



Date: June 13, 2023
To: Board of Directors
From: Bill Flores, Finance and Audit (F&A) Committee Chair
Subject: 2024-2025 Budget and Fee

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: June 20, 2023

Item No.: 11.1

Issue:

Electric Reliability Council of Texas, Inc. (ERCOT) must have a Board of Directors (Board)-approved budget per its Bylaws.

Background/History:

Public Utility Commission of Texas (PUCT) Substantive Rule 25.363, ERCOT Budget and Fees

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.

PUCT Order

On December 2, 2021, PUCT issued an Order in Docket No. 38533 approving ERCOT's 2022-2023 Biennial Budget. The Order also requires ERCOT to submit its proposed 2024-2025 biennial budget no later than September 1, 2023.

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 or the CEO's designee 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

Section (IV)(C)(1) of the Finance & Audit Committee Charter states:

At least annually, the Committee shall:

- a. Review staff's proposed budget for the following year(s);
- b. Review 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; and
- c. Following the Committee's review of the above items, recommend to the Board, a proposed budget and associated financing plan for the following year(s).

The F&A Committee is expected to recommend Board approval of ERCOT's recommended 2024-2025 Biennial Budget at the Board's June 20, 2023 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 and staff in 2024 and 2025 to:
 - Maintain compliance with the Financial Corporate Standard and associated financial performance measures as approved by the Board;
 - Address ERCOT's Strategic Objectives:
 - Strategic Objective 1: Be an industry leader for grid reliability and resilience,
 - Strategic Objective 2: Enhance the ERCOT region's economic competitiveness with respect to trends in wholesale power rates and retail electricity prices, and
 - Strategic Objective 3: Advance ERCOT, Inc. as an independent leading industry expert and an employer of choice by fostering innovation, investing in our people, and emphasizing the importance of our mission; and
 - Fund independent market monitoring, PURA, and North American Electric Reliability Corporation (NERC) compliance functions.
- In the fourth quarter of 2022 and the first two quarters of 2023, ERCOT staff discussed financial assumptions, methodologies, schedules, and a system

administration fee rate relating to the 2024-2025 Biennial Budget with PUCT staff designated by the PUCT Executive Director.

- ERCOT staff will present its recommended 2024-2025 Biennial Budget to the F&A Committee on June 19, 2023.
- The Budget recommended by ERCOT staff will require an increase in the ERCOT system administration fee rate from \$0.555 to \$0.710 per megawatt-hour effective January 1, 2024.

Conclusion/Recommendation:

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

- Approve the recommended 2024-2025 Biennial Budget as set forth in **Attachment A**, which includes \$424,027,936 and \$426,184,988 total spending authorization for operating expenses, project spending, and debt service obligations for 2024 and 2025, respectively;
- Approve the recommended increase to the ERCOT system administration fee rate from \$0.555 to \$0.710 per megawatt-hour effective January 1, 2024 as set forth in **Attachment B**; and
- Authorize ERCOT Legal to file the Board-approved 2024-2025 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 2024-2025 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 December 20, 2022 (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 2024-2025 Biennial Budget, which includes a total spending authorization of \$424,027,936 and \$426,184,988 respectively; and

WHEREAS, the Budget recommended by ERCOT staff will require an increase in the ERCOT system administration fee rate from \$0.555 to \$0.710 per megawatt-hour effective January 1, 2024;

THEREFORE, BE IT RESOLVED, that the Board hereby:

- Approves the recommended 2024-2025 Biennial Budget as set forth in **Attachment A**, which includes \$424,027,936 and \$426,184,988 total spending authorization for operating expenses, project spending, and debt service obligations for 2024 and 2025, respectively; and
- Approves the request for a recommended increase to the ERCOT system administration fee rate from \$0.555 to \$0.710 per megawatt-hour effective January 1, 2024 as set forth in **Attachment B**; and
- Authorizes ERCOT Legal to file the Board-approved 2024-2025 Biennial Budget for approval by the PUCT, pursuant to P.U.C. SUBST. R. 25.363(d).



CORPORATE SECRETARY'S CERTIFICATE

I, Jonathan M. Levine, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its June 20, 2023 meeting, the Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of June, 2023.

Jonathan M. Levine
Assistant Corporate Secretary

Attachment A

ERCOT

Fiscal Years 2024-2025 Budget Request

(\$ in Millions)

