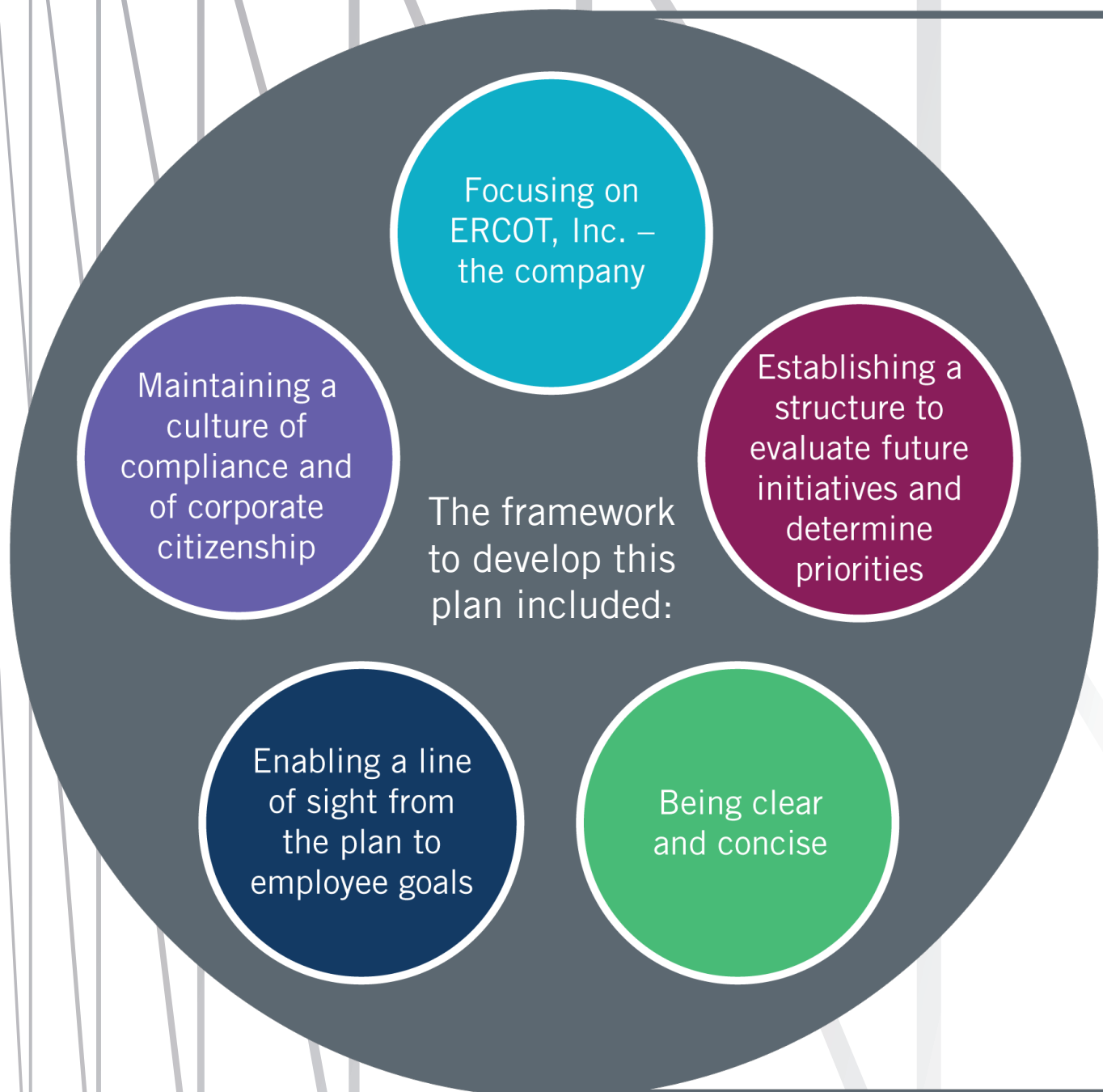
Key areas of focus:

- People
- Grid
- Technology
- Market

Preparing the Strategic Plan

ERCOT leadership is focused on continuing to develop an organization (people and systems) that can quickly adapt to provide value to those we serve.

