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PROJECT NO. 38533

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PUBLIC UTILITY COMMISSION

PUC REVIEW OF ERCOT BUDGET

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PUBLIC UTILITY COMMISSION  
OF TEXAS

**ORDER APPROVING ERCOT'S 2024 TO 2025 BIENNIAL BUDGET AND  
AUTHORIZING THE SYSTEM ADMINISTRATION FEE**

This order addresses the requested 2024 to 2025 biennial budget and system administration fee for Electric Reliability Council of Texas, Inc. (ERCOT). On August 25, 2023, ERCOT filed 2024/2025 Biennial Budget and System Administration Fee Submission, filed supplemental information on October 20, 2023, and filed an updated budget summary and sources and uses schedules on November 9, 2023 that documents the two-year fee approach that was discussed and approved at the November 2, 2023 open meeting.<sup>1</sup>

For the reasons discussed in this order, the Commission:

1. approves ERCOT's budget to the extent provided in this Order, including a total spending authorization of \$405,700,000 in fiscal year 2024 and total spending authorization of \$414,300,000 in fiscal year 2025;<sup>2</sup>
2. approves a system administration fee of \$0.630 per MWh;
3. orders ERCOT to file an operating budget reconciliation in Project No. 38533 for the twelve months ending June 30, 2024, by September 1, 2024;
4. orders ERCOT to meet performance measures for the following key Commission priorities: 1) Reliability Standard, 2) Dispatchable Reliability Reserve Service (DRRS), 3) Real-Time Co-Optimization + Batteries (RTC+B), and 4) Performance Credit Mechanism (PCM);
5. orders ERCOT to report to the Commission relating to ERCOT's development of applicable performance measures or metrics used by the Federal Energy Regulatory

<sup>1</sup> *PUC Review of ERCOT Budget*, Project No. 38533.

<sup>2</sup> *Id.*

Commission to track the performance of Regional Transmission Organization / Independent System Operator operations and markets; and

6. provides instructions for submission of ERCOT's proposed 2026 to 2027 budget.

### I. Background

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

The approval of ERCOT's budget is governed by PURA § 39.151 and 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 provides the Commission with complete authority to oversee ERCOT's finances, budget,<sup>5</sup> and system administration fee<sup>6</sup> and to order ERCOT to operate under biennial budgets.<sup>7</sup> PURA also requires ERCOT to submit performance measures to the Commission for review and approval<sup>8</sup> and authorizes the Commission to require ERCOT to provide reports and information relating to ERCOT's performance.<sup>9</sup> 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 system administration fee constitutes a contested case proceeding.<sup>10</sup>

As part of the Commission's Order Approving ERCOT's 2022 to 2023 Biennial Budget and Authorizing the System Administrative Fee, the Commission also instructed ERCOT to file

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<sup>3</sup> Public Utility Regulatory Act, TEX. UTIL. CODE ANN. § 39.151 (West 2007 & Supp. 2023).

<sup>4</sup> 26 U.S.C.A. § 501(c)(4) (West 2019).

<sup>5</sup> PURA § 39.151(d).

<sup>6</sup> See PURA § 39.151(e) (stating "After approving the budget of an independent organization under Subsection (d-1), the commission shall authorize the organization to charge to wholesale buyers and sellers a system administration fee, within a range determined by the commission, that is reasonable and competitively neutral to fund the independent organization's approved budget.").

<sup>7</sup> PURA § 39.151(d-1).

<sup>8</sup> PURA § 39.151(d-3).

<sup>9</sup> PURA § 39.151(d-4).

<sup>10</sup> PURA § 39.151(e-1).

its proposed budget for fiscal years 2024 to 2025 and provide specific information to facilitate the Commission's consideration of ERCOT's proposed budget no later than September 1, 2023.<sup>11</sup>

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. On June 27, 2023, the ERCOT Board of Directors unanimously voted to accept the recommendations of the ERCOT Finance and Audit Committee to approve a proposed 2024 to 2025 budget and system administration fee,<sup>12</sup> which ERCOT filed in this project on August 25, 2023, along with supporting documentation.<sup>13</sup> On September 25, 2023, Commission staff filed a notice of public hearing on ERCOT's proposed 2024 to 2025 budget and system administration fee.<sup>14</sup> On October 13, 2023, Commission staff held a public hearing regarding ERCOT's proposed 2024 to 2025 budget and system administration fee. Public comment was taken. ERCOT provided a brief overview of its proposed budget. Commission staff testified. ERCOT answered questions from Commission staff and questions posed during public comment.

