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## **Item 7.1: Review 2014 Financial Summary**

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Controller

Finance & Audit Committee  
ERCOT Public  
June 9, 2014

# **Review 2014 Financial Summary: Variance to Budget (\$ in Millions)**

## **Net Revenues After Base Operating Expenses as of April 30, 2014**

### **Net Revenues Year to Date: \$2.5 M Favorable**

#### Major Revenue Variances

\$1.3 M over budget system administration fees due to colder-than-expected temperatures

#### Major Expense Variances

\$0.8 M under budget employee labor cost due to more efforts charged to projects

\$0.7 M under budget hardware/software maintenance due to contract renewals negotiated at lower rates

\$0.6 M under budget hardware/software vendor support services due to more work on capital projects

\$0.6 M over budget external staffing due to backfilling permanent positions

### **Net Revenues Year End: \$0.4 M Favorable**

#### Major Revenue Variances

\$0.8 M under budget system administration fees due to recent milder temperatures

#### Major Expense Variances

\$2.0 M under budget hardware/software vendor support services due to more work on capital projects

\$0.9 M under budget hardware/software maintenance due to contract renewals negotiated at lower rates

\$0.9 M under budget hardware/software maintenance due to lower level of service for contract renewals

\$1.3 M over budget external staffing due to backfilling permanent positions

\$1.2 M over budget due to unbudgeted external studies, training, and other services

# Review 2014 Financial Summary: Statement of Activities and Net Assets

## For the Four Months Ended April 30, 2014 and 2013 (\$ in Millions)

	<b>2014</b>	<b>2013</b>
Operating revenues	\$ 54.1	\$ 45.5
Operating expenses	58.2	57.2
Gain (Loss) from operations	(4.1)	(11.7)
Other income (expense)	(1.1)	(1.4)
Change in unrestricted net assets	(5.2)	(13.1)
Unrestricted net assets, beginning of year	10.2	26.0
Unrestricted net assets, end of period	\$ 5.0	\$ 12.9

# Review 2014 Financial Summary: Statement of Financial Position

## As of April 30, 2014 and 2013 (\$ in Millions)

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current assets	\$ 852.7	\$ 797.0
Long term assets	194.2	269.0
Total assets	<u>\$ 1,046.9</u>	<u>\$ 1,066.0</u>
 <b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities	\$ 893.9	\$ 820.6
Long term liabilities	148.0	232.5
Unrestricted net assets	5.0	12.9
Total liabilities and unrestricted net assets	<u>\$ 1,046.9</u>	<u>\$ 1,066.0</u>

# Appendices

Electric Reliability Council of Texas, Inc.  
2014 Financial Summary  
As of April 30, 2014  
(\$ in Millions)