ERCOT utilized a traditional strategic planning process involving its Board, stakeholders and employees.



Defining the strategy

ERCOT began developing its 2019-2023 Strategic Plan in early 2018. Executive leadership identified a Strategic Planning Team comprised of eight individuals representing various areas of the organization. This group was charged with leading the effort to define opportunities and challenges facing ERCOT, and to draft a strategic plan document for 2019-2023.

The planning team and executives engaged in training to establish a common language and approach for the process. Twenty working sessions were held to identify drivers and refine the most critical aspects used to shape ERCOT's strategies.

Staff was encouraged to provide feedback through the Strategic Planning Team, the CEO Focus Group and a strategic planning survey.

The ERCOT Board of Directors and stakeholders provided feedback through Board meetings and Market Segment review sessions.

The process was facilitated internally by ERCOT's Enterprise Risk Management and Strategic Analysis team.

ERCOT will continually review its strategy to quickly adapt to the rapidly changing environment in which it operates.

Mission
and
Objectives

Environmental
Scanning

Strategy
Formulation

Strategy
Implementation

Evaluation
and Control

Key drivers that shape ERCOT's strategies

Grid modernization and complexity

The grid is changing dramatically and quickly, and becoming ever more complex. Grid modernization and the smart grid will play key roles in ERCOT's strategies to operate reliably. As grid technology changes, there is a greater need for improved modeling, monitoring and analytical tools.

Changing resource mix

ERCOT's resource mix continues to change as new technologies emerge. The economies of various technologies change relative to one another. Policies tailored to specific resource types are continually introduced or rolled off. These challenges require the ISO to proactively model these changes and anticipate reliability issues and market design implications associated with the changing resource mix.

Decreasing visibility and control

The integration of new resource technologies, distributed energy resources and other small energy resources complicate ERCOT's ability to have visibility into and control of the electric system. Although individually each is a small impact, the increasing lack of visibility on the aggregate creates a transmission-level reliability concern.

Collaborative interaction

The current technological methods of sharing information are not optimal in the long run. There is a need for effective and open collaboration and straightforward information exchange with Market Participants, regulators, industry, researchers and peers, in order to share expertise, expand learning opportunities and proactively plan for change.

Increasing number of electricity consumers and changing usage patterns

The population growth rate in Texas, coupled with increased consumer use of smart home technology and the electrification of the transportation sector are changing power usage patterns. With the emergence of new resource technologies, an understanding of how these trends will impact the transmission system and to what degree integration with the grid and wholesale markets is appropriate will prove essential.

Providing high-value services

ERCOT is tasked to responsibly use funds to provide high-value services and maintain reliability while rising to the challenges of an increasingly complex and changing industry. It is imperative to take a proactive, strategic approach to this to work. As the industry and workforce changes, ERCOT must identify the skill sets needed and implement efforts to attract and retain the right workforce to fulfill ERCOT's mission.

Cyber security and physical security vulnerabilities

The industry continues to see an increase in the sophistication and volume of cyber attacks. There is a constant need to protect physical and cyber assets. Increased vulnerabilities require ERCOT to continuously evaluate what additional steps are needed.

Balancing advanced technology and reliability

Improvements in technology, increasing amounts of data and quicker response times provide opportunities for improved analytical capabilities that are required to manage the grid reliably.

Minimizing reputational risk

ERCOT has the unique responsibility to manage the flow of electric power to Texas consumers, perform financial settlement for the competitive wholesale bulk-power market and administer the retail registration process in competitive choice areas. Since even minimal errors or issues outside of ERCOT's control can negatively impact external parties' impressions of the organization, ERCOT must continually nurture relationships while enforcing an internal culture of compliance, security and reliability.

Strategic Plan objectives

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