



Item 12.2: 2013 Financial Summary

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Controller

Finance & Audit Meeting
ERCOT Public
February 10, 2014

2013 Financial Summary

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

2013 BUDGET VS. ACTUAL PERFORMANCE: NO VARIANCE

Revenues	\$1.3 M unfavorable 2012 carry forward \$1.2 M unfavorable system administration fees \$0.7 M favorable other revenue
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Expenses	\$2.5 M unfavorable outside services \$0.6 M unfavorable other expenses \$0.5 M unfavorable salaries and related benefits \$0.2 M unfavorable revenue-funded project expenditures \$0.1 M unfavorable interest expense \$2.1 M favorable facility and equipment cost \$1.8 M favorable hardware/software maintenance & licensing \$1.8 M favorable principal repayment
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The financial Key Performance Indicator (KPI) is that spending be managed at equal to or less than the board-approved expenditure budget for 2013. The KPI was achieved with 2013 spending at \$2.9 million (1.7%) less than budget.

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

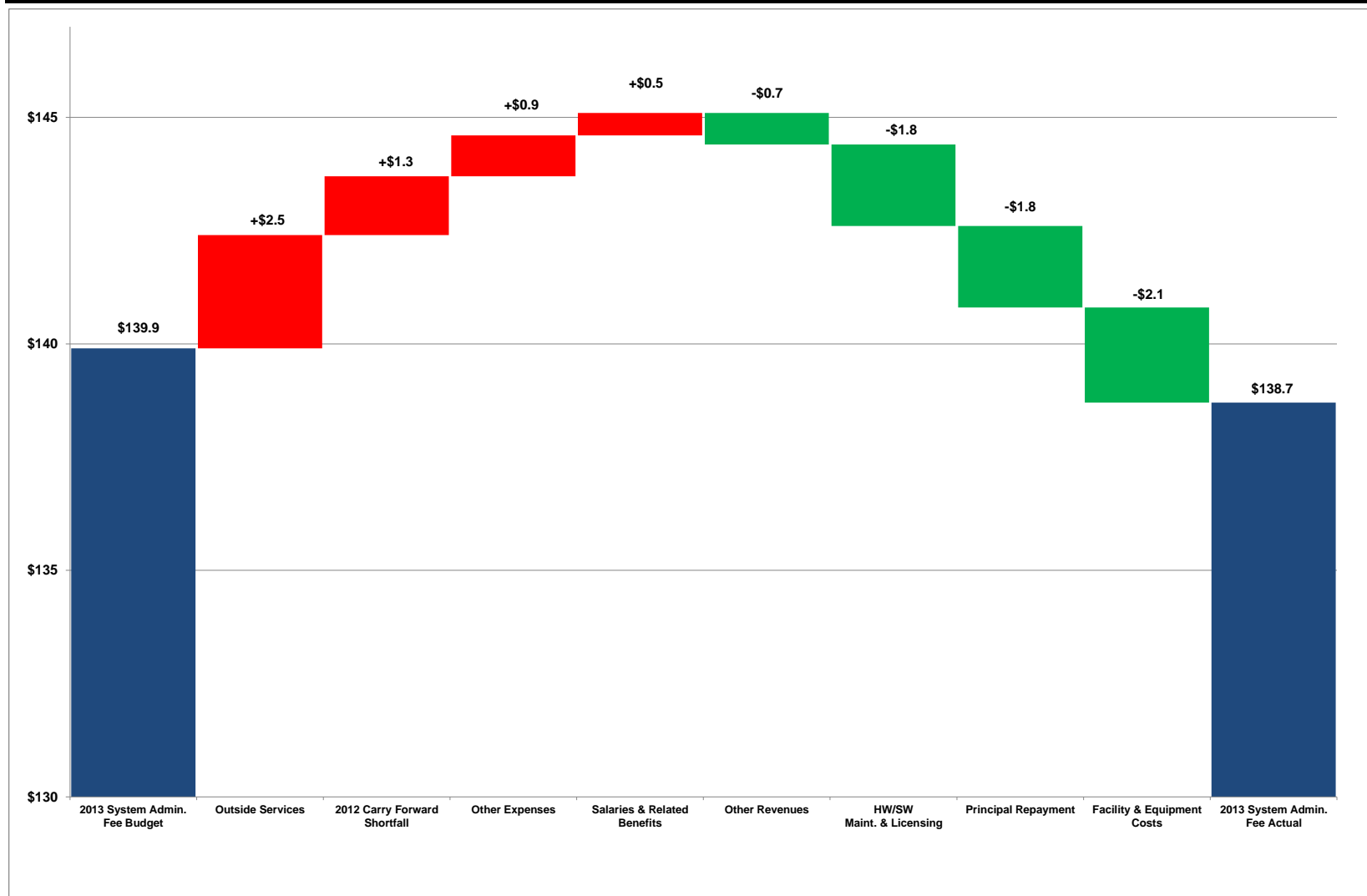
Line		Budget	Actual	Variance		Notes
				\$	%	
1	Operating revenues					
2	System administration fees	\$ 139.9	\$ 138.7	\$ (1.2)	(0.9)	(1)
3	Reliability organization pass-through	13.2	11.7	(1.5)	(11.4)	(2)
4	Wide Area Network (WAN) services revenue	2.8	3.0	0.2	7.1	(3)
5	Membership fees and other	0.9	1.6	0.7	77.8	(4)
6	2012 carry forward	4.8	3.5	(1.3)	(27.1)	(5)
7	Total - Operating revenues	161.6	158.5	(3.1)	(1.9)	
8						
9	Operating expenses (excluding depreciation)					
10	Salaries and related benefits	77.2	77.7	(0.5)	(0.6)	(6)
11	Facility and equipment costs	10.4	8.3	2.1	20.2	(7)
12	Wide Area Network (WAN) reimbursable costs	2.5	2.7	(0.2)	(8.0)	(8)
13	Hardware and software maintenance and licensing	18.7	16.9	1.8	9.6	(9)
14	Outside services	8.0	10.5	(2.5)	(31.3)	(10)
15	Reliability organization assessment	13.2	11.7	1.5	11.4	(11)
16	Other	5.7	6.3	(0.6)	(10.5)	(12)
17	Subtotal - Operating expenses	135.7	134.1	1.6	1.2	
18	Revenue-funded project expenditures	7.0	7.2	(0.2)	(2.9)	(13)
19	Principal repayment	16.6	14.8	1.8	10.8	(14)
20	Interest expense	2.3	2.4	(0.1)	(4.3)	(15)
21	Total - Expenses	161.6	158.5	3.1	1.9	
22						
23	Excess/(Deficit) of revenues over expenses	\$ -	\$ -	\$ -	n/a	

