



## Item 7.1: Financial Summary

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Finance & Audit Meeting

ERCOT Public

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# Financial Performance

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

### YTD BUDGET VS. ACTUAL PERFORMANCE: \$1.7 MILLION UNFAVORABLE

<b>Revenues</b>	\$1.8M unfavorable system administration fees \$0.3M favorable membership fees and other
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<b>Expenses</b>	\$1.6M unfavorable salaries and related benefits \$0.8M unfavorable outside services \$1.2M favorable facility and equipment cost \$0.7M favorable revenue-funded project expenditures \$0.3M favorable hardware & software maintenance & licensing
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### YEAR-END PERFORMANCE FORECAST: \$0.1 MILLION UNFAVORABLE

<b>Revenues</b>	\$0.9M unfavorable system administration fees
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<b>Expenses</b>	\$1.4M favorable facility and equipment cost \$0.6M favorable hardware & software maintenance & licensing \$0.8M unfavorable outside services \$0.4M unfavorable salaries and related benefits
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Electric Reliability Council of Texas, Inc.  
Analysis of Adequacy of System Administration Fee  
Year to Date as of June 30, 2013  
(\$ in Millions)

Line		Budget	Actual	Variance		Notes
				\$	%	
1	<b>Operating revenues</b>					
2	System administration fees	\$ 66.0	\$ 64.2	\$ (1.8)	(2.7)	(1)
3	Reliability organization pass-through	6.6	5.9	(0.7)	(10.6)	(2)
4	Wide Area Network (WAN) services revenue	1.4	1.4	-	-	
5	Membership fees and other	0.6	0.9	0.3	50.0	(3)
6	2012 carry forward	4.8	3.5	(1.3)	(27.1)	(4)
7	<b>Total - Operating revenues</b>	<b>\$ 79.4</b>	<b>\$ 75.9</b>	<b>\$ (3.5)</b>	<b>(4.4)</b>	
8						
9	<b>Operating expenses (excluding depreciation)</b>					
10	Salaries and related benefits	\$ 37.8	\$ 39.4	\$ (1.6)	(4.2)	(5)
11	Facility and equipment costs	5.2	4.0	1.2	23.1	(6)
12	Wide Area Network (WAN) reimbursable costs	1.3	1.2	0.1	7.7	
13	Hardware and software maintenance and licensing	8.8	8.5	0.3	3.4	(7)
14	Outside services	4.1	4.9	(0.8)	(19.5)	(8)
15	Reliability organization assessment	6.6	5.9	0.7	10.6	(9)
16	Other	3.0	3.0	-	-	
17	<b>Subtotal - Operating expenses</b>	<b>\$ 66.8</b>	<b>\$ 66.9</b>	<b>\$ (0.1)</b>	<b>(0.1)</b>	
18	Revenue-funded project expenditures	4.0	3.3	0.7	17.5	(10)
19	Principal repayment	8.3	7.0	1.3	15.7	(11)
20	Interest expense	1.2	1.3	(0.1)	(8.3)	
21	<b>Total - Expenses</b>	<b>\$ 80.3</b>	<b>\$ 78.5</b>	<b>\$ 1.8</b>	<b>2.2</b>	
22						
23	<b>Excess/(Deficit) of revenues over expenses</b>	<b>\$ (0.9)</b>	<b>\$ (2.6)</b>	<b>\$ (1.7)</b>	<b>188.9</b>	

**Electric Reliability Council of Texas, Inc.**  
**Analysis of Adequacy of System Administration Fee**  
**Year to Date as of June 30, 2013**

