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## Item 4.3: 2014 Financial Summary

*H. B. "Trip" Doggett*

President & Chief Executive Officer

Board of Directors Meeting

ERCOT Public

April 8, 2014

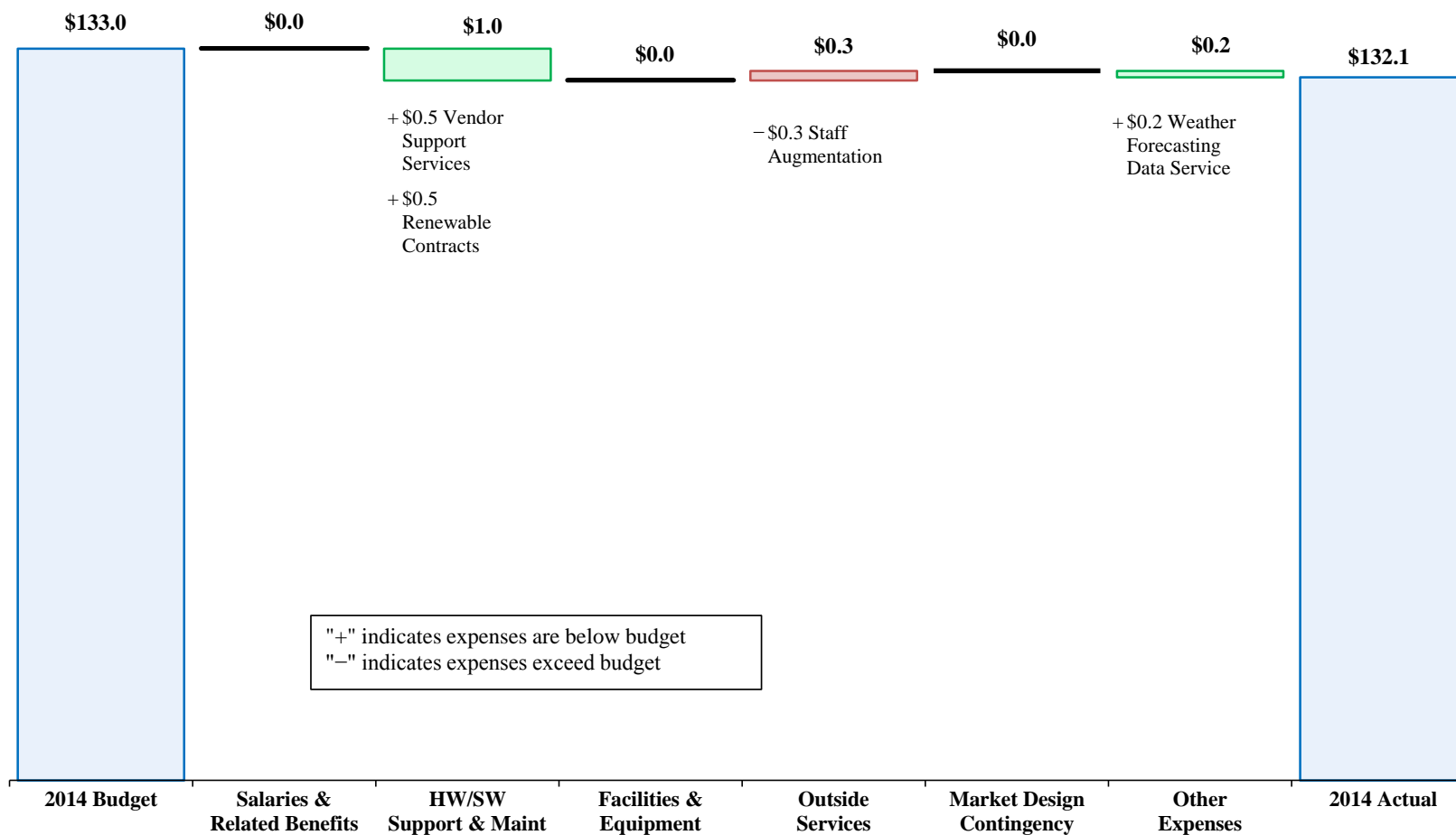
# 2014 Financial Variances to Budget

## As of February 28, 2014 (\$ in Millions)

		Year End Forecast			Year to Date thru Feb 28				
Revenue Sources	System Admin Fee	●	\$	-	0.0%	●	\$	1.7	7.4%
	Other Revenue	●	\$	0.1	9.1%	●	\$	0.1	33.3%
		●	\$	0.1	0.1%	●	\$	1.8	7.7%
Base Operating Expenses	Salaries and Benefits	●	\$	-	0.0%	●	\$	0.3	2.1%
	HW/SW Support & Maint	●	\$	1.0	4.8%	●	\$	0.8	23.5%