As of April 30, 2014												
(\$ in Millions)		Year to Date						Year End				
Line		2013	2014									
		Actual	Budget	Actual	Variance	\$	%	2013	2014			
								Actual	Budget	Forecast	\$	%
1	Revenue Sources											
2	System Administration Fee Revenue	\$ 39.1	\$ 46.1	\$ 47.4	\$ 1.3	2.8	\$ 138.7	\$ 159.3	\$ 158.5	\$ (0.8)	(0.5)	
3	Other Revenue	0.6	0.5	0.8	0.3	60.0	1.6	1.1	1.2	0.1	9.1	
4	Subtotal - Revenue Sources	\$ 39.7	\$ 46.6	\$ 48.2	\$ 1.6	3.4	\$ 140.3	\$ 160.4	\$ 159.7	\$ (0.7)	(0.4)	
5												
6	Base Operating Expenses											
7	Salaries and Related Benefits	\$ 26.3	\$ 28.9	\$ 28.7	\$ 0.2	0.7	\$ 77.7	\$ 86.4	\$ 85.8	\$ 0.6	0.7	
8	Hardware & Software Support & Maintenance	5.7	6.8	5.4	1.4	20.6	16.9	20.7	17.9	2.8	13.5	
9	Facilities & Equipment	2.7	3.1	3.0	0.1	3.2	8.3	9.2	9.2	-	-	
10	Outside Services	3.2	2.7	3.7	(1.0)	(37.0)	10.5	9.2	11.7	(2.5)	(27.2)	
11	Market Design Contingency	-	-	-	-	-	-	1.0	1.0	-	-	
12	Other Expenses	1.9	2.1	1.9	0.2	9.5	6.3	6.5	6.3	0.2	3.1	
13	Subtotal - Base Operating Expenses	\$ 39.8	\$ 43.6	\$ 42.7	\$ 0.9	2.1	\$ 119.7	\$ 133.0	\$ 131.9	\$ 1.1	0.8	
14												
15	Net Revenues After Base Operating Expenses	\$ (0.1)	\$ 3.0	\$ 5.5	\$ 2.5	83.3	\$ 20.6	\$ 27.4	\$ 27.8	\$ 0.4	1.5	
16												
17	Prior Year Carry Forward Funding	\$ 3.5	\$ -	\$ -	\$ -	-	\$ 3.5	\$ -	\$ -	\$ -	-	
18	Less: Project Expenditures	4.4	9.0	9.9	(0.9)	(10.0)	16.4	25.0	25.0	-	-	
19	Less: Interest Expense	0.8	0.9	0.7	0.2	22.2	2.4	2.6	2.0	0.6	23.1	
20	Net Available for Principal Payments	\$ (1.8)	\$ (6.9)	\$ (5.1)	\$ 1.8	26.1	\$ 5.3	\$ (0.2)	\$ 0.8	\$ 1.0	500.0	

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

Electric Reliability Council of Texas, Inc.  
2014 Financial Summary - Year to Date and Year End Variance Explanations  
As of April 30, 2014

<u>Line</u>	<u>Category</u>	<u>Year to Date</u>	<u>Year End</u>
2	System Administration Fee Revenue	+\$1.3 M - Primarily due to colder-than-expected temperatures early in the year	-\$0.8 M - Recent trend of milder weather is putting significant downward pressure on load forecast
3	Other Revenue	+\$0.3 M - Generation Interconnection studies providing more revenue than planned	+\$0.1 M - Generation Interconnection studies providing more revenue than planned
7	Salaries and Related Benefits	+\$0.8 M - Project funded labor has been higher than budget +\$0.1 M - Overtime pay lower due to converting employees from hourly to salary -\$0.7 M - Vacation balance liability balance has increased during first four months	+\$0.5 M - Project funded labor is expected to continue at higher than budget +\$0.3 M - Continued savings for less overtime pay for employees converted from hourly to salary -\$0.2 M - Expect vacation liability balance to decline, but not completely
8	Hardware & Software Support & Maintenance	+\$0.7 M - Savings for budgeted renewals with no change in level of service +\$0.6 M - Fewer vendor support service hours due to capital project work +\$0.3 M - Savings for renewals with decreased level of service -\$0.1 M - Unplanned cost for new, unbudgeted renewals -\$0.1 M - Overspend for budgeted renewals with no change in level of service	+\$2.0 M - Fewer vendor support service hours due to capital project work +\$0.9 M - Savings for renewals with decreased level of service +\$0.9 M - Savings for budgeted renewals with no change in level of service -\$0.5 M - Unplanned cost for new, unbudgeted renewals -\$0.4 M - Overspend for budgeted renewals with no change in level of service -\$0.1 M - Overspend for renewals with increased level of service
9	Facilities & Equipment	+\$0.1 M - Building security costs lower than budgeted +\$0.1 M - Electricity consumption lower than planned +\$0.1 M - Lower property tax costs -\$0.2 M - Office rental higher than expected	\$0.0 M
10	Outside Services	-\$0.6 M - Unbudgeted staff backfill -\$0.5 M - Unbudgeted studies, training, and other services +\$0.1 M - Underspent budgeted studies, training, and other services due to timing	-\$1.3 M - Unbudgeted staff backfill -\$1.2 M - Unbudgeted studies, training, and other services
11	Market Design Contingency	\$0.0 M	\$0.0 M
12	Other Expenses	+\$0.2 M - Wind forecasting service and other less material data services renewed at lower rate	+\$0.2 M - Wind forecasting data service renewal was less than expected
18	Less: Project Expenditures	-\$0.9 M • ABB services which were delayed in 2013 have been ramping up; • Some of the millwork tasks (framing, painting, paneling, conference room) have been completed earlier than expected (TCC Upgrade project); • In general, internal labor has been higher than expected	\$0.0 M
19	Less: Interest Expense	+\$0.2 M - Portion of the interest is being capitalized; therefore, less is being allocated to base operations	+\$0.6 M - Portion of the interest is being capitalized; therefore, less is being allocated to base operations

