



Item 12.1: Financial Summary

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Finance & Audit Meeting

ERCOT Public

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Financial Performance

As of October 31, 2013 (\$ in Millions)

YTD BUDGET VS. ACTUAL PERFORMANCE: \$0.2 MILLION UNFAVORABLE

Revenues	\$2.3 M unfavorable system administration fees \$1.3 M unfavorable 2012 carry forward
Expenses	\$1.6 M unfavorable salaries and related benefits \$1.6 M unfavorable outside services \$2.0 M favorable facility and equipment cost \$1.9 M favorable principal repayment \$1.5 M favorable hardware/software maintenance & licensing \$1.1 M favorable revenue-funded project expenditures

YEAR-END PERFORMANCE FORECAST: NO VARIANCE

Revenues	\$1.8 M unfavorable system administration fees \$1.3 M unfavorable 2012 carry forward
Expenses	\$2.0 M unfavorable outside services \$0.7 M unfavorable salaries and related benefits \$2.1 M favorable facility and equipment cost \$1.9 M favorable principal repayment \$1.8 M favorable hardware/software maintenance & licensing



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

Line		Budget	Actual	Variance		Notes
				\$	%	
1	Operating revenues					
2	System administration fees	\$ 119.2	\$ 116.9	\$ (2.3)	(1.9)	(1)
3	Reliability organization pass-through	11.0	9.8	(1.2)	(10.9)	(2)
4	Wide Area Network (WAN) services revenue	2.4	2.5	0.1	4.2	
5	Membership fees and other	0.8	1.3	0.5	62.5	(3)
6	2012 carry forward	4.8	3.5	(1.3)	(27.1)	(4)
7	Total - Operating revenues	138.2	134.0	(4.2)	(3.0)	
8						
9	Operating expenses (excluding depreciation)					
10	Salaries and related benefits	63.5	65.1	(1.6)	(2.5)	(5)
11	Facility and equipment costs	8.7	6.7	2.0	23.0	(6)
12	Wide Area Network (WAN) reimbursable costs	2.1	2.2	(0.1)	(4.8)	
13	Hardware and software maintenance and licensing	15.4	13.9	1.5	9.7	(7)
14	Outside services	6.8	8.4	(1.6)	(23.5)	(8)
15	Reliability organization assessment	11.0	9.8	1.2	10.9	(9)
16	Other	4.8	5.1	(0.3)	(6.3)	(10)
17	Subtotal - Operating expenses	112.3	111.2	1.1	1.0	
18	Revenue-funded project expenditures	7.0	5.9	1.1	15.7	(11)
19	Principal repayment	13.8	11.9	1.9	13.8	(12)
20	Interest expense	1.9	2.0	(0.1)	(5.3)	
21	Total - Expenses	135.0	131.0	4.0	3.0	
22						
23	Excess/(Deficit) of revenues over expenses	\$ 3.2	\$ 3.0	\$ (0.2)	(6.3)	

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

Notes:

1. System Administration Fees (SAF) revenue is unfavorable primarily due to model error [-\$5.3 M] and milder-than-expected temperatures [-\$1.0 M]; however, the better-than-expected economic conditions have partially offset these drivers [\$4.0 M].
2. The Reliability Organization Pass-through revenues are lower than anticipated [-\$1.2 M]; 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 [\$0.5 M].
4. Final 2012 results indicated a Carry Forward amount less than planned, fully recognized in January. Therefore, the revenues are presented as unfavorable [-\$1.3 M]. However, this shortfall is offset by lower Principal Repayments being funded by the SAF (see note 12).
5. The over-run for Salaries and Related Benefits has been caused by (a) a consistent shortfall in project funded labor [-\$0.5 M], (b) higher benefits/tax costs [-\$0.5 M], (c) a larger-than-expected employee vacation liability [-\$0.4 M], and (d) salary variances [-\$0.2 M].
6. The favorable variance for the Facility and Equipment Costs category is driven by (a) a lower negotiated rate for electricity [\$0.7 M], (b) three property tax refunds (Bastrop and Williamson counties for property tax valuation appeals and the City of Taylor for property tax abatements) [\$0.6 M], (c) lower-than-anticipated building security services [\$0.3 M], (d) general under-spending for non-capitalizable hardware and software [\$0.2 M], and (e) savings for other facility and equipment costs [\$0.2 M].
7. Hardware and Software Maintenance and Licensing is currently under budget due to (a) less-than-anticipated vendor support service hours [\$0.8 M], and (b) savings for renewable contracts which have been consolidated or not renewed [\$0.7 M].
8. The Outside Services line is unfavorable primarily due to (a) the utilization of staff augmenting contractors due to vacant permanent positions and unbudgeted efforts [-\$1.6 M], (b) unbudgeted studies [-\$0.3 M], and (c) the Independent Market Monitor (IMM) contract which was renewed at a fixed rate higher than anticipated [-\$0.2 M]; these unfavorable costs are offset by savings for various budgeted services [\$0.5 M].
9. The Reliability Organization Assessment is lower than anticipated [\$1.2 M]; however, this favorable expense variance is offset by the unfavorable revenue variance (see note 2).
10. Other Expenses are over budget primarily due to unbudgeted public service announcements [-\$0.2 M] and external recruiting costs [-\$0.1 M].
11. The Revenue-funded Project Expenditures have been favorable due to the following:
 - hardware and software purchases have been under-spent because of efficiencies by using on-site hardware [\$0.4 M];
 - internal resource costs have been under-budget due to (a) efficiencies by completing tasks in fewer hours [\$0.2 M] and (b) operational tasks taking precedence [\$0.1 M]; and
 - external resource tasks have been (a) completed with fewer hours [\$0.2 M] and/or (b) delayed due to resource unavailability [\$0.2 M].
12. Due to the 2012 carry forward shortfall [-\$1.3 M] (see note 4) and forecasted year-end deficit of revenues and expenses [-\$0.6 M], 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 October 31, 2013
 (\$ in Millions)

