



Item 4.2: Financial Summary

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Board of Directors Meeting

ERCOT Public

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Due to the level of detailed information contained in this presentation, printed copies of this presentation will be available at the Board of Directors meeting on March 19, 2013.

Financial Performance

As of February 28, 2013 (\$ in Millions)

YTD BUDGET VS. ACTUAL PERFORMANCE: \$0.1 MILLION FAVORABLE

REVENUES \$1.1 Million unfavorable 2012 carry forward
\$0.7 Million unfavorable system administration fees

EXPENSES \$1.1 Million favorable principal repayment
\$0.7 Million favorable hardware & software maintenance & licensing

YEAR-END PERFORMANCE FORECAST: \$0.1 MILLION FAVORABLE

REVENUES \$1.1 Million unfavorable 2012 carry forward

EXPENSES \$1.1 Million favorable principal repayment

Financial Summary

Year to Date as of February 28, 2013 (\$ in Millions)

Line		Budget	Actual	Variance		Explanations
				\$	%	
1	Operating revenues					
2	System administration fees	\$ 20.3	\$ 19.6	\$ (0.7)	(3.4)	Unfavorable primarily due to milder-than-expected temperatures.
3	Reliability organization pass-through	2.2	1.9	(0.3)	(13.6)	Lower than anticipated; however, this unfavorable revenue variance is offset by the favorable expense variance.
4	Membership fees and other	0.7	1.0	0.3	42.9	INR studies and WAN revenues contributing to favorable variance.
5	2012 carry forward	4.8	3.7	(1.1)	(22.9)	Preliminary 2012 results indicate a carry forward amount of \$3.7 M, fully recognized in January.
6	Total - Operating revenues	28.0	26.2	(1.8)	(6.4)	
7						
8	Operating expenses (excluding depreciation)					
9	Salaries and related benefits	12.5	13.3	(0.8)	(6.4)	Driven by project efforts being less than expected; State Unemployment Insurance, which is typically higher in January and then tapers off in future months; also, health claims and 401K match higher than budgeted.
10	Facility and equipment costs	2.2	1.9	0.3	13.6	Savings being realized for Met Center lease which was re-negotiated in 2012 due to reduction of space being utilized; lower negotiated rate for electricity; general under-spend in regards to building maintenance; these favorable items are offset by unfavorable WAN reimbursable costs (which are offset by favorable WAN revenues).
11	Hardware and software maintenance and licensing	3.3	2.6	0.7	21.2	Primarily due to less than anticipated vendor support service hours.
12	Outside services	1.3	1.5	(0.2)	(15.4)	Utilizing staff augmenting DBA services to assist with storage array recovery efforts as a result of the problems encountered in December 2012; IMM contract renewed at fixed rate higher than anticipated.
13	Reliability organization assessment	2.2	2.0	0.2	9.1	Lower than anticipated; however, this favorable expense variance is offset by the unfavorable revenue variance.
14	Other	1.0	0.9	0.1	10.0	
15	Subtotal - Operating expenses	22.5	22.2	0.3	1.3	
16	Revenue-funded project expenditures (40%)	1.2	0.7	0.5	41.7	Primarily due to: - Settlement Systems Upgrade project development slow down due to a design change and NPRR reassignments; - NMMS Upgrade project unable to move forward as the software product is still being developed by Siemens; - Planning Transition to MIS project had a slow start due to resource constraints from higher priority operations tasks and illness; - Physical Security Server Upgrade forecasted hardware purchase was delayed due to vendor needing to complete upgrade analysis for hardware, therefore, expected to be purchased in March; - Vendor services have not been utilized as expected in the SCR760 project; - Oracle 11G project has used lower internal labor efforts due to on-going resource constraints associated with SAN outage occurrence in December 2012.
17	Principal repayment	2.8	1.7	1.1	39.3	
18	Interest expense	0.4	0.4	-	-	
19	Total - Expenses	26.9	25.0	1.9	7.1	
20						
21	Excess/(Deficit) of revenues over expenses	\$ 1.1	\$ 1.2	\$ 0.1	9.1	

Financial Summary

Year End Forecast as of February 28, 2013 (\$ in Millions)

