



**Date:** August 3, 2021  
**To:** Board of Directors  
**From:** Nick Fehrenbach, Finance and Audit (F&A) Committee Chairman  
**Subject:** 2022-2023 Budget and Fee

**Issue for the ERCOT Board of Directors**

**ERCOT Board of Directors Meeting Date:** August 10, 2021

**Item No.:** 9.2

**Issue:**

Approval by the Board of Directors (Board) of Electric Reliability Council of Texas, Inc. (ERCOT) of the ERCOT 2022-2023 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 2022-2023 Biennial Budget at the Board's August 10, 2021 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 2022 and 2023 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;
  - Maintain necessary facilities to provide secure operations and house staff; and
  - Fund additional costs resulting from the February 2021 extreme winter weather event and the 87<sup>th</sup> Texas Legislature Regular Session.
- In the fourth quarter of 2020 and the first three quarters of 2021, ERCOT staff discussed financial assumptions, methodologies, schedules and a system administration fee rate relating to the 2022-2023 Biennial Budget with PUCT staff designated by the PUCT Executive Director.
- ERCOT staff will present its recommended 2022-2023 Biennial Budget to the F&A Committee on August 9, 2021.

- The Budget recommended by ERCOT staff will keep the ERCOT system administration fee rate flat at \$0.555 for 2022 and 2023.
- The Budget recommended by ERCOT staff does not fund the inspections required by Senate Bill 3 from the system administration fee. Those inspection costs will be funded through a different recovery mechanism, such as an ERCOT user fee.

**Conclusion/Recommendation:**

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

- Approve the recommended 2022-2023 Biennial Budget as set forth in Attachment A, which includes \$322,167,883 and \$286,983,615 total spending authorization for operating expenses, project spending, and debt service obligations for 2022 and 2023, respectively;
- Approve the recommended ERCOT system administration fee of \$0.555 per megawatt-hour rate for 2022 and 2023 and full recovery of the Senate Bill 3 generation and transmission inspection costs separately from the system administration fee as set forth in Attachment B; and
- Authorize ERCOT Legal to file the Board-approved 2022-2023 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 2022-2023 Biennial Budget (Budget), which includes operating expenses, project spending, and debt service obligations;

WHEREAS, Sections 4.10 (*Duties*) and 10.3 (*Budget*) of the Amended and Restated Bylaws of Electric Reliability Council of Texas, Inc., approved on July 31, 2020 (Bylaws), requires that the Board approve the Budget;

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;

WHEREAS, ERCOT staff presented its recommended 2022-2023 Biennial Budget, which includes a total spending authorization of \$322,167,883 and \$286,983,615 respectively; and

WHEREAS, the Budget recommended by ERCOT staff will keep the ERCOT system administration fee flat at \$0.555 for 2022 and 2023;

THEREFORE, BE IT RESOLVED, that the Board hereby:

- Approves the recommended 2022-2023 Biennial Budget as set forth in Attachment A, which includes \$322,167,883 and \$286,983,615 total spending authorization for operating expenses, project spending, and debt service obligations for 2022 and 2023, respectively; and
- Approves the recommended ERCOT system administration fee rate of \$0.555 per megawatt-hour for 2022 and 2023 and full recovery of the Senate Bill 3 generation and transmission inspection costs separately from the system administration fee as set forth in Attachment B; and
- Authorizes ERCOT Legal to file the Board-approved 2022-2023 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 August 10, 2021 urgent meeting by teleconference, the ERCOT Board passed a motion approving the above Resolution by \_\_\_\_\_.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_ day of August, 2021.

\_\_\_\_\_  
Vickie G. Leady  
Assistant Corporate Secretary

Attachment A

Fiscal Years 2022-2023 Management Recommended Budget

(\$ in Thousands)