On October 17, 2023, the Finance and Audit Committee Chair of the ERCOT Board of Directors requested that ERCOT supplement its 2024 to 2025 budget and system administration fee submission with information revising ERCOT's 2023 favorable variance, providing an updated forecast based on that 2023 favorable variance, and providing information that would support reduction of ERCOT's system administration fee request from \$0.710 per MWh to \$0.690 per MWh.<sup>15</sup> On October 20, 2023, ERCOT made a filing with that supplemental information.<sup>16</sup>

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<sup>11</sup> *PUC Review of ERCOT Budget*, Project No. 38533, Order Approving ERCOT's 2022 to 2023 Biennial Budget and Authorizing the System Administration Fee at 6 (Dec. 2, 2021).

<sup>12</sup> Project No. 38533, ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission, Attachment A, ERCOT Board Resolution Approving Proposed 2024/2025 Biennial Budget and System Administration Fee (Aug. 25, 2023).

<sup>13</sup> Project No. 38533, ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission (Aug. 25, 2023).

<sup>14</sup> Project No. 38533, Public Notice of Public Hearing on Proposed ERCOT Budget for 2024 and 2025 and Request for Comments (Sept. 25, 2023).

<sup>15</sup> Project No. 38533, Supplemental Information Regarding ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission at 1 (Oct. 20, 2023).

<sup>16</sup> *Id.*

ERCOT has requested that the Commission take action by November 15, 2023 to allow ERCOT to issue a Market Notice to all ERCOT market participants 45 days in advance of a change to the system administration fee on January 1, 2024, as required by 16 TAC § 25.363(e).<sup>17</sup>

The Commission considered ERCOT's proposed 2024/2025 biennial budget and system administration fee at an open meeting held on November 2, 2023, and approved ERCOT's proposed 2024/2025 biennial budget and system administrative fee to the extent provided in this order.

## **II. ERCOT's Proposed 2024/2025 Biennial Budget and System Administration Fee**

ERCOT provided three main sources of information about its proposed 2024/2025 biennial budget and system administration fee: ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission;<sup>18</sup> ERCOT's Summary Regarding Primary Variances from the 2023 Budget to the 2024 Budget Request and Impact to the System Administration Fee Rate of Certain 2024 Budget Request Components;<sup>19</sup> and Supplemental Information Regarding ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission.<sup>20</sup>

### **A. Biennial Budget and System Administration Fee Submission**

The proposed 2024/2025 biennial budget approved by the ERCOT Board of Directors includes \$424,027,936 in total spending authorization for ERCOT's fiscal year 2024 and \$426,184,988 in total spending authorization for ERCOT's fiscal year 2025.<sup>21</sup> It also includes an increase in the system administration fee rate from \$0.555 per MWh to \$0.710 per MWh, effective January 1, 2024, with the intention for the new rate to remain in effect through 2027.<sup>22</sup>

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<sup>17</sup> See Project No. 38533, ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission at 12 (Aug. 25, 2023); Project No. 38533, Supplemental Information Regarding ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission at 2 (Oct. 20, 2023).

<sup>18</sup> Project No. 38533, ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission (Aug. 25, 2023).

<sup>19</sup> Project No. 38533, ERCOT's Summary Regarding Primary Variances from the 2023 Budget to the 2024 Budget Request and Impact to the System Administration Fee Rate of Certain 2024 Budget Request Components (Oct. 12, 2023).

<sup>20</sup> Project No. 38533, Supplemental Information Regarding ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission (Oct. 20, 2023).

