



Control Number: 38533



Item Number: 49

DOCKET NO. 38533

PUC REVIEW OF ERCOT BUDGET

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PUBLIC UTILITY COMMISSION

OF TEXAS

**ORDER APPROVING ERCOT'S 2022 TO 2023 BIENNIAL BUDGET AND
AUTHORIZING THE SYSTEM ADMINISTRATION FEE**

The Public Utility Commission of Texas approves the 2022 to 2023 biennial budget and system administration fee for the Electric Reliability Council of Texas, Inc. (ERCOT) and issues instructions for the submission of ERCOT's 2024 to 2025 budget as authorized by Public Utility Regulatory Act (PURA)¹ § 39.151 and 16 Texas Administrative Code (TAC) § 25.363(d).

I. Background

ERCOT is the independent organization designated to serve as the independent system operator for the ERCOT power region.² It is a Texas non-profit corporation operating as a tax-exempt organization under section 501(c)(4) of the Internal Revenue Code.³

The approval of ERCOT's budget is governed by 16 TAC § 25.363, which provides that ERCOT's annual budget and any change in the system administration fee are subject to review by the Commission. PURA authorizes the Commission to approve ERCOT's budget and system administration fee and to order ERCOT to operate under biennial budgets.⁴ Additionally, PURA provides that neither the Commission's process for the review and approval of ERCOT's budget nor a proceeding to authorize and set the range for the system administration fee constitutes a contested case proceeding.⁵ As part of the order approving ERCOT's 2020 to 2021 budget, the Commission also instructed ERCOT to file its proposed budget for fiscal years 2022 to 2023 and provide specific information to facilitate the Commission's consideration of ERCOT's proposed

¹ Public Utility Regulatory Act, TEX. UTIL. CODE §§ 11.001–66.016 (PURA).

² See PURA § 39.151.

³ 26 U.S. CODE § 501(c)(4).

⁴ See PURA § 39.151(d-1) & (e).

⁵ See PURA § 39.151(e-1).

budget, no later than September 1, 2021, unless Commission staff designated by the executive director alter the deadline for good cause.⁶

As required by 16 TAC § 25.363(e), ERCOT staff consulted with members of Commission Staff designated by the executive director regarding the development of ERCOT's budget and provided information concerning budget strategies, staffing requirements, categories of expenses, capital outlays, exceptional expenses, capital items, and proposals to incur additional debt. Beginning in December 2020, ERCOT and Commission Staff began discussing ERCOT's 2022 to 2023 budget and system administration fee in preparation for approval of the budget and fee by the ERCOT board of directors in August 2021. On April 5, 2021, Executive Director Thomas Gleeson extended the deadline for ERCOT to file its proposed 2022 to 2023 budget until November 1, 2021.⁷

On September 21, 2021, ERCOT filed in this project its proposed 2022 to 2023 budget and system administration fee, along with supporting documentation.⁸ On October 15, 2021, the Commission filed a notice of public hearing on ERCOT's proposed 2022 to 2023 budget and system administration fee.⁹ On November 15, 2021, the Commission held a public hearing regarding ERCOT's proposed 2022 to 2023 budget and system administration fee. ERCOT provided a brief overview of its proposed budget and answered questions from staff. No other person provided comments.

The Commission considered ERCOT's proposed 2022 to 2023 budget and system administration fee at an open meeting held on December 2, 2021.

⁶ *PUC Review of ERCOT Budget*, Project No. 38533, Order Approving ERCOT's 2020 to 2021 Biennial Budget and Authorizing the System Administration Fee (Nov. 15, 2019).

⁷ Project No. 38533, ERCOT's 2022/2023 Biennial Budget and System Administration Fee Submission, Attachment G, April 5, 2021 Letter from PUC Executive Director Thomas Gleeson to William Magness, President and CEO of ERCOT (Sept. 21, 2021).

⁸ Project No. 38533, ERCOT's 2022/2023 Biennial Budget and System Administration Fee Submission (Sept. 21, 2021).