Electric Reliability Council of Texas, Inc.  
Summary of Portfolio Demand vs. Year End (YE) Forecast - Project Expenditures  
As of April 30, 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				Notes					
				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	\$	1.0	71.4	\$	1.1	\$	1.4	\$	(0.3)	(27.3)	(1)	
Privileged Account Management (PAM)	Initiation	-	2		-	-		0.5		0.5		-	-		
<b>Business Strategy</b>															
Market Participant Online Data Entry: Phase 1	Planning	1	1		0.1	14.3		0.7		0.7		-	-		
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		0.9	39.1		2.0		2.3		(0.3)	(15.0)	(2)	
Oracle 11G Upgrade	Execution	2	2		0.2	66.7		0.3		0.3		-	-		
Energy Management System (EMS) Upgrade	Planning	3	3		1.1	42.3		2.5		2.6		(0.1)	(4.0)	(3)	
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	Planning	4	4		0.9	36.0		2.2		2.5		(0.3)	(13.6)	(4)	
2013 / 2014 Network Refresh	Planning	5	5		0.6	50.0		1.2		1.2		-	-		
SQL Server 2012 Upgrade / Cluster Consolidation	Planning	6	6		0.1	14.3		0.7		0.7		-	-		
Cyber Security Project #14	Planning	7	7		-	-		0.7		0.7		-	-		
Voice Over IP (VOIP) Replacement for PBX	Not Yet Initiated	8	8		-	-		0.1		0.1		-	-		
<b>Efficiencies / Enhancements</b>															
Content Management System (CMS) and Market Information Repository (MIR) Replacement	Stabilization	1	1		0.5	100.0		0.5		0.5		-	-		
Taylor Control Room Upgrade	Execution	2	2		1.9	52.8		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				0.2	50.0		0.4		0.4		-	-		
	Execution				0.8	40.0		1.8		2.0		(0.2)	(11.1)	(5)	
	Planning				0.4	30.8		0.9		1.3		(0.4)	(44.4)	(6)	
	Initiation				-	-		1.1		1.2		(0.1)	(9.1)	(7)	
	On Hold				-	-		0.4		0.4		-	-		
	Not Yet Initiated				-	-		4.8		4.8		-	-		
<b>Other Project Spend</b>															
Minor Capital	Execution				0.7	38.9		1.8		1.8		-	-		
Common Infrastructure	Execution				-	-		0.8		0.8		-	-		
Capital Efficiencies & Enhancements	Execution				0.4	66.7		0.6		0.6		-	-		
Variance of Completed Projects								n/a		-		-	n/a		
Variance of In-flight & Not Yet Initiated Projects								n/a		(4.0)		(5.7)	1.7	n/a	
<b>Total - Portfolio Projects</b>					<b>\$</b>	<b>9.9</b>	<b>39.6</b>	<b>\$</b>	<b>25.0</b>	<b>\$</b>	<b>25.0</b>	<b>\$</b>	<b>-</b>	<b>-</b>	



