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## Item 7.1: Financial Summary

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Finance & Audit Meeting

ERCOT Public

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# Financial Performance

## As of August 31, 2013 (\$ in Millions)

### YTD BUDGET VS. ACTUAL PERFORMANCE: \$1.2 MILLION UNFAVORABLE

**Revenues**    \$2.6 M unfavorable system administration fees  
                  \$0.4 M favorable membership fees and other

**Expenses**    \$1.7 M unfavorable salaries and related benefits  
                  \$1.1 M unfavorable outside services  
                  \$2.1 M favorable principal repayment  
                  \$1.6 M favorable facility and equipment cost

### YEAR-END PERFORMANCE FORECAST: NO VARIANCE

**Revenues**    \$1.6 M unfavorable system administration fees

**Expenses**    \$1.4 M unfavorable outside services  
                  \$0.8 M unfavorable salaries and related benefits  
                  \$2.1 M favorable principal repayment  
                  \$1.7 M favorable facility and equipment cost



Electric Reliability Council of Texas, Inc.  
 Analysis of Adequacy of System Administration Fee  
 Year to Date as of August 31, 2013  
 (\$ in Millions)

Line		Budget	Actual	Variance		Notes
				\$	%	
1	<b>Operating revenues</b>					
2	System administration fees	\$ 95.7	\$ 93.1	\$ (2.6)	(2.7)	(1)
3	Reliability organization pass-through	8.8	7.8	(1.0)	(11.4)	(2)
4	Wide Area Network (WAN) services revenue	1.9	2.0	0.1	5.3	
5	Membership fees and other	0.7	1.1	0.4	57.1	(3)
6	2012 carry forward	4.8	3.5	(1.3)	(27.1)	(4)
7	<b>Total - Operating revenues</b>	<b>111.9</b>	<b>107.5</b>	<b>(4.4)</b>	<b>(3.9)</b>	
8						
9	<b>Operating expenses (excluding depreciation)</b>					
10	Salaries and related benefits	50.7	52.4	(1.7)	(3.4)	(5)
11	Facility and equipment costs	6.9	5.3	1.6	23.2	(6)
12	Wide Area Network (WAN) reimbursable costs	1.7	1.7	-	-	
13	Hardware and software maintenance and licensing	12.1	11.3	0.8	6.6	(7)
14	Outside services	5.5	6.6	(1.1)	(20.0)	(8)
15	Reliability organization assessment	8.8	7.8	1.0	11.4	(9)
16	Other	3.9	4.2	(0.3)	(7.7)	
17	<b>Subtotal - Operating expenses</b>	<b>89.6</b>	<b>89.3</b>	<b>0.3</b>	<b>0.3</b>	
18	Revenue-funded project expenditures	5.5	4.7	0.8	14.5	(10)
19	Principal repayment	11.0	8.9	2.1	19.1	(11)
20	Interest expense	1.6	1.6	-	-	
21	<b>Total - Expenses</b>	<b>107.7</b>	<b>104.5</b>	<b>3.2</b>	<b>3.0</b>	
22						
23	<b>Excess/(Deficit) of revenues over expenses</b>	<b>\$ 4.2</b>	<b>\$ 3.0</b>	<b>\$ (1.2)</b>	<b>(28.6)</b>	

**Electric Reliability Council of Texas, Inc.**  
**Analysis of Adequacy of System Administration Fee**  
**Year to Date as of August 31, 2013**

**Notes:**

1. System Administration Fees (SAF) 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, this shortfall is offset by lower Principal Repayments being funded by the SAF (Note 11 below).
5. The over-run for Salaries and Related Benefits is driven by a consistent shortfall in project efforts and benefits/taxes have been running higher than budget.
6. The favorable variance for the Facility and Equipment Costs category is driven by: (a) a lower negotiated rate for electricity, (b) three property tax refunds [Bastrop and Williamson counties for property tax valuation appeals and the City of Taylor for property tax abatements], (c) lower-than-anticipated building security services, and (d) general under-spending for non-capitalizable hardware.
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 consolidated or not renewed.
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 unbudgeted Value of Lost Load study, (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.
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 (Note 5 above) and unfavorable net amount of operating revenues and expenses, a lower amount of principal payments will be funded by the SAF.