	Facilities & Equipment	●	\$	-	0.0%	●	\$	-	0.0%
	Outside Services	●	\$	(0.3)	-3.3%	●	\$	(0.4)	-28.6%
	Market Design Contingency	●	\$	-	0.0%	●	\$	-	0.0%
	Other Expenses	●	\$	0.2	3.1%	●	\$	0.3	27.3%
		●	\$	0.9	0.7%	●	\$	1.0	4.6%
Net Revenues After Base Operating Expenses		●	\$	1.0	3.6%	●	\$	2.8	186.7%
Investing & Financing	Project Expenditures	●	\$	-	0.0%	●	\$	(0.3)	-7.9%
	Interest Expense	●	\$	-	0.0%	●	\$	-	0.0%
Net Available for Principal Payments		●	\$	1.0		●	\$	2.5	

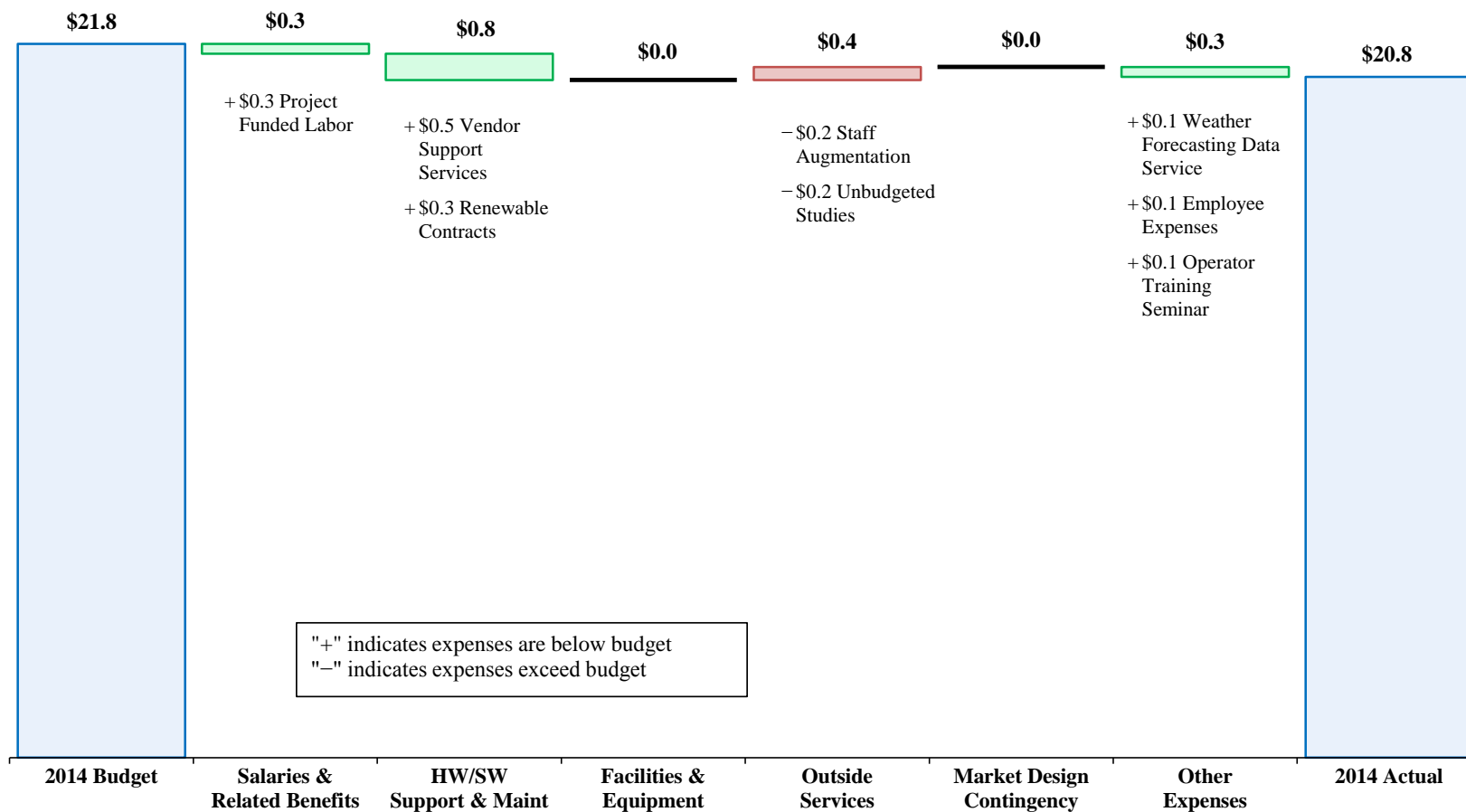
Electric Reliability Council of Texas, Inc.  
Year End: Base Operating Expense Variance  
As of February 28, 2014  
(\$ in Millions)