Electric Reliability Council of Texas, Inc.  
Summary of Project Budgets vs. Estimates at Completion (EACs) - Project Expenditures  
As of April 30, 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	Life to Date		Estimate at Completion (EAC)				Notes			
				Life to Date Project Actual	% Spend to EAC Forecast	Project Budget	Project Forecast	Variance					
								\$	%				
<b>Regulatory</b>													
2014 Market System Enhancements	Execution	1	1	\$	1.1	73.3	\$	1.4	\$	1.5	(0.1)	(7.1)	(1)
Privileged Account Management (PAM)	Initiation	-	2		-	-		1.0		1.0	-	-	
<b>Business Strategy</b>													
Market Participant Online Data Entry: Phase 1	Planning	1	1		0.2	25.0		0.8		0.8	-	-	
Market Participant Online Data Entry: Phase 2	Not Yet Initiated	2	2		-	-		1.0		1.0	-	-	
<b>Technical Foundation</b>													
Settlement System Upgrade	Execution	1	1		5.7	79.2		6.8		7.2	(0.4)	(5.9)	(2)
Oracle 11G Upgrade	Execution	2	2		2.3	95.8		2.4		2.4	-	-	
Energy Management System (EMS) Upgrade	Planning	3	3		2.8	32.2		8.7		8.7	-	-	
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	Planning	4	4		1.6	41.0		3.9		3.9	-	-	
2013 / 2014 Network Refresh	Planning	5	5		0.6	50.0		1.2		1.2	-	-	
SQL Server 2012 Upgrade / Cluster Consolidation	Planning	6	6		0.1	14.3		0.7		0.7	-	-	
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	-	-	
<b>Efficiencies / Enhancements</b>													
Content Management System (CMS) and Market Information Repository (MIR) Replacement	Stabilization	1	1		1.5	93.8		1.6		1.6	-	-	
Taylor Control Room Upgrade	Execution	2	2		2.0	54.1		3.7		3.7	-	-	
<b>Projects Below \$0.7 Million EAC Budget Threshold by Phase</b>													
	Complete				0.4	100.0		0.5		0.4	0.1	20.0	(3)
	Closing				0.1	100.0		0.1		0.1	-	-	
	Stabilization				0.5	83.3		0.6		0.6	-	-	
	Execution				2.1	63.6		3.1		3.3	(0.2)	(6.5)	(4)
	Planning				1.0	50.0		1.7		2.0	(0.3)	(17.6)	(5)
	Initiation				-	-		1.3		1.4	(0.1)	(7.7)	(6)
	On Hold				0.1	20.0		0.5		0.5	-	-	
	Not Yet Initiated				-	-		17.0		17.0	-	-	
<b>Other Project Spend</b>													
Minor Capital	Execution				0.7	38.9		1.8		1.8	-	-	
Common Infrastructure	Execution				-	-		0.8		0.8	-	-	
Capital Efficiencies & Enhancements	Execution				0.4	66.7		0.6		0.6	-	-	
<b>Total - Portfolio Projects</b>					<b>\$ 23.2</b>	<b>36.4</b>		<b>\$ 62.7</b>	<b>\$ 63.7</b>	<b>\$ (1.0)</b>	<b>(1.6)</b>		

## Preliminary - Unaudited

**Electric Reliability Council of Texas, Inc.**  
**Statements of Financial Position**  
**As of April 30, 2014 and 2013**  
(\$ in Thousands)

