



Item 4.2: Financial Summary

H. B. "Trip" Doggett

President & Chief Executive Officer

Board of Directors Meeting

ERCOT Public

December 9, 2014

Financial Summary: Variance to Budget (\$ in Millions)

Net Revenues After Base Operating Expenses as of October 31, 2014

Net Revenues Year to Date: \$0.4 M Unfavorable

Major Revenue Variances

\$0.8 M under budget system administration fees due to milder-than-expected temperatures

Major Expense Variances

\$1.1 M under budget hardware/software maintenance due to contract renewals negotiated at lower rates

\$0.9 M under budget hardware/software vendor support services due to more work on projects

\$1.5 M over budget external staffing due to backfilling permanent positions

Net Revenues Year End: \$0.3 M Favorable

Major Revenue Variances

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

Major Expense Variances

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

\$1.0 M under budget hardware/software vendor support services due to more work on projects

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

\$1.8 M over budget external staffing due to backfilling permanent positions

Financial Summary: Statement of Financial Position

As of October 31, 2014 and 2013 (\$ in Millions)

	<u>2014</u>	<u>2013</u>
Assets		
Current assets	\$ 902.6	\$ 1,065.5
Long term assets	159.8	228.4
Total assets	<u>\$ 1,062.4</u>	<u>\$ 1,293.9</u>
 Liabilities and Unrestricted Net Assets		
Current liabilities	\$ 935.7	\$ 1,096.3
Long term liabilities	112.9	183.3
Unrestricted net assets	13.8	14.3
Total liabilities and unrestricted net assets	<u>\$ 1,062.4</u>	<u>\$ 1,293.9</u>

Financial Summary: Statement of Activities and Net Assets

For the Ten Months Ended October 31, 2014 and 2013 (\$ in Millions)

	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 151.2	\$ 132.0
Operating expenses	145.5	140.6
Gain (Loss) from operations	5.7	(8.6)
Other income (expense)	(2.1)	(3.1)
Change in unrestricted net assets	3.6	(11.7)
Unrestricted net assets, beginning of year	10.2	26.0
Unrestricted net assets, end of period	<u>\$ 13.8</u>	<u>\$ 14.3</u>

Appendices

Electric Reliability Council of Texas, Inc.
2014 Financial Summary
As of October 31, 2014
(\$ in Millions)

(\$ in Millions)		Year to Date						Year End					
		2013	2014					2013	2014				
					Variance						Variance		
Line		Actual	Budget	Actual	\$	%		Actual	Budget	Forecast	\$	%	
1	Revenue Sources												
2	System Administration Fee Revenue	\$ 116.9	\$ 135.9	\$ 135.1	\$ (0.8)	(0.6)		\$ 138.7	\$ 159.3	\$ 158.1	\$ (1.2)	(0.8)	
3	Other Revenue	1.3	0.9	1.4	0.5	55.6		1.6	1.1	1.3	0.2	18.2	
4	Subtotal - Revenue Sources	\$ 118.2	\$ 136.8	\$ 136.5	\$ (0.3)	(0.2)		\$ 140.3	\$ 160.4	\$ 159.4	\$ (1.0)	(0.6)	
5													
6	Base Operating Expenses												
7	Salaries	\$ 54.7	\$ 60.1	\$ 61.4	\$ (1.3)	(2.2)		\$ 65.9	\$ 72.0	\$ 73.3	\$ (1.3)	(1.8)	
8	Benefits & Taxes	17.4	19.6	20.1	(0.5)	(2.6)		20.1	22.6	23.0	(0.4)	(1.8)	
9	Project Funded Labor	(7.0)	(7.6)	(8.6)	1.0	(13.2)		(8.4)	(8.3)	(9.5)	1.2	(14.5)	
10	Subtotal - Base Operating Labor	\$ 65.1	\$ 72.1	\$ 72.9	\$ (0.8)	(1.1)		\$ 77.6	\$ 86.3	\$ 86.8	\$ (0.5)	(0.6)	
11	Hardware & Software Support & Maintenance	13.9	16.3	14.3	2.0	12.3		16.9	19.7	17.3	2.4	12.2	
12	Facilities & Equipment	6.7	7.7	7.1	0.6	7.8		8.3	9.2	8.3	0.9	9.8	
13	Outside Services	8.4	7.5	9.6	(2.1)	(28.0)		10.5	9.2	11.8	(2.6)	(28.3)	
14	Market Design Contingency	-	-	-	-	-		-	1.0	-	1.0	100.0	
15	Other Expenses	5.1	5.4	5.2	0.2	3.7		6.3	6.5	6.4	0.1	1.5	
16	Subtotal - Base Operating Expenses	\$ 99.2	\$ 109.0	\$ 109.1	\$ (0.1)	(0.1)		\$ 119.6	\$ 131.9	\$ 130.6	\$ 1.3	1.0	
17													
18	Net Revenues After Base Operating Expenses	\$ 19.0	\$ 27.8	\$ 27.4	\$ (0.4)	(1.4)		\$ 20.7	\$ 28.5	\$ 28.8	\$ 0.3	1.1	
19													
20	Prior Year Carry Forward Funding	\$ 3.5	\$ -	\$ -	\$ -	-		\$ 3.5	\$ -	\$ -	\$ -	-	
21	Less: Project Expenditures	13.5	23.2	22.0	1.2	5.2		16.4	26.0	26.5	(0.5)	(1.9)	
22	Less: Interest Expense	2.0	2.2	1.8	0.4	18.2		2.4	2.6	2.1	0.5	19.2	
23	Net Available for Principal Payments	\$ 7.0	\$ 2.4	\$ 3.6	\$ 1.2	50.0		\$ 5.4	\$ (0.1)	\$ 0.2	\$ 0.3	300.0	