**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 9).
3. Other Revenues are favorable as Generation Interconnection studies have consistently provided higher income than anticipated.
4. Final 2012 results indicate a Carry Forward amount of \$3.5 M, which is \$1.3 M less than planned, fully recognized in January; therefore, the revenues are presented as unfavorable, however, the Reliability Organization Assessment expense line (Note 11 below) offsets it with a favorable variance at an equal amount.
5. The over-run for Salaries and Related Benefits is driven by a consistent shortfall in project efforts for the months and a steady increase in the vacation liability.
6. The favorable variance for the Facility and Equipment Costs category is driven by: (a) three property tax refunds (Bastrop and Williamson counties for property tax valuation appeals and the City of Taylor for property tax abatements), (b) a lower negotiated rate for electricity, (c) general under-spending for non-capitalizable hardware, (d) lower-than-anticipated cost for building security services, and (e) savings being realized for the Met Center lease agreement which was re-negotiated in 2012 at a lower rate due to a reduction of space being utilized.
7. 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.
8. The Outside Services line is unfavorable due to the following: (a) utilization of staff augmenting contractors necessary due to vacant permanent positions, (b) the Loss of Load Expectation (LOLE) study which was budgeted to occur later in the year, (c) the Independent Market Monitor (IMM) contract which was renewed at a fixed rate higher than anticipated; these unfavorable variances are offset by under-spending for outside counsel and switch notification services.
9. The Reliability Organization Assessment is lower than anticipated; however, this favorable expense variance is offset by the unfavorable revenue variance (see note 2).
10. The Revenue-funded Project Expenditures have been favorable due to the following:
  - hardware and software purchases have been under-spent because of (a) changes in timing for purchases and (b) efficiencies by using on-site hardware;
  - internal resource costs have been under-budget due to (a) operational tasks taking precedence and (b) work being moved forward due to staff attrition, and
  - (c) efficiencies by completing tasks in fewer hours; and
  - vendor labor tasks have been (a) completed with fewer hours and/or (b) transferred to internal resources resulting in financial savings.
11. Due to the less-than-expected favorable 2012 carry forward (see note 4), a lower amount of Principal Payments will be funded by the system administration fee.

Electric Reliability Council of Texas, Inc.  
Analysis of Adequacy of System Administration Fee  
End of Year Forecast as of June 30, 2013  
(\$ in Millions)

Line		Budget	Forecast	Variance		Notes
				\$	%	
1	<b>Operating revenues</b>					
2	System administration fees	\$ 139.9	\$ 139.0	\$ (0.9)	(0.6)	(1)
3	Reliability organization pass-through	13.2	11.7	(1.5)	(11.4)	(2)
4	Wide Area Network (WAN) services revenue	2.8	2.9	0.1	3.6	(3)
5	Membership fees and other	0.9	1.2	0.3	33.3	(4)
6	2012 carry forward	4.8	3.5	(1.3)	(27.1)	(5)
7	<b>Total - Operating revenues</b>	<b>\$ 161.6</b>	<b>\$ 158.3</b>	<b>\$ (3.3)</b>	<b>(2.0)</b>	
8						
9	<b>Operating expenses (excluding depreciation)</b>					
10	Salaries and related benefits	\$ 77.2	\$ 77.6	\$ (0.4)	(0.5)	(6)
11	Facility and equipment costs	10.4	9.0	1.4	13.5	(7)
12	Wide Area Network (WAN) reimbursable costs	2.5	2.6	(0.1)	(4.0)	(8)
13	Hardware and software maintenance and licensing	18.7	18.1	0.6	3.2	(9)
14	Outside services	8.0	8.8	(0.8)	(10.0)	(10)
15	Reliability organization assessment	13.2	11.7	1.5	11.4	(11)
16	Other	5.7	6.0	(0.3)	(5.3)	(12)
17	<b>Subtotal - Operating expenses</b>	<b>\$ 135.7</b>	<b>\$ 133.8</b>	<b>\$ 1.9</b>	<b>1.4</b>	
18	Revenue-funded project expenditures	7.0	7.0	-	-	
19	Principal repayment	16.6	15.3	1.3	7.8	(13)
20	Interest expense	2.3	2.3	-	-	
21	<b>Total - Expenses</b>	<b>\$ 161.6</b>	<b>\$ 158.4</b>	<b>\$ 3.2</b>	<b>2.0</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>	

**Electric Reliability Council of Texas, Inc.**  
**Analysis of Adequacy of System Administration Fee**  
**End of Year Forecast as of June 30, 2013**