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

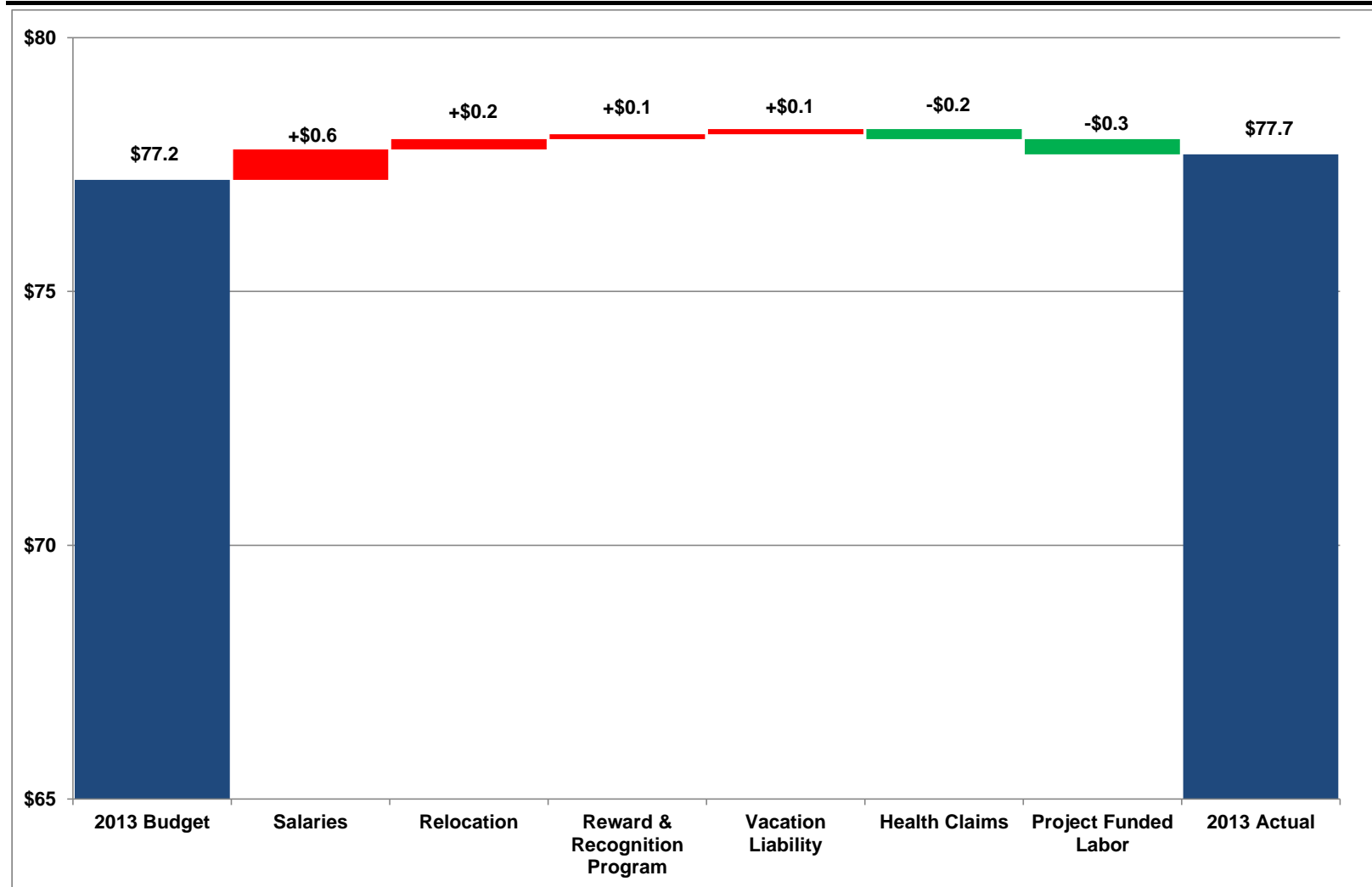
Notes:

1. System Administration Fees (SAF) revenue was unfavorable primarily due to model error [-\$5.6 M] and milder-than-expected temperatures [-\$0.2 M]; however, the better-than-expected economic conditions partially offset these drivers [\$4.6 M].
2. The Reliability Organization Pass-through revenues were lower than anticipated [-\$1.5 M]; however, this unfavorable revenue variance was offset by the favorable expense variance (see note 11).
3. The Wide Area Network (WAN) services revenue was higher than planned due to more market participants utilizing the service and passing on a higher usage cost to them [\$0.2 M].
4. Other Revenues were favorable as more requests for Generation Interconnection studies were performed [\$0.7 M].
5. 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 was offset by lower Principal Repayments being funded by the SAF (see note 14).
6. The over-run for Salaries and Related Benefits was caused by (a) salary variances [-\$0.6 M], (b) more relocation payouts than planned [-\$0.2 M], (c) employee vacation balance liability [-\$0.1 M], and (d) over-spending for employee awards [-\$0.1 M]; these unfavorable drivers were partially offset by (e) more project-funded labor than anticipated [\$0.3 M] and (f) lower-than-expected health claims [\$0.2 M].
7. The favorable variance for the Facility and Equipment Costs category was driven by (a) a lower negotiated rate for electricity [\$0.8 M], (b) property tax refunds (Bastrop and Williamson counties for property tax valuation appeals and the City of Taylor for property tax abatements) [\$0.7 M], (c) lower-than-anticipated building security services [\$0.3 M], and (d) savings for other facility and equipment costs [\$0.3M].
8. Because more market participants used the Wide Area Network (WAN) service, the equipment cost were higher than budget [-\$0.2 M]; however, this additional expense was offset by the additional revenues (see note 3).