	2014	2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 335,224	\$ 276,272
Accounts receivable	2,515	1,774
Unbilled revenue	2,815	2,798
Restricted cash	497,866	504,957
Prepaid expenses and other current assets	14,256	11,167
Total current assets	852,676	796,968
Property and equipment, net	171,656	257,673
Systems under development	22,285	10,857
Debt issuance cost	265	518
Total assets	\$ 1,046,882	\$ 1,066,016
<b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 3,910	\$ 1,738
Accrued liabilities	8,684	8,915
Deferred revenue	2,588	2,183
Market settlement liabilities	363,255	285,167
Security deposits	497,866	504,957
Notes payable, current portion	17,630	17,637
Total current liabilities	893,933	820,597
Notes payable	70,000	87,630
Regulatory liabilities	77,552	144,469
Other long term liabilities	413	404
Total liabilities	1,041,898	1,053,100
Unrestricted net assets	4,984	12,916
Total liabilities and unrestricted net assets	\$ 1,046,882	\$ 1,066,016

## Preliminary - Unaudited

**Electric Reliability Council of Texas, Inc.**  
**Statements of Activities and Net Assets**  
**For the Four Months Ended April 30, 2014 and 2013**  
(\$ in Thousands)

	2014	2013
Operating revenues		
System administration fees	\$ 47,371	\$ 39,058
Nodal implementation surcharge	-	297
Reliability organization pass-through	4,784	3,908
Membership fees and other	1,930	2,244
Total operating revenues	54,085	45,507
Operating expenses		
Salaries and related benefits	28,893	26,834
Depreciation	31,526	33,844
Facility and equipment costs	3,773	3,570
Outside services	4,018	3,542
Hardware and software maintenance and licensing	5,481	5,819
Reliability organization assessment	4,784	3,908
Other	1,962	1,952
Amortization of regulatory asset	(22,225)	(22,256)
Total operating expenses	58,212	57,213
(Loss) from operations	(4,127)	(11,706)
Other income (expense)		
Interest income	7	5
Interest expense	(1,055)	(1,396)
Non-operating income	1	(3)
Change in unrestricted net assets	(5,174)	(13,100)
Unrestricted net assets, beginning of year	10,158	26,016
Unrestricted net assets, end of period	\$ 4,984	\$ 12,916

# Preliminary - Unaudited

**Electric Reliability Council of Texas, Inc.**  
**Statements of Cash Flows**  
**For the Four Months Ended April 30, 2014 and 2013**  
(\$ in Thousands)

	2014	2013
<b>Operating activities:</b>		
Change in unrestricted net assets	\$ (5,174)	\$ (13,100)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	31,526	33,844
Amortization of debt issuance costs	57	47
Net (gains) losses on capital assets	-	2
Changes in operating assets and liabilities:		
Accounts receivable	(321)	2,091
Unbilled revenue	398	3,570
Prepaid expenses and other assets	(4,089)	3,803
Other long-term liabilities	(6)	5
Accounts payable	(877)	(506)
Accrued liabilities	422	862
Deferred revenue	(1,289)	(1,099)
Regulatory liabilities	(22,225)	(22,256)
Net cash (used in) provided by operating activities	<u>(1,578)</u>	<u>7,263</u>
<b>Investing activities:</b>		
Capital expenditures for property and equipment and systems under development	(8,978)	(4,264)
Proceeds from sale of property and equipment	-	-
Net cash (used in) investing activities	<u>(8,978)</u>	<u>(4,264)</u>
<b>Financing activities:</b>		
Proceeds from issuance of notes payable	\$ -	\$ -
Repayment of notes payable	(1,000)	(1,000)
Payment of debt issuance costs	(4)	(5)
Decrease (increase) in restricted cash	151,251	(33,081)
Increase (decrease) in market settlement liabilities	11,543	(44,984)
(Decrease) increase in security deposits	(151,251)	33,081
Net cash provided by (used in) financing activities	<u>10,539</u>	<u>(45,989)</u>
Net (decrease) in cash and cash equivalents	(17)	(42,990)
Cash and cash equivalents, beginning of year	335,241	319,262
Cash and cash equivalents, end of period	<u>\$ 335,224</u>	<u>\$ 276,272</u>