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PROJECT NO. 38533

PUC REVIEW OF ERCOT BUDGET	§	PUBLIC UTILITY COMMISSION
	§	
	§	OF TEXAS

RESPONSE OF ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. TO TEXAS INDUSTRIAL ENERGY CONSUMERS' AND TEXAS OIL & GAS ASSOCIATION'S COMMENTS ON ERCOT'S 2024/2025 BIENNIAL BUDGET AND SYSTEM ADMINISTRATION FEE SUBMISSION

Electric Reliability Council of Texas, Inc. (ERCOT) respectfully submits the following response to comments on ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission. On October 27, 2023, Commission staff filed a draft order recommending the Commission approve a 2024/2025 ERCOT budget with a total spending authorization of $414,700,000 for 2024 and $416,600,000 for 2025, provided by a System Administration Fee (SAF) rate of $0.690 per MWh to become effective at the beginning of ERCOT's new fiscal year on January 1, 2024. On page 4 of the draft order, as well as on pages 2-3 and page 4 of Commission staff's accompanying memorandum, Commission staff indicate their recommendation includes consideration of comments filed in Project No. 38533, including comments by the Texas Oil & Gas Association (TXOGA) and Texas Industrial Energy Consumers (TIEC) advocating for a lower SAF than the rate in ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission.[1] ERCOT respectfully submits the following response to the TIEC and TXOGA comments, each filed on October 24, 2023, to assist the Commission in its review of the ERCOT budget request and Commission staff's recommendation.

[1] In addition to comments filed in Project No. 38533, pages 2-3 of the Commission staff memorandum accompanying the draft order includes consideration of three main sources of information from ERCOT about its proposed 2024/2025 budget and SAF: *Project No. 38533, ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission* (August 25, 2023); *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* (October 12, 2023); and *Project 38533, Supplemental Information Regarding ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission* (October 20, 2023), plus information gathered at the ERCOT Budget Hearing on October 13, 2023.

I. Texas Industrial Energy Consumers' October 24, 2023 Comments on ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission.

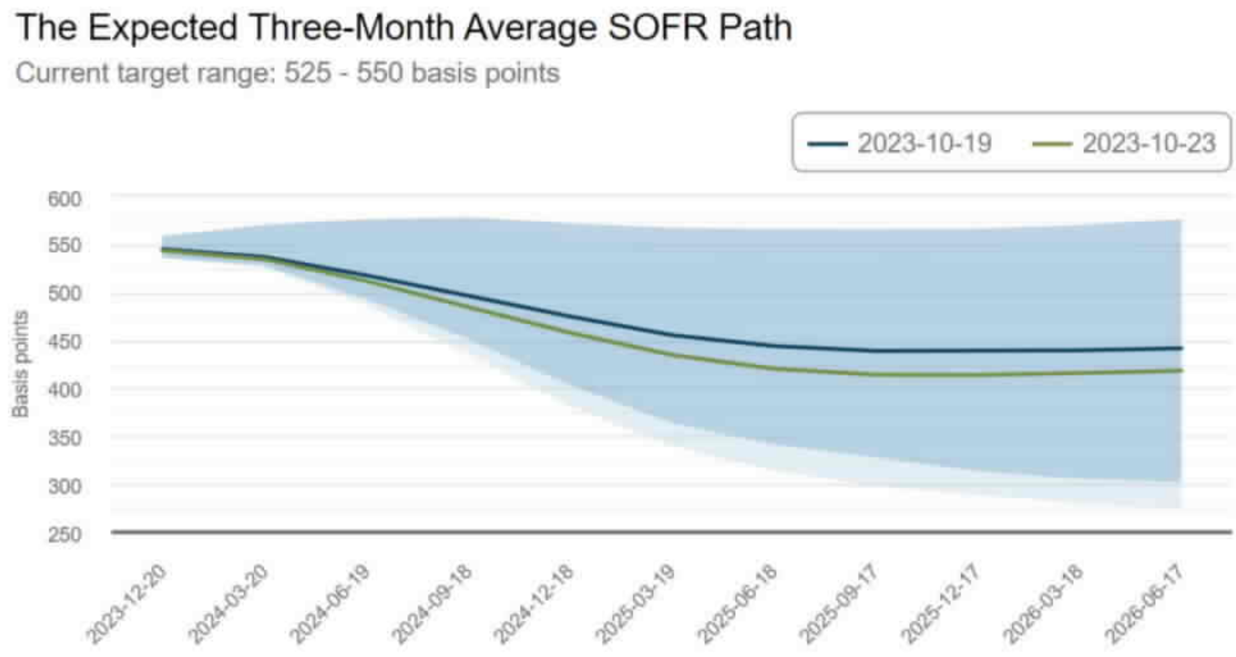
ERCOT appreciates TIEC recognition of ERCOT's critical role in providing reliable power to Texans and its view that the Commission should ensure ERCOT is appropriately funded. TIEC identifies three primary concerns with ERCOT's proposed budget and SAF request and lays out details of the concerns for each. ERCOT appreciates the opportunity to address each of those below.