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 October 31, 2014

<u>Line</u>	<u>Category</u>	<u>Year to Date</u>	<u>Year End</u>
2	System Administration Fee Revenue	-\$0.8 M - Primarily due to milder-than-expected temperatures	-\$1.2 M - Primarily due to milder-than-expected temperatures
3	Other Revenue	+\$0.5 M - Generation Interconnection studies providing more revenue than planned	+\$0.4 M - Generation Interconnection studies providing more revenue than planned
7	Salaries	-\$0.9 M - Vacation balance liability has increased -\$0.2 M - Reward and recognition costs -\$0.2 M - Other labor related expenses	-\$0.5 M - Expect vacation liability balance to decline, but not completely -\$0.5 M - Reward and recognition costs -\$0.3 M - Other labor related expenses
8	Benefits & Taxes	-\$0.5 M - Increase in health claims	-\$0.4 M - Increase in health claims
9	Project Funded Labor	+\$1.0 M - More project efforts being performed by employees than planned	+\$1.2 M - More project efforts being performed by employees than planned
11	Hardware & Software Support & Maintenance	+\$1.1 M - Savings for contract renewals negotiated at lower rates with no change in level of service +\$0.9 M - Fewer vendor support service hours due to more work on projects +\$0.7 M - Savings for renewals with decreased level of service -\$0.3 M - Unplanned cost for new, unbudgeted renewals -\$0.4 M - Overspend for budgeted renewals with no change in level of service	+\$1.4 M - Savings for contract renewals negotiated at lower rates with no change in level of service +\$1.0 M - Fewer vendor support service hours due to more work on projects +\$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
12	Facilities & Equipment	+\$0.3 M - Lower property tax costs +\$0.3 M - Electricity consumption lower than planned +\$0.2 M - Web conferencing, telephone, and other facility costs lower than budget +\$0.1 M - Building security costs lower than budget -\$0.3 M - Office rental higher than expected	+\$0.6 M - Lower property tax costs +\$0.3 M - Electricity consumption lower than planned +\$0.2 M - Web conferencing, telephone, and other facility costs lower than budget +\$0.1 M - Building security costs lower than budget -\$0.3 M - Office rental higher than expected
13	Outside Services	-\$1.5 M - Unbudgeted staff backfill -\$2.2 M - Unbudgeted studies, training, and other services +\$1.6 M - Underspent budgeted studies, training, and other services	-\$1.8 M - Unbudgeted staff backfill -\$2.6 M - Unbudgeted studies, training, and other services +\$1.8 M - Underspent budgeted studies, training, and other services
14	Market Design Contingency	\$0.0 M	+\$1.0 M - Do not anticipate PUCT order to pursue market redesign
15	Other Expenses	+\$0.3 M - Wind forecasting service and other less material data services renewed at lower rates +\$0.2 M - Public service announcements not being required +\$0.1 M - Insurance premiums lower than budget -\$0.3 M - Recruiting expenses are higher than budget -\$0.1 M - Other immaterial expenses	+\$0.3 M - Wind forecasting service and other less material data services renewed at lower rate +\$0.2 M - Public service announcements not being required +\$0.1 M - Insurance premiums are expected to be less than budget -\$0.4 M - Recruiting expense are expected to be higher than budget -\$0.1 M - Other immaterial expenses