Electric Reliability Council of Texas, Inc.  
 Analysis of Adequacy of System Administration Fee  
 End of Year Forecast as of August 31, 2013  
 (\$ in Millions)

Line	Budget	Forecast	Variance		Notes
			\$	%	
1	<b>Operating revenues</b>				
2	\$ 139.9	\$ 138.3	\$ (1.6)	(1.1)	(1)
3	13.2	11.7	(1.5)	(11.4)	(2)
4	2.8	2.9	0.1	3.6	(3)
5	0.9	1.3	0.4	44.4	(4)
6	4.8	3.5	(1.3)	(27.1)	(5)
7	<b>Total - Operating revenues</b>	<b>161.6</b>	<b>157.7</b>	<b>(3.9)</b>	<b>(2.4)</b>
8					
9	<b>Operating expenses (excluding depreciation)</b>				
10	77.2	78.0	(0.8)	(1.0)	(6)
11	10.4	8.7	1.7	16.3	(7)
12	2.5	2.6	(0.1)	(4.0)	(8)
13	18.7	17.5	1.2	6.4	(9)
14	8.0	9.4	(1.4)	(17.5)	(10)
15	13.2	11.7	1.5	11.4	(11)
16	5.7	6.0	(0.3)	(5.3)	(12)
17	<b>Subtotal - Operating expenses</b>	<b>135.7</b>	<b>133.9</b>	<b>1.8</b>	<b>1.3</b>
18	7.0	7.0	-	-	
19	16.6	14.5	2.1	12.7	(13)
20	2.3	2.3	-	-	
21	<b>Total - Expenses</b>	<b>161.6</b>	<b>157.7</b>	<b>3.9</b>	<b>2.4</b>
22					
23	<b>Excess/(Deficit) of revenues over expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>n/a</b>

**Electric Reliability Council of Texas, Inc.**  
**Analysis of Adequacy of System Administration Fee**  
**End of Year Forecast as of August 31, 2013**

**Notes:**

1. Due to milder-than-expected weather, the energy consumption forecast is 331,500 GWh (3,901 GWh below budget). Therefore, the System Administration Fee (SAF) revenue forecast is unfavorable.
2. 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 11 below) offsets it with a favorable variance at an equal amount.
3. Wide Area Network (WAN) services revenue is higher than planned due to more market participants utilizing the service (Note 8 below), as well as, passing on a higher usage cost to them; further, there have been collections for past-due accounts.
4. Other Revenues are favorable due 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. This unfavorable funding will be offset by principal repayments (Note 13 below) to be paid out of the SAF.
6. The Salaries and Related Benefits line is expected to be unfavorable due to lower-than-planned project effort, higher benefit/tax costs, and an increase in the vacation liability expense.
7. The 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, and (c) utilizing less-than-budgeted building security services.
8. Because more market participants are using the Wide Area Network (WAN) service, the equipment cost is expected to be slightly higher than the budget; however, this additional expense is more than offset by the additional revenues (Note 3 above).
9. The Hardware and Software Maintenance and Licensing line is forecasted to end the year 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 higher than budget which is primarily driven by: (a) staff augmenting contractors, which are partially backfilling vacant full-time positions, (b) the Value of Lost Load Study that was not budgeted but requested by the PUCT and ERCOT executives, and (c) the Independent Market Monitor (IMM) services contract was renewed at a higher cost than anticipated.
11. 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 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 due to unbudgeted public service announcements, as well as, additional licenses to allow access to Information Technology advisory services.
13. Due to the less-than-expected favorable 2012 carry forward (Note 5 above) and the unfavorable net amount of operating revenues and expenses, 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 August 31, 2013**  
**(\$ in Millions)**

