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## **Item 5.1: Review 2014 Financial Summary**

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Controller

Finance & Audit Committee  
ERCOT Public  
August 11, 2014

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

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

### Net Revenues Year to Date: \$1.1 M Favorable

#### Major Revenue Variances

\$0.5 M under budget system administration fees due to milder-than-expected temperatures

#### Major Expense Variances

\$1.3 M under budget hardware/software vendor support services due to more work on capital projects

\$1.0 M under budget employee labor cost due to more efforts charged to projects

\$0.6 M under budget hardware/software maintenance due to contract renewals negotiated at lower rates

\$1.1 M over budget external staffing due to backfilling permanent positions

### Net Revenues Year End: \$1.0 M Favorable

#### Major Revenue Variances

\$1.2 M under budget system administration fees due to milder-than-expected temperatures

#### Major Expense Variances

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

\$1.4 M under budget hardware/software maintenance due to contract renewals negotiated at lower rates

\$1.0 M under budget market design contingency will not be utilized

\$0.9 M under budget hardware/software maintenance contracts renewed with lower level of service

\$1.9 M over budget external staffing due to backfilling permanent positions

\$1.4 M over budget due to external studies, training, and other outside services

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

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

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current assets	\$ 846.8	\$ 994.0
Long term assets	182.8	254.7
Total assets	<u>\$ 1,029.6</u>	<u>\$ 1,248.7</u>
 <b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities	\$ 887.9	\$ 1,030.3
Long term liabilities	135.9	206.6
Unrestricted net assets	5.8	11.8
Total liabilities and unrestricted net assets	<u>\$ 1,029.6</u>	<u>\$ 1,248.7</u>

# Review 2014 Financial Summary: Statement of Financial Position

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

	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 84.7	\$ 73.7
Operating expenses	87.7	85.9
Gain (Loss) from operations	(3.0)	(12.2)
Other income (expense)	(1.4)	(2.0)
Change in unrestricted net assets	(4.4)	(14.2)
Unrestricted net assets, beginning of year	10.2	26.0
Unrestricted net assets, end of period	\$ 5.8	\$ 11.8

## Appendices

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

Line	Year to Date					Year End				
	2013		2014			2013		2014		
	Actual	Budget	Actual	Variance	%	Actual	Budget	Forecast	Variance	%
1	<b>Revenue Sources</b>									
2	\$ 64.2	\$ 75.4	\$ 74.9	\$ (0.5)	(0.7)	\$ 138.7	\$ 159.3	\$ 158.1	\$ (1.2)	(0.8)
3	0.9	0.6	1.0	0.4	66.7	1.6	1.1	1.4	0.3	27.3
4	<b>\$ 65.1</b>	<b>\$ 76.0</b>	<b>\$ 75.9</b>	<b>\$ (0.1)</b>	<b>(0.1)</b>	<b>\$ 140.3</b>	<b>\$ 160.4</b>	<b>\$ 159.5</b>	<b>\$ (0.9)</b>	<b>(0.6)</b>
5										
6	<b>Base Operating Expenses</b>									
7	\$ 39.4	\$ 43.2	\$ 42.9	\$ 0.3	0.7	\$ 77.7	\$ 86.4	\$ 86.1	\$ 0.3	0.3
8	8.5	10.7	8.8	1.9	17.8	16.9	20.7	17.3	3.4	16.4
9	4.0	4.6	4.5	0.1	2.2	8.3	9.2	9.2	-	-
10	4.9	4.4	5.9	(1.5)	(34.1)	10.5	9.2	12.5	(3.3)	(35.9)
11	-	-	-	-	-	-	1.0	-	1.0	100.0
12	3.0	3.4	3.0	0.4	11.8	6.3	6.5	6.0	0.5	7.7
13	<b>\$ 59.8</b>	<b>\$ 66.3</b>	<b>\$ 65.1</b>	<b>\$ 1.2</b>	<b>1.8</b>	<b>\$ 119.7</b>	<b>\$ 133.0</b>	<b>\$ 131.1</b>	<b>\$ 1.9</b>	<b>1.4</b>
14										
15	<b>\$ 5.3</b>	<b>\$ 9.7</b>	<b>\$ 10.8</b>	<b>\$ 1.1</b>	<b>11.3</b>	<b>\$ 20.6</b>	<b>\$ 27.4</b>	<b>\$ 28.4</b>	<b>\$ 1.0</b>	<b>3.6</b>
16										
17	\$ 3.5	\$ -	\$ -	\$ -	-	\$ 3.5	\$ -	\$ -	\$ -	-
18	7.6	14.5	14.6	(0.1)	(0.7)	16.4	25.0	25.5	(0.5)	(2.0)
19	1.3	1.3	1.1	0.2	15.4	2.4	2.6	2.0	0.6	23.1
20	<b>\$ (0.1)</b>	<b>\$ (6.1)</b>	<b>\$ (4.9)</b>	<b>\$ 1.2</b>	<b>19.7</b>	<b>\$ 5.3</b>	<b>\$ (0.2)</b>	<b>\$ 0.9</b>	<b>\$ 1.1</b>	<b>550.0</b>