Forecasted expenses of \$132.1 M results in a year end financial performance being under budget by \$0.9 M or 0.7%.



Electric Reliability Council of Texas, Inc.  
Year to Date: Base Operating Expense Variance  
As of February 28, 2014  
(\$ in Millions)

Actual expenses of \$20.8 M result in the year to date financial performance being under budget by \$1.0 M or 4.6%.



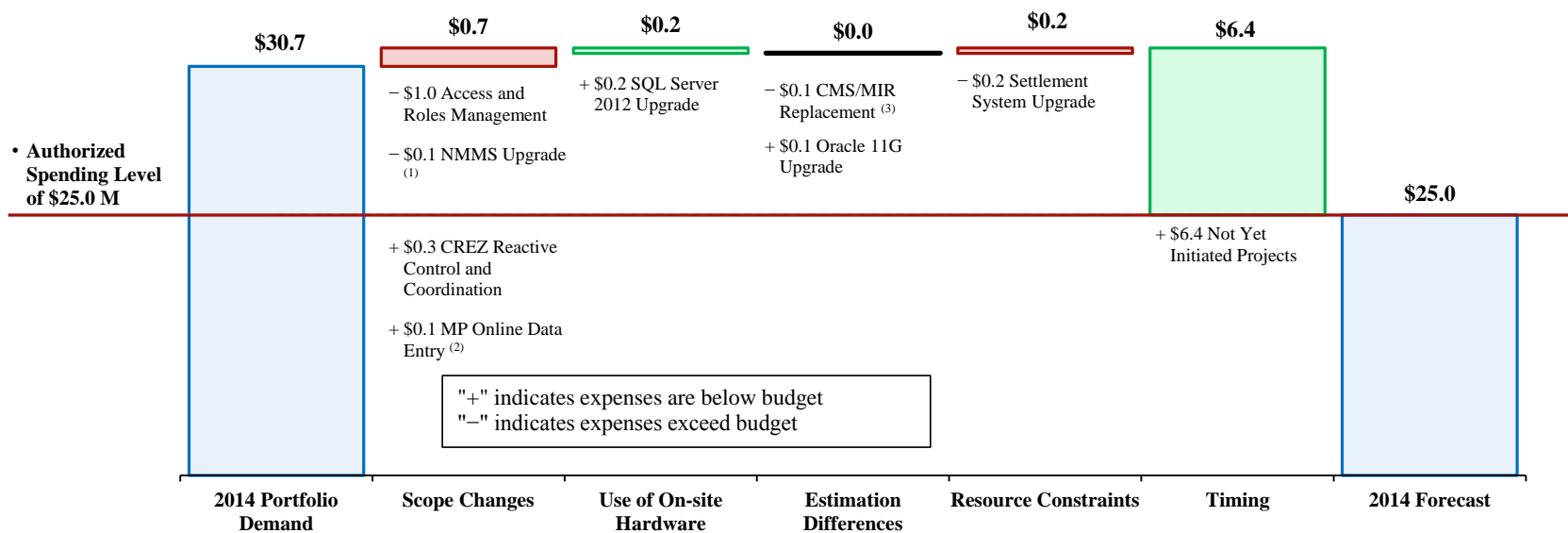
Electric Reliability Council of Texas, Inc.  
2014 Financial Summary  
As of February 28, 2014  
(\$ in Millions)