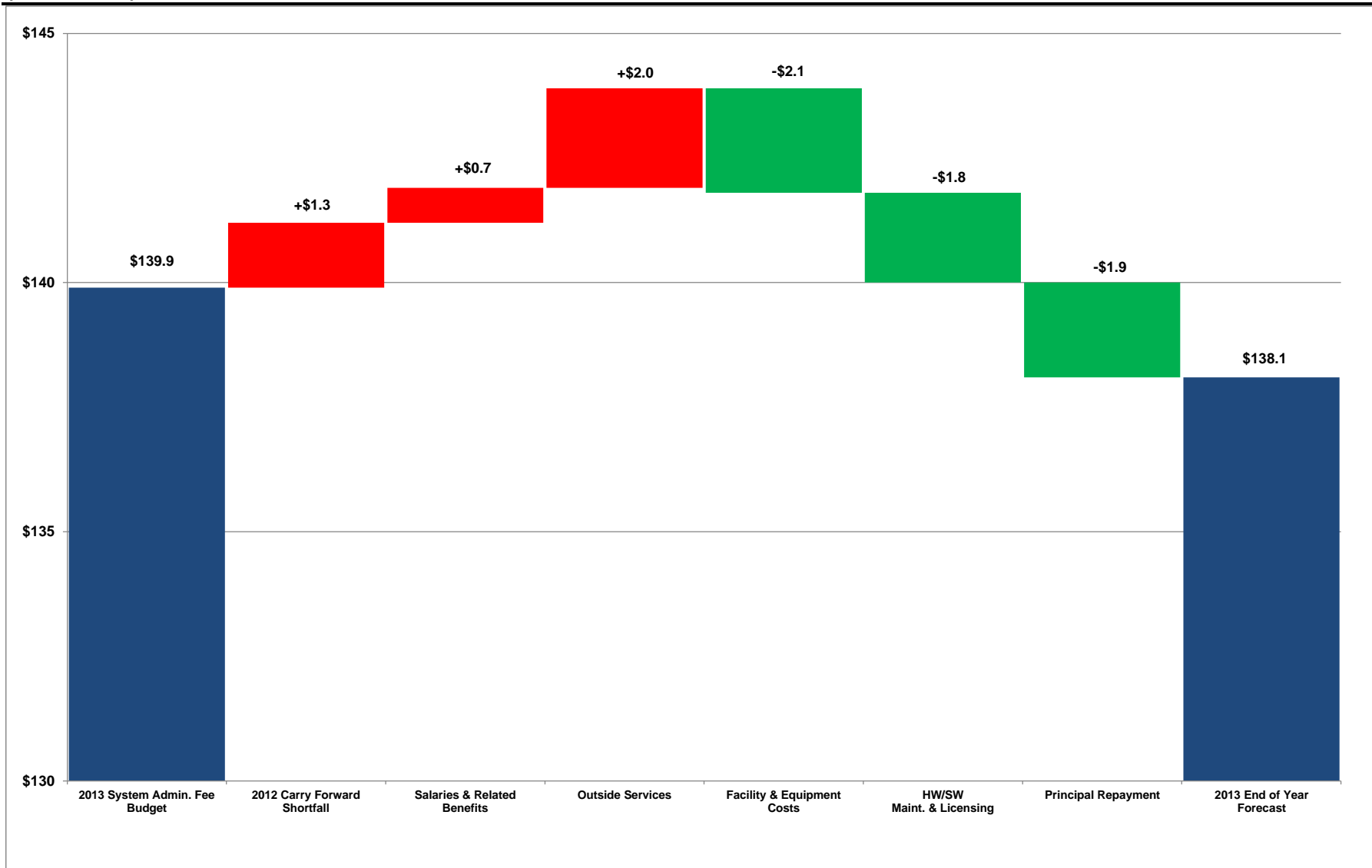
Line		Budget	Forecast	Variance		Notes
				\$	%	
1	Operating revenues					
2	System administration fees	\$ 139.9	\$ 138.1	\$ (1.8)	(1.3)	(1)
3	Reliability organization pass-through	13.2	11.7	(1.5)	(11.4)	(2)
4	Wide Area Network (WAN) services revenue	2.8	2.9	0.1	3.6	(3)
5	Membership fees and other	0.9	1.3	0.4	44.4	(4)
6	2012 carry forward	4.8	3.5	(1.3)	(27.1)	(5)
7	Total - Operating revenues	161.6	157.5	(4.1)	(2.5)	
8						
9	Operating expenses (excluding depreciation)					
10	Salaries and related benefits	77.2	77.9	(0.7)	(0.9)	(6)
11	Facility and equipment costs	10.4	8.3	2.1	20.2	(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	16.9	1.8	9.6	(9)
14	Outside services	8.0	10.0	(2.0)	(25.0)	(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	Subtotal - Operating expenses	135.7	133.4	2.3	1.7	
18	Revenue-funded project expenditures	7.0	7.1	(0.1)	(1.4)	(13)
19	Principal repayment	16.6	14.7	1.9	11.4	(14)
20	Interest expense	2.3	2.3	-	-	
21	Total - Expenses	161.6	157.5	4.1	2.5	
22						
23	Excess/(Deficit) of revenues over expenses	\$ -	\$ -	\$ -	n/a	

