



Date: February 4, 2020
To: Board of Directors
From: Finance and Audit (F&A) Committee Chair
Subject: Financial Corporate Standard

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: February 11, 2020

Item No.: 12.3

Issue:

Whether the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) should approve any or all of the ERCOT staff proposed modifications or recommend and approve any other changes to the ERCOT Financial Corporate Standard (Standard) to become effective upon approval by the Board.

Background/History:

The Board has established the Financial Corporate Standard, which requires review at least annually by the Finance and Audit (F&A) Committee, with modifications approved by the Board. The Standard was last approved by the Board on February 12, 2019.

The Standard establishes a framework from which ERCOT's financial integrity is maintained while serving the long-term interests of the company and the ERCOT market. ERCOT recognizes that maintaining financial integrity is critical to accomplishing its corporate goals and discharging ERCOT's primary responsibilities.

ERCOT staff has reviewed the Standard and proposes changes, as reflected in **Attachment A**, to become effective upon approval by the Board. The changes are a result of removing the debt covenant restricting Congestion Revenue Right (CRR) Auction receipt usage and include:

- 1) Modifying targeted minimum level of liquidity to include an additional CRR Auction receipt factor; and
- 2) Removing language around debt limitations on CRR Auction receipt usage.

The F&A Committee is expected to recommend the Board adopt, reject, or amend the Standard at its February 11, 2020 meeting.

Key Factors Influencing Issue:

The key factors influencing the issue are adherence to provisions of Board-approved corporate standards, improved clarity and consistency of policy documents, and the need to provide sound financial guidance for ERCOT's exempt purposes.

Conclusion/Recommendation:

The F&A Committee is expected to review the Standard at its meeting on February 11,



2020 and is expected to recommend to the Board whether any revisions should be made to the Standard and whether they should become effective upon approval by the Board.



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 approve the existing Financial Corporate Standard (Standard), revised as reflected in **Attachment A**, as recommended by the Finance and Audit (F&A) Committee;

THEREFORE, BE IT RESOLVED, that the existing Standard is hereby approved as revised, as reflected in **Attachment A**, to be effective immediately.

CORPORATE SECRETARY'S CERTIFICATE

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its February 11, 2020 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of February, 2020.

Vickie G. Leady
Assistant Corporate Secretary

ERCOT CORPORATE STANDARD

Document Name:	Financial Corporate Standard
Document ID:	CS3.1
Effective Date:	February 1 2 , 20 20 19
Owner:	Board of Directors, Finance & Audit Committee
Governs:	ERCOT Personnel
Approved:	Board of Directors, Finance & Audit Committee

1. PURPOSE

This Financial Corporate Standard is a framework from which ERCOT's financial integrity will be maintained while serving the long-term interests of the company and the ERCOT market. ERCOT recognizes that maintaining financial integrity is critical to accomplishing its corporate goals and discharging ERCOT's primary responsibilities.

2. DEFINITIONS

Acronyms & Terms	Definition and Description
Budget	ERCOT's biennial budget.
Cash Operating and Maintenance Expenses	Cash Operating and Maintenance Expenses consist of all reasonable and necessary costs (excluding non-cash items such as depreciation and amortization) incurred in the operation and maintenance of ERCOT's facilities, equipment and systems.
Congestion Revenue Right (CRR) Auction Receipts	Funds received, held, and redistributed by ERCOT in connection with periodic auctions by ERCOT that allow eligible CRR account holders to buy and sell CRRs.

3. FINANCIAL OBJECTIVES

In seeking to fulfill its corporate objectives, ERCOT will maintain a high level of financial stability and will not compromise long-term financial integrity to achieve short-term benefits.

Fees

ERCOT will seek to maintain stable, fair, and predictable fees. ERCOT will also endeavor to provide market participants as much advance notice as practicable before fee changes are proposed or enacted.

Liquidity

ERCOT will seek to maintain adequate liquidity to meet its business needs. Liquidity is the combination of available 1) ~~operating cash on hand~~ cash and cash equivalents, 2)

~~operating cash equivalents / short term~~ investments, and 3) undrawn borrowing capacity under credit facilities.