(\$ in Millions)		Year End					Year to Date				
		2013	2014				2013	2014			
					Variance					Variance	
Line		Actual	Budget	Forecast	\$	%	Actual	Budget	Actual	\$	%
1	Revenue Sources										
2	System Administration Fee Revenue	\$ 138.7	\$ 159.3	\$ 159.3	\$ -	-	\$ 19.6	\$ 23.0	\$ 24.7	\$ 1.7	7.4
3	Other Revenue	1.6	1.1	1.2	0.1	9.1	0.5	0.3	0.4	0.1	33.3
4	Subtotal - Revenue Sources	\$ 140.3	\$ 160.4	\$ 160.5	\$ 0.1	0.1	\$ 20.1	\$ 23.3	\$ 25.1	\$ 1.8	7.7
5											
6	Base Operating Expenses										
7	Salaries and Related Benefits	\$ 77.7	\$ 86.4	\$ 86.4	\$ -	-	\$ 13.3	\$ 14.4	\$ 14.1	\$ 0.3	2.1
8	Hardware & Software Support & Maintenance	16.9	20.7	19.7	1.0	4.8	2.6	3.4	2.6	0.8	23.5
9	Facilities & Equipment	8.3	9.2	9.2	-	-	1.4	1.5	1.5	-	-
10	Outside Services	10.5	9.2	9.5	(0.3)	(3.3)	1.5	1.4	1.8	(0.4)	(28.6)
11	Market Design Contingency	-	1.0	1.0	-	-	-	-	-	-	-
12	Other Expenses	6.3	6.5	6.3	0.2	3.1	0.9	1.1	0.8	0.3	27.3
13	Subtotal - Base Operating Expenses	\$ 119.7	\$ 133.0	\$ 132.1	\$ 0.9	0.7	\$ 19.7	\$ 21.8	\$ 20.8	\$ 1.0	4.6
14											
15	Net Revenues After Base Operating Expenses	\$ 20.6	\$ 27.4	\$ 28.4	\$ 1.0	3.6	\$ 0.4	\$ 1.5	\$ 4.3	\$ 2.8	186.7
16											
17	Prior Year Carry Forward Funding	\$ 3.5	\$ -	\$ -	\$ -	-	\$ 3.5	\$ -	\$ -	\$ -	-
18	Project Expenditures	16.4	25.0	25.0	-	-	1.7	3.8	4.1	(0.3)	(7.9)
19	Interest Expense	2.4	2.6	2.6	-	-	0.4	0.4	0.4	-	-
20	Net Available for Principal Payments	\$ 5.3	\$ (0.2)	\$ 0.8	\$ 1.0	500.0	\$ 1.8	\$ (2.7)	\$ (0.2)	\$ 2.5	92.6

Note: Wide Area Network (WAN) service revenues and reimbursable equipment and service costs are excluded.

