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## **Item 8.1: Financial Summary**

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Finance & Audit Meeting

ERCOT Public

May 13, 2013

# Financial Performance

## As of April 30, 2013 (\$ in Millions)

### YTD BUDGET VS. ACTUAL PERFORMANCE: \$0.3 MILLION UNFAVORABLE

**Revenues** \$1.3M unfavorable system administration fees

**Expenses** \$0.9M favorable hardware & software maintenance & licensing  
\$0.8M favorable facility & equipment cost  
\$0.6M favorable revenue funded project expenditures  
\$1.0M unfavorable salaries and related benefits  
\$0.5M unfavorable outside services

### YEAR-END PERFORMANCE FORECAST: \$0.1 MILLION FAVORABLE

**Revenues** No remarkable variance

**Expenses** \$0.9M favorable facility and equipment cost  
\$0.6M unfavorable outside services  
\$0.3M unfavorable other expenses



# Financial Summary

## Year to Date as of April 30, 2013 (\$ in Millions)

Line	Budget	Actual	Variance		Notes
			\$	%	
1	<b>Operating revenues</b>				
2	\$ 40.4	\$ 39.1	\$ (1.3)	(3.2) <sup>█</sup>	(1)
3	4.4	3.9	(0.5)	(11.4) <sup>█</sup>	(2)
4	0.9	1.0	0.1	11.1	
5	0.5	0.6	0.1	20.0	
6	4.8	3.5	(1.3)	(27.1) <sup>█</sup>	(3)
7	<b>Total - Operating revenues</b>	<b>51.0</b>	<b>48.1</b>	<b>(2.9)</b>	<b>(5.7)</b>
8					
9	<b>Operating expenses (excluding depreciation)</b>				
10	25.2	26.2	(1.0)	(4.0) <sup>█</sup>	(4)
11	3.5	2.7	0.8	22.9 <sup>█</sup>	(5)
12	0.8	0.9	(0.1)	(12.5)	
13	6.6	5.7	0.9	13.6 <sup>█</sup>	(6)
14	2.7	3.2	(0.5)	(18.5) <sup>█</sup>	(7)
15	4.4	3.9	0.5	11.4 <sup>█</sup>	(8)
16	2.0	1.9	0.1	5.0	
17	<b>Subtotal - Operating expenses</b>	<b>45.2</b>	<b>44.5</b>	<b>0.7</b>	<b>1.5</b>
18	2.4	1.8	0.6	25.0 <sup>█</sup>	(9)
19	5.5	4.2	1.3	23.6 <sup>█</sup>	(10)
20	0.8	0.8	-	-	
21	<b>Total - Expenses</b>	<b>53.9</b>	<b>51.3</b>	<b>2.6</b>	<b>4.8</b>
22					
23	<b>Excess/(Deficit) of revenues over expenses</b>	<b>\$ (2.9)</b>	<b>\$ (3.2)</b>	<b>\$ (0.3)</b>	<b>10.3</b>