<sup>21</sup> Project No. 38533, ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission (Aug. 25, 2023).

<sup>22</sup> *Id.*

### **B. Primary Variances from the 2023 Budget to the 2024 Budget Request**

As requested by Commission staff, ERCOT submitted a summary regarding the primary variances from the 2023 budget to the 2024 budget request.<sup>23</sup> In that document, the four largest categories of expenditure increases from 2023 to 2024 are expected to be: the Market Design project, an increase of 794.4%; outside services, an increase of 74.6%; utility, maintenance, and facility expenses, an increase of 46.0%; and department labor expenses, an increase of 45.3%.<sup>24</sup>

The market design projects accounting for the increase include Real Time Co-optimization, Energy Storage Single Model, State of Charge, Dispatchable Reliability Reserve Service, and Performance Credit Mechanism, and market plan projects required by House Bill 1500 (88<sup>th</sup> L.S.).<sup>25</sup>

Outside services expenses accounting for the increase include:

- \$4.5 million for outside legal services due to a multitude of lawsuits and disputes, substantial increase in complex situations, and Securitization consulting;
- \$4.5 million for contingent labor primarily to support Energy Management System (EMS) Upgrade, Dispatchable Reliability Reserve Service (DRRS), Performance Credit Mechanism (PCM), Network Model Management System (NMMS), RIOO Energy Storage Resource, GINR studies, and additional HR recruiting staff;
- \$1.9 million for outsourced weatherization inspection services;
- \$1.8 million for System planning and operations consulting services and periodic research studies for Cost of new Entry, reserve margin, NERC Probabilistic assessment, Effective Load Cary Capability, etc.; and
- \$1.2 million for employee training and development.<sup>26</sup>

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<sup>23</sup> Project No. 38533, ERCOT's Summary Regarding Primary Variances from the 2023 Budget to the 2024 Budget Request and Impact to the System Administration Fee Rate of Certain 2024 Budget Request Components (Oct. 12, 2023).

<sup>24</sup> *Id.*

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

Utility, maintenance, and facility expenses accounting for the increase include end-of-life replacement for HVAC equipment, Wide-Area Network costs, such as migration to a new vendor and normal cost increases, and property tax for the new Met Center building.<sup>27</sup>

Department labor expenses include an additional 171 budgeted positions, “costs to address recruiting and retention risks, including incentive programs and market adjustments,” and other salary and wage growth.<sup>28</sup>

### C. Supplemental Information

ERCOT acknowledged in the public hearing on October 13, 2023, that the full-year 2023 favorable financial variance had increased since the ERCOT Board of Directors approved the 2024/2025 biennial budget and system administration fee request. Subsequently, ERCOT filed supplemental information revising its proposed total spending authorization in fiscal years 2024 and 2025 and proposed system administrative fee under its proposed Option 1. ERCOT's supplemental filing for Option 1 supports a revised total spending authorization of \$414,700,000 in fiscal year 2024 and a revised total spending authorization of \$416,600,000 in fiscal year 2025, along with a revised system administration fee of \$0.690 per MWh.<sup>29</sup> At the November 2, 2023 Open Meeting, ERCOT confirmed that after adjusting for the supplemental information that ERCOT filed on October 20, 2023, the system administration fee under Option 2 decreases at a similar rate as the decrease in ERCOT's proposed Option 1 (i.e., decreases by \$0.02 from \$0.655 to \$0.630). On November 9, 2023, ERCOT filed ERCOT's 2024/2025 Biennial Budget Summary and Sources and Uses Schedules Revised for the Commission's Order, which shows that adjustment.<sup>30</sup>

### III. Approval of ERCOT's 2024 to 2025 Biennial Budget and Authorization of System Administration Fee

The Commission has reviewed ERCOT's proposed 2024/2025 biennial budget and system administration fee, and ERCOT's supplemental information. Based on the foregoing facts, the

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<sup>27</sup> *Id.*

<sup>28</sup> *Id.*

<sup>29</sup> Project No. 38533, Supplemental Information Regarding ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission (October 20, 2023).

<sup>30</sup> Project No. 38533.