9. Hardware and Software Maintenance and Licensing was 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 was unfavorable primarily due to (a) unbudgeted initiatives and studies [-\$1.4 M], (b) staff augmenting contractors due to vacant permanent positions [-\$1.3 M], (c) the Independent Market Monitor (IMM) contract which was renewed at a fixed rate higher than anticipated [-\$0.3 M]; these unfavorable costs were partially offset by savings for various budgeted services [\$0.5 M].
11. The Reliability Organization Assessment was lower than anticipated [\$1.5 M]; however, this favorable expense variance was offset by the unfavorable revenue variance (see note 2).
12. Other Expenses were over budget primarily due to (a) unbudgeted public service announcements [-\$0.2 M], (b) reimbursable employee expenses for training and business travel [-\$0.2 M], (c) external recruiting costs [-\$0.1 M], and (d) expenses related to the Blackstart and Operator Training Seminar training hosted by ERCOT [-\$0.1 M].
13. Total project expenditures were \$16.4 M due to higher demand for project initiations than budgeted.
14. Due to the 2012 carry forward shortfall [-\$1.3 M] (see note 5), a lower amount of principal payments were to be funded by the SAF [\$1.3 M]. Further, due to the shortfall of operating revenues over expenses, the SAF funded less principal payments than forecasted [\$0.5 M].
15. The Interest Expense category was over budget [-\$0.1 M] due to an amortization catch up from the loan origination issuance costs in 2012 related to the debt restructuring efforts.

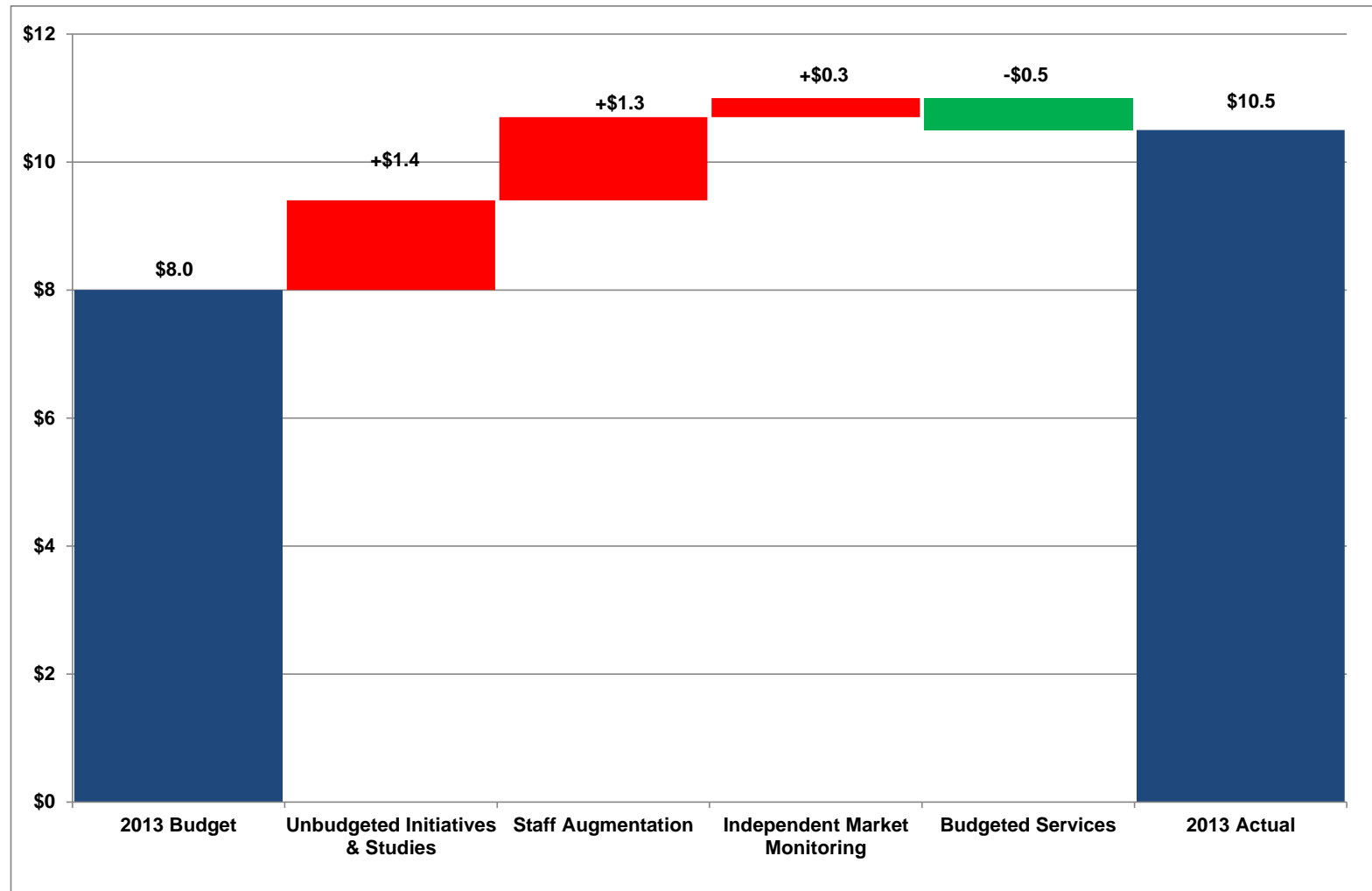
**Electric Reliability Council of Texas
Budget vs. Actual - System Administration Fee
As of December 31, 2013
(\$ in Millions)**