TIEC ISSUE A: ERCOT did not justify its projected drop in interest income, which is a significant driver of the SAF increase. TIEC identifies issues with both (1) the anticipated size of the Congestion Revenue Rights (CRR) Fund Balance and (2) the anticipated interest income rate.

ERCOT RESPONSE: When comparing ERCOT's 2023 budget to the 2024 budget request, ERCOT's interest income is an increase from basically zero to nearly $50 million. This increase in interest income is not a driver of the SAF rate increase. As shown in ERCOT's October 12, 2023 filing, comparing the 2023 SAF rate to the requested 2024 SAF rate, ERCOT's projected interest income serves to reduce the fee requirement.

TIEC ISSUE A; SUBPOINTS 1 and 2: (1) ERCOT's assumed interest rate is based on stale Federal Funds rate projections that, when updated, significantly reduce the appropriate SAF increase. (2) There is no basis for ERCOT's assumption that it will earn interest at a rate that is 1% lower than the projected Federal Funds Rate.

ERCOT RESPONSE: TIEC is correct that the projected Federal Funds rates are higher than when ERCOT created the 2024/2025 budget request. Those projections can be quite volatile. As can be seen from the chart below, in just the few days from the 2023-10-19 chart TIEC included in their filing to the 2023-10-23 chart, the projected rate dropped approximately 25 basis points. This update moved the lower end of projected rates for 2025 to below 300 basis points, or 3%. As these are projections, there are <u>no guarantees</u> that the actual rates will not be substantially higher or lower than the projections.



SOURCE: https://www.atlantafed.org/cenfis/market-probability-tracker

ERCOT has experienced both sides of this "projected rate" assumption in the past regarding its budget and actual results.

1. In the 2018/2019 budget cycle, ERCOT budgeted no interest income as rates at that time were expected to be near zero. Rates increased and ERCOT had a favorable financial variance in that budget cycle.
2. In the 2020/2021 budget cycle, ERCOT budgeted at rates which were expected to be greater than 2% and the rates decreased to near zero by the end of 2021. The results were interest income shortfalls of approximately $16 million and $20 million in 2020 and 2021, respectively.
3. In the 2022/2023 budget cycle, ERCOT budgeted at the then projected rates which were again near zero. That has resulted in the favorable financial variance that contributes to a lower fee rate in the 2024/2025 budget request than would otherwise be required.

It has been proven repeatedly that the interest income rates that are projected at the time of approval of ERCOT's proposed budget will likely not be what ERCOT actually receives. The impact of the difference on ERCOT's interest income can be very material. Overestimating ERCOT's expected interest income could materially strain ERCOT's financial health. To be fiscally responsible, ERCOT budgets interest income rates conservatively to ensure it avoids financial hardship and liquidity concerns.

TIEC's filing makes references to ERCOT's investment portfolio and investment yields as reported at ERCOT's October 16, 2023 Finance and Audit Committee meeting that ERCOT would like to clarify.

1. ERCOT sources of cash: ERCOT deals with a large amount of cash, daily. However, very little of the cash ERCOT handles is used to fund ERCOT operations. The cash ERCOT manages is primarily comprised of three large buckets: (1) daily market settlement transactions, (2) CRR auction funds, and (3) Market Participant cash collateral. All three of these sources of cash are only held by ERCOT temporarily.
   a. The cash from the daily market settlement transactions are received one day and are paid out the next day.
   b. The CRR auction funds are held by ERCOT until they are due to be paid out which can be up to two to three years from receipt. The CRR auction funds are the primary source of the "Unrestricted Cash" on ERCOT's balance sheet.
   c. The cash collateral is held by ERCOT until it is appropriately used or requested back by the respective Market Participant. The cash collateral is "Restricted Cash" on ERCOT's balance sheet. Interest income on cash collateral belongs to the respective Market Participant and is paid to them periodically.
2. ERCOT types of investments: As mentioned above, almost all of the cash ERCOT holds will be paid out to Market Participants. This means that preservation of capital is the most important investment decision. ERCOT invests in only U.S. Treasuries or Treasury-backed securities. In ERCOT's investment compliance materials, it breaks the investments into two main types: Money Market Mutual Funds (MMMF) and (2) U.S. Treasury Obligation Portfolio. Restricted cash is only invested in MMMF. Unrestricted cash may be invested in either MMMF or the U.S. Treasury Obligations.
3. Revised ERCOT investment approach: In September 2023, ERCOT started investing more of the CRR auction funds it holds in longer-term Treasury investments. The revised approach will allow for less interest rate volatility while matching investment maturities with projected cash flow and liquidity needs. In summary, ERCOT determines when the CRR auction funds will be paid out and invests the funds in Treasury investments that have maturity dates three months prior to the projected payout of the funds. For example, looking at the first row in the following