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

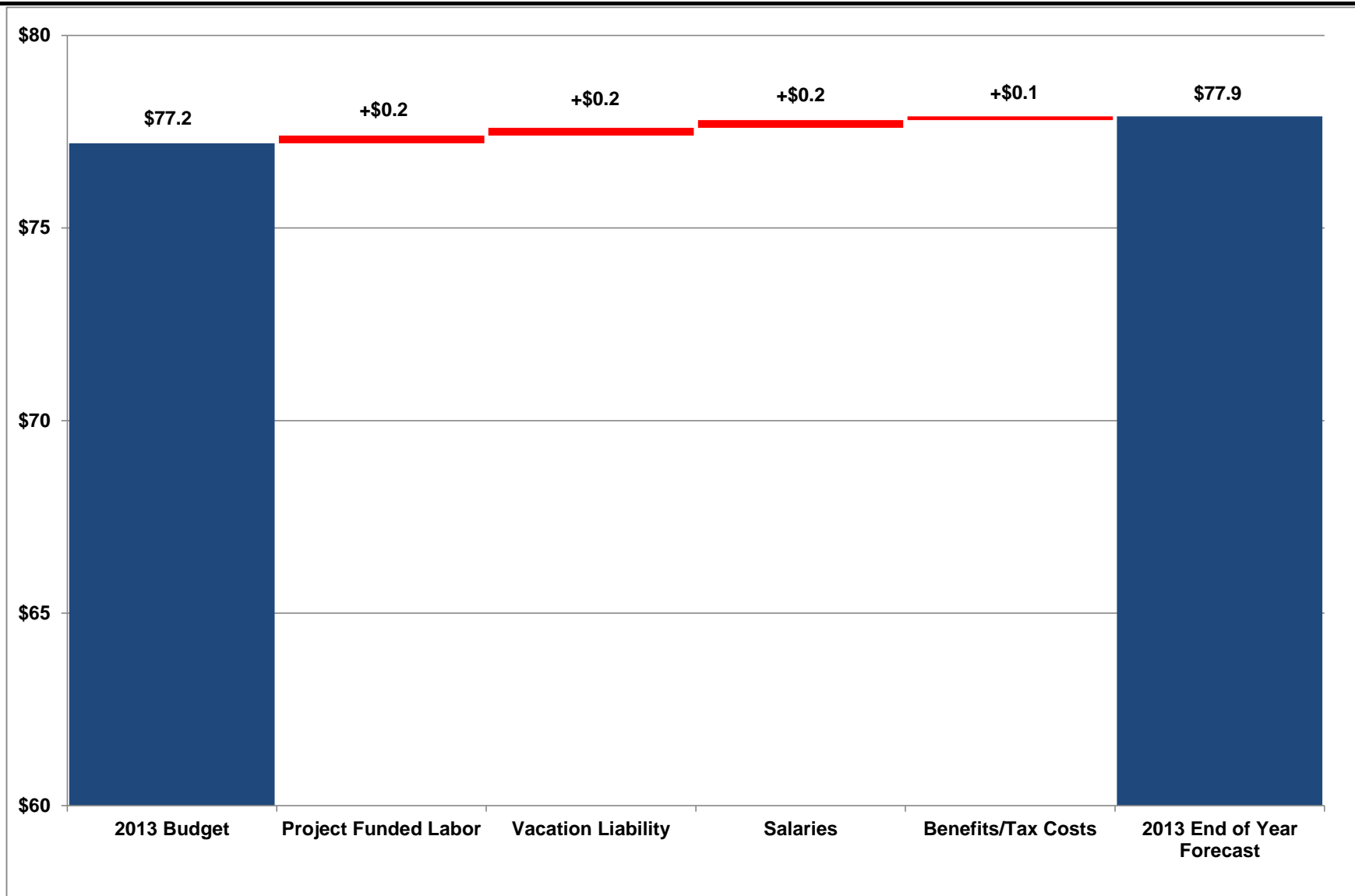
Notes:

1. Due to milder-than-expected weather, the energy consumption forecast is 331,000 GWh (4,401 GWh below budget). Therefore, the System Administration Fee (SAF) revenue forecast is unfavorable [-\$1.8 M].
2. The annualized Reliability Organization Pass-through is lower than anticipated [-\$1.5 M]; however, the Reliability Organization Assessment expense line offsets it with a favorable variance at an equal amount (see note 11).
3. Wide Area Network (WAN) services revenue is higher than planned due to more market participants utilizing the service, passing on a higher usage cost to them, and collection on past-due accounts [\$0.1 M] (see note 8).
4. Other Revenues are favorable due to Generation Interconnection studies providing higher revenues than anticipated [\$0.4 M].
5. Final 2012 financial results provided a funding carry forward amount less than planned [-\$1.3 M]. This unfavorable funding will be offset by a lower amount of principal repayments (see note 14).
6. The Salaries and Related Benefits line is expected to be unfavorable due to (a) a shortfall in project funded labor [-\$0.2 M], (b) a larger-than-expected employee vacation liability [-\$0.2 M], (c) salary variances [-\$0.2 M], and (d) higher benefits/tax costs [-\$0.1 M].
7. The favorable variance for the Facility and Equipment Costs category is driven by (a) savings realized as a result of a lower contracted rate for electricity [\$0.8 M], (b) 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) [\$0.6 M], (c) utilizing less-than-budgeted building security services [\$0.3 M], (d) general under spending for non-capitalizable hardware and software [\$0.2M], and (e) savings for other facility and equipment costs [\$0.2 M].
8. Because more market participants are using the Wide Area Network (WAN) service, the equipment cost is expected to be higher than budget [-\$0.1 M]; however, this additional expense is more than offset by the additional revenues (see note 3).
9. Hardware and Software Maintenance and Licensing is under budget due to (a) less-than-anticipated vendor support service hours [\$1.0 M] and (b) savings for renewable contracts which have been consolidated or not renewed [\$0.8 M].
10. The Outside Services line is unfavorable due to (a) the utilization of staff augmenting contractors necessary due to vacant permanent positions and unbudgeted efforts [-\$1.8 M], (b) unbudgeted studies [-\$0.4 M], and (c) the Independent Market Monitor (IMM) contract which was renewed at a fixed rate higher than anticipated [-\$0.3 M]; these unfavorable costs are offset by savings for various budgeted services [\$0.5 M].
11. The Reliability Organization Assessment will be lower than anticipated [\$1.5 M]; however, this favorable expense variance is offset by the unfavorable revenue variance (see note 2).
12. The Other Expense category will be unfavorable due to unbudgeted public service announcements [-\$0.2 M] and external recruiting [-\$0.1 M].
13. Due to initiating more projects, it is expected that the project budget will be slightly exceeded causing the Revenue-Funded Project Expenditure spending to be unfavorable [-\$0.1 M].
14. Due to the 2012 carry forward shortfall [-\$1.3 M] (see note 5) and the forecasted year-end deficit of revenues and expenses [-\$0.6 M], a lower amount of principal payments will be funded by the SAF.