# Financial Summary

## Year to Date as of April 30, 2013 (\$ in Millions)

### Notes:

1. System administration fees are unfavorable primarily due to milder-than-expected temperatures.
2. The reliability organization pass-through revenues are lower than anticipated; however, this unfavorable revenue variance is offset by the favorable expense variance (see note 8).
3. Unaudited 2012 results indicate a carry forward amount of \$3.5 M, which is \$1.3 M less than planned, fully recognized in January.
4. The over-run for salaries and related benefits is driven by a steady increase in the vacation liability, as well as, a consistent shortfall in project efforts.
5. Savings is being realized for facility and equipment costs due to (1) the Met Center lease which was re-negotiated in 2012 to incorporate a reduction of space being utilized, (b) a lower negotiated rate for electricity, and (c) general under-spending for building maintenance and non-capitalizable hardware.
6. Hardware and software maintenance and licensing is currently under budget due to (a) less-than-anticipated vendor support service hours, and (b) savings for items not renewed or consolidated.
7. The outside services line is unfavorable due to the following: (a) the utilization of staff augmenting DBA contractors to assist with storage array recovery efforts as a result of the failure encountered in December 2012, (b) the Loss of Load Expectation (LOLE) study which was budgeted to occur later in the year, (c) the IMM contract was renewed at a fixed rate which was higher than anticipated, and (d) other staff augmenting contractors necessary due to vacant permanent positions.
8. The reliability organization assessment is lower than anticipated; however, this favorable expense variance is offset by the unfavorable revenue variance (see note 2).
9. Currently, the revenue-funded project expenditures are under budget due to the following:
  - Settlement Systems Upgrade project development slow down due to a design change and NPPR reassignments;
  - Lower internal labor efforts in Oracle 11g project due to Information Services Master (ISM) database ltest delays because of a Java memory leak issue ,as well as, general delays due to resources being focused on production operation and maintenance activities;
  - Vendor services have not been utilized as expected in the SCR760 project;
  - A majority of the planning tasks for the Linux Configuration Management Tool are being completed in the Windows Server Systems Management project;
  - Software will be purchase in Execution (June) instead of Planning phase for the Linux Configuration Management Tool and Windows Server Systems Management projects;
  - Hardware purchases are not necessary in the Congestion Revenue Rights (CRR) Upgrade project due to on-site hardware being available;
  - Software purchase for Contract Lifecycle Management was not purchased in the Planning phase as originally forecasted and will be purchased during the Execution phase;
  - NPPR463 (CRR Auction Structure Enhancements) planned tasks are being completed quicker and with fewer resource hours than forecasted due to efficiencies realized from combining efforts with Congestion Revenue Rights Upgrade project;
  - Energy Management System Upgrade project was not able to enter into the Planning Phase as originally anticipated due to the vendor product release being delayed;
  - Fewer internal resources were needed for defect remediation activities as well as vendor support was not needed as originally planned during integration testing for the MarkeTrak Upgrade project;
  - Slight delay due to a late delivery of the software product from the vendor, as well as internal resources being used to perform installation and gap analysis of new Network Model Management System (NMMS) upgrade instead of utilizing vendor services.
10. Due to the less-than-expected favorable 2012 carry forward, a lower amount of principal payments will be funded by the system administration fee.



# Financial Summary

## Year End Forecast as of April 30, 2013 (\$ in Millions)

Line		Budget	Forecast	Variance		Notes
				\$	%	
1	<b>Operating revenues</b>					
2	System administration fees	\$ 139.9	\$ 139.9	\$ -	-	
3	Reliability organization pass-through	13.2	11.7	(1.5)	(11.4) <sup>█</sup>	(1)
4	Wide Area Network (WAN) services revenue	2.8	2.9	0.1	3.6 <sup>█</sup>	(2)
5	Membership fees and other	0.9	1.0	0.1	11.1 <sup>█</sup>	(3)
6	2012 carry forward	4.8	3.5	(1.3)	(27.1) <sup>█</sup>	(4)
7	<b>Total - Operating revenues</b>	<b>161.6</b>	<b>159.0</b>	<b>(2.6)</b>	<b>(1.6)</b>	
8						
9	<b>Operating expenses (excluding depreciation)</b>					
10	Salaries and related benefits	77.2	77.2	-	-	
11	Facility and equipment costs	10.4	9.5	0.9	8.7 <sup>█</sup>	(5)
12	Wide Area Network (WAN) reimbursable costs	2.5	2.6	(0.1)	(4.0) <sup>█</sup>	(6)
13	Hardware and software maintenance and licensing	19.7	19.7	-	-	
14	Outside services	8.0	8.6	(0.6)	(7.5) <sup>█</sup>	(7)
15	Reliability organization assessment	13.2	11.7	1.5	11.4 <sup>█</sup>	(8)
16	Other	5.7	6.0	(0.3)	(5.3) <sup>█</sup>	(9)
17	<b>Subtotal - Operating expenses</b>	<b>136.7</b>	<b>135.3</b>	<b>1.4</b>	<b>1.0</b>	
18	Revenue-funded project expenditures	6.0	6.0	-	-	
19	Principal repayment	16.6	15.3	1.3	7.8 <sup>█</sup>	(10)
20	Interest expense	2.3	2.3	-	-	
21	<b>Total - Expenses</b>	<b>161.6</b>	<b>158.9</b>	<b>2.7</b>	<b>1.7</b>	
22						
23	<b>Excess/(Deficit) of revenues over expenses</b>	<b>\$ -</b>	<b>\$ 0.1</b>	<b>\$ 0.1</b>	<b>n/a</b>	