**Notes:**

1. Due to milder-than-expected weather, the energy consumption forecast is 333,208 GWh (2,193 GWh below budget). Therefore, the System Administration Fee revenue forecast is \$0.9 M unfavorable.
2. The annualized Reliability Organization Pass-through is \$1.5 M lower than anticipated; therefore, the revenues are presented as unfavorable, however, the Reliability Organization Assessment expense line (Note 11 below) offsets it with a favorable variance at an equal amount.
3. Wide Area Network (WAN) services revenue is \$0.1 M higher than planned due to more market participants utilizing the service, as well as, passing on a higher usage cost to them.
4. Other Revenues are favorable by \$0.3 M. This is attributable to Generation Interconnection studies providing higher revenues than anticipated.
5. The 2012 financial performance provided a funding carry forward of \$3.5 M, which is \$1.3 M less than projected during the development of the 2013 budget.
6. The Salaries and Related Benefits line is unfavorable by \$0.4 M which is primarily due to lower-than-planned project effort and an increased vacation liability expense; offsetting the unfavorable aspects is savings being realized due to averaging ten (10) more vacant positions than budgeted.
7. The \$1.4 M favorable variance for the Facility and Equipment Costs category is driven by: (a) three property tax refunds (from Bastrop county and Williamson county for successful appeals of property tax valuations and from the City of Taylor for property tax abatements), (b) savings expected as a result of a lower contracted rate for electricity, (c) utilizing less-than-budgeted building security services, and (d) savings being realized for the Met Center lease agreement which was re-negotiated in 2012 at a lower rate due to a reduction of space being utilized, and (e) general under-spending for non-capitalizable hardware.
8. Because more market participants are using the Wide Area Network (WAN) service, the equipment cost is higher than budgeted. Currently, it is expected that the expense will run over budget by \$0.1 M; however, this additional expense is offset by the additional revenues (Note 3 above).
9. The Hardware and Software Maintenance and Licensing line is forecasted at \$0.6 M under budget. This is due to expected savings due to the cancellation of several maintenance contracts, as well as, the utilization of contractors to provide services which were planned to be provided by a "big 4" hardware/software support vendor.
10. Outside Services is forecasted at \$0.8 M higher-than-budget primarily due to staff augmenting contractors, which are partially backfilling vacant full-time positions; also, the Independent Market Monitor (IMM) services contract was renewed at a higher cost than anticipated. These unfavorable costs are offset by under-spending for outside counsel.
11. The annualized Reliability Organization Assessment expense is \$1.5 M lower than anticipated; therefore, this category is presented as favorable, however, the Reliability Organization Pass-through revenue line (Note 2 above) offsets it with an unfavorable variance at an equal amount.
12. It is anticipated that the Other Expense category will be over budget by \$0.3 M 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.
13. Due to the less-than-expected favorable 2012 carry forward (Note 5 above), a lower amount of principal payments will be funded by the System Administration Fee.

**Electric Reliability Council of Texas, Inc.**  
**Summary of Project Expenditures**  
**Year to Date as of June 30, 2013**  
**(\$ in Millions)**

Line	Project	Budget	Actual	Variance	
				\$	%
1	Energy Management System (EMS) Upgrade	\$ 0.2	\$ 0.2	\$ -	-
2	Settlement System Upgrade	1.3	1.0	0.3	23.1
3	Market Management System / Outage Scheduler Technology Refresh	0.6	0.2	0.4	66.7
4	Oracle 11G Upgrade	0.9	0.7	0.2	22.2
5	Information Lifecycle Management	0.1	0.1	-	-
6	SCR760 Info Model Manager & Topology Processor	0.4	0.3	0.1	25.0
7	Content Management System (CMS) and Market Information Repository (MIR) Replacement	0.2	0.2	-	-
8	NPRR484 Revisions to Congestion Revenue Rights (CRR) Credit Calculations & Payments	0.1	0.1	-	-
9	Minor Capital	0.7	0.7	-	-
10	Market Participant Online Data Entry: Phase 1	-	-	-	n/a
11	Congestion Revenue Rights (CRR) Upgrade	0.2	0.1	0.1	50.0
12	Siebel Upgrade	0.5	0.5	-	-
13	Capital Efficiencies & Enhancements	0.1	0.2	(0.1)	(100.0)
14	Other Portfolio Projects	3.6	3.1	0.5	13.9
15	<b>Total - Portfolio Projects</b>	<b>\$ 8.9</b>	<b>\$ 7.4</b>	<b>\$ 1.5</b>	<b>16.9</b>

**Electric Reliability Council of Texas, Inc.**  
**Summary of Project Expenditures**  
**Estimate at Completion as of June 30, 2013**  
**(\$ in Millions)**

Line	Project	Budget	Forecast	Variance	
				\$	%
1	Energy Management System (EMS) Upgrade	\$ 8.7	\$ 8.7	\$ -	-
2	Settlement System Upgrade	6.8	6.9	(0.1)	(1.5)
3	Market Management System / Outage Scheduler Technology Refresh	3.8	3.8	-	-
4	Oracle 11G Upgrade	2.1	1.9	0.2	9.5
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	0.7	0.3	30.0
9	Minor Capital	0.7	0.7	-	-
10	Market Participant Online Data Entry: Phase 1	0.8	0.8	-	-
11	Congestion Revenue Rights (CRR) Upgrade	0.8	0.6	0.2	25.0
12	Siebel Upgrade	0.8	0.8	-	-
13	Capital Efficiencies & Enhancements	0.3	0.3	-	-
14	Other Portfolio Projects	10.5	9.7	0.8	7.6
15	<b>Total - Portfolio Projects</b>	<b>\$ 41.3</b>	<b>\$ 39.7</b>	<b>\$ 1.6</b>	<b>3.9</b>