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

Hardware & Software Support & Maintenance line includes a software license which was classified as an operating expense in the Board-approved budget, but deemed to be capitalizable at the time the contract was executed.

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

<u>Line</u>	<u>Category</u>	<u>Year to Date</u>	<u>Year End</u>
2	System Administration Fee Revenue	-\$0.5 M - Primarily due to the milder-than-expected temperatures	-\$1.2 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 - Revenue for OTS and Blackstart is higher than budgeted	+\$0.3 M - Generation Interconnection studies providing more revenue than planned
7	Salaries and Related Benefits	+\$1.0 M - Project funded labor has been higher than budget +\$0.3 M - Salaries have been favorable due to lower staff and intern cost +\$0.1 M - Overtime pay lower due to converting employees from hourly to salary -\$1.1 M - Vacation balance & Arrears liability balance have increased during first six months	+\$0.5 M - Project funded labor is expected to end 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 -\$0.2 M - Forecasting unbudgeted separation payouts at trended rate -\$0.1 M - Other
8	Hardware & Software Support & Maintenance	+\$1.3 M - Fewer vendor support service hours due to capital project work; +\$0.6 M - Savings for budgeted renewals with no change in level of service +\$0.4 M - Savings for renewals with decreased level of service -\$0.2 M - Unplanned cost for new, unbudgeted renewals -\$0.2 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 +\$1.4 M - Savings for budgeted renewals with no change in level of service +\$0.9 M - Savings for renewals with decreased level of service -\$0.4 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	+\$0.2 M - Building security costs lower than budgeted +\$0.2 M - Electricity consumption lower than planned +\$0.1 M - Lower property tax costs -\$0.5 M - Office rental higher than expected
10	Outside Services	-\$1.1 M - Unbudgeted staff backfill -\$1.0 M - Unbudgeted studies, training, and other services +\$0.6 M - Underspent budgeted studies, training, and other services	-\$2.4 M - Unbudgeted studies, training, and other services -\$1.9 M - Unbudgeted staff backfill +\$1.0 M - Underspent budgeted studies, training, and other services
11	Market Design Contingency	\$0.0 M	+\$1.0 M - Do not anticipate PUCT order to pursue market redesign
12	Other Expenses	+\$0.2 M - Wind forecasting service and other less material data services renewed at lower rate +\$0.2 M - Savings for public service announcements not being required	+\$0.2 M - Wind forecasting service and other less material data services renewed at lower rate +\$0.2 M - Savings for public service announcements not being required +\$0.1 M - Insurance premiums are expected to be less than budget
18	Less: Project Expenditures	-\$0.1 M - Internal labor has been higher than expected	-\$0.5 M - More high priority projects are being initiated
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 June 30, 2014**  
**(\$ in Millions)**