# Financial Summary

## Year End Forecast as of April 30, 2013 (\$ in Millions)

### Notes:

1. The annualized reliability organization pass-through is lower than anticipated; therefore, the revenues are presented as unfavorable, however, the reliability organization assessment expense line (Note 8 below) offsets it with a favorable variance at an equal amount.
2. Wide Area Network (WAN) services revenue is higher than planned due to more market participants utilizing the service, as well as, passing on a higher usage cost to them.
3. Other revenues are favorable as Generation Interconnection studies have provided higher revenues than anticipated.
4. The preliminary 2012 financial performance provides a funding carry forward of \$3.5 M, which is \$1.3 M less than projected during the development of the 2013 budget. This will be reviewed and updated upon completion of the financial audit.
5. The favorable variance for the facility and equipment costs category is driven by: (a) savings being realized for the Met Center lease agreement which was renegotiated in 2012 at a lower rate due to a reduction of space being utilized, (b) savings expected as a result of a lower contracted rate for electricity, and (c) two property tax refunds (\$0.1 M from Williamson County for property tax valuation appeal and \$0.1 M from City of Taylor for property tax abatements).
6. Because more market participants are using the Wide Area Network (WAN) service, the equipment cost is higher than budgeted; however, this additional expense is offset by the additional revenues (Note 2 above).
7. Outside services is forecasted higher than budget due to the Independent Market Monitor (IMM) services contract being renewed higher than anticipated; also, we have incurred unbudgeted expense for staff augmenting database administration services as a result of the storage array recovery efforts.
8. The annualized reliability organization assessment expense is lower than anticipated; therefore, this category is presented as favorable, however, the reliability organization pass-through revenue line (Note 1 above) offsets it with an unfavorable variance at an equal amount.
9. It is anticipated that the other expense category will be over budget due to unbudgeted public service announcements to occur in the summer, as well as, additional licenses that will be purchased to allow access to Information Technology advisory services.
10. Due to the less-than-expected favorable 2012 carry forward (Note 4 above), a lower amount of principal payments will be funded by the system administration fee.



# Project Expenditures

## Year to Date as of April 30, 2013 (\$ in Millions)

Line	Cost Summary	Budget	Actual	Variance	
				\$	%
1	Energy Management System (EMS) Upgrade	\$ 0.3	\$ 0.2	\$ 0.1	33.3
2	Settlement System Upgrade	0.8	0.7	0.1	12.5
3	Market Monitoring System / Outage Scheduler Technology Refresh	-	-	-	n/a
4	Oracle 11G Upgrade	0.8	0.5	0.3	37.5
5	Information Lifecycle Management	0.1	0.1	-	-
6	SCR760 Info Model Manager & Topology Processor	0.3	0.2	0.1	33.3
7	Content Management System (CMS) and Market Information Repository (MIR) Replacement	0.1	0.1	-	-
8	NPRR484 Revisions to Congestion Revenue Rights (CRR) Credit Calculations & Payments	-	-	-	n/a
9	Minor Capital	0.6	0.6	-	-
10	Congestion Revenue Rights (CRR) Upgrade	0.2	0.1	0.1	50.0
11	Siebel Upgrade	0.3	0.3	-	-
12	Capital Efficiencies & Enhancements	0.1	0.1	-	-
13	Other Portfolio Projects	2.4	1.5	0.9	37.5
14	<b>Total - Portfolio Projects</b>	<b>\$ 6.0</b>	<b>\$ 4.4</b>	<b>\$ 1.6</b>	<b>26.7</b>