Line		Budget	Forecast	Variance		Explanations
				\$	%	
1	Operating revenues					
2	System administration fees	\$ 139.9	\$ 139.9	\$ -	-	
3	Reliability organization pass-through	13.2	11.7	(1.5)	(11.4)	Lower than anticipated; however, this unfavorable revenue variance is offset by the favorable expense variance.
4	Membership fees and other	3.7	3.7	-	-	
5	2012 carry forward	4.8	3.7	(1.1)	(22.9)	Preliminary 2012 results indicate a carry forward amount of \$3.7 M, fully recognized in January.
6	Total - Operating revenues	161.6	159.0	(2.6)	(1.6)	
7						
8	Operating expenses (excluding depreciation)					
9	Salaries and related benefits	77.2	77.2	-	-	
10	Facility and equipment costs	12.9	12.2	0.7	5.4	Savings for Met Center lease which was re-negotiated in 2012 due to reduction of space being utilized; also, lower negotiated rate for electricity.
11	Hardware and software maintenance and licensing	19.7	19.7	-	-	
12	Outside services	8.0	8.6	(0.6)	(7.5)	IMM contract renewed at \$0.3 M higher than anticipated; due to storage array recovery efforts, expect \$0.3 M unbudgeted expense for staff augmenting DBA services.
13	Reliability organization assessment	13.2	11.7	1.5	11.4	Lower than anticipated; however, this favorable expense variance is offset by the unfavorable revenue variance.
14	Other	5.7	5.7	-	-	
15	Subtotal - Operating expenses	136.7	135.1	1.6	1.2	
16	Revenue-funded project expenditures (40%)	6.0	6.0	-	-	
17	Principal repayment	16.6	15.5	1.1	6.6	Due to the less-than-expected favorable 2012 carry forward, the offset will be assumed here.
18	Interest expense	2.3	2.3	-	-	
19	Total - Expenses	161.6	158.9	2.7	1.7	
20						
21	Excess/(Deficit) of revenues over expenses	\$ -	\$ 0.1	\$ 0.1		n/a

Financial Statements - Statements of Financial Position

As of February 28, 2013 and 2012 (\$ in Thousands)

Line		2013	2012	Incr / (Decr) Change		Explanations
				\$	%	
1	Assets					
2	Current assets:					
3	Cash and cash equivalents	\$ 288,894	\$ 197,621	\$ 91,273	0.5	Higher level of CRR revenue \$44.9 M and higher level of prepaid cash received from MP's \$3.2 M; \$10.0M less in CRR borrowings in 2013; \$33.1 M increase in operating cash accounts; and \$0.1 M increase due to lower level of outstanding checks in 2013.
4	Accounts receivable	3,645	7,490	(3,845)	(0.5)	Decrease related to two changes in ERCOT's billing cycle: - Timing of bill cycles. In November 2012, ERCOT changed its billing cycle from once a week to every weekday. Therefore, there are fewer invoiced days billed but not received at the end of each month. - Termination of the Nodal Surcharge as of January 2, 2013. In 2012, the Nodal Surcharge made up \$2.0 M of the balance in accounts receivable.
5	Unbilled revenue	3,272	12,286	(9,014)	(0.7)	Decrease related to two changes in ERCOT's billing cycle: - Timing of bill cycles. In November 2012, ERCOT changed its billing cycle from once a week to every weekday. Therefore, there are fewer days left unbilled at the end of each month. In 2012, there were 20 days in unbilled revenue, compared to 9 in 2013. - Termination of the Nodal Surcharge as of January 2, 2013. In 2012, the nodal surcharge made up \$5.8 M of unbilled revenue.
6	Restricted cash	418,684	381,361	37,323	0.1	Restricted cash related to security deposits increased by \$37.3 M due to normal monthly fluctuation.
7	Prepaid expenses and other current assets	11,961	18,214	(6,253)	(0.3)	Decrease primarily related to the following: - (\$3.4 M) due to the timing of payment of the NERC quarterly invoice. This was done in February of 2012, but March of 2013. - (\$1.6 M) amortization of large Hitachi hardware and software support invoices covering multiple years that were added in 2012. - (\$0.9 M) amortization of software maintenance agreements covering multiple years. - Other (\$0.4 M) decrease related to the net effect of the addition and amortization of other invoices.
8	Total current assets	726,456	616,972	109,484		
9	Property and equipment, net	271,530	359,563	(88,033)	(0.2)	Decrease related to the following: - Continuing depreciation of the Nodal software that was added in 2010 of (\$68.7 M). - Continuing depreciation of other assets (\$33.8 M). - Asset additions of \$13.8 M, primarily consisting of capitalization of the data center project and software additions. - Increase of \$0.7 M related to the net effect of the disposal of other assets (primarily consisting of hardware which was replaced through the data center project) and the addition of post Nodal go-live software.
10	Systems under development	11,359	11,716	(357)	(0.0)	
11	Debt issuance cost	541	304	237	0.8	
12	Total assets	<u>\$ 1,009,886</u>	<u>\$ 988,555</u>	<u>\$ 21,331</u>		
13						