Project Name [Projects listed are at or above \$0.7 Million Estimate at Completion (EAC) Budget threshold]	Current Phase	Order Based on PPL Priority: January 1, 2014	Order 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	Stabilization	1	1	\$ 1.5	93.8	\$ 1.6	\$ 1.6	\$ -	-	
Privileged Account Management (PAM)	Planning	-	2	-	-	0.4	0.4	-	-	
<b>Business Strategy</b>										
Market Participant Online Data Entry: Phase 1	Planning	1	1	0.1	33.3	0.7	0.3	0.4	57.1	
<b>Technical Foundation</b>										
Settlement System Upgrade	Execution	1	1	1.2	50.0	1.9	2.4	(0.5)	(26.3)	
Oracle 11G Upgrade	Execution	2	2	0.3	100.0	0.3	0.3	-	-	
Energy Management System (EMS) Upgrade	Planning	3	3	1.7	68.0	2.5	2.5	-	-	
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	Planning	4	4	1.0	43.5	2.2	2.3	(0.1)	(4.5)	
2013 / 2014 Network Refresh	Execution	5	5	0.9	81.8	1.2	1.1	0.1	8.3	
SQL Server 2012 Upgrade / Cluster Consolidation	Planning	6	6	0.1	25.0	0.7	0.4	0.3	42.9	
Cyber Security Project #14	Execution	7	7	-	-	0.8	0.8	-	-	
Production Virtualization Expansion	Not Yet Initiated	-	8	-	-	0.5	0.5	-	-	
<b>Efficiencies / Enhancements</b>										
Content Management System (CMS) and Market Information Repository (MIR) Replacement	Stabilization	1	1	0.5	83.3	0.6	0.6	-	-	
Taylor Control Room Upgrade	Stabilization	2	2	3.0	85.7	3.6	3.5	0.1	2.8	
OSI PI Visualization Enhancements	Not Yet Initiated	-	3	-	-	0.4	0.4	-	-	
<b>Projects Below \$0.7 Million EAC Budget Threshold by Phase</b>										
	Complete			0.4	100.0	0.4	0.4	-	-	
	Closing			-	n/a	-	-	-	n/a	
	Stabilization			0.2	100.0	0.4	0.2	0.2	50.0	
	Execution			1.3	54.2	2.4	2.4	-	-	
	Planning			0.5	38.5	1.3	1.3	-	-	
	Initiation			0.1	16.7	0.9	0.6	0.3	33.3	
	On Hold			-	-	0.2	0.2	-	-	
	Not Yet Initiated			-	-	1.4	1.4	-	-	
<b>Other Project Spend</b>										
Minor Capital	Execution			1.0	71.4	1.8	1.4	0.4	22.2	
Common Infrastructure	Execution			0.3	100.0	0.8	0.3	0.5	62.5	
Capital Efficiencies & Enhancements	Execution			0.5	100.0	0.6	0.5	0.1	16.7	
Variance of Completed Projects					n/a	-	-	-	n/a	
Variance of In-flight & Not Yet Initiated Projects					n/a	(2.6)	(0.3)	(2.3)	n/a	
<b>Total - Portfolio Projects</b>				<b>\$ 14.6</b>	<b>57.3</b>	<b>\$ 25.0</b>	<b>\$ 25.5</b>	<b>\$ (0.5)</b>	<b>(2.0)</b>	

**Note:** Minor Capital does not include a software license which was classified as an operating expense in the Board-approved budget, but deemed to be capitalizable at the time the contract was executed. The software license cost is reflected in the Hardware & Software Support & Maintenance line on the Financial Summary.