Electric Reliability Council of Texas, Inc.  
Portfolio Demand vs. Year End (YE) Forecast - Project Expenditures  
As of February 28, 2014  
(\$ in Millions)

Forecasted expenditures of \$25.0 M results in a year end financial performance being on budget.



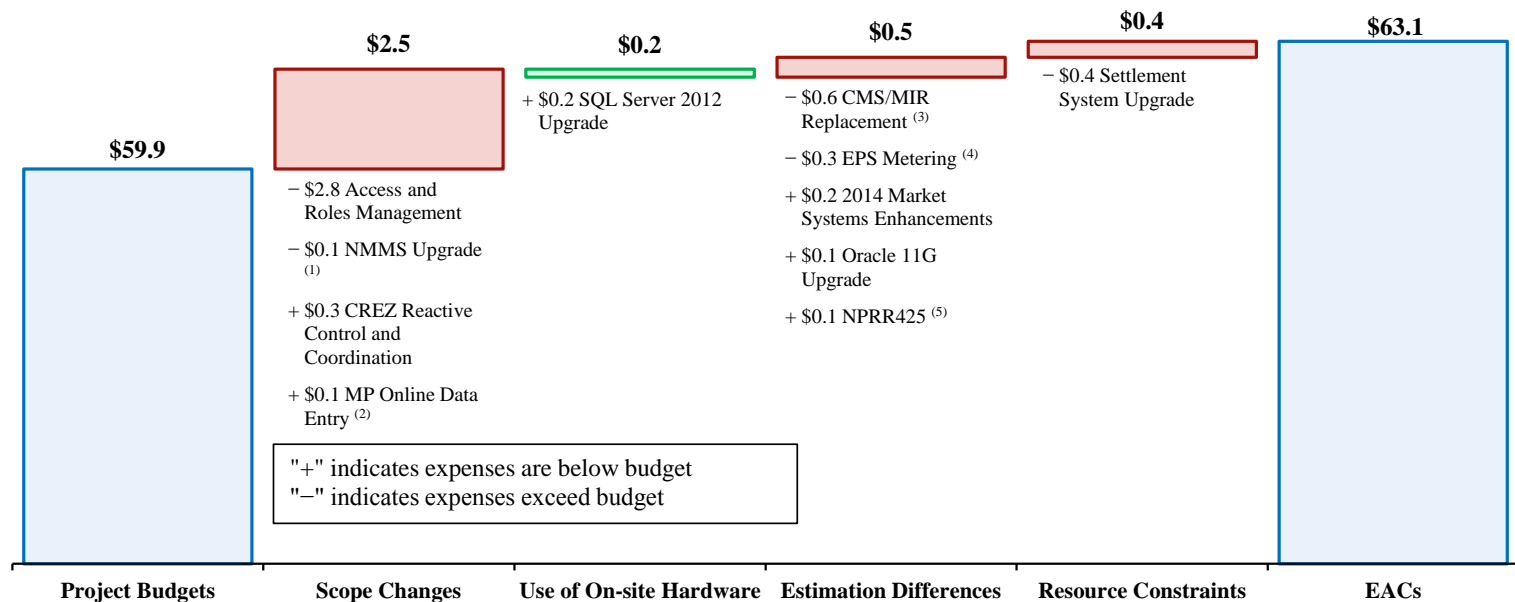
**Abbreviated Project Listing**

- (1) Network Model Management System Upgrade
- (2) Market Participant Online Data Entry
- (3) Content Management System and Market Information Repository Replacement

Electric Reliability Council of Texas, Inc.  
 Project Budgets vs. Estimates at Completion (EACs) - Project Expenditures  
 As of February 28, 2014  
 (\$ in Millions)