table from ERCOT's Investment Compliance Report that TIEC included in its filing, we can see a $31 million par value investment with a December 15, 2023 maturity date. The CRR auction funds associated with that investment are projected to be paid out from ERCOT in March 2024.

U.S. Treasury Obligation Portfolio
Investments Purchased September 27, 2023

Maturity	Par Value	Coupon Rate	Yield
12/15/2023	$ 31,000,000	0.125%	5.35%
1/25/2024	51,000,000	0.000%	5.39%
2/22/2024	53,000,000	0.000%	5.42%
3/31/2024	108,000,000	2.125%	5.43%
4/30/2024	99,000,000	2.250%	5.50%
5/31/2024	75,000,000	2.000%	5.53%
6/30/2024	76,000,000	1.750%	5.52%
8/31/2024	83,000,000	1.250%	5.54%
9/30/2024	81,000,000	1.500%	5.51%
10/15/2024	80,000,000	0.625%	5.49%
11/30/2024	58,000,000	1.500%	5.44%
12/15/2024	53,000,000	1.000%	5.44%
1/31/2025	64,000,000	1.375%	5.42%
2/15/2025	67,000,000	2.000%	5.41%
3/31/2025	70,000,000	2.625%	5.35%
4/30/2025	66,000,000	2.875%	5.33%
5/15/2025	37,000,000	2.125%	5.30%
6/30/2025	37,000,000	2.750%	5.25%
7/31/2025	34,000,000	0.250%	5.21%
8/15/2025	39,000,000	2.000%	5.21%
9/30/2025	37,000,000	3.000%	5.15%
10/31/2025	36,000,000	0.250%	5.12%
Total	**$ 1,335,000,000**		**5.41%**

4. <u>TIEC's definition of ERCOT's total portfolio:</u> TIEC appears to assume that ERCOT's investment portfolio consists of $1.335 billion of U.S. Treasury Obligations and $4.472 billion of MMMF. TIEC also appears to assume that ERCOT receives interest income from that total of $5.807 billion. TIEC appears to draw this conclusion from reviewing the table just discussed above and the following table from ERCOT's Investment Compliance Report.

Electric Reliability Council of Texas, Inc.
Investment Compliance
August 31, 2023
($ in 000's)

Money Market Mutual Funds (MMMF)	**Funds Held at ERCOT (Ending Balance)**	**Funds Held at Trustee (Ending Balance)**	**Month End Yield**	**Monthly Investment Income**
ERCOT, Inc. Unrestricted	$ 2,517,811	$ -	N/A	$ 8,519
ERCOT, Inc. Restricted (Collateral)	1,954,076	-	N/A	9,233
Total ERCOT, Inc. MMMF	$ 4,471,887	$ -	5.21%	$ 17,751
Texas Electric Market Stabilization Funding M, LLC	$ 17,838	$ 8,866	5.21%	$ 115
Texas Electric Market Stabilization Funding N, LLC	$ 3,117	$ 24,329	5.23%	$ 94

U.S. Treasury Obligation Portfolio	**Purchase Price**	**Duration**	**Purchase Yield**	**Monthly Investment Income**
ERCOT, Inc. Unrestricted	$ 517,188	0.24	4.82%	$ 1,268

TIEC's assumptions about our portfolio of investments create additional downstream errors in subsequent calculations for two primary reasons.

a. First, as mentioned above, ERCOT does not receive the interest income from the "Restricted Cash" it holds. That money belongs to the respective Market Participants. When referencing the $4.472 billion, TIEC appears to have included the $1.954 billion of "Restricted Cash" investments whose interest income belongs to the respective Market Participants.

b. Second, TIEC assumes that the $1.335 billion of U.S. Treasury Obligations ERCOT purchased in September were additive to the MMMF investments. This is inaccurate and a result of comparing schedules with two different effective dates. As seen in the table above, the MMMF amounts are as of August 31, 2023 while the additional Treasury Obligation investments were made in September. To increase the Treasury Obligation Portfolio, ERCOT liquidated some MMMF holdings after the August reporting and invested those MMMF proceeds in Treasury Obligations.