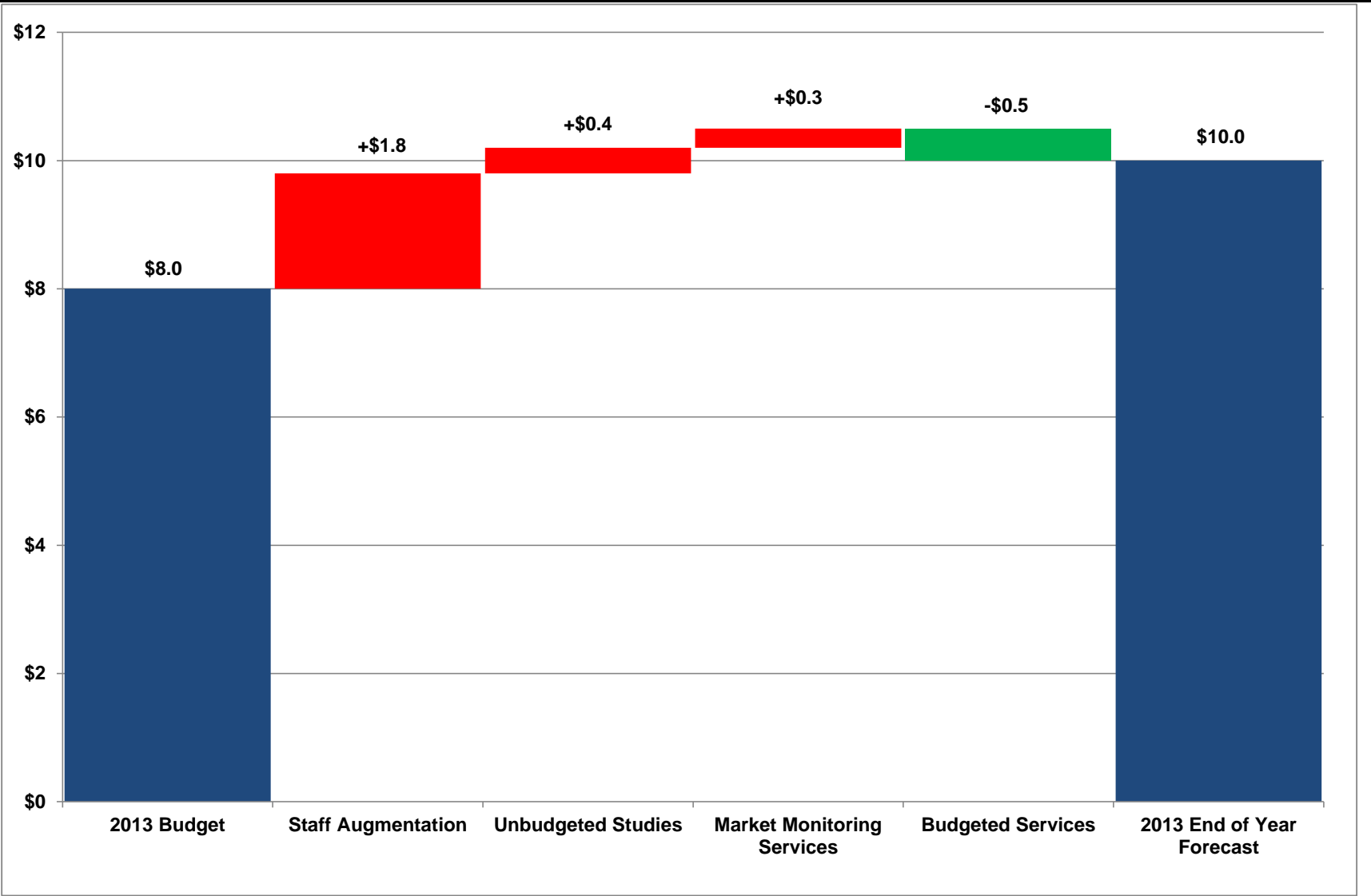
**Electric Reliability Council of Texas
 Budget vs. End of Year Forecast - System Administration Fee
 As of October 31, 2013
 (\$ in Millions)**