Financial Statements - Statements of Financial Position (Continued)

As of February 28, 2013 and 2012 (\$ in Thousands)

Line		2013	2012	Incr / (Decr) Change		Explanations
				\$	%	
14	Liabilities and Unrestricted Net Assets					
15	Current liabilities:					
16	Accounts payable	1,080	5,679	(4,599)	(0.8)	Decrease related to the following: - (\$3.4 M) NERC quarterly invoice that was received and entered in accounts payable in February 2012, but not until March in 2013. - (\$0.6 M) related to the timing of receipt of various prepaid software maintenance agreements. - (\$0.3 M) invoices outstanding in 2012 related to the Nodal audit. - Remaining (\$0.3 M) related to the timing of receipt and payment of various invoices.
17	Accrued liabilities	7,821	8,470	(649)	(0.1)	
18	Deferred revenue	4,192	4,643	(451)	(0.1)	
19	Market settlement liabilities	295,793	247,710	48,083	0.2	Increase of \$44.9 M in CRR received; increase of \$3.2 M in prepaids received from MP's.
20	Security deposits	418,684	381,361	37,323	0.1	Security deposits increased by \$37.3 M due to normal monthly fluctuation.
21	Notes payable, current portion	17,637	155,070	(137,433)	(0.9)	Decrease related to: - (\$70.0 M) repayment of the 2007 Revolver in February, May, and June 2012 - (\$70.8 M) repayment of the 2007 Term Loan in November 2012 - (\$0.6 M) repayment of the 2008 Revolver in February, March, and June 2012 - \$4.0 M issuance of 2012 Private Debt in October 2012
22	Total current liabilities	745,207	802,933	(57,726)		
23	Notes payable	88,630	27,267	61,363	2.3	Increase is the net effect of paying down (\$13.6 M) on the 2002 note and borrowing \$75.0 M on the 2012 Private Debt.
24	Derivative liability	-	2,441	(2,441)	(1.0)	Decreased derivative liability based on the maturity of the interest rate swaps. All swaps matured as of November 2012.
25	Regulatory liabilities	155,746	120,881	34,865	0.3	Increase due to the following: - \$34.9 M due to greater life-to-date Nodal surcharge collections compared to non-capitalized Nodal expenditures. From March 2012 through February 2013, ERCOT collected \$105.5 M in Nodal surcharge revenues but only incurred (\$70.6 M) in non-capitalized Nodal expenditures (primarily comprised of depreciation on the Nodal software assets). However, this liability will gradually decrease as the depreciation on the Nodal software assets continues.
26	Other long term liabilities	398	356	42	0.1	
27	Total liabilities	989,981	953,878	36,103	0.0	
28	Unrestricted net assets	19,905	34,677	(14,772)	(0.4)	
29	Total liabilities and unrestricted net assets	\$ 1,009,886	\$ 988,555	\$ 21,331		

Financial Statements - Statements of Activities

As of February 28, 2013 and 2012 (\$ in Thousands)