# Project Expenditures

## Estimate at Completion as of April 30, 2013 (\$ in Millions)

Line	Cost Summary	Budget	Forecast	Variance	
				\$	%
1	Energy Management System (EMS) Upgrade	\$ 8.7	\$ 8.7	\$ -	-
2	Settlement System Upgrade	6.8	7.1	(0.3)	(4.4)
3	Market Monitoring System / Outage Scheduler Technology Refresh	3.0	3.0	-	-
4	Oracle 11G Upgrade	2.1	1.8	0.3	14.3
5	Information Lifecycle Management	1.3	1.3	-	-
6	SCR760 Info Model Manager & Topology Processor	1.1	0.9	0.2	18.2
7	Content Management System (CMS) and Market Information Repository (MIR) Replacement	0.9	0.9	-	-
8	NPRR484 Revisions to Congestion Revenue Rights (CRR) Credit Calculations & Payments	1.0	1.0	-	-
9	Security Admin Gateway Environment (SAGE)	0.9	0.9	-	-
10	Minor Capital	0.7	0.9	(0.2)	(28.6)
11	Congestion Revenue Rights (CRR) Upgrade	0.8	0.6	0.2	25.0
12	NPRR347/NPRR400 Implementation	0.8	0.8	-	-
13	Siebel Upgrade	0.8	0.8	-	-
14	Capital Efficiencies & Enhancements	0.3	0.3	-	-
15	Other Portfolio Projects	10.2	9.4	0.8	7.8
16	<b>Total - Portfolio Projects</b>	<b>\$ 39.4</b>	<b>\$ 38.4</b>	<b>\$ 1.0</b>	<b>2.5</b>





**Preliminary - Unaudited**

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**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

**Statements of Financial Position**

**As of April 30, 2013 and 2012**

(Dollars in Thousands)

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	<u>2013</u>		<u>2012</u>	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$	276,272	\$	185,840
Accounts receivable		1,774		4,772
Unbilled revenue		2,798		11,611
Restricted cash		504,957		385,258
Prepaid expenses and other current assets		11,167		14,469
Total current assets		<u>796,968</u>		<u>601,950</u>
Property and equipment, net		257,673		349,453
Systems under development		10,857		6,815
Debt issuance cost		518		280
Total assets		<u><u>1,066,016</u></u>		<u><u>958,498</u></u>
 <b>Liabilities and Unrestricted Net Assets</b>				
Current liabilities:				
Accounts payable		1,738		2,423
Accrued liabilities		8,915		9,822
Deferred revenue		2,183		2,408
Market settlement liabilities		285,167		219,156
Security deposits		504,957		385,258
Notes payable, current portion		17,637		154,470
Total current liabilities		<u>820,597</u>		<u>773,537</u>
Notes payable		87,630		27,267
Derivative liability		-		2,146
Regulatory liabilities		144,469		126,341
Other long term liabilities		404		383
Total liabilities		<u>1,053,100</u>		<u>929,674</u>
Unrestricted net assets		12,916		28,824
Total liabilities and unrestricted net assets	\$	<u><u>1,066,016</u></u>	\$	<u><u>958,498</u></u>

Preliminary - Unaudited

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

Statements of Activities

For the Four Months Ended April 30, 2013 and 2012

(Dollars in Thousands)

	<b>2013</b>	<b>2012</b>
Operating revenues		
System administration fees	\$ 39,058	\$ 39,249
Nodal implementation surcharge	297	35,324
Reliability organization pass-through	3,908	4,354
Membership fees and other	2,244	1,750
Total operating revenue	<u>45,507</u>	<u>80,677</u>
Operating expenses		
Salaries and related benefits	26,840	24,375
Depreciation	11,291	10,925
Facility and equipment costs	3,570	4,419
Outside services	3,542	5,675
Hardware and software maintenance and licensing	5,819	5,664
Reliability organization assessment	3,908	4,354
Other	1,952	1,690
Amortization of regulatory asset	297	35,324
Total operating expenses	<u>57,219</u>	<u>92,426</u>
Loss from operations	(11,712)	(11,749)
Other income (expense)		
Interest income	5	2
Interest expense	(1,396)	(1,261)
Change in valuation of interest rate swap	-	1,090
Non-operating income	(3)	265
Change in unrestricted net assets before deferred pension costs	(13,106)	(11,653)
Deferred pension costs	6	6
Change in unrestricted net assets	(13,100)	(11,647)
Unrestricted net assets, beginning of year	26,016	40,471
Unrestricted net assets, end of period	<u>\$ 12,916</u>	<u>\$ 28,824</u>

