



## **Item 8.2: Financial Summary**

**H.B. “Trip” Doggett**

**President and Chief Executive Officer**

**Board of Directors Meeting**

**ERCOT Public**

**January 15, 2013**

# Financial Performance

As of December 31, 2012 (\$ in Millions)

## BUDGET VS. ACTUAL PERFORMANCE: \$3.7 MILLION FAVORABLE

### REVENUES

\$5.1 Million favorable 2011 carry forward

\$1.4 Million unfavorable system administration fees

### EXPENSES

\$4.6 Million unfavorable outside services

\$2.7 Million favorable salary & related benefits

\$1.6 Million favorable hardware & software maintenance & licensing

# Financial Summary

## As of December 31, 2012 (\$ in Millions)

	Year End			
	Budget	Actual	Variance	
			\$	%
<b>Operating revenues</b>				
System administration fees	\$ 137.7	\$ 136.3	\$ (1.4)	(1.0)
Reliability organization pass-through	13.1	13.1	-	-
Membership fees and other	3.6	4.5	0.9	25.0
2011 carry forward	13.7	18.8	5.1	37.2
<b>Total - Operating revenues</b>	<b>168.1</b>	<b>172.7</b>	<b>4.6</b>	<b>2.7</b>
<b>Operating expenses (excluding depreciation)</b>				
Salaries and related benefits	74.4	71.7	2.7	3.6
Facility and equipment costs	13.3	12.3	1.0	7.5
Hardware and software maintenance and licensing	20.1	18.5	1.6	8.0
Outside services	7.0	11.6	(4.6)	(65.7)
Reliability organization assessment	13.1	13.1	-	-
Other	5.0	5.8	(0.8)	(16.0)
<b>Subtotal - Operating expenses</b>	<b>132.9</b>	<b>133.0</b>	<b>(0.1)</b>	<b>(0.1)</b>
Revenue-funded project expenditures (40%)	6.0	6.4	(0.4)	(6.7)
Principal repayment	26.2	26.2	-	-
Interest expense	3.0	3.4	(0.4)	(13.3)
<b>Total - Expenses</b>	<b>168.1</b>	<b>169.0</b>	<b>(0.9)</b>	<b>(0.5)</b>
<b>Excess of revenues over expenses</b>	<b>\$ -</b>	<b>\$ 3.7</b>	<b>\$ 3.7</b>	<b>n/a</b>

# Project Expenditures

## As of December 31, 2012 (\$ in Millions)

Cost Summary	Life to Date				Estimate at Completion			
	Budget	Actual	Variance		Budget	Forecast	Variance	
			\$	%			\$	%
Data Center	44.7	43.9	0.8	1.8	44.7	43.9	0.8	1.8
Settlement System Upgrade	3.0	2.4	0.6	20.0	6.8	6.8	-	-
Energy Management System (EMS) Upgrade	0.4	0.4	-	-	5.0	5.0	-	-
Information Lifecycle Management	1.2	1.2	-	-	2.0	2.0	-	-
Oracle 11G Upgrade	1.0	0.9	0.1	10.0	2.0	2.0	-	-
Texas Standard Electronic Transaction (SET) 4.0	1.8	1.8	-	-	1.8	1.8	-	-
Minor Capital	1.4	1.5	(0.1)	(7.1)	1.4	1.5	(0.1)	(7.1)
SCR760 Info Model Manager & Topology Processor	0.6	0.5	0.1	16.7	1.1	1.1	-	-
Content Management System (CMS) and Market Information Repository (MIR) Replacement	0.2	0.2	-	-	1.0	1.0	-	-
Security Admin Gateway Environment (SAGE)	0.9	0.9	-	-	0.9	0.9	-	-
Capital Efficiencies & Enhancements	0.8	0.8	-	-	0.8	0.8	-	-
Congestion Revenue Rights (CRR) Upgrade	0.7	0.4	0.3	42.9	0.8	0.8	-	-
NPRR351-Security Constrained Economic Dispatch (SCED) Look Ahead Step 1: Indicative Pricing	0.7	0.5	0.2	28.6	0.7	0.5	0.2	28.6
MarkeTrak Upgrade/Enhancements for 4.0	0.7	0.7	-	-	0.7	0.7	-	-
NPRR347/NPRR400 Implementation	0.7	0.8	(0.1)	(14.3)	0.7	0.8	(0.1)	(14.3)
Siebel Upgrade	0.3	0.3	-	-	0.7	0.7	-	-
Taylor Facilities Upgrade	0.7	0.6	0.1	14.3	0.7	0.6	0.1	14.3
Other Portfolio Projects	7.2	6.5	0.7	9.7	10.2	9.4	0.8	7.8
<b>Total - Portfolio Projects</b>	<b>\$ 67.0</b>	<b>\$ 64.3</b>	<b>\$ 2.7</b>	<b>4.0</b>	<b>\$ 82.0</b>	<b>\$ 80.3</b>	<b>\$ 1.7</b>	<b>2.1</b>