Commission approves ERCOT's proposed budget to the extent provided in this order to provide for a total spending authorization of \$405,700,000 in fiscal year 2024 and total spending authorization of \$414,300,000 in fiscal year 2025. The Commission further approves ERCOT's system administration fee of \$0.630 per MWh, to become effective at the beginning of ERCOT's new fiscal year on January 1, 2024.

#### **IV. Performance Monitoring of ERCOT's Timely Implementation of Key Commission Priorities**

To ensure ERCOT's timely implementation of key Commission priorities, the Commission orders ERCOT to meet performance measures for the following key Commission priorities: 1) Reliability Standard, 2) Dispatchable Reliability Reserve Service (DRRS), 3) Real-Time Co-Optimization + Batteries (RTC + B), and 4) Performance Credit Mechanism (PCM). Specifically, these performance measures include the following:

1. Delivery of Value of Lost Load (VOLL) study associated with the development of a Reliability Standard in the second quarter of 2024;<sup>31</sup>
2. Implementation of DRRS as expeditiously as possible<sup>32</sup> and prior to or aligned with RTC+B;
3. Full implementation and delivery of RTC+B in 2026;<sup>33</sup> and
4. Implementation of the PCM must be aligned with the implementation of RTC+B in 2026 (ERCOT's failure to align PCM and RTC+B implementation together will require cost analysis for a PCM without RTC+B so that PCM costs are clearly understood by the Commission).

On a quarterly basis, ERCOT must provide a report in Project No. 38533, updating the Commission on its progress in implementing the key Commission priorities consistent with the performance measures stated above. The quarterly reports must include quantifiable measures of success in achieving milestones that will ensure the key Commission priorities are implemented

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<sup>31</sup> *Reliability Standard for the ERCOT Market*, Project No. 54584, ERCOT Market Initiative Overview for Reliability Standard (Aug. 21, 2023).

<sup>32</sup> *Implementation Activities 88th Legislature (R.S.)*, Project No. 55156, Dispatchable Reliability Reserve Services (DRRS) Letter from Chairman Schwertner, Chairman Hunter, and Vice Chair Holland (Oct. 17, 2023).

<sup>33</sup> *Wholesale Electric Market Design Implementation*, Project No. 53298, ERCOT Market Initiative Overview for DRRS, ORDC, PCM, and RTC+B (Aug. 21, 2023).

on a timely basis and within budget. ERCOT must file the quarterly reports on March 1, June 1, September 1, and December 1 of each year until these key Commission priorities are fully implemented and delivered by ERCOT. In addition, ERCOT must annually provide the Commission with a report in Project No. 38533, relating to the key performance indicators in Attachment F of ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission and applicable performance measures and metrics used by the Federal Energy Regulatory Commission to track the performance of Regional Transmission Organization / Independent System Operator operations and markets. Beginning with its 2023 review of these key performance indicators, the first annual report is due September 1, 2024. Each subsequent annual report is due the following year on September 1.

#### **V. Instructions for Submission of ERCOT's Proposed 2026 to 2027 Budget**

To ensure sufficient time for review, public comment, and consideration by the Commission, ERCOT must file its proposed budget for fiscal years 2026 to 2027 no later than September 1, 2025. The Commission may extend this deadline for good cause by memorandum or written order adopted by a majority vote.

ERCOT's proposed 2026 to 2027 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 2026 to 2027 budget that contains total baseline expenditures equal to ERCOT's Commission-approved 2024 and 2025 total revenue requirements, excluding favorable financial variances realized in 2023, for budget year 2024 and in 2024 for budget year 2025. ERCOT may request increases to the total baseline expenditure amounts for 2024 and 2025 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).

Signed at Austin, Texas the 15<sup>th</sup> day of November 2023.

**PUBLIC UTILITY COMMISSION OF TEXAS**

  
KATHLEEN JACKSON, INTERIM CHAIR

  
WILL MCADAMS, COMMISSIONER

  
LORI COBOS, COMMISSIONER

  
JIMMIE GLOTFELTY, COMMISSIONER