Line		2013	2012	Incr / (Decr) Change		Explanations
				\$	%	
1	Operating revenues					
2	System administration fees	\$ 19,618	\$ 19,361	\$ 257	0.0	
3	Nodal implementation surcharge	297	17,411	(17,114)	(1.0)	Decrease due to the termination of the Nodal Surcharge as of January 2, 2013. This amount will continue to increase by a small amount throughout 2013 until all billing stages (final, true-up, and resettlement) are complete.
4	Reliability organization pass-through	1,954	2,177	(223)	(0.1)	
5	Membership fees and other	1,235	810	425	0.5	
6	Total operating revenue	23,104	39,759	(16,655)		
7	Operating expenses					
8	Salaries and related benefits	13,522	12,176	1,346	0.1	Increase related to the following: - \$0.5 M increase due to normal recurring growth and market adjustments. - \$0.2 M increase in 401k expense related to a credit received in 2012 from forfeiture accounts. - \$0.2 M increase in healthcare expenses primarily related to new healthcare laws. - Other increase of \$0.4 M related to fluctuations in other various payroll expenses.
9	Depreciation	5,619	5,457	162	0.0	
10	Facility and equipment costs	1,933	2,073	(140)	(0.1)	
11	Outside services	1,610	3,086	(1,476)	(0.5)	Decrease related to the following: - (\$0.8 M) decrease in professional fees related to operations. - (\$0.7 M) decrease in audit fees related to the Nodal audit that occurred in 2012.
12	Hardware and software maintenance and licensin	2,682	2,927	(245)	(0.1)	
13	Reliability organization assessment	1,954	2,177	(223)	(0.1)	
14	Other	913	729	184	0.3	
15	Amortization of regulatory asset	297	17,411	(17,114)	(1.0)	Decrease due to the termination of the Nodal Surcharge as of January 2, 2013. This amount will continue to increase by a small amount throughout 2013 until all billing stages (final, true-up, and resettlement) are complete.
16	Total operating expenses	28,530	46,036	(17,506)	(0.4)	
17	Loss from operations	(5,426)	(6,277)	851	(0.1)	
18	Other income (expense)					
19	Interest income	3	1	2	2.0	
20	Interest expense	(688)	(579)	(109)	0.2	
21	Change in valuation of interest rate swap	-	795	(795)	(1.0)	
22	Non-operating income	-	266	(266)	(1.0)	
23	Change in unrestricted net assets	(6,111)	(5,794)	(317)	0.1	
24	Unrestricted net assets, beginning of year	26,016	40,471	(14,455)	(0.4)	
25	Unrestricted net assets, end of period	\$ 19,905	\$ 34,677	\$ (14,772)	(0.4)	

Financial Statements - Statements of Cash Flows

For the Month Ended February 28, 2013 and 2012 (\$ in Thousands)

Line		2013	2012	Incr / (Decr) Change		Explanations
				\$	%	
1	Cash flows from operating activities:					
2	Change in unrestricted net assets	\$ (6,111)	\$ (5,794)	\$ (317)	0.1	
3	Adjustments to reconcile change in unrestricted net assets					
4	to net cash provided by operating activities:					
5	Depreciation	5,619	5,457	162	0.0	
6	Amortization of debt issuance costs	23	23	-	-	
7	Change in valuation of Interest rate swap	-	(795)	795	(1.0)	
8	Changes in operating assets and liabilities:			-		
9	Accounts receivable	220	2,008	(1,788)	(0.9)	Decreased cash flow related to the timing of the settlement bill cycles. In November 2012, ERCOT began billing every business day instead of once a week. There was an increase in cash flow of (\$4.9 M) from December 2011 to February 2012, resulting in a decrease in cash flow in 2012; this decrease is slightly offset by the increase in cash flow of \$2.3 M from December 2012 to February 2013.
10	Unbilled revenue	3,096	(2,175)	5,271	(2.4)	Increased cash flow related to the timing of the settlement bill cycles. With the settlement billing cycle moving from once a week to every business day, the total amount of unbilled revenue each month will be lower (thus increasing cash flow over prior year).
11	Prepaid expenses and other assets	3,009	51	2,958	58.0	Increase in cash flow related to the timing of the receipt and payment of the NERC Q2 assessment fee. This invoice was included in prepaid expenses in February 2012, creating a cash inflow in February 2013.
12	Other long-term liabilities	(1)	(5)	4	(0.8)	
13	Accounts payable	(1,125)	(2,756)	1,631	(0.6)	Change in Accounts Payable is related to the following: - Increase in cash flow of \$1.3 M related to the timing of the payment of property taxes on all ERCOT locations. A majority of these taxes (related to 2012 and 2013) were paid in 2012. - Increase in cash flow of \$0.3 M related to the timing of receipt and payment of various invoices.
14	Accrued liabilities	(12)	219	(231)	(1.1)	
15	Deferred revenue	910	995	(85)	(0.1)	
16	Regulatory liabilities	298	16,584	(16,286)	(1.0)	Decrease in cash related to the termination of the Nodal surcharge, and the amortization of the Nodal regulatory liability.
17	Net cash provided by operating activities	5,926	13,812	(7,886)		
18						
19						