Each of these incorrect TIEC assumptions creates significant differences in the presumed investments for which ERCOT is earning interest. Additionally, a separate timing issue makes ERCOT's investment portfolio appear to be greater than it really is. There were multiple days of settlement transactions received on August 31, 2023 that were paid out on September 1, 2023. This resulted in an August 31, 2023 balance that was roughly $700 million higher than normal.

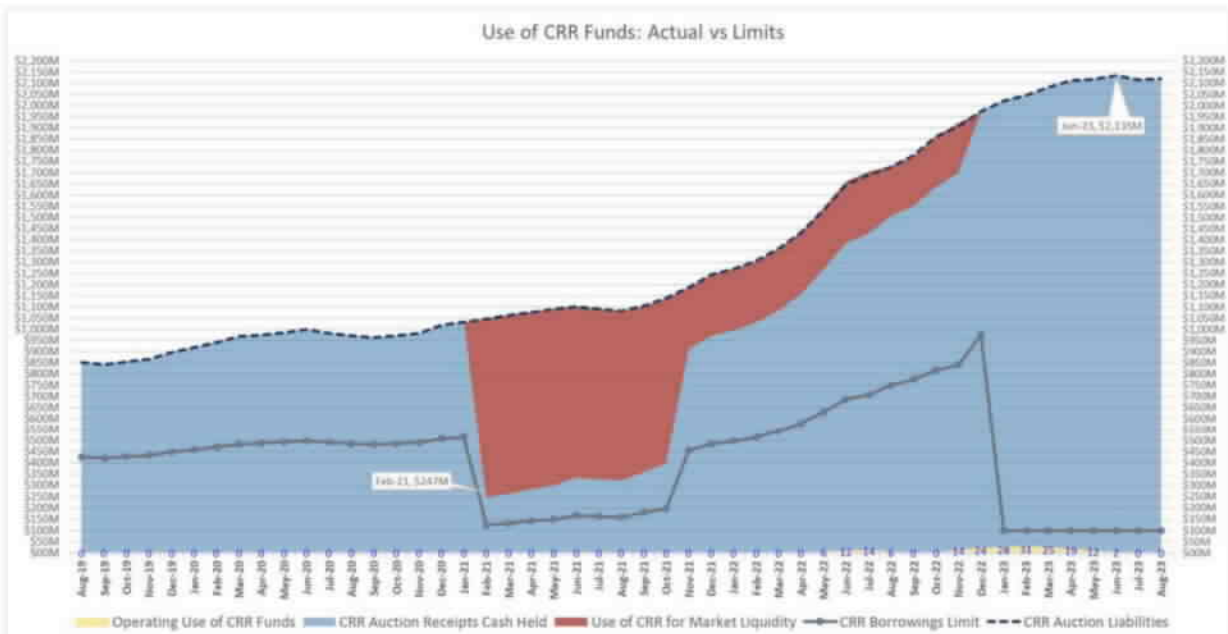
5. TIEC's calculation of ERCOT's interest income: TIEC appears to calculate the interest income on the U.S. Treasury Obligation investments purchased at the end of September 2023 by taking the total par value of the investments and multiplying it by the average yield to arrive at the interest income ERCOT will receive from them ($1.335 billion x 5.41% = $72.22 million). This is not accurate for a couple of primary reasons.
   a. First, the calculation does not take into account the maturity dates of the investments thus ignoring reinvestment risk – the risk that future cash flows, such as the coupon payments or bond principal, cannot be invested at the same rate of return. The yield shown is an annualized number. The investments purchased will only provide interest income until they mature, they do not provide twelve months of returns at the yield rate regardless of maturity date.
   b. Second, TIEC calculates interest income based on par value instead of the net carrying value of the investments, including the amortization of purchase discounts. The reason the yield is greater than the coupon rate for each of these investments is because the investments were purchased at a discount to their par values. The following table details how much interest income will be recognized from the investments in 2024 and 2025, assuming they are held to maturity, compared to the presumed TIEC calculation.