**Electric Reliability Council of Texas**  
**Statements of Financial Position**  
**As of June 30, 2013 and 2012**  
**(\$ in Thousands)**

	2013	2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 362,306	\$ 177,256
Accounts receivable	1,213	6,237
Unbilled revenue	5,982	14,166
Restricted cash	610,293	448,767
Prepaid expenses and other current assets	14,181	16,779
Total current assets	993,975	663,205
Property and equipment, net	241,755	332,593
Systems under development	12,495	8,598
Debt issuance cost	428	257
Total assets	1,248,653	1,004,653
<b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities:		
Accounts payable	4,755	1,819
Accrued liabilities	7,708	8,260
Deferred revenue	3,101	3,438
Market settlement liabilities	386,790	221,141
Security deposits	610,293	448,767
Notes payable, current portion	17,630	139,470
Total current liabilities	1,030,277	822,895
Notes payable	73,000	13,630
Derivative liability	-	1,193
Regulatory liabilities	133,193	137,083
Other long term liabilities	409	389
Total liabilities	1,236,879	975,190
Unrestricted net assets	11,774	29,463
Total liabilities and unrestricted net assets	\$ 1,248,653	\$ 1,004,653

**Electric Reliability Council of Texas**  
**Statements of Activities**  
**For the Six Months Ended June 30, 2013 and 2012**  
**(\$ in Thousands)**

	2013	2012
Operating revenues		
System administration fees	\$ 64,163	\$ 64,766
Nodal implementation surcharge	297	58,292
Reliability organization pass-through	5,863	6,531
Membership fees and other	3,425	2,595
Total operating revenue	73,748	132,184
Operating expenses		
Salaries and related benefits	40,038	36,172
Depreciation	17,016	16,760
Facility and equipment costs	5,211	6,461
Outside services	5,700	6,693
Hardware and software maintenance and licensing	8,715	10,088
Reliability organization assessment	5,863	6,531
Other	3,089	2,682
Amortization of regulatory asset	297	58,292
Total operating expenses	85,929	143,679
Loss from operations	(12,181)	(11,495)
Other income (expense)		
Interest income	8	2
Interest expense	(2,066)	(1,824)
Change in valuation of interest rate swap	-	2,043
Non-operating income (expense)	(3)	266
Change in unrestricted net assets	(14,242)	(11,008)
Unrestricted net assets, beginning of year	26,016	40,471
Unrestricted net assets, end of period	\$ 11,774	\$ 29,463

**Electric Reliability Council of Texas**  
**Statements of Cash Flows**  
**For the Six Months Ended June 30, 2013 and 2012**  
**(\$ in Thousands)**

	<b>2013</b>	<b>2012</b>
<b>Operating activities:</b>		
Change in unrestricted net assets	\$ (14,242)	\$ (11,008)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	17,016	16,760
Amortization of debt issuance costs	142	70
Change in valuation of interest rate swap	-	(2,043)
Net loss on capital assets	3	24
Changes in operating assets and liabilities:		
Accounts receivable	2,652	3,261
Unbilled revenue	386	(4,055)
Prepaid expenses and other assets	789	1,486
Other long-term liabilities	10	29
Accounts payable	2,519	(6,660)
Accrued liabilities	(285)	(167)
Deferred revenue	(181)	(211)
Regulatory liabilities	297	56,193
Net cash provided by operating activities	<u>9,106</u>	<u>53,679</u>
<b>Investing activities:</b>		
Capital expenditures for property and equipment and systems under development	(7,054)	(8,558)
Proceeds from sale of property and equipment	-	90
Net cash used in investing activities	<u>(7,054)</u>	<u>(8,468)</u>
<b>Financing activities:</b>		
Proceeds from issuance of notes payable	-	55,000
Repayment of notes payable	(15,637)	(94,137)
Payment of debt issuance costs	(10)	-
(Increase) in restricted cash	(138,417)	(34,883)
Increase (decrease) in market settlement liabilities	56,639	(75,621)
Increase in security deposits	138,417	34,883
Net cash provided (used in) by financing activities	<u>40,992</u>	<u>(114,758)</u>
Net increase (decrease) in cash and cash equivalents	43,044	(69,547)
Cash and cash equivalents, beginning of year	319,262	246,803
Cash and cash equivalents, end of period	<u>\$ 362,306</u>	<u>\$ 177,256</u>