⁹ 46 Tex. Reg. 7098 (Oct. 15, 2021); *see also*, Project No. 38533, Public Notice of Public Hearing on Proposed ERCOT Budget for 2022-2023 and Request for Comments (Oct. 6, 2021).

II. Summary of ERCOT's Proposed 2022 to 2023 Budget and Fee

The proposed 2022 to 2023 budget approved by the ERCOT board includes \$322.2 million for ERCOT's fiscal year 2022 and \$287 million for ERCOT's fiscal year 2023 in total spending authorization for operating expenses, project spending, and debt-service obligations.¹⁰ The 2022 to 2023 budget will be funded through a system administration fee of \$0.555 per megawatt-hour (MWh), which is the same fee that was approved by the Commission in 2019 as part of the 2020 to 2021 ERCOT budget review.¹¹ ERCOT did not seek to revise the manner in which the system administration fee is charged and collected, which the Commission has previously found to be reasonable and competitively neutral.¹²

In its proposed 2022 to 2023 biennial budget and system administration fee filing, ERCOT stated that its overall rationale supporting the budget and fee is "to implement a sustainable financial plan that meets ERCOT's technology and business requirements, while also maintaining the current system administration fee at \$0.555 per MWh."¹³ ERCOT presented the following three factors influencing its budget request:

1. Maintaining a flat system administration fee at \$0.555 per MWh, which is consistent relative to the approved 2020 to 2021 biennial budget;
2. Incorporating key initiatives and new demands; and
3. Complying with the ERCOT board's debt strategy guidance.¹⁴

¹⁰ Project No. 38533, ERCOT's 2022/2023 Biennial Budget and System Administration Fee Submission (Sept. 21, 2021).

¹¹ Project No. 38533, Order Approving ERCOT's 2020 to 2021 Biennial Budget and Authorizing the System Administration Fee (Nov. 15, 2019).

¹² See *Application of the Electric Reliability Council of Texas to Change the ERCOT Administration Fee*, Docket No. 28832, Order, Finding of Fact No. 21 (Mar. 18, 2004); *Application of the Electric Reliability Council for Approval of the ERCOT Administration Fee*, Docket No. 31824, Order, Finding of Fact No. 17 (May 15, 2006). ERCOT used the same process for charging and collecting the system administration fee in recent years, including the most recently approved budget and system administration fee. See Project No. 38533, Order Approving ERCOT's 2018-2019 Biennial Budget and Authorizing the System Administration Fee (Oct. 26, 2017).

¹³ Project No. 38533, ERCOT's 2022/2023 Biennial Budget and System Administration Fee Submission (Sept. 21, 2021).

¹⁴ *Id.*

A. Maintaining a Flat System Administration Fee

ERCOT stated that its proposal of a system administration fee at the same rate that has been charged since 2016 serves the purpose of maintaining consistency with the 2020 to 2021 budget, which has been a priority of ERCOT in establishing its proposed budget.¹⁵ ERCOT faced challenges in maintaining a system administration fee of \$0.555 per MWh, because ERCOT expects to see a decrease in system administration fee revenues as compared with the 2022 amounts projected when it sought approval of its 2020 to 2021 budget based on lower projected load growth.¹⁶ Additionally, ERCOT stated that it expects an increase in department net expenditures due to cost inflation, Winter Storm Uri, legislative requirements, new demands, and project expenditures for multi-year projects.¹⁷ Finally, ERCOT stated that it expects a decrease in interest income because of lower interest rates.¹⁸ ERCOT stated that its management has taken exceptional measures to control and cut expenses across the organization to offset the significant costs associated with Winter Storm Uri and recent legislation, but not all costs could be offset.¹⁹ The 2022 to 2023 budget also includes a new user fee separate from the system administration fee that will allow full recovery of the Senate Bill 3 generation and transmission inspection costs.²⁰

B. Incorporating Key Initiatives and New Demands

ERCOT stated that it incorporated key initiatives and new demands into its budget but expects to recognize efficiency savings to help offset the cost of the new demands.²¹ Many of the new demands arose from Winter Storm Uri and legislative requirements arising from the 87th Texas Legislative Regular Session.²²