Maturity Date	Par Value	Coupon Rate	Purchase Price	Yield	Interest Income Calculated Based on Yield and Par Value Annual	Interest Income Calculated Based on Maturity Date and Net Carrying Value 2024	2025
12/15/2023	$ 31.0 M	0.125%	$ 30.7 M	5.35%	$ 1.7 M	$ -	$ -
1/25/2024	51.0 M	0.000%	50.1 M	5.39%	2.8 M	0.2 M	-
2/22/2024	53.0 M	0.000%	51.9 M	5.42%	2.9 M	0.4 M	-
3/31/2024	108.0 M	2.125%	106.2 M	5.43%	5.9 M	1.5 M	-
4/30/2024	99.0 M	2.250%	97.2 M	5.50%	5.4 M	1.8 M	-
5/31/2024	75.0 M	2.000%	73.3 M	5.53%	4.1 M	1.7 M	-
6/30/2024	76.0 M	1.750%	73.9 M	5.52%	4.2 M	2.1 M	-
8/31/2024	83.0 M	1.250%	79.8 M	5.54%	4.6 M	3.0 M	-
9/30/2024	81.0 M	1.500%	77.9 M	5.51%	4.5 M	3.3 M	-
10/15/2024	80.0 M	0.625%	76.1 M	5.49%	4.4 M	3.4 M	-
11/30/2024	58.0 M	1.500%	55.4 M	5.44%	3.2 M	2.8 M	-
12/15/2024	53.0 M	1.000%	50.3 M	5.44%	2.9 M	2.7 M	-
1/31/2025	64.0 M	1.375%	60.7 M	5.42%	3.5 M	3.4 M	0.3 M
2/15/2025	67.0 M	2.000%	64.0 M	5.41%	3.6 M	3.5 M	0.5 M
3/31/2025	70.0 M	2.625%	67.3 M	5.35%	3.7 M	3.7 M	0.9 M
4/30/2025	66.0 M	2.875%	63.6 M	5.33%	3.5 M	3.4 M	1.2 M
5/15/2025	37.0 M	2.125%	35.2 M	5.30%	2.0 M	1.9 M	0.7 M
6/30/2025	37.0 M	2.750%	35.5 M	5.25%	1.9 M	1.9 M	1.0 M
7/31/2025	34.0 M	0.250%	31.1 M	5.21%	1.8 M	1.7 M	1.0 M
8/15/2025	39.0 M	2.000%	36.8 M	5.21%	2.0 M	2.0 M	1.2 M
9/30/2025	37.0 M	3.000%	35.5 M	5.15%	1.9 M	1.9 M	1.4 M
10/31/2025	36.0 M	0.250%	32.6 M	5.12%	1.8 M	1.7 M	1.5 M
	$1,335.0 M		**$1,284.8 M**	**5.41%**	**$ 72.2 M**	**$ 47.9 M**	**$ 9.7 M**

As shown above, ERCOT has "locked-in" approximately $47.9 million of interest income for 2024 and $9.7 million for 2025 from these investments, assuming ERCOT holds them to maturity. The table also shows the presumed calculation used in TIEC's filing that resulted in the $72.2 million it identifies as coming from these investments.

TIEC ISSUE A; SUBPOINT 3: There is no basis for ERCOT to assume that the CRR Fund Balance will plateau at $2.0 billion.

ERCOT RESPONSE: The following chart was presented at ERCOT's October 16, 2023 Finance and Audit Committee meeting. It shows the growth of the CRR Fund Balance through August 2023.



Since this chart was created, the September 2023 CRR Fund Balance also came in lower than the August 2023 CRR Fund Balance. Over the past few years, the CRR Fund Balance has grown substantially with the longer-term CRR auctions, pricing, and Market Participant practices. ERCOT believes that these factors have materialized in the current CRR Fund Balance and it is not currently projecting future growth.

TIEC ISSUE A; SUBPOINT 4: Applying more reasonable assumptions for interest income could significantly reduce or even eliminate the required SAF increase.

ERCOT RESPONSE: For the reasons stated previously, ERCOT believes its budget request contains reasonable assumptions. Importantly, ERCOT's proposed budget also helps ensure any interest income shortfalls can be covered by other sources, such as the CRR Fund Balance or our revolving line of credit. Failure to budget this way could result in liquidity concerns for ERCOT.

ERCOT would like to highlight some numbers associated with interest income and the SAF rate as they apply to the 2024/2025 budget request.

1. As noted previously, ERCOT has "locked-in" most of the 2024 interest income included in the budget request and believes it will achieve or surpass the budgeted amount.
2. ERCOT's budget request also includes approximately $40 million of interest income in each of the other three years for which the fee rate is expected to apply, 2025-2027. The total for those three years is therefore approximately $120 million. Only $9.7 million of that is "locked in." The remaining $110.3 million is at risk of not materializing.
3. ERCOT's supplemental filing which shows the impact of a $0.690 per MWh fee rate indicates a cash balance at the end of 2027 of $17.2 million.
4. ERCOT can only cover $100 million of a shortfall using its revolving line of credit. This means that if history repeats itself and ERCOT's effective interest income rates fall to the levels from only a couple of years ago, at the end of 2027 ERCOT would be using all except $6.9 million ($17.2 million plus $100 million minus $110.3 million) of that capacity. That would not allow ERCOT to manage seasonal and business liquidity requirements, which can exceed $50 million.
5. Each $0.01 per MWh of the fee rate from 2024-2027 provides approximately $20 million of revenue to ERCOT across that period. Lowering a $0.690 fee rate by just $0.010 per MWh to $0.680 per MWh would more than completely erode the remaining $6.9 million of revolving credit capacity, creating a deficit of $13.1 million before even considering seasonal and business liquidity requirements.