# Financial Statements - Statements of Financial Position

## As of December 31, 2012 and 2011 (\$ in Thousands)

	2012	2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 319,262	\$ 246,803
Accounts receivable	3,863	9,498
Unbilled revenue	6,125	10,111
Restricted cash	471,876	413,884
Prepaid expenses and other current assets	14,919	18,265
Total current assets	816,045	698,561
Property and equipment, net	288,816	376,601
Systems under development	10,096	9,859
Debt issuance cost	560	327
Total assets	<u>\$ 1,115,517</u>	<u>\$ 1,085,348</u>
 <b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities:		
Accounts payable	2,177	8,529
Accrued liabilities	7,887	10,253
Deferred revenue	3,269	3,649
Market settlement liabilities	330,151	296,762
Security deposits	471,876	413,884
Notes payable, current portion	17,637	164,970
Total current liabilities	832,997	898,047
Notes payable	88,630	27,267
Derivative liability	-	3,236
Regulatory liabilities	166,417	115,967
Other long term liabilities	393	360
Total liabilities	1,088,437	1,044,877
Unrestricted net assets	27,080	40,471
Total liabilities and unrestricted net assets	<u>\$ 1,115,517</u>	<u>\$ 1,085,348</u>

# Financial Statements - Statements of Activities

## As of December 31, 2012 and 2011 (\$ in Thousands)

	2012	2011
Operating revenues		
System administration fees	\$ 136,275	\$ 139,540
Nodal implementation surcharge	122,338	125,669
Reliability organization pass-through	13,062	11,975
Membership fees and other	5,350	3,429
Total operating revenue	277,025	280,613
Operating expenses		
Salaries and related benefits	72,680	69,317
Depreciation	32,698	33,087
Facility and equipment costs	12,644	12,519
Outside services	12,149	8,367
Hardware and software maintenance and licensing	19,266	11,339
Reliability organization assessment	13,062	11,975
Other	5,874	5,568
Amortization of regulatory asset	122,338	125,669
Total operating expenses	290,711	277,841
(Loss) income from operations	(13,686)	2,772
Other income (expense)		
Interest income	2	7
Interest expense	(3,387)	(3,978)
Change in valuation of interest rate swap	3,235	6,596
Non-operating income	429	(775)
Change in unrestricted net assets before deferred pension costs	(13,408)	4,622
Deferred pension costs	16	(24)
Change in unrestricted net assets	(13,391)	4,598
Unrestricted net assets, beginning of year	40,471	35,873
Unrestricted net assets, end of period	\$ 27,080	\$ 40,471

# Financial Statements - Statements of Cash Flows

## For the Month Ended December 31, 2012 and 2011 (\$ in Thousands)

	2012	2011
<b>Cash flows from operating activities:</b>		
Change in unrestricted net assets	\$ (13,391)	\$ 4,598
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	32,698	33,087
Amortization of debt issuance costs	140	140
Change in valuation of interest rate swap	(3,235)	(6,596)
Net gains on disposition or impairment of capital assets	(58)	805
Changes in operating assets and liabilities:		
Accounts receivable	5,634	(154)
Unbilled revenue	3,986	(996)
Prepaid expenses and other assets	3,346	(4,283)
Other long-term liabilities	32	37
Accounts payable	(6,224)	4,159
Accrued liabilities	(624)	(4,568)
Deferred revenue	(380)	347
Regulatory liabilities	119,525	99,623
Net cash provided by operating activities	141,449	126,199
<b>Cash flows from investing activities:</b>		
Capital expenditures for property and equipment and systems under development	(16,134)	(35,930)
Proceeds from sale of property and equipment	98	13
Net cash used in investing activities	(16,036)	(35,917)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of notes payable	79,000	-
Repayment of notes payable	(164,970)	(143,970)
Payment of debt issuance costs	(373)	-
Increase in restricted cash	(57,992)	(158,286)
Increase in market settlement liabilities	33,389	230,935
Increase in security deposits	57,992	158,286
Net cash (used in) provided by financing activities	(52,954)	86,965
Net change in cash and cash equivalents	72,459	177,247
Cash and cash equivalents, beginning of year	246,803	69,556
Cash and cash equivalents, end of period	\$ 319,262	\$ 246,803