Sources and Uses				2024	2025	2026	2027	2028	2029
	2022	2023	2023	Request	Request	Projection	Projection	Projection	Projection
	Actual	Budget	Forecast						
1 System Administration Fee Revenue	\$ 239.2	\$ 240.9	\$ 241.2	\$ 330.1	\$ 340.8	\$ 350.9	\$ 360.9	\$ 397.6	\$ 401.4
2* Reliability Organization Assessment	21.8	20.5	24.8	26.2	27.7	29.2	30.8	32.6	34.4
3 Interest Income	25.0	0.0	77.4	49.8	39.8	39.8	39.8	39.8	39.8
4 Other Revenues	8.6	20.5	16.4	18.0	18.0	18.9	19.9	20.9	21.9
5 CRR Borrowings	23.7	5.1	-	-	-	-	-	-	-
6 Decrease in Cash Balance	6.9	-	-	-	-	-	28.4	-	-
7 Total Sources	\$ 325.2	\$ 287.0	\$ 359.7	\$ 424.0	\$ 426.2	\$ 438.8	\$ 479.7	\$ 490.8	\$ 497.4
8 Department Expenditures	\$ 218.3	\$ 231.5	\$ 260.7	\$ 315.1	\$ 331.2	\$ 350.8	\$ 371.4	\$ 393.3	\$ 416.5
9 Project Expenditures	54.0	27.1	34.7	37.5	33.0	35.5	72.8	45.0	37.0
10 Market Design Project	-	2.4	2.4	21.6	17.2	8.0	-	-	-
11 MET Center Replacement Project	15.4	-	-	-	-	-	-	-	-
12* Reliability Organization Assessment	21.8	20.5	24.8	26.2	27.7	29.2	30.8	32.6	34.4
13 Debt Service	5.1	5.5	5.4	5.4	5.2	5.1	4.7	4.5	4.4
14 Investment in SPE M & N	10.6	-	-	-	-	-	-	-	-
15 Repayment of CRR Borrowings	-	-	23.7	-	-	-	-	-	-
16 Increase in Cash Balance	-	-	8.0	18.3	11.9	10.2	-	15.5	5.2
17 Total Uses	\$ 325.2	\$ 287.0	\$ 359.7	\$ 424.0	\$ 426.2	\$ 438.8	\$ 479.7	\$ 490.8	\$ 497.4

* 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

ERCOT

Fiscal Years 2024-2025 Budget Request

(\$ in Millions)

Budget Summary										
Line	2022 Actual	2023 Budget	2023 Forecast	2024 Request	2025 Request	2026 Projection	2027 Projection	2028 Projection	2029 Projection	
1	System Administration Fee Rate (SAF)	\$ 0.555	\$ 0.555	\$ 0.555	\$ 0.710	\$ 0.710	\$ 0.710	\$ 0.710	\$ 0.770	\$ 0.770
2	Energy Consumption (TWh)	431.0	434.0	434.5	465.0	480.0	494.3	508.3	516.4	521.2
2A	Year over Year %	9.6%	0.7%	0.8%	7.0%	3.2%	3.0%	2.8%	1.6%	0.9%
3	System Administration Fee Revenue	\$ 239.2	\$ 240.9	\$ 241.2	\$ 330.1	\$ 340.8	\$ 350.9	\$ 360.9	\$ 397.6	\$ 401.4
4	Department Net Expenditures	\$ 209.7	\$ 211.1	\$ 244.3	\$ 297.1	\$ 313.3	\$ 331.9	\$ 351.6	\$ 372.5	\$ 394.6
4A	Year over Year %	11.0%	0.6%	16.5%	21.6%	5.4%	5.9%	5.9%	5.9%	5.9%
5	Project Expenditures	54.0	27.1	34.7	37.5	33.0	35.5	72.8	45.0	37.0
6	Market Design Project	-	2.4	2.4	21.6	17.2	8.0	-	-	-
7	MET Center Replacement Project	15.4	-	-	-	-	-	-	-	-
8	Total Net Expenditures	\$ 279.1	\$ 240.5	\$ 281.4	\$ 356.2	\$ 363.5	\$ 375.4	\$ 424.3	\$ 417.5	\$ 431.6
9	Net Available Before Non-Operating	\$ (39.9)	\$ 0.3	\$ (40.3)	\$ (26.1)	\$ (22.6)	\$ (24.4)	\$ (63.4)	\$ (19.8)	\$ (30.2)
10	Debt Service	\$ (5.1)	\$ (5.5)	\$ (5.4)	\$ (5.4)	\$ (5.2)	\$ (5.1)	\$ (4.7)	\$ (4.5)	\$ (4.4)
11	Interest Income	25.0	0.0	77.4	49.8	39.8	39.8	39.8	39.8	39.8
11A	Interest Rate %	1.51%	0.01%	3.72%	2.50%	2.00%	2.00%	2.00%	2.00%	2.00%
12	Investment in SPE M & N	(10.6)	-	-	-	-	-	-	-	-
13	Non-Operating Sources & Uses	\$ 9.3	\$ (5.5)	\$ 72.0	\$ 44.4	\$ 34.6	\$ 34.6	\$ 35.1	\$ 35.3	\$ 35.4
14	Net Available	\$ (30.6)	\$ (5.1)	\$ 31.7	\$ 18.3	\$ 11.9	\$ 10.2	\$ (28.4)	\$ 15.5	\$ 5.2
Year-End Balances: Notes Payable, CRR Borrowings, Cash, and CRR Fund										
15	Notes Payable Balance	\$ 39.0	\$ 35.0	\$ 35.0	\$ 31.0	\$ 27.0	\$ 23.0	\$ 19.0	\$ 15.0	\$ 11.0
16	CRR Borrowings Balance	\$ 23.7	\$ 28.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	Cash Balance	\$ -	\$ -	\$ 8.0	\$ 26.3	\$ 38.2	\$ 48.4	\$ 20.0	\$ 35.5	\$ 40.6
18	CRR Fund Balance	\$ 1,973.6	\$ 997.3	\$ 2,021.6	\$ 2,000.0	\$ 2,000.0	\$ 2,000.0	\$ 2,000.0	\$ 2,000.0	\$ 2,000.0

Schedule may not foot due to rounding.