It has historically been proven that ERCOT's interest income can be drastically lower than what may be projected. ERCOT's proposal provides for a lower fee rate increase than would be required with no projected interest income while still being fiscally prudent.

TIEC ISSUE B: ERCOT should have further evaluated "Option 2," which would require a substantially smaller up-front increase to the SAF.

ERCOT RESPONSE: ERCOT evaluated Option 2 as much as it evaluated the proposed Option 1. The assumption that it did not could arise from the fact that the materials included in ERCOT's budget request contain a section of pages that use Option 1 as the basis while they do not contain similar pages for Option 2. ERCOT believes the differences between the options can be identified and addressed using the included SAF Rate Options page. That is why it did not include the additional pages for Option 2. Ultimately, after thoroughly evaluating multiple options, ERCOT proposed Option 1 for three principal reasons:

1. It best addresses any potential liquidity constraints resulting from deferring ERCOT's expected SAF rate increase from 2022 to 2024;
2. It provides rate stability to Texas consumers; and
3. It helps minimize potential intergenerational inequity issues among the rate payers by appropriately charging rate payers for the services they are receiving. ERCOT's budgeted expenditures use a combination of accrual-basis and cash-basis expenditures. This is the primary driver for why some of the expenditures may seem to vary significantly across time. This includes using the cash-basis approach for many hardware and software assets which have 3-5 year depreciable lives. Holding the fee consistent for four years properly normalizes ERCOT's expenditures for the rate payers.

TIEC ISSUE C: ERCOT did not provide sufficient detail to justify its request for additional legal and public relations employees under "Strategic Objective 3."

ERCOT RESPONSE: TIEC identifies multiple items under Issue C for which they would like a better understanding. ERCOT addresses each of them below.

1. *"It is difficult to tell from ERCOT's submission what exactly these new employees [fourteen new employees in the General Counsel's office and two new Public Affairs positions] will be doing..."* –
    a. It is important to note that the General Counsel office budget includes ERCOT's compliance, cyber security, physical security, facilities, market rules and stakeholder services, and internal audit functions. The fourteen General Counsel's office employees consist of the following:

i. Four employees performing ERCOT's new Reliability Monitor responsibilities;
ii. Two additional cyber security analysts;
iii. One internal auditor performing internal audit and consulting work;
iv. One records management specialist performing information governance work;
v. One relations manager facilitating ERCOT and Commission relationships;
vi. One corporate counsel performing contract management work;
vii. One regulatory counsel performing federal and state regulatory work;
viii. One regulatory counsel performing compliance, human resources, and dispute work;
ix. One corporate counsel performing corporate governance work;
x. One legal staff member performing registration and support work for the area.

b. It is important to note that the Public Affairs office includes ERCOT's government relations, corporate communications, and client services functions. The two Public Affairs office employees consist of the following:
i. One internal communication specialist; and
ii. One graphic designer for the digital team.

2. *"...on top of using leasing office space near the Capitol to interface with legislators."* – ERCOT expenditures do include approximately 1,100 square feet of leased office space on Congress to efficiently collaborate with and support Texas leadership as part of planned improvements and risk management, including during legislative sessions. Over the last two legislative sessions, there has been almost a 300% increase in the number of bills filed related to energy, ERCOT or the Commission. ERCOT does not engage in lobbying activities and there is no funding for lobbying activities in our budget request. Instead, ERCOT staff act as resource witnesses, answer questions, and offer expertise about the potential impacts of different legislation. This session, ERCOT staff were available at almost 25 hearings in four separate committees. Staff also participated in over 40 meetings with stakeholders and members. ERCOT identified the benefit of having a downtown office space several years ago. Securing one was consistently debated during prior budget cycles and when we needed to replace ERCOT's Met Center location, but the decision was always to defer it. The benefits we have seen from its availability have far outweighed the costs, which are less than $100,000 per year, and we have budgeted for continuing to use it in 2024 and 2025.