Electric Reliability Council of Texas
Budget vs. Actual - Salaries & Related Benefits Category
As of December 31, 2013
(\$ in Millions)



**Electric Reliability Council of Texas
Budget vs. Actual - Outside Services Category
As of December 31, 2013
(\$ in Millions)**



Electric Reliability Council of Texas, Inc.
Summary of Project Expenditures
As of December 31, 2013
(\$ in Millions)

Project Name [Projects listed are at or above \$0.7 Million Estimate at Completion (EAC) threshold]	Current Phase	Ranking Based on PPL Priority: January 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									
2014 Market System Enhancements	Planning	-	1	\$ 0.1	100.0	\$ 0.2	\$ 0.1	\$ 0.1	50.0
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	100.0	0.1	0.1	-	-
NPRR484 Revisions to Congestion Revenue Rights (CRR) Credit Calculations & Payments	Execution	-	3	0.6	100.0	0.6	0.6	-	-
Technical Foundation									
Information Lifecycle Management	Complete	1	1	0.1	100.0	0.1	0.1	-	-
Settlement System Upgrade	Execution	2	2	2.5	100.0	2.9	2.5	0.4	13.8
Oracle 11G Upgrade	Execution	3	3	1.1	100.0	1.1	1.1	-	-
Energy Management System (EMS) Upgrade	Planning	4	4	1.3	100.0	1.5	1.3	0.2	13.3
Siebel Upgrade	Complete	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 (MMS) / Outage Scheduler (OS) Technology Refresh	Planning	10	7	0.7	100.0	1.5	0.7	0.8	53.3
2013 / 2014 Network Refresh	Initiation	-	8	0.1	100.0	0.1	0.1	-	-
Cyber Security Project #14	Planning	-	9	-	n/a	-	-	-	n/a
Efficiencies / Enhancements									
Content Management System (CMS) and Market Information Repository (MIR) Replacement	Execution	2	1	0.8	100.0	0.7	0.8	(0.1)	(14.3)
Taylor Control Room Upgrade	Planning	-	2	0.1	100.0	0.2	0.1	0.1	50.0
Projects Below \$0.7 Million EAC Threshold by Phase									
	Complete			2.0	100.0	3.0	2.0	1.0	33.3
	Closing			0.9	100.0	1.0	0.9	0.1	10.0
	Stabilization			0.6	100.0	0.7	0.6	0.1	14.3
	Execution			1.6	100.0	1.7	1.6	0.1	5.9
	Planning			0.8	100.0	0.8	0.8	-	-
	Initiation			-	n/a	-	-	-	n/a
	On Hold			-	n/a	0.1	-	0.1	100.0
	Not Yet Initiated			-	n/a	-	-	-	n/a
Other Project Spend									
Minor Capital	Execution			1.3	100.0	1.4	1.3	0.1	7.1
Capital Efficiencies & Enhancements	Execution			0.5	100.0	0.5	0.5	-	-
Variance of Completed Projects					n/a	(1.3)		(1.3)	100.0
Variance of In-flight & Not Yet Initiated Projects					n/a	(2.4)		(2.4)	100.0
Total - Portfolio Projects				\$ 16.4	100.0	\$ 16.0	\$ 16.4	\$ (0.4)	(2.5)

