



Date: June 4, 2019
To: Board of Directors
From: Terry Bulger, Finance and Audit (F&A) Committee Chair
Subject: 2020-2021 Budget and Fee

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: June 11, 2019

Item No.: 8.1

Issue:

Approval by the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) of the ERCOT 2020-2021 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(e) 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 a proposed Budget, or a proceeding to authorize and set the range for the amount of the 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 by October of each year when the Budget is to be approved, or at such other time as directed by 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 in pertinent part:

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 F&A Committee is expected to recommend to the Board whether it should approve, reject or amend the 2020-2021 Biennial Budget at its June 11, 2019 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 2020 and 2021 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 fourth quarter of 2018 and the first and second quarters of 2019, ERCOT staff discussed financial assumptions, methodologies, schedules and a system administration fee relating to the 2020-2021 Biennial Budget with PUCT staff designated by the PUCT Executive Director.
- ERCOT staff will present its recommended 2020-2021 Biennial Budget to the F&A Committee on June 10, 2019.
- The Budget recommended by ERCOT staff will keep the ERCOT system administration fee flat at \$0.5550 for 2020 and 2021.

Conclusion/Recommendation:

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

- Approve the recommended 2020-2021 Biennial Budget as set forth in Attachment A, which includes \$268,310,985 and \$275,156,917 total spending authorization for operating expenses, project spending, and debt service obligations for 2020 and 2021, respectively;
- Approve the recommended ERCOT system administration fee of \$0.5550 per megawatt-hour rate for 2020-2021, which represents no increase from the current ERCOT system administration fee, as set forth in Attachment B; and
- Authorize ERCOT Legal to file the Board-approved 2020-2021 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 2020-2021 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 January 17, 2019 (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 2020-2021 Biennial Budget, which includes a total spending authorization of \$268,310,985 and \$275,156,917 respectively; and

WHEREAS, the Budget recommended by ERCOT staff will keep the ERCOT system administration fee flat at \$0.5550 for 2020 and 2021;

THEREFORE, BE IT RESOLVED, that the Board hereby:

- Approves the recommended 2020-2021 Biennial Budget as set forth in Attachment A, which includes \$268,310,985 and \$275,156,917 total spending authorization for operating expenses, project spending, and debt service obligations for 2020 and 2021, respectively; and
- Approves the request for the ERCOT system administration fee of \$0.5550 per megawatt-hour for 2020 and 2021 as set forth in Attachment B; and
- Authorizes ERCOT Legal to file the Board-approved 2020-2021 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 11, 2019 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, 2019.

Vickie G. Leady
Assistant Corporate Secretary

Attachment A
Fiscal Years 2020-2021 Management Recommended Budget
(\$ in Thousands)

Sources and Uses				2020	2021	2022	2023	2024	2025	
	2018	2019	2019	2020	2021	2022	2023	2024	2025	
	Actual	Budget	Forecast	Request	Request	Projection	Projection	Projection	Projection	
1	System Administration Fee Revenues	\$ 209,881	\$ 207,425	\$ 211,663	\$ 222,640	\$ 229,274	\$ 236,244	\$ 242,865	\$ 249,986	\$ 255,869
2	Reliability Organization Assessment *	16,328	15,000	15,789	19,800	19,800	19,800	19,800	19,800	19,800
3	Interest Income	13,091	1,300	20,000	20,000	20,000	20,000	20,000	20,000	20,000
4	Other Revenues	5,630	4,287	6,533	5,871	6,083	6,235	6,391	6,544	6,695
5	Total Sources	\$ 244,929	\$ 228,012	\$ 253,985	\$ 268,311	\$ 275,157	\$ 282,279	\$ 289,056	\$ 296,330	\$ 302,363
6	Department Expenditures	\$ 162,252	\$ 172,936	\$ 173,148	\$ 181,086	\$ 187,168	\$ 193,496	\$ 200,779	\$ 207,567	\$ 215,258
7	Project Expenditures	40,324	28,500	20,400	32,000	34,000	39,250	52,650	48,850	31,250
8	Reliability Organization Assessment *	16,328	15,000	15,789	19,800	19,800	19,800	19,800	19,800	19,800
9	Debt Service	5,438	5,997	5,821	5,683	5,531	5,340	5,007	5,010	5,170
10	Repayment of CRR Borrowings	20,587	5,580	12,639	-	-	-	-	-	-
11	Increase in Cash Balance	-	-	26,188	29,741	28,657	24,392	10,820	15,104	30,885
12	Total Uses	\$ 244,929	\$ 228,012	\$ 253,985	\$ 268,311	\$ 275,157	\$ 282,279	\$ 289,056	\$ 296,330	\$ 302,363