Sources and Uses				2022	2023	2024	2025	2026	2027
	2020	2021	2021	2022	2023	2024	2025	2026	2027
	Actual	Budget	Forecast	Request	Request	Projection	Projection	Projection	Projection
1 System Administration Fee Revenues	\$ 212,185	\$ 229,274	\$ 222,391	\$ 232,887	\$ 240,873	\$ 295,543	\$ 299,699	\$ 304,473	\$ 309,160
2 Reliability Organization Assessment *	19,400	19,800	19,541	20,000	20,500	21,000	21,500	22,000	22,500
3 Interest Income	4,298	20,000	193	6	4	7	7	7	7
4 Other Revenues	6,866	6,083	8,726	20,243	20,462	21,608	22,818	24,096	25,445
5 CRR Borrowings	-	-	-	23,062	5,144	-	574	1,670	2,112
6 Decrease in Cash Balance	-	-	6,969	25,970	-	-	-	-	-
<b>7 Total Sources</b>	<b>\$ 242,749</b>	<b>\$ 275,157</b>	<b>\$ 257,820</b>	<b>\$ 322,168</b>	<b>\$ 286,984</b>	<b>\$ 338,158</b>	<b>\$ 344,599</b>	<b>\$ 352,246</b>	<b>\$ 359,224</b>
8 Department Expenditures	\$ 178,393	\$ 187,168	\$ 193,234	\$ 225,520	\$ 231,515	\$ 244,480	\$ 257,771	\$ 271,828	\$ 286,695
9 Project Expenditures	35,457	29,000	33,600	56,014	27,072	44,815	42,126	39,866	44,950
10 Real Time Co-optimization Project	2,727	5,000	1,300	-	2,415	13,060	17,637	13,230	-
11 MET Center Replacement Project	-	-	4,713	15,211	-	-	-	-	-
12 Reliability Organization Assessment *	19,400	19,800	19,541	20,000	20,500	21,000	21,500	22,000	22,500
13 Debt Service	5,577	5,531	5,431	5,423	5,481	5,504	5,566	5,322	5,079
14 Repayment of CRR Borrowings	-	-	-	-	-	9,300	-	-	-
15 Increase in Cash Balance	1,195	28,657	-	-	-	-	-	-	-
<b>16 Total Uses</b>	<b>\$ 242,749</b>	<b>\$ 275,157</b>	<b>\$ 257,820</b>	<b>\$ 322,168</b>	<b>\$ 286,984</b>	<b>\$ 338,158</b>	<b>\$ 344,599</b>	<b>\$ 352,246</b>	<b>\$ 359,224</b>

\* 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 2022-2023 Management Recommended Budget

(\$ in Thousands, except rates)

Budget Summary										
Line	2020 Actual	2021 Budget	2021 Forecast	2022 Request	2023 Request	2024 Projection	2025 Projection	2026 Projection	2027 Projection	
1	System Administration Fee Rate	\$ 0.555	\$ 0.555	\$ 0.555	\$ 0.555	\$ 0.555	\$ 0.665	\$ 0.665	\$ 0.665	\$ 0.665
2	Energy Consumption (GWH)	382,315	413,107	400,705	419,616	434,006	444,426	450,676	457,854	464,903
3	System Administration Fee Revenues	\$ 212,185	\$ 229,274	\$ 222,391	\$ 232,887	\$ 240,873	\$ 295,543	\$ 299,699	\$ 304,473	\$ 309,160
4	Department Net Expenditures	\$ 171,527	\$ 181,085	\$ 184,509	\$ 205,277	\$ 211,053	\$ 222,872	\$ 234,952	\$ 247,732	\$ 261,250
5	Project Expenditures	35,457	29,000	33,600	56,014	27,072	44,815	42,126	39,866	44,950
6	Real Time Co-optimization Project	2,727	5,000	1,300	-	2,415	13,060	17,637	13,230	-
7	MET Center Replacement Project	-	-	4,713	15,211	-	-	-	-	-
8	Total Net Expenditures	\$ 209,711	\$ 215,085	\$ 224,122	\$ 276,502	\$ 240,540	\$ 280,746	\$ 294,715	\$ 300,828	\$ 306,200
9	Net Available Before Non-Operating Sources & Uses	\$ 2,474	\$ 14,189	\$ (1,731)	\$ (43,615)	\$ 333	\$ 14,797	\$ 4,985	\$ 3,645	\$ 2,960
10	Debt Service	\$ (5,577)	\$ (5,531)	\$ (5,431)	\$ (5,423)	\$ (5,481)	\$ (5,504)	\$ (5,566)	\$ (5,322)	\$ (5,079)
11	Interest Income	4,298	20,000	193	6	4	7	7	7	7
12	Non-Operating Sources & Uses	\$ (1,279)	\$ 14,469	\$ (5,238)	\$ (5,417)	\$ (5,478)	\$ (5,497)	\$ (5,558)	\$ (5,315)	\$ (5,072)
13	Net Available	\$ 1,195	\$ 28,657	\$ (6,969)	\$ (49,032)	\$ (5,144)	\$ 9,300	\$ (574)	\$ (1,670)	\$ (2,112)
Year-End Balances: Notes Payable, CRR Borrowings, and Cash										
	2020 Actual	2021 Budget	2021 Forecast	2022 Request	2023 Request	2024 Projection	2025 Projection	2026 Projection	2027 Projection	
14	Notes Payable Balance	\$ 47,000	\$ 43,000	\$ 43,000	\$ 39,000	\$ 35,000	\$ 31,000	\$ 27,000	\$ 23,000	\$ 19,000
15	CRR Borrowings Balance	\$ -	\$ -	\$ -	\$ 23,062	\$ 28,206	\$ 18,906	\$ 19,480	\$ 21,150	\$ 23,262
16	Cash Balance	\$ 32,939	\$ 84,586	\$ 25,970	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Schedule may not foot due to rounding.