Electric Reliability Council of Texas, Inc.  
 Summary of Project Budgets vs. Estimates at Completion (EACs) - Project Expenditures  
 As of June 30, 2014  
 (\$ in Millions)

Project Name [Projects listed are at or above \$0.7 Million Estimate at Completion (EAC) Budget threshold]	Current Phase	Order Based on PPL Priority: January 1, 2014	Order Based on PPL Priority: Current	Life to Date		Estimate at Completion (EAC)						
				Life to Date Project Actual	% Spend to EAC Forecast	Project Budget	Project Forecast	Variance				
								\$	%			
<b>Regulatory</b>												
2014 Market System Enhancements	Stabilization	1	1	\$ 1.5	88.2	\$ 1.7	\$ 1.7	\$ -	-	-	-	
Privileged Account Management (PAM)	Planning	-	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	-	-	-	-	
<b>Technical Foundation</b>												
Settlement System Upgrade	Execution	1	1	6.1	82.4	6.8	7.4	(0.6)	(8.8)	-	-	
Oracle 11G Upgrade	Execution	2	2	2.4	100.0	2.4	2.4	-	-	-	-	
Energy Management System (EMS) Upgrade	Planning	3	3	3.4	18.1	18.8	18.8	-	-	-	-	
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	Planning	4	4	1.8	46.2	3.9	3.9	-	-	-	-	
2013 / 2014 Network Refresh	Execution	5	5	0.9	81.8	1.2	1.1	0.1	8.3	-	-	
SQL Server 2012 Upgrade / Cluster Consolidation	Planning	6	6	0.1	25.0	0.7	0.4	0.3	42.9	-	-	
Cyber Security Project #14	Execution	7	7	-	-	0.7	0.7	-	-	-	-	
Production Virtualization Expansion	Not Yet Initiated	-	8	-	-	4.0	4.0	-	-	-	-	
<b>Efficiencies / Enhancements</b>												
Content Management System (CMS) and Market Information Repository (MIR) Replacement	Stabilization	1	1	1.6	94.1	1.7	1.7	-	-	-	-	
Taylor Control Room Upgrade	Stabilization	2	2	3.1	86.1	3.7	3.6	0.1	2.7	-	-	
OSI PI Visualization Enhancements	Not Yet Initiated	-	3	-	-	1.0	1.0	-	-	-	-	
<b>Projects Below \$0.7 Million EAC Budget Threshold by Phase</b>												
	Complete			1.3	100.0	1.4	1.3	0.1	7.1	-	-	
	Closing			-	n/a	-	-	-	n/a	-	-	
	Stabilization			0.4	100.0	0.6	0.4	0.2	33.3	-	-	
	Execution			2.1	67.7	3.1	3.1	-	-	-	-	
	Planning			1.1	50.0	2.2	2.2	-	-	-	-	
	Initiation			0.1	11.1	0.9	0.9	-	-	-	-	
	On Hold			-	-	0.2	0.2	-	-	-	-	
	Not Yet Initiated			-	-	6.4	6.4	-	-	-	-	
<b>Other Project Spend</b>												
Minor Capital	Execution			1.0	71.4	1.8	1.4	0.4	22.2	-	-	
Common Infrastructure	Execution			0.3	100.0	0.8	0.3	0.5	62.5	-	-	
Capital Efficiencies & Enhancements	Execution			0.5	100.0	0.6	0.5	0.1	16.7	-	-	
<b>Total - Portfolio Projects</b>				<b>\$ 27.9</b>	<b>42.8</b>	<b>\$ 66.4</b>	<b>\$ 65.2</b>	<b>\$ 1.2</b>	<b>1.8</b>			

**Note:** Minor Capital does not include a software license which was classified as an operating expense in the Board-approved budget, but deemed to be capitalizable at the time the contract was executed. The software license cost is reflected in the Hardware & Software Support & Maintenance line on the Financial Summary.