**Note: Only includes projects that have activity in the current fiscal year. Projects included may span multiple years from 2010 - 2016.**

**EAC forecast of \$63.1 M results in a projection of \$3.2 M or 5.3% over budget.**



**Abbreviated Project Listing**

- |   |  |
|---|--|
| (1) Network Model Management System Upgrade                                 | (4) ERCOT-polled Settlement Metering   |
| (2) Market Participant Online Data Entry                                    | (5) NPRR425 - Creation of a Wind-powered Generation Resource (WGR) Group for Generation Resource Energy Deployment Performance (GREDP) and Base Point Deviation Evaluation |
| (3) Content Management System and Market Information Repository Replacement |  |

Electric Reliability Council of Texas, Inc.  
Summary of Portfolio Demand vs. Year End (YE) Forecast - Project Expenditures  
As of February 28, 2014  
(\$ in Millions)

Project Name [Projects listed are at or above \$0.7 Million Estimate at Completion (EAC) Budget threshold]	Current Phase	Ranking Based on PPL Priority: January 1, 2014	Ranking Based on PPL Priority: Current	Year to Date		Year End			
				Year to Date Project Actual	% Spend to Year End Forecast	Project Budget	Project Forecast	Variance	
								\$	%
<b>Regulatory</b>									
2014 Market System Enhancements	Execution	1	1	\$ 0.4	36.4	\$ 1.1	\$ 1.1	\$ -	-
<b>Business Strategy</b>									
Market Participant Online Data Entry: Phase 1	Planning	1	1	0.1	16.7	0.7	0.6	0.1	14.3
Market Participant Online Data Entry: Phase 2	Not Yet Initiated	2	2	-	-	0.2	0.2	-	-
<b>Technical Foundation</b>									
Settlement System Upgrade	Execution	1	1	0.4	18.2	2.0	2.2	(0.2)	(10.0)
Oracle 11G Upgrade	Execution	2	2	0.1	50.0	0.3	0.2	0.1	33.3
Energy Management System (EMS) Upgrade	Planning	3	3	0.5	20.0	2.5	2.5	-	-
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	Planning	4	4	0.3	13.6	2.2	2.2	-	-
2013 / 2014 Network Refresh	Planning	5	5	0.5	41.7	1.2	1.2	-	-
SQL Server 2012 Upgrade / Cluster	Initiation	6	6	-	-	0.9	0.7	0.2	22.2
Cyber Security Project #14	Planning	7	7	-	-	0.7	0.7	-	-
Voice Over IP (VOIP) Replacement for PBX	Not Yet Initiated	8	8	-	-	0.3	0.3	-	-
<b>Efficiencies / Enhancements</b>									
Content Management System (CMS) and Market Information Repository (MIR) Replacement	Execution	1	1	0.3	75.0	0.3	0.4	(0.1)	(33.3)
Taylor Control Room Upgrade	Execution	2	2	0.3	8.3	3.6	3.6	-	-
<b>Projects Below \$0.7 Million EAC Budget Threshold by Phase</b>									
	Complete			-	n/a	-	-	-	n/a
	Closing			0.1	100.0	0.1	0.1	-	-
	Stabilization			0.1	50.0	0.2	0.2	-	-
	Execution			0.4	21.1	1.9	1.9	-	-
	Planning			0.2	18.2	1.3	1.1	0.2	15.4
	Initiation			-	-	0.7	1.7	(1.0)	(142.9)
	On Hold			-	-	0.2	0.2	-	-
	Not Yet Initiated			-	-	9.2	2.8	6.4	69.6
<b>Other Project Spend</b>									
Minor Capital	Execution			0.2	11.1	1.8	1.8	-	-
Capital Efficiencies & Enhancements	Execution			0.2	33.3	0.6	0.6	-	-
Variance of Completed Projects					n/a	-	-	-	n/a
Variance of In-flight & Not Yet Initiated Projects					n/a	(7.0)	(1.3)	(5.7)	n/a
<b>Total - Portfolio Projects</b>				<b>\$ 4.1</b>	<b>16.4</b>	<b>\$ 25.0</b>	<b>\$ 25.0</b>	<b>\$ -</b>	<b>-</b>



Electric Reliability Council of Texas, Inc.