3. *"...what portion of the increase is for the new salaries versus increased compensation for existing employees..."* –

    a. As shown on the General Counsel page (page 39) in ERCOT's budget request filing, the total Department Labor cost increase from the 2023 budget to the 2024 request is \$6.8 million. Line 10 on that page shows the increase in the Average Salaries, Benefits, and Taxes to be \$3.7 million which is attributable to existing employees. Subtracting that from the \$6.8 million leaves \$3.1 million attributable to the 14 new employees which equates to an average of approximately \$220,000 all-in costs (includes salaries, benefits, and taxes).

    b. As shown on the Public Affairs page (page 49) in ERCOT's budget request filing, the total Department Labor cost increase from the 2023 budget to the 2024 request is \$2.0 million. Line 2 on that page shows the increase in the Average Salaries, Benefits, and Taxes to be \$1.6 million which is attributable to existing employees. Subtracting that from the \$2.0 million leaves \$0.4 million attributable to the 2 new employees.

4. *"...ERCOT does not provide any detail on the \$23.2 million in additional costs...to 'address recruiting and retention risks, including incentive programs and market adjustments' so it is difficult to evaluate whether ERCOT's intended raises and incentive programs are reasonable."* –

    a. From a recruiting perspective, ERCOT employment offers that were declined by candidates due to compensation increased from 11% in 2021 to 41% in 2022.

    b. From a retention perspective, ERCOT's annualized attrition rate increased from 6.1 in January 2021 to 13.8 in November 2022, and the percent of employees leaving for a "Better Opportunity" increased from 28% in 2019 to 46% in 2022. ERCOT sends all employees who leave the company an exit interview survey. Compensation was the top reason listed in the 2022 exit interview surveys for why employees left.

    c. The \$23.2 million includes ERCOT's short-term and long-term incentive programs effective for 2023 and the "all employee" adjustment that occurred in November of 2022. All of these amounts were considered when determining the appropriateness of compensation as discussed in (d) and (e) below.

        i. ERCOT's short-term incentive program applies to all employees and comprises approximately \$14.5 million of the \$23.2 million.

ii. ERCOT's long-term incentive program applies to employees in executive, senior director, director, fellow, and principal positions. ERCOT currently has 56 employees in those positions. The program comprises approximately $1.8 million of the $23.2 million.

iii. ERCOT's "all employee" adjustment applied to all non-executive employees and comprises approximately $6.9 million of the $23.2 million.

d. The appropriateness of non-executive employee compensation levels is reviewed as part of an annual process performed by the ERCOT Human Resources department. ERCOT subscribes to four national salary surveys for benchmarking internal jobs. These surveys encompass more than 6,000 companies, including all Independent System Operators (ISOs) and Regional Transmission Organizations (RTOs). These surveys enable ERCOT to benchmark against similar entities and companies in the Central Texas region, as well as more broadly against the general national employer marketplace. Annually, all employees are compared against the surveys based on function, job duties, and responsibilities. A third-party compensation consultant periodically reviews ERCOT job assignments and employee salaries against the benchmarks for accuracy. ERCOT targets the market 50th percentile for employee compensation. In 2023, the annual compensation analysis concluded that employee compensation levels aligned to the 50th percentile.

e. ERCOT executive positions are benchmarked to the six comparator ISOs/RTOs. This analysis is conducted annually by the ERCOT Human Resources department and at least biennially by an independent outside consultant. An outside consultant performed the review of executive compensation for years 2022, 2023, and 2024. The components included in the executive compensation analysis are job analysis, job evaluation, and pay analysis. ERCOT executive total direct compensation aligned with or lagged the market in each year.

II. Texas Oil & Gas Association October 24, 2023 Comments on ERCOT's 2024/2025 Biennial Budget and System Administration Fee Submission.

ERCOT appreciates TXOGA's recognition of the significance of a robust operating budget in ensuring seamless operations, adaptability, and overall reliability of Texas' electricity grid. In its assessment of ERCOT's proposed budget, TXOGA made three observations that gave them reservations. Some of the details of their observations overlap with TIEC's issues which are addressed above and are not duplicated here. ERCOT appreciates the opportunity to address the other items below.

TXOGA OBSERVATION 1: ERCOT's SAF considerably outstrips those of the other Independent System Operators/Regional Transmission Organizations (ISO/RTOs).

ERCOT RESPONSE: When comparing ERCOT's SAF to other ISO/RTOs, TXOGA only includes three of the six ISO/RTOs. Those three happen to be the three with lower administrative fee rates than ERCOT. If TXOGA had included the other three ISO/RTOs, it would show ERCOT in the middle of the ISO/RTOs with the other three TXOGA did not include showing administrative fee rates higher than ERCOT.

TXOGA OBSERVATION 2: Historically, there is no precedent for the substantial increase ERCOT is now seeking.