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

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	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 361,247	\$ 362,306
Accounts receivable	2,698	1,213
Unbilled revenue	2,909	5,982
Restricted cash	462,414	610,293
Prepaid expenses and other current assets	17,523	14,181
Total current assets	<u>846,791</u>	<u>993,975</u>
Property and equipment, net	157,584	241,755
Systems under development	24,954	12,495
Debt issuance cost	260	428
Total assets	<u>\$ 1,029,589</u>	<u>\$ 1,248,653</u>

**Liabilities and Unrestricted Net Assets**

Current liabilities:		
Accounts payable	\$ 2,496	\$ 4,755
Accrued liabilities	8,812	7,708
Deferred revenue	3,738	3,101
Market settlement liabilities	406,444	386,790
Security deposits	462,414	610,293
Notes payable, current portion	4,000	17,630
Total current liabilities	<u>887,904</u>	<u>1,030,277</u>
Notes payable	69,000	73,000
Regulatory liabilities	66,439	133,193
Other long term liabilities	419	409
Total liabilities	<u>1,023,762</u>	<u>1,236,879</u>
Unrestricted net assets	5,827	11,774
Total liabilities and unrestricted net assets	<u>\$ 1,029,589</u>	<u>\$ 1,248,653</u>

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

	<b>2014</b>	<b>2013</b>
Operating revenues		
System administration fees	\$ 74,920	\$ 64,163
Nodal implementation surcharge	-	297
Reliability organization pass-through	7,175	5,863
Membership fees and other	2,588	3,425
Total operating revenues	<u>84,683</u>	<u>73,748</u>
Operating expenses		
Salaries and related benefits	43,141	40,038
Depreciation	47,321	50,844
Facility and equipment costs	5,683	5,211
Outside services	6,312	5,700
Hardware and software maintenance and licensing	8,147	8,715
Reliability organization assessment	7,175	5,863
Other	3,181	3,089
Amortization of regulatory asset	(33,338)	(33,531)
Total operating expenses	<u>87,622</u>	<u>85,929</u>
(Loss) from operations	(2,939)	(12,181)
Other income (expense)		
Interest income	12	8
Interest expense	(1,405)	(2,066)
Non-operating income (expense)	1	(3)
Change in unrestricted net assets	<u>(4,331)</u>	<u>(14,242)</u>
Unrestricted net assets, beginning of year	10,158	26,016
Unrestricted net assets, end of period	<u>\$ 5,827</u>	<u>\$ 11,774</u>

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

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	<b>2014</b>	<b>2013</b>
<b>Operating activities:</b>		
Change in unrestricted net assets	\$ (4,331)	\$ (14,242)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	47,321	50,844
Amortization of debt issuance costs	62	142
Net losses on capital assets	-	3
Changes in operating assets and liabilities:		
Accounts receivable	(504)	2,652
Unbilled revenue	304	386
Prepaid expenses and other assets	(7,356)	789
Other long-term liabilities	-	10
Accounts payable	(1,074)	2,519
Accrued liabilities	577	(285)
Deferred revenue	(139)	(181)
Regulatory liabilities	(33,338)	(33,531)
Net cash provided by operating activities	<u>1,522</u>	<u>9,106</u>
<b>Investing activities:</b>		
Capital expenditures for property and equipment and systems under development	(14,614)	(7,054)
Proceeds from sale of property and equipment	-	-
Net cash (used in) investing activities	<u>(14,614)</u>	<u>(7,054)</u>
<b>Financing activities:</b>		
Repayment of notes payable	(15,630)	(15,637)
Payment of debt issuance costs	(4)	(10)
Decrease (increase) in restricted cash	186,703	(138,417)
Increase in market settlement liabilities	54,732	56,639
(Decrease) increase in security deposits	(186,703)	138,417
Net cash provided by (used in) financing activities	<u>39,098</u>	<u>40,992</u>
Net increase in cash and cash equivalents	26,006	43,044
Cash and cash equivalents, beginning of year	335,241	319,262
Cash and cash equivalents, end of period	<u>\$ 361,247</u>	<u>\$ 362,306</u>