ERCOT's targeted minimum level of liquidity will factor in: 1) six months of forecasted redistribution of CRR Auction receipts, 2) six months of all forecasted interest and mandatory principal payments on outstanding indebtedness, other than principal payments reasonably expected to be refinanced, 23) two months of average Cash Operating and Maintenance Expenses, net of projected administration fee receipts, 34) two months of budgeted project expenditures, and 45) all CRR Auction Receipts used to fund ERCOT operations.

If at any time ERCOT's liquidity is less than, or is expected to be less than, the targeted minimum level set forth in this Financial Corporate Standard, staff will promptly recommend a plan for Board of Directors (Board) consideration to achieve the liquidity target within six months.

Debt Rating

ERCOT will pursue financial objectives that will allow it to maintain the Aa3 Moody's rating or equivalent debt rating with Standard & Poor's or Fitch. If a rating below the Aa3, or equivalent, current rating is received, staff will promptly recommend a plan for Board consideration to attempt to recover the targeted rating within 18 months.

4. FUNDING SOURCES

ERCOT may use a combination of self-funding, CRR Auction Receipts, and debt to fund current year expenditures and provide targeted minimum level of liquidity.

Self-Funding

ERCOT will assess fees consistent with the ERCOT Protocols and Public Utility Commission of Texas rules. ERCOT will also collect fees on behalf of the Electric Reliability Organization as approved by the Federal Energy Regulatory Commission. Fee adjustments, if necessary, will generally be developed and proposed in connection with the Budget.

ERCOT will not accumulate cash reserves to meet the targeted minimum level of liquidity without sufficient economic justification and preapproval of the Board.

CRR Auction Receipts

CRR Auction Receipts may be used to fund ERCOT operations ~~to the lesser of limits imposed by debt covenants or up to~~ 50 percent of total CRR Auction Receipts held.

~~Given uncertainty regarding availability of CRR Auction Receipts, ERCOT will maintain unused debt capacity to the full extent CRR Auction Receipts are used to fund ERCOT operations.~~

Debt

Generally, ERCOT will structure debt issues such that the average maturity of the debt does not exceed the average life of the assets financed; however, debt issues may be structured with a longer or shorter average maturity if economically justified.

ERCOT may use variable-rate debt to fund acquisitions of hardware, software and other technology assets to provide flexibility in its financing program and to help stabilize fees.

ERCOT will regularly evaluate the interest rate environment and review ways to manage interest rate risk exposure within that environment.

As appropriate, ERCOT will periodically evaluate mechanisms to restructure or refinance debt. ERCOT will regularly evaluate alternatives to conventional financing to obtain the lowest overall cost of borrowing while still meeting the objectives of this Financial Corporate Standard.

5. BUDGET

In developing the Budget, ERCOT will work to ensure that financial ratios required for compliance with loan documents and the financial objectives in this Financial Corporate Standard are maintained.

Budget Variances

ERCOT will use all reasonable means to operate within the approved Budget. When unforeseen events occur (e.g., MWh's are significantly over or under projected levels, functionality is added or removed, etc.) and ERCOT experiences, or expects to experience, any overspending of the Budget or under collection of revenue, or more than a five percent under-spending of the Budget or over collection of revenue, staff will promptly recommend a plan for Board consideration. The plan may include cost reductions or additions, fee increases or decreases, or other means to ensure that approved functions can be maintained, capital expended and expenses paid in the normal course of business.

Unbudgeted Initiatives

In the event that ERCOT has significant unbudgeted initiatives, funding will be addressed at the time of initiation with Finance and Audit Committee approval.

6. RESPONSIBILITIES

It is the responsibility of the Chief Executive Officer and Vice President and Chief Financial Officer to ensure that this Financial Corporate Standard is implemented appropriately and to recommend changes in the Financial Corporate Standard as needed.

7. FINANCIAL CORPORATE STANDARD ADOPTION

The Financial Corporate Standard will be reviewed annually by the Finance and Audit Committee and any modifications made thereto must be approved by the Board.