Line	Project	Budget	Actual	Variance	
				\$	%
1	Energy Management System (EMS) Upgrade	\$ 0.4	\$ 0.4	\$ -	-
2	Settlement System Upgrade	1.9	1.6	0.3	15.8
3	Market Management System / Outage Scheduler Technology Refresh	0.9	0.4	0.5	55.6
4	Taylor Control Room Upgrade	-	-	-	n/a
5	Oracle 11G Upgrade	0.9	1.0	(0.1)	(11.1)
6	Information Lifecycle Management	0.1	0.1	-	-
7	SCR760 Info Model Manager & Topology Processor	0.6	0.4	0.2	33.3
8	NPRR484 Revisions to Congestion Revenue Rights (CRR) Credit Calculations & Payments	0.5	0.3	0.2	40.0
9	Siebel Upgrade	0.5	0.6	(0.1)	(20.0)
10	Content Management System (CMS) and Market Information Repository (MIR) Replacement	0.4	0.4	-	-
11	Market Participant Online Data Entry: Phase 1	0.1	-	0.1	100.0
12	Congestion Revenue Rights (CRR) Upgrade	0.3	0.1	0.2	66.7
13	Minor Capital	0.7	0.8	(0.1)	(14.3)
14	Capital Efficiencies & Enhancements	0.3	0.3	-	-
15	Other Portfolio Projects	5.2	4.4	0.8	15.4
16	<b>Total - Portfolio Projects</b>	<b>\$ 12.8</b>	<b>\$ 10.8</b>	<b>\$ 2.0</b>	<b>15.6</b>

**Electric Reliability Council of Texas, Inc.**  
**Summary of Project Expenditures**  
**Estimate at Completion as of August 31, 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	Taylor Control Room Upgrade	3.5	3.5	-	-
5	Oracle 11G Upgrade	2.1	2.1	-	-
6	Information Lifecycle Management	1.3	1.3	-	-
7	SCR760 Info Model Manager & Topology Processor	1.1	0.9	0.2	18.2
8	NPRR484 Revisions to Congestion Revenue Rights (CRR) Credit Calculations & Payments	1.0	0.8	0.2	20.0
9	Siebel Upgrade	1.0	1.0	-	-
10	Content Management System (CMS) and Market Information Repository (MIR) Replacement	0.9	0.9	-	-
11	Market Participant Online Data Entry: Phase 1	0.8	0.6	0.2	25.0
12	Congestion Revenue Rights (CRR) Upgrade	0.8	0.5	0.3	37.5
13	Minor Capital	0.7	0.8	(0.1)	(14.3)
14	Capital Efficiencies & Enhancements	0.5	0.5	-	-
15	Other Portfolio Projects	11.6	10.4	1.2	10.3
16	<b>Total - Portfolio Projects</b>	<b>\$ 44.6</b>	<b>\$ 42.7</b>	<b>\$ 1.9</b>	<b>4.3</b>



**Electric Reliability Council of Texas**  
**Statements of Financial Position**  
**As of August 31, 2013 and 2012**  
(\$ in Thousands)

	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 339,101	\$ 129,964
Accounts receivable	4,740	6,972
Unbilled revenue	3,920	12,977
Restricted cash	658,887	483,349
Prepaid expenses and other current assets	16,980	17,502
<b>Total current assets</b>	<b>1,023,628</b>	<b>650,764</b>
Property and equipment, net	226,946	317,674
Systems under development	14,438	9,702
Debt issuance cost	391	234
<b>Total assets</b>	<b>1,265,403</b>	<b>978,374</b>
<b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities:		
Accounts payable	4,515	5,584
Accrued liabilities	8,141	8,549
Deferred revenue	4,021	4,468
Market settlement liabilities	361,565	191,577
Security deposits	658,887	483,349
Notes payable, current portion	17,630	84,470
<b>Total current liabilities</b>	<b>1,054,759</b>	<b>777,997</b>
Notes payable	73,000	13,630
Derivative liability	-	606
Regulatory liabilities	122,003	151,263
Other long term liabilities	408	388
<b>Total liabilities</b>	<b>1,250,170</b>	<b>943,884</b>
Unrestricted net assets	15,233	34,490
<b>Total liabilities and unrestricted net assets</b>	<b>\$ 1,265,403</b>	<b>\$ 978,374</b>