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.

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(\$ in Millions)

Project Name [Projects listed are at or above \$0.7 Million Estimate at Completion (EAC) threshold]	Current Phase	Ranking Based on PPL Priority: January 1, 2013	Ranking Based on PPL Priority: Current	Life to Date		Estimate at Completion				
				Life to Date Project Actual	% Spend to EAC Forecast	Executive Approved Project Budget	Project Forecast	Variance		
								\$	%	
Regulatory										
2014 Market System Enhancements	Planning	-	1	\$ 0.1	8.3	\$ 1.5	\$ 1.2	\$ 0.3		20.0
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	0.1	12.5	0.8	0.8	-		-
NPRR484 Revisions to Congestion Revenue Rights (CRR) Credit Calculations & Payments	Execution	-	3	0.6	60.0	1.0	1.0	-		-
Technical Foundation										
Information Lifecycle Management	Complete	1	1	1.3	100.0	1.3	1.3	-		-
Settlement System Upgrade	Execution	2	2	4.9	72.1	6.8	6.8	-		-
Oracle 11G Upgrade	Execution	3	3	2.1	91.3	2.4	2.3	0.1		4.2
Energy Management System (EMS) Upgrade	Planning	4	4	1.6	18.4	8.7	8.7	-		-
Siebel Upgrade	Complete	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	0.7	17.9	3.9	3.9	-		-
2013 / 2014 Network Refresh	Initiation	-	8	0.1	7.7	1.3	1.3	-		-
Cyber Security Project #14	Planning	-	9	-	-	0.7	0.7	-		-
Efficiencies / Enhancements										
Content Management System (CMS) and Market Information Repository (MIR) Replacement	Execution	2	1	1.0	76.9	1.3	1.3	-		-
Taylor Control Room Upgrade	Planning	-	2	0.1	2.9	3.6	3.5	0.1		2.8
Projects Below \$0.7 Million EAC Threshold by Phase										
	Complete			6.0	100.0	7.3	6.0	1.3		17.8
	Closing			1.4	100.0	1.6	1.4	0.2		12.5
	Stabilization			0.6	85.7	0.9	0.7	0.2		22.2
	Execution			1.8	66.7	2.9	2.7	0.2		6.9
	Planning			0.8	34.8	2.4	2.3	0.1		4.2
	Initiation			-	-	0.3	0.3	-		-
	On Hold			-	-	0.2	0.2	-		-
	Not Yet Initiated			-	-	0.1	0.1	-		-
Other Project Spend										
Minor Capital	Execution			1.3	100.0	1.4	1.3	0.1		7.1
Capital Efficiencies & Enhancements	Execution			0.5	100.0	0.5	0.5	-		-
Total - Portfolio Projects				\$ 27.4	54.0	\$ 53.6	\$ 50.7	\$ 2.9		5.4

Note:

Projects that were initially ranked higher but are now lower on the Project Prioritization List (PPL) are the following:

* 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.

Potential 2014 Revenue Variance

- Improved load forecast methodology is expected to reduce revenue expectations
- Committed to monitoring closely and responding timely and appropriately
- Proactively considering options to mitigate potential shortfall
- January 2014 revenue is almost \$0.9 M above budget