



Item 12.1: Review Unaudited 2013 Financial Statements

Sean Taylor
Controller

Finance & Audit Meeting
ERCOT Public
February 10, 2014

Preliminary - Unaudited

Electric Reliability Council of Texas

Statements of Financial Position with Fluctuation Analysis

As of December 31, 2013 and 2012

(\$ in Thousands)

			Variance		Notes
	2013	2012	\$	%	
Assets					
Current assets:					
Cash and cash equivalents	\$ 335,241	\$ 319,262	\$ 15,979	5%	1
Accounts receivable	2,194	3,865	(1,671)	-43%	2
Unbilled revenue	3,213	6,368	(3,155)	-50%	3
Restricted cash	649,117	471,876	177,241	38%	4
Prepaid expenses and other current assets	14,815	14,970	(155)	-1%	
Total current assets	1,004,580	816,341	188,239	23%	
Property and equipment, net	198,457	288,213	(89,756)	-31%	5
Systems under development	16,336	10,025	6,311	63%	6
Debt issuance cost	318	560	(242)	-43%	
Total assets	<u>\$ 1,219,691</u>	<u>\$ 1,115,139</u>	<u>\$ 104,552</u>	<u>9%</u>	
Liabilities and Unrestricted Net Assets					
Current liabilities:					
Accounts payable	7,970	2,177	5,793	266%	7
Accrued liabilities	8,030	8,247	(217)	-3%	
Deferred revenue	3,877	3,282	595	18%	
Market settlement liabilities	351,712	330,151	21,561	7%	8
Security deposits	649,117	471,876	177,241	38%	9
Notes payable, current portion	17,630	17,637	(7)	0%	
Total current liabilities	1,038,336	833,370	204,966	25%	
Notes payable	71,000	88,630	(17,630)	-20%	10
Derivative liability	-	-	-	0%	
Regulatory liabilities	99,778	166,724	(66,946)	-40%	11
Other long term liabilities	419	399	20	5%	
Total liabilities	1,209,533	1,089,123	120,410	11%	
Unrestricted net assets	10,158	26,016	(15,858)	-61%	
Total liabilities and unrestricted net assets	<u>\$ 1,219,691</u>	<u>\$ 1,115,139</u>	<u>\$ 104,552</u>	<u>9%</u>	

Electric Reliability Council of Texas

Statements of Financial Position with Fluctuation Analysis

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(\$ in Thousands)

Notes:

1. Increase primarily related to the following:

- Cash related to the market increased by \$21.6M, including \$2.9M auction revenue , \$18.2M prepaid cash received from Market Participants and \$0.5M in balancing account;
- Higher level of outstanding checks of (\$0.5M) in 2013;
- Decrease of (\$5.1M) in net operating cash.

2. Decrease mainly related to Nodal surcharge termination as of Jan 2, 2013. There was \$1.5M Nodal surcharge at the end of 2012.

3. Decrease mainly related to Nodal surcharge termination as of Jan 2, 2013. There was \$2.9M Nodal surcharge at the end of 2012.

4. Increase related to the following:

- Additional CRR annual auctions held in 2013, and market participants were leaving the collateral with ERCOT between auctions instead of withdrawing.
- New protocol changed the requirement of CRR credit for auction. Counterparties are required to post more deposit with ERCOT if certain financial criteria are not met.

5. Decrease related to the following:

- Continuing depreciation of the Nodal software/hardware (\$67.2M).
- Continuing depreciation of other non-Nodal assets (\$31.2M).
- Non-Nodal assets additions of \$8.6M, primarily consisting of \$6.6M software addition, \$1.0M capitalization of the data center project addition, and \$1.0M addition of other assets.

6. Increase related to the following:

- Ongoing work on projects: \$2.5M Settlement System Upgrade, \$1.0M Oracle 11g Upgrade, , \$1.0M EMS Upgrade, \$0.8M CMS and MIR Replacement, \$0.7M Siebel Upgrade, \$3.4M for projects initiated in 2013.
- \$0.8M Capital Efficiencies and Enhancements projects, (\$0.8M) NPPR 347 and NPPR 400 Implementation project, (\$0.5M) Security Admin Gateway Environment project capitalized in 2012.
- (\$1.0M) net effect of additional work on carry forward projects from 2012 less project capitalizations in 2013.

7. Increase is mainly due to:

- \$3.6M 2014 NERC Q1 invoice received in Nov 2013.
- \$0.8M property tax payable to Williamson County.
- \$0.6M 2014 software maintenance support service fee to Alstom.
- \$0.8M net effect of other various invoices.