Financial Statements - Statements of Cash Flows (Continued)

For the Month Ended February 28, 2013 and 2012 (\$ in Thousands)

	2013	2012	Incr / (Decr) Change		Explanations
			\$	%	
Cash flows from investing activities:					
Capital expenditures for property and equipment and systems under development	(1,932)	(4,124)	2,192	(0.5)	Increased cash flow primarily due to a decrease in spending on the data center project, as the project was completed in early 2012.
Proceeds from sale of property and equipment	-	82	(82)	(1.0)	
Net cash used in investing activities	<u>(1,932)</u>	<u>(4,042)</u>	<u>2,110</u>		
Cash flows from financing activities:					
Proceeds from issuance of notes payable	-	-			
Repayment of notes payable	-	(9,900)	9,900	1.0	Increase in cash flow in 2013 related to the February 2012 payment of \$5.0M on the 2007 Revolver, and the January and February 2012 total payment of \$4.9M on the 2008 Revolver.
Payment of debt issuance costs	(4)	-	(4)	-	
Increase in restricted cash	53,192	32,523	20,669	0.6	
Increase in market settlement liabilities	(34,358)	(49,052)	14,694	(0.3)	
Increase in security deposits	<u>(53,192)</u>	<u>(32,523)</u>	<u>(20,669)</u>	0.6	
Net cash used in financing activities	<u>(34,362)</u>	<u>(58,952)</u>	<u>24,590</u>		
Net change in cash and cash equivalents	(30,368)	(49,182)	18,814	(0.4)	
Cash and cash equivalents, beginning of year	319,262	246,803	72,459	0.3	
Cash and cash equivalents, end of period	<u>\$ 288,894</u>	<u>\$197,621</u>	<u>\$ 91,273</u>		

Project Expenditures

Life to Date as of February 28, 2013 (\$ in Millions)

Cost Summary	Variance			
	Budget	Actual	\$	%
Energy Management System (EMS) Upgrade	\$ 0.7	\$ 0.5	\$ 0.2	28.6
Settlement System Upgrade	3.4	2.7	0.7	20.6
Oracle 11G Upgrade	1.4	1.1	0.3	21.4
Information Lifecycle Management	1.2	1.2	-	-
SCR760 Info Model Manager & Topology Processor	0.8	0.6	0.2	25.0
Content Management System (CMS) and Market Information Repository (MIR) Replacement	0.3	0.3	-	-
Minor Capital	0.2	0.2	-	-
Security Admin Gateway Environment (SAGE)	0.9	0.9	-	-
Congestion Revenue Rights (CRR) Upgrade	0.5	0.4	0.1	20.0
NPRR347/NPRR400 Implementation	0.8	0.8	-	-
Siebel Upgrade	0.4	0.4	-	-
Capital Efficiencies & Enhancements	-	-	-	n/a
Other Portfolio Projects	4.2	3.6	0.6	14.3
Total - Portfolio Projects	\$ 14.8	\$ 12.7	\$ 2.1	14.2

Project Expenditures

Estimate at Completion as of February 28, 2013 (\$ in Millions)

Cost Summary	Budget	Forecast	Variance	
			\$	%
Energy Management System (EMS) Upgrade	\$ 8.7	\$ 8.7	\$ -	-
Settlement System Upgrade	6.8	7.1	(0.3)	(4.4)
Oracle 11G Upgrade	2.1	2.1	-	-
Information Lifecycle Management	1.3	1.3	-	-
SCR760 Info Model Manager & Topology Processor	1.1	0.8	0.3	27.3
Content Management System (CMS) and Market Information Repository (MIR) Replacement	1.0	1.0	-	-
Minor Capital	0.8	0.8	-	-
Security Admin Gateway Environment (SAGE)	0.9	0.9	-	-
Congestion Revenue Rights (CRR) Upgrade	0.8	0.8	-	-
NPRR347/NPRR400 Implementation	0.8	0.8	-	-
Siebel Upgrade	0.7	0.7	-	-
Capital Efficiencies & Enhancements	0.3	0.3	-	-
Other Portfolio Projects	8.3	8.0	0.3	3.6
Total - Portfolio Projects	\$ 33.6	\$ 33.3	\$ 0.3	0.9