ERCOT RESPONSE: These are unprecedented times in ERCOT. The driving forces in the ERCOT region, and the budget proposal, include several varied and critical items. To start, there have been significant changes in resource mix. Over the last decade, wind and solar generation have increased, and we've seen the development of energy storage. ERCOT now also works with different types of participants, such as large flexible loads and distributed energy resources. The pace of growth and change are accelerating, with active Market Participants increasing from 1,800-plus to over 3,100-plus; generating units, including Private Use Networks, increasing from 650-plus to 1,100-plus; miles of high-voltage transmission increasing from 46,500-plus to 52,700-plus; and the annual amount of endorsed transmission projects increasing from $1.3 billion to $3.3 billion. Changes in state and federal regulation since Winter Storm Uri require substantial dedication of resources to support grid reliability and resilience, particularly in response to extreme weather events. Adapting to changes in the ERCOT region is essential to provide Texans power but also presents our current opportunity to be an industry leader for grid reliability and resilience. Drivers of reliability and resilience in the budget include growth in interconnection requests and reviews; mandated inspections of generation and transmission facilities; increased number and Megawatt Hour (MWh) of Large Flexible Loads (LFLs), Energy

Storage Resources (ESRs), and Inverter Based Resources (IBRs); and continued growth in renewable resources.

The budget also includes funding for market-design projects, including the high-profile projects required by House Bill 1500 of the 88th Texas Legislature and featured in the overall market plan discussed at the Commission, such as Real-Time Co-optimization (RTC), Dispatchable Reliability Reserve Service (DRRS), the Performance Credit Mechanism (PCM), and Firm Fuel Supply Service (FFSS). Many of these projects are time sensitive and require ERCOT to increase available resources in order to address them. The budget provides funding to meet the desired delivery schedules and provide benefits as soon as practicable to the citizens of Texas. ERCOT anticipates making the delivery of Real-Time Co-optimization a top performance measure and include it as an Objective and Key Result (OKR) in 2024 and 2025. In addition to those market design efforts, the budget includes planned expenditures to update the Market Management System (MMS) and to add a second iTest environment which is necessary to efficiently facilitate change.

ERCOT's largest expense in our budget continues to be labor. ERCOT's functions largely relate to Information Technology and Power Engineering. As such, our staff are in high demand within the IT and electric industries, among others, based on their experience and expertise. Simply put, without these highly qualified, skilled, and experienced professionals, ERCOT cannot deliver on its mission, vision, and strategic objectives. To reliably and affordably manage the ERCOT power grid for Texans, ERCOT must be able to competitively recruit top talent, develop employees, manage attrition, and appropriately adjust compensation.

When ERCOT last raised the SAF rate eight years ago in 2016, we anticipated a potential rate increase after four years, in 2020. Favorable financial variances during that time allowed us to extend that fee rate for an additional two years to 2022, when we expected to request a fee increase. However, the 2022/2023 ERCOT budget proposal did not propose an increase as management took exceptional measures to control and cut expenses across the organization in an effort to offset significant costs associated with Winter Storm Uri and associated legislation. The decision not to increase the rate in 2022 was the subject of significant deliberation by ERCOT's Board. Due to the broad legislative and regulatory changes underway during the 2022/2023 ERCOT budget approval process, the Board was aware ERCOT would need to utilize our CRR holdings as a source of funding for ERCOT operations. Deferring the rate increase by two years, from 2022 to 2024, put strain on ERCOT's financial health and resulted in a larger rate increase request than if the increase had occurred in 2022. The Board publicly discussed the upward pressure on the fee rate and the likely need for a fee increase in Q1 of 2022, as well as in Q1 and Q2 of 2023, well ahead of the proposal to increase the SAF rate and prior to recommending approval of the 2024/2025 budget in June 2023. The rising interest rate environment since the 2022/2023 budget approval has provided ERCOT with material favorable interest income which has allowed ERCOT to continue to operate without experiencing financial distress.

TXOGA OBSERVATION 3: ERCOT's submission suggests they've achieved or surpassed 97% of their key performance indicators (KPIs) within their existing budget, implying its adequacy.

ERCOT RESPONSE: ERCOT is not currently operating within its existing 2023 budget, and that is even without fulfilling all of the additional requirements that are being demanded of the company and its employees. With continuous disclosure and Board approval, the items previously noted in this response, and included in other 2024/2025 budget-related submissions by ERCOT, for which it would not have been prudent to wait until 2024 to adopt have resulted in ERCOT operating at a level beyond its existing 2023 budget in terms of both employees and expenditures.

ERCOT representatives will be available at the Commission's November 2, 2023 Open Meeting to answer any questions. ERCOT appreciates the Commission's consideration of this information.

Dated: October 30, 2023 Respectfully Submitted,

/s/ Chad V. Seely

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