Summary of Project Budgets vs. Estimates at Completion (EACs) - Project Expenditures

As of February 28, 2014

(\$ in Millions)

					Life to Date		Estimate at Completion (EAC)										
Project Name		Ranking Based on PPL Priority: January 1, 2014	Ranking Based on PPL Priority: Current	Life to Date Project Actual	% Spend to EAC Forecast	Project Budget	Project Forecast	Variance									
[Projects listed are at or above \$0.7 Million Estimate at Completion (EAC) Budget threshold]								Current Phase	\$	%							
Regulatory																	
2014 Market System Enhancements		Execution	1	1	\$	0.5	41.7	\$	1.4	\$	1.2	\$	0.2	14.3			
Business Strategy																	
Market Participant Online Data Entry: Phase 1		Planning	1	1		0.1	14.3		0.8		0.7		0.1	12.5			
Market Participant Online Data Entry: Phase 2		Not Yet Initiated	2	2		-	-		1.0		1.0		-	-			
Technical Foundation																	
Settlement System Upgrade		Execution	1	1		5.3	73.6		6.8		7.2		(0.4)	(5.9)			
Oracle 11G Upgrade		Execution	2	2		2.2	95.7		2.4		2.3		0.1	4.2			
Energy Management System (EMS) Upgrade		Planning	3	3		2.1	24.1		8.7		8.7		-	-			
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh		Planning	4	4		1.1	28.2		3.9		3.9		-	-			
2013 / 2014 Network Refresh		Planning	5	5		0.6	50.0		1.2		1.2		-	-			
SQL Server 2012 Upgrade / Cluster		Initiation	6	6		-	-		0.9		0.7		0.2	22.2			
Cyber Security Project #14		Planning	7	7		-	-		0.7		0.7		-	-			
Voice Over IP (VOIP) Replacement for PBX		Not Yet Initiated	8	8		-	-		0.8		0.8		-	-			
Efficiencies / Enhancements																	
Content Management System (CMS) and Market Information Repository (MIR) Replacement		Execution	1	1		1.3	86.7		0.9		1.5		(0.6)	(66.7)			
Taylor Control Room Upgrade		Execution	2	2		0.5	13.5		3.7		3.7		-	-			
Projects Below \$0.7 Million EAC Budget Threshold by Phase																	
Complete						-	n/a		-		-		-	n/a			
Closing						0.2	100.0		0.2		0.2		-	-			
Stabilization						0.3	75.0		0.5		0.4		0.1	20.0			
Execution						1.9	55.9		3.1		3.4		(0.3)	(9.7)			
Planning						0.9	50.0		2.0		1.8		0.2	10.0			
Initiation						-	-		0.7		3.5		(2.8)	(400.0)			
On Hold						-	-		0.2		0.2		-	-			
Not Yet Initiated						-	-		17.6		17.6		-	-			
Other Project Spend																	
Minor Capital		Execution				0.2	11.1		1.8		1.8		-	-			
Capital Efficiencies & Enhancements		Execution				0.2	33.3		0.6		0.6		-	-			
Total - Portfolio Projects						\$	17.4		27.6		\$	59.9	\$	63.1	\$	(3.2)	(5.3)

# Preliminary - Unaudited

**Electric Reliability Council of Texas, Inc.**  
**Statements of Financial Position**  
**As of February 28, 2014 and 2013**  
(\$ in Thousands)