**Electric Reliability Council of Texas**  
**Statements of Activities and Net Assets**  
**For the Eight Months Ended August 31, 2013 and 2012**  
(\$ in Thousands)

	<b>2013</b>	<b>2012</b>
Operating revenues		
System administration fees	\$ 93,101	\$ 93,656
Nodal implementation surcharge	220	84,298
Reliability organization pass-through	7,817	8,708
Membership fees and other	4,185	3,476
Total operating revenues	<u>105,323</u>	<u>190,138</u>
Operating expenses		
Salaries and related benefits	53,143	48,389
Depreciation	21,696	21,931
Facility and equipment costs	7,118	8,543
Outside services	7,658	8,608
Hardware and software maintenance and licensing	11,609	12,763
Reliability organization assessment	7,817	8,708
Other	4,249	3,643
Amortization of regulatory asset	220	84,298
Total operating expenses	<u>113,510</u>	<u>196,883</u>
Loss from operations	(8,187)	(6,745)
Other income (expense)		
Interest income	11	2
Interest expense	(2,612)	(2,219)
Change in valuation of interest rate swap	-	2,630
Non-operating income	5	351
Change in unrestricted net assets	<u>(10,783)</u>	<u>(5,981)</u>
Unrestricted net assets, beginning of year	26,016	40,471
Unrestricted net assets, end of period	<u>\$ 15,233</u>	<u>\$ 34,490</u>

**Electric Reliability Council of Texas**  
**Statements of Cash Flows**  
**For the Eight Months Ended August 31, 2013 and 2012**  
(\$ in Thousands)

	<u>2013</u>	<u>2012</u>
<b>Operating activities:</b>		
Change in unrestricted net assets	\$ (10,783)	\$ (5,981)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	21,696	21,931
Amortization of debt issuance costs	179	93
Change in valuation of interest rate swap	-	(2,630)
Net (gains) losses on capital assets	(2)	20
Changes in operating assets and liabilities:		
Accounts receivable	(875)	2,526
Unbilled revenue	2,448	(2,866)
Prepaid expenses and other assets	(2,011)	763
Other long-term liabilities	9	28
Accounts payable	2,271	(2,887)
Accrued liabilities	128	206
Deferred revenue	739	819
Regulatory liabilities	220	81,771
Net cash provided by operating activities	<u>14,019</u>	<u>93,793</u>
<b>Investing activities:</b>		
Capital expenditures for property and equipment and systems under development	(9,952)	(11,400)
Proceeds from sale of property and equipment	5	90
Net cash used in investing activities	<u>(9,947)</u>	<u>(11,310)</u>
<b>Financing activities:</b>		
Proceeds from issuance of notes payable	-	-
Repayment of notes payable	(15,637)	(94,137)
Payment of debt issuance costs	(10)	-
(Increase) in restricted cash	(187,011)	(69,465)
Increase (decrease) in market settlement liabilities	31,414	(105,185)
Increase in security deposits	187,011	69,465
Net cash provided by (used in) financing activities	<u>15,767</u>	<u>(199,322)</u>
Net increase (decrease) in cash and cash equivalents	19,839	(116,839)
Cash and cash equivalents, beginning of year	319,262	246,803
Cash and cash equivalents, end of period	<u>\$ 339,101</u>	<u>\$ 129,964</u>