**Electric Reliability Council of Texas
 Budget vs. End of Year Forecast - Salaries & Related Benefits Category
 As of October 31, 2013
 (\$ in Millions)**



**Electric Reliability Council of Texas
 Budget vs. End of Year Forecast - Outside Services Category
 As of October 31, 2013
 (\$ in Millions)**



Electric Reliability Council of Texas, Inc.
Summary of Project Expenditures
Year to Date and Year End as of October 31, 2013
(\$ in Millions)

Project Name (Projects listed are at or above \$0.7 Million EAC threshold)	Current Phase	Ranking Based on PPL Priority: Jan. 1, 2013	Ranking Based on PPL Priority: Current	Year to Date		Year End				
				Year to Date Project Actual	% Spend to Year End Forecast	Executive Approved Project Budget	Project Forecast	Variance		
								\$	%	
Regulatory										
Note: Currently, there are no Regulatory projects in 2013										
Business Strategy *										
SCR760 Info Model Manager & Topology Processor	Complete	1	1	\$ 0.4	100.0	\$ 0.6	\$ 0.4	\$ 0.2	33.3	
Market Participant Online Data Entry: Phase 1 *	Planning	1	2	-	-	0.1	0.1	-	-	
NPRR484 Revisions to Congestion Revenue Rights (CRR) Credit Calculations & Payments	Execution	-	3	0.5	83.3	0.8	0.6	0.2	25.0	
Technical Foundation										
Information Lifecycle Management	Complete	1	1	0.1	100.0	0.1	0.1	-	-	
Settlement System Upgrade	Execution	2	2	2.1	84.0	2.9	2.5	0.4	13.8	
Oracle 11G Upgrade	Execution	3	3	1.1	91.7	1.0	1.2	(0.2)	(20.0)	
Energy Management System (EMS) Upgrade	Planning	4	4	0.9	69.2	1.5	1.3	0.2	13.3	
Siebel Upgrade	Stabilization	5	5	0.7	100.0	0.5	0.7	(0.2)	(40.0)	
Congestion Revenue Rights (CRR) Upgrade	Complete	7	6	0.1	100.0	0.4	0.1	0.3	75.0	
Market Management System / Outage Scheduler Technology Refresh	Planning	10	7	0.5	71.4	1.5	0.7	0.8	53.3	
2013 / 2014 Network Refresh	Initiation	-	8	-	-	-	0.1	(0.1)	n/a	
Cyber Security Project #14	Initiation	-	9	-	n/a	0.2	-	0.2	100.0	
Efficiencies / Enhancements										
Content Management System (CMS) and Market Information Repository (MIR) Replacement	Execution	2	1	0.6	75.0	0.7	0.8	(0.1)	(14.3)	
Taylor Control Room Upgrade	Planning	-	2	-	-	0.1	0.1	-	-	
Projects Below \$0.7 Million EAC Threshold by Phase										
Complete				1.3	100.0	2.0	1.3	0.7	35.0	
Closing				0.7	100.0	0.9	0.7	0.2	22.2	
Stabilization				0.7	100.0	0.7	0.7	-	-	
Execution				1.8	85.7	2.5	2.1	0.4	16.0	
Planning				0.6	60.0	1.3	1.0	0.3	23.1	
Initiation				-	-	0.5	0.3	0.2	40.0	
On Hold				0.1	100.0	0.2	0.1	0.1	50.0	
Not Yet Initiated				-	n/a	-	-	-	n/a	
Other Project Spend										
Minor Capital	Execution			0.9	69.2	1.4	1.3	0.1	7.1	
Capital Efficiencies & Enhancements	Execution			0.4	80.0	0.5	0.5	-	-	
Variance of Completed Projects					n/a	(1.3)	(1.3)	(1.3)	100.0	
Variance of In-flight & Not Yet Initiated Projects					-	(3.1)	(0.5)	(2.6)	83.9	
Total - Portfolio Projects				\$ 13.5	83.3	\$ 16.0	\$ 16.2	\$ (0.2)	(1.3)	