* 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.

Attachment B
 Fiscal Years 2020-2021 Management Recommended Budget
 (\$ in Thousands)

Budget Summary										
Line	2018 Actual	2019 Budget	2019 Forecast	2020 Request	2021 Request	2022 Projection	2023 Projection	2024 Projection	2025 Projection	
1	\$ 0.5550	\$ 0.5550	\$ 0.5550	\$ 0.5550	\$ 0.5550	\$ 0.5550	\$ 0.5550	\$ 0.5550	\$ 0.5550	
2	378,163	373,739	381,374	401,153	413,107	425,665	437,595	450,426	461,025	
3	\$ 209,881	\$ 207,425	\$ 211,663	\$ 222,640	\$ 229,274	\$ 236,244	\$ 242,865	\$ 249,986	\$ 255,869	
4	\$ 156,623	\$ 168,649	\$ 166,616	\$ 175,215	\$ 181,085	\$ 187,262	\$ 194,388	\$ 201,023	\$ 208,564	
5	40,324	28,500	20,400	29,000	29,000	27,250	42,650	38,850	31,250	
6	-	-	-	3,000	5,000	12,000	10,000	10,000	-	
7	\$ 196,947	\$ 197,149	\$ 187,016	\$ 207,215	\$ 215,085	\$ 226,512	\$ 247,038	\$ 249,873	\$ 239,814	
8	\$ 12,934	\$ 10,277	\$ 24,647	\$ 15,425	\$ 14,189	\$ 9,733	\$ (4,173)	\$ 114	\$ 16,055	
9	\$ (5,438)	\$ (5,997)	\$ (5,821)	\$ (5,683)	\$ (5,531)	\$ (5,340)	\$ (5,007)	\$ (5,010)	\$ (5,170)	
10	13,091	1,300	20,000	20,000	20,000	20,000	20,000	20,000	20,000	
11	\$ 7,653	\$ (4,697)	\$ 14,179	\$ 14,317	\$ 14,469	\$ 14,660	\$ 14,993	\$ 14,990	\$ 14,830	
12	\$ 20,587	\$ 5,580	\$ 38,826	\$ 29,741	\$ 28,657	\$ 24,392	\$ 10,820	\$ 15,104	\$ 30,885	
Year-End Balances: Notes Payable, CRR Borrowings, Cash, and Real Time Co-optimization Project Funding										
	2018 Actual	2019 Budget	2019 Forecast	2020 Request	2021 Request	2022 Projection	2023 Projection	2024 Projection	2025 Projection	
13	\$ 55,000	\$ 51,000	\$ 51,000	\$ 47,000	\$ 43,000	\$ 39,000	\$ 35,000	\$ 31,000	\$ 27,000	
14	\$ 12,639	\$ 7,059	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
15	\$ -	\$ -	\$ 26,188	\$ 55,929	\$ 84,586	\$ 108,978	\$ 119,798	\$ 134,902	\$ 165,786	
16	\$ 17,089	\$ -	\$ 50,335	\$ 47,335	\$ 42,335	\$ 30,335	\$ 20,335	\$ 10,335	\$ 10,335	

Schedule may not foot due to rounding.