The key initiatives and new demands described by ERCOT included regulatory requirements, protocol and planning revisions, and increased information technology support costs

¹⁵ *Id*

¹⁶ *Id.*

¹⁷ *Id*

¹⁸ *Id*

¹⁹ *Id.*

²⁰ *Id.*

²¹ *Id*

²² *Id*

for new or enhanced services.²³ Regarding regulatory requirements, the proposed budget anticipates increased costs associated with critical infrastructure protection compliance, transmission line and generation inspections, cybersecurity monitoring, increased coordination of resource outages, and the incorporation of new economic standards for transmission project approval.²⁴ Regarding protocol and planning revisions, the proposed budget anticipates new demands related to the development of weatherization standards, stability assessments for interconnecting generation, interconnection study increases, and grid forecasting improvements.²⁵

3. Complying with the ERCOT Board's Debt Strategy

ERCOT stated that to maintain compliance with the ERCOT board's debt strategy, ERCOT will maintain or improve ERCOT's long-term financial integrity by managing outstanding debt and liquidity, using debt matching appropriately, and using the lowest cost debt that is available and appropriate.²⁶ Towards this end, ERCOT stated that its management continues to seek opportunities to improve operational efficiency.²⁷

III. Approval of ERCOT's 2022 to 2023 Biennial Budget and Authorization of System Administration Fee

Commission Staff consulted with ERCOT regarding the development of ERCOT's proposed 2022 to 2023 budget and system administration fee. ERCOT provided Commission Staff with information regarding ERCOT's 2022 to 2023 budget strategies, staffing requirements, categories of expenses, capital outlays, exceptional expenses and capital items, and proposals to incur additional debt. Commission Staff reviewed ERCOT's proposed 2022 to 2023 budget and system administration fee.

The Commission has reviewed ERCOT's proposed 2022 to 2023 budget, and based on the foregoing facts, approves ERCOT's proposed 2022 to 2023 budget and authorizes the system administration fee of \$0.555 per MWh, as proposed by ERCOT in its September 21, 2021 filing, to become effective at the beginning of ERCOT's new fiscal year on January 1, 2022.

²³ *Id.*

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Id.*

²⁷ *Id.*

IV. Instructions for Submission of ERCOT's Proposed 2024 to 2025 Budget


To ensure sufficient time for review, public comment, and consideration by the Commission, ERCOT must file its proposed budget for fiscal years 2024 to 2025 no later than September 1, 2023. This deadline can be altered, for good cause, by the executive director or Commission Staff designated by the executive director.²⁸

ERCOT's proposed 2024 to 2025 biennial budget submission must resemble the legislative appropriation request methodology used by the Legislative Budget Board and the governor's Budget and Planning Division; therefore, ERCOT must provide a proposed 2024 to 2025 budget that contains total baseline expenditures equal to ERCOT's Commission-approved 2022 and 2023 total revenue requirements, excluding favorable financial variances realized in 2021, for budget year 2022, and in 2022, for budget year 2023. ERCOT may request increases to the total baseline expenditure amounts for 2022 and 2023 by providing a detailed explanation for each specific exceptional expenditure item. The detailed explanation for an exceptional expenditure item must include the proposed increased revenue requirement and proposed fee increase that would be necessary to fund these items. The requirements set forth above do not in any way limit the ability of Commission Staff to request additional information, including schedules, from ERCOT under PURA § 39.151(e).

²⁸ 16. TAC § 25.363(e).

Signed at Austin, Texas the 2nd day of December 2021.

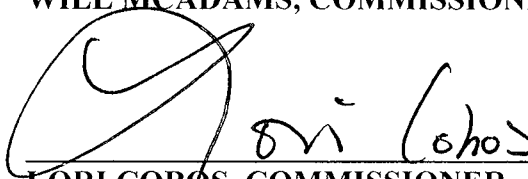
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