**Preliminary - Unaudited**

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**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

**Statements of Cash Flows**

**For the Four Months Ended April 30, 2013 and 2012**

(Dollars in Thousands)

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	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities:</b>		
Change in unrestricted net assets	\$ (13,100)	\$ (11,647)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	11,291	10,925
Amortization of debt issuance costs	47	47
Change in valuation of interest rate swap	-	(1,090)
Net loss on capital assets	2	1
Changes in operating assets and liabilities:		
Accounts receivable	2,091	4,726
Unbilled revenue	3,570	(1,500)
Prepaid expenses and other assets	3,803	3,796
Other long-term liabilities	5	23
Accounts payable	(506)	(6,024)
Accrued liabilities	862	1,356
Deferred revenue	(1,099)	(1,241)
Regulatory liabilities	297	33,757
Net cash provided by operating activities	<u>7,263</u>	<u>33,129</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures for property and equipment and systems under development	(4,264)	(6,069)
Proceeds from sale of property and equipment	-	83
Net cash used in investing activities	<u>(4,264)</u>	<u>(5,986)</u>
<b>Cash flows from financing activities:</b>		
Repayment of notes payable	(1,000)	(10,500)
Payment of debt issuance costs	(5)	-
(Increase) Decrease in restricted cash	(33,081)	28,626
Decrease in market settlement liabilities	(44,984)	(77,606)
Increase (Decrease) in security deposits	33,081	(28,626)
Net cash used in financing activities	<u>(45,989)</u>	<u>(88,106)</u>
Net change in cash and cash equivalents	(42,990)	(60,963)
Cash and cash equivalents, beginning of year	319,262	246,803
Cash and cash equivalents, end of period	<u>\$ 276,272</u>	<u>\$ 185,840</u>

**ERCOT  
2013 Budget Adjustment**

	<b>Approved 2013 Budget</b>	<b>Adjustment</b>	<b>Adjusted 2013 Budget</b>
<b>Operating revenues</b>			
System administration fees	139.9	-	139.9
Reliability organization pass-through	13.2	-	13.2
Membership fees and other	3.7	-	3.7
2012 carry forward	4.8	-	4.8
<b>Total - Operating revenues</b>	<b>161.6</b>	<b>-</b>	<b>161.6</b>
<b>Operating expenses (excluding depreciation)</b>			
Salaries and related benefits	77.2	-	77.2
Facility and equipment costs	12.9	-	12.9
Hardware and software maintenance and licensing	19.7	(1.0)	18.7
Outside services	8.0	-	8.0
Reliability organization assessment	13.2	-	13.2
Other	5.7	-	5.7
<b>Subtotal - Operating expenses</b>	<b>136.7</b>	<b>(1.0)</b>	<b>135.7</b>
<b>Revenue-funded project expenditures</b>	<b>6.0</b>	<b>1.0</b>	<b>7.0</b>
<b>Principal repayment</b>	<b>16.6</b>	<b>-</b>	<b>16.6</b>
<b>Interest expense</b>	<b>2.3</b>	<b>-</b>	<b>2.3</b>
<b>Total - Expenses</b>	<b>161.6</b>	<b>-</b>	<b>161.6</b>
<b>Excess/(Deficit) of revenues over expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Notes:**

1. ERCOT does not typically adjust approved budgets, but, as an exception for clarity and administrative ease, a budget adjustment will be processed in May 2013 that re-categorizes \$1 million of vendor services included in the "Hardware and software maintenance and licensing" line item to the "Revenue-funded project expenditures" line item.
2. Rationale for the adjustment includes the following items:
  - a. ERCOT has contracted for a minimum level of vendor services relating to the maintenance and support of the market management system (MMS).
  - b. When market management system maintenance and support activities do not require the full minimum level of vendor services commitment, ERCOT management may redirect vendor service resources to other high-priority initiatives, including project work.
  - c. The volume of maintenance/support work for this contractor is lower than originally expected. However critical technology updates have been included with the MMS OS Technology Refresh project and vendor support is required for the project. The contractors providing vendor services support to ERCOT are uniquely qualified to contribute to the project's success.
  - d. The adjustment does not change 2013 revenue requirements or total spending authority.