8. Increase of \$2.9M in CRR auction proceeds received because of more CRR auction held this year and higher prices paid to some most congested Load Zones like West Load Zone; \$18.2M increase in prepayments received from Market Participants; \$0.5M increase in balancing account.

9. Increase related to the following:

- Additional CRR annual auctions held in 2013, and market participants were leaving the collateral with ERCOT between auctions instead of withdrawing.
- New protocol changed the requirement of CRR credit for auction. Counterparties are required to post more deposit with ERCOT if certain financial criteria are not met.

10. Decrease related to loan borrowing and payment activities:

- The balance as of last Dec included \$13.6M 2002 Note which later moved to current portion account because of the due day within one year; \$75.0M 2012 Private Debt issued in Oct 2012.
- \$4.0M 2012 Private Debt was paid in 2013, resulting in the balance as \$71.0M 2012 Private Debt.

11. Decrease due to the following:

- (\$66.9M) due to lesser life-to-date Nodal surcharge collections compared to non-capitalized Nodal expenditures. In 2013, ERCOT collected \$0.2M in Nodal surcharge revenues but incurred (\$67.2M) in non-capitalized Nodal expenditures (depreciation on the Nodal software assets). This liability will gradually decrease as the depreciation on the Nodal software assets continues.

Preliminary - Unaudited

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Activities and Net Assets with Fluctuation Analysis

For the Twelve Months Ended December 31, 2013 and 2012

(Dollars in Thousands)

	2013	2012	Variance		Notes
			\$	%	
Operating revenues					
System administration fees	\$ 138,692	\$ 136,273	\$ 2,419	2%	
Nodal implementation surcharge	220	122,645	(122,425)	-100%	1
Reliability organization pass-through	11,725	13,062	(1,337)	-10%	2
Membership fees and other	5,899	5,275	624	12%	
Total operating revenues	156,536	277,255	(120,719)	-44%	
Operating expenses					
Salaries and related benefits	78,777	72,535	6,242	9%	
Depreciation	31,275	33,656	(2,381)	-7%	
Facility and equipment costs	11,101	12,483	(1,382)	-11%	3
Outside services	11,660	12,220	(560)	-5%	
Hardware and software maintenance and licensing	17,466	19,241	(1,775)	-9%	
Reliability organization assessment	11,725	13,062	(1,337)	-10%	4
Other	6,439	6,152	287	5%	
Amortization of regulatory asset	220	122,645	(122,425)	-100%	5
Total operating expenses	168,663	291,994	(123,331)	-42%	
(Loss) from operations	(12,127)	(14,739)	2,612	-18%	
Other income (expense)					
Interest income	20	3	17	567%	
Interest expense	(3,756)	(3,382)	(374)	11%	
Change in valuation of interest rate swap	-	3,236	(3,236)	-100%	6
Non-operating (expense) income	5	427	(422)	-99%	
Change in unrestricted net assets	(15,858)	(14,455)	(1,403)	10%	
Unrestricted net assets, beginning of year	26,016	40,471	(14,455)	-36%	
Unrestricted net assets, end of period	\$ 10,158	\$ 26,016	\$ (15,858)	-61%	

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(Dollars in Thousands)

Notes

1. Decrease due to the termination of the Nodal Surcharge as of January 2, 2013. All billing stages (final, true-up, and resettlement) are complete.
2. 2013 NERC quarterly invoice amount is about \$0.3M less than 2012 quarterly invoice. However, the decrease is offset by decrease in Reliability organization expense.
3. Decrease related to the following:
 - (\$0.4M) decrease in electricity because of the lower rate in 2013.
 - (\$0.8M) decrease in property tax. ERCOT received \$0.1M tax refund from Williamson County and \$0.2M from Bastrop County for successful property tax appeal, and \$0.1M from City of Taylor for property tax abatements; \$0.4M less in tax accrual.
 - (\$0.3M) decrease in WAN reimbursable cost due to credits received from ATT and Sprint for billing discrepancies.
 - (\$0.2M) decrease in building security services due to fewer contractors worked for ERCOT.
 - \$0.3M increase in other various expenses.
4. 2013 NERC quarterly invoice amount is about \$0.3M less than 2012 quarterly invoice. However, the decrease is offset by decrease in Reliability organization revenue.
5. Decrease due to the termination of the Nodal Surcharge as of January 2, 2013. All billing stages (final, true-up, and resettlement) are complete.
6. Decrease based on the Interest Rate Swaps Maturity. All Interest Rate Swaps matured in November 2012.