Note:

* Market Participant Online Data Entry: Phase 1 was prioritized as 1 under Efficiencies / Enhancements on January 1, 2013. It is now prioritized as 2 under Business Strategy.

Electric Reliability Council of Texas, Inc.
Summary of Project Expenditures
Life to Date and Estimate at Completion as of October 31, 2013
(\$ in Millions)

Project Name (Projects listed are at or above \$0.7 Million EAC threshold)	Current Phase	Ranking Based on PPL Priority: Jan. 1, 2013	Ranking Based on PPL Priority: Current	Life to Date		Estimate at Completion (EAC)				
				Life to Date Project Actual	% Spend to EAC Forecast	Executive Approved Project Budget	Project Forecast	Variance		
								\$	%	
Regulatory										
Note: Currently, there are no Regulatory projects in 2013										
Business Strategy *										
SCR760 Info Model Manager & Topology Processor	Complete	1	1	\$ 0.9	100.0	\$ 1.1	\$ 0.9	\$ 0.2	18.2	
Market Participant Online Data Entry: Phase 1 *	Planning	1	2	-	-	0.8	0.8	-	-	
NPRR484 Revisions to Congestion Revenue Rights (CRR) Credit	Execution	-	3	0.5	50.0	1.0	1.0	-	-	
Calculations & Payments										
Technical Foundation										
Information Lifecycle Management	Complete	1	1	1.3	100.0	1.3	1.3	-	-	
Settlement System Upgrade	Execution	2	2	4.4	64.7	6.8	6.8	-	-	
Oracle 11G Upgrade	Execution	3	3	2.0	87.0	2.1	2.3	(0.2)	(9.5)	
Energy Management System (EMS) Upgrade	Planning	4	4	1.3	14.9	8.7	8.7	-	-	
Siebel Upgrade	Stabilization	5	5	1.0	100.0	0.8	1.0	(0.2)	(25.0)	
Congestion Revenue Rights (CRR) Upgrade	Complete	7	6	0.5	100.0	0.8	0.5	0.3	37.5	
Market Management System / Outage Scheduler Technology Refresh	Planning	10	7	0.5	12.8	3.9	3.9	-	-	
2013 / 2014 Network Refresh	Initiation	-	8	-	-	1.2	1.2	-	-	
Cyber Security Project #14	Initiation	-	9	-	-	0.7	0.7	-	-	
Efficiencies / Enhancements										
Content Management System (CMS) and Market Information Repository (MIR) Replacement	Execution	2	1	0.8	72.7	0.9	1.1	(0.2)	(22.2)	
Taylor Control Room Upgrade	Planning	-	2	-	-	3.6	3.5	0.1	2.8	
Projects Below \$0.7 Million EAC Threshold by Phase										
	Complete			5.2	100.0	6.2	5.2	1.0	16.1	
	Closing			0.8	100.0	1.0	0.8	0.2	20.0	
	Stabilization			0.7	100.0	0.8	0.7	0.1	12.5	
	Execution			2.4	64.9	3.9	3.7	0.2	5.1	
	Planning			0.8	36.4	2.2	2.2	-	-	
	Initiation			-	-	2.4	2.4	-	-	
	On Hold			0.1	50.0	0.2	0.2	-	-	
	Not Yet			-	n/a	-	-	-	n/a	
Other Project Spend										
Minor Capital	Execution			0.9	69.2	1.4	1.3	0.1	7.1	
Capital Efficiencies & Enhancements	Execution			0.4	80.0	0.5	0.5	-	-	
Total - Portfolio Projects				\$ 24.5	48.3	\$ 52.3	\$ 50.7	\$ 1.6	3.1	

Note:

* Market Participant Online Data Entry: Phase 1 was prioritized as 1 under Efficiencies / Enhancements on January 1, 2013. It is now prioritized as 2 under Business Strategy.