	2014	2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 352,047	\$ 288,894
Accounts receivable	5,076	3,645
Unbilled revenue	2,667	3,272
Restricted cash	563,796	418,684
Prepaid expenses and other current assets	17,436	11,961
Total current assets	941,022	726,456
Property and equipment, net	184,993	271,530
Systems under development	19,242	11,359
Debt issuance cost	294	541
Total assets	\$ 1,145,551	\$ 1,009,886
<b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 6,554	\$ 1,080
Accrued liabilities	8,687	7,821
Deferred revenue	5,016	4,192
Market settlement liabilities	374,615	295,793
Security deposits	563,796	418,684
Notes payable, current portion	17,630	17,637
Total current liabilities	976,298	745,207
Notes payable	71,000	88,630
Regulatory liabilities	88,665	155,746
Other long term liabilities	419	398
Total liabilities	1,136,382	989,981
Unrestricted net assets	9,169	19,905
Total liabilities and unrestricted net assets	\$ 1,145,551	\$ 1,009,886

## Preliminary - Unaudited

**Electric Reliability Council of Texas, Inc.**  
**Statements of Activities and Net Assets**  
**For the Two Months Ended February 28, 2014 and 2013**  
(\$ in Thousands)

	2014	2013
Operating revenues		
System administration fees	\$ 24,702	\$ 19,618
Nodal implementation surcharge	-	297
Reliability organization pass-through	2,392	1,954
Membership fees and other	947	1,235
Total operating revenues	28,041	23,104
Operating expenses		
Salaries and related benefits	14,136	13,522
Depreciation	4,625	5,619
Facility and equipment costs	1,898	1,933
Outside services	1,903	1,610
Hardware and software maintenance and licensing	2,715	2,682
Reliability organization assessment	2,392	1,954
Other	829	913
Amortization of regulatory asset	-	297
Total operating expenses	28,498	28,530
(Loss) from operations	(457)	(5,426)
Other income (expense)		
Interest income	3	3
Interest expense	(535)	(688)
Non-operating income	-	-
Change in unrestricted net assets	(989)	(6,111)
Unrestricted net assets, beginning of year	10,158	26,016
Unrestricted net assets, end of period	\$ 9,169	\$ 19,905

**Preliminary - Unaudited**

**Electric Reliability Council of Texas, Inc.**  
**Statements of Cash Flows**  
**For the Two Months Ended February 28, 2014 and 2013**  
(\$ in Thousands)

	<b>2014</b>	<b>2013</b>
<b>Operating activities:</b>		
Change in unrestricted net assets	\$ (989)	\$ (6,111)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	4,625	5,619
Amortization of debt issuance costs	29	23
Changes in operating assets and liabilities:		
Accounts receivable	(2,882)	220
Unbilled revenue	546	3,096
Prepaid expenses and other assets	(7,269)	3,009
Other long-term liabilities	-	(1)
Accounts payable	3,196	(1,125)
Accrued liabilities	(295)	(12)
Deferred revenue	1,139	910
Regulatory liabilities	-	298
Net cash (used in) provided by operating activities	<u>(1,900)</u>	<u>5,926</u>
<b>Investing activities:</b>		
Capital expenditures for property and equipment and systems under development	(4,192)	(1,932)
Proceeds from sale of property and equipment	-	-
Net cash used in investing activities	<u>(4,192)</u>	<u>(1,932)</u>
<b>Financing activities:</b>		
Proceeds from issuance of notes payable	\$ -	\$ -
Repayment of notes payable	-	-
Payment of debt issuance costs	(5)	(4)
Decrease in restricted cash	85,321	53,192
Increase (decrease) in market settlement liabilities	22,903	(34,358)
(Decrease) in security deposits	(85,321)	(53,192)
Net cash provided by (used in) financing activities	<u>22,898</u>	<u>(34,362)</u>
Net increase (decrease) in cash and cash equivalents	16,806	(30,368)
Cash and cash equivalents, beginning of year	335,241	319,262
Cash and cash equivalents, end of period	<u>\$ 352,047</u>	<u>\$ 288,894</u>