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

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 290,485	\$ 197,037
Accounts receivable	1,517	5,005
Unbilled revenue	2,666	13,192
Restricted cash	757,425	708,979
Prepaid expenses and other current assets	13,366	14,744
Total current assets	<u>1,065,459</u>	<u>938,957</u>
Property and equipment, net	211,662	303,909
Systems under development	16,414	9,403
Debt issuance cost	354	272
Total assets	<u><u>1,293,889</u></u>	<u><u>1,252,541</u></u>
Liabilities and Unrestricted Net Assets		
Current liabilities:		
Accounts payable	1,470	938
Accrued liabilities	8,732	10,181
Deferred revenue	2,158	2,338
Market settlement liabilities	308,871	158,614
Security deposits	757,425	708,979
Notes payable, current portion	17,630	88,470
Total current liabilities	<u>1,096,286</u>	<u>969,520</u>
Notes payable	72,000	89,630
Derivative liability	-	606
Regulatory liabilities	110,890	160,395
Other long term liabilities	414	394
Total liabilities	<u>1,279,590</u>	<u>1,220,545</u>
Unrestricted net assets	14,299	31,996
Total liabilities and unrestricted net assets	<u><u>\$ 1,293,889</u></u>	<u><u>\$ 1,252,541</u></u>

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

	<u>2013</u>	<u>2012</u>
Operating revenues		
System administration fees	\$ 116,930	\$ 116,611
Nodal implementation surcharge	220	104,952
Reliability organization pass-through	9,771	10,885
Membership fees and other	5,085	4,355
Total operating revenues	<u>132,006</u>	<u>236,803</u>
Operating expenses		
Salaries and related benefits	66,103	60,576
Depreciation	26,397	27,231
Facility and equipment costs	8,944	10,585
Outside services	9,490	10,417
Hardware and software maintenance and licensing	14,453	16,029
Reliability organization assessment	9,771	10,885
Other	5,197	4,876
Amortization of regulatory asset	220	104,952
Total operating expenses	<u>140,575</u>	<u>245,551</u>
Loss from operations	(8,569)	(8,748)
Other income (expense)		
Interest income	14	2
Interest expense	(3,167)	(2,764)
Change in valuation of interest rate swap	-	2,629
Non-operating income	5	406
Change in unrestricted net assets	<u>(11,717)</u>	<u>(8,475)</u>
Unrestricted net assets, beginning of year	26,016	40,471
Unrestricted net assets, end of period	<u>\$ 14,299</u>	<u>\$ 31,996</u>

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

	2013	2012
Operating activities:		
Change in unrestricted net assets	\$ (11,717)	\$ (8,475)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	26,397	27,231
Amortization of debt issuance costs	216	117
Change in valuation of interest rate swap	-	(2,629)
Net (gains) losses on capital assets	(2)	(36)
Changes in operating assets and liabilities:		
Accounts receivable	2,348	4,493
Unbilled revenue	3,702	(3,082)
Prepaid expenses and other assets	1,604	3,521
Other long-term liabilities	15	33
Accounts payable	(783)	(7,493)
Accrued liabilities	546	1,760
Deferred revenue	(1,124)	(1,310)
Regulatory liabilities	220	102,203
Net cash provided by operating activities	<u>21,422</u>	<u>116,333</u>
Investing activities:		
Capital expenditures for property and equipment and systems under development	(12,277)	(13,849)
Proceeds from sale of property and equipment	5	97
Net cash used in investing activities	<u>(12,272)</u>	<u>(13,752)</u>
Financing activities:		
Proceeds from issuance of notes payable	-	80,000
Repayment of notes payable	(16,637)	(94,137)
Payment of debt issuance costs	(10)	(62)
(Increase) in restricted cash	(285,549)	(295,095)
(decrease) in market settlement liabilities	(21,280)	(138,148)
Increase in security deposits	285,549	295,095
Net cash (used) in financing activities	<u>(37,927)</u>	<u>(152,347)</u>
Net (decrease) in cash and cash equivalents	(28,777)	(49,766)
Cash and cash equivalents, beginning of year	319,262	246,803
Cash and cash equivalents, end of period	<u>\$ 290,485</u>	<u>\$ 197,037</u>