21	Less: Project Expenditures	\$1.2 M • Delay in project tasks due to the Uninterruptible Power Supply (UPS) outage in August and resource constraints. • Less effort to complete planned tasks for several projects. • Delay of hardware and software purchases to Q4 and 2015 to allow for higher priority projects to begin earlier in the year. • Use of on-site hardware instead of purchasing new hardware and over estimation of hardware / software needs.	-\$0.5 M - More high priority projects being initiated
22	Less: Interest Expense	+\$0.4 M - Portion of interest is being capitalized; therefore, less is being allocated to base operations	+\$0.5 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 October 31, 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							
								\$	%						
Regulatory															
2014 Market System Enhancements	Closing	1	1	\$	1.5	100.0	\$	1.6	\$	1.5	\$	0.1	6.3		
Privileged Account Management (PAM)	Planning	-	2		0.2	25.0		0.9		0.8		0.1	11.1		
Business Strategy															
Market Participant Online Data Entry: Phase 1	Planning	1	1		0.2	100.0		0.3		0.2		0.1	33.3		
Technical Foundation															
Settlement System Upgrade	Execution	1	1		2.0	83.3		2.4		2.4		-	-		
Oracle 11G Upgrade	Closing	2	2		0.4	100.0		0.3		0.4		(0.1)	(33.3)		
Energy Management System (EMS) Upgrade	Execution	3	3		2.8	82.4		3.4		3.4		-	-		
Network Model Management System (NMMS) Upgrade	Planning	-	4		0.5	71.4		0.9		0.7		0.2	22.2		
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	Execution	4	5		2.0	80.0		2.5		2.5		-	-		
2013 / 2014 Network Refresh	Execution	5	6		0.9	90.0		1.0		1.0		-	-		
SQL Server 2012 Upgrade / Cluster Consolidation	Planning	6	7		0.3	75.0		0.7		0.4		0.3	42.9		
Cyber Security Project #14	Execution	7	8		0.7	87.5		0.8		0.8		-	-		
Production Virtualization Expansion	Initiation	-	9		0.3	75.0		0.5		0.4		0.1	20.0		
Efficiencies / Enhancements															
Content Management System (CMS) and Market Information Repository (MIR) Replacement	Stabilization	1	1		0.5	100.0		0.6		0.5		0.1	16.7		
Taylor Control Room Upgrade	Stabilization	2	2		3.2	100.0		3.4		3.2		0.2	5.9		
OSI PI Visualization Enhancements	Planning	-	3		-	-		0.4		0.4		-	-		
Projects Below \$0.7 Million EAC Budget Threshold by Phase															
	Complete				0.5	100.0		0.6		0.5		0.1	16.7		
	Closing				0.5	83.3		0.6		0.6		-	-		
	Stabilization				0.8	100.0		0.9		0.8		0.1	11.1		
	Execution				2.1	77.8		2.7		2.7		-	-		
	Planning				0.6	54.5		1.2		1.1		0.1	8.3		
	Initiation				-	-		0.3		0.3		-	-		
	On Hold				-	n/a		0.2		-		0.2	100.0		
	Not Yet Initiated				-	-		0.2		0.2		-	-		
Other Project Spend															
Minor Capital	Execution				1.1	68.8		1.7		1.6		0.1	5.9		
Common Infrastructure	Execution				0.3	100.0		0.3		0.3		-	-		
Capital Efficiencies & Enhancements	Execution				0.6	100.0		0.6		0.6		-	-		
Variance of Completed Projects						n/a		(0.1)		-		(0.1)	n/a		
Variance of In-flight & Not Yet Initiated Projects						n/a		(2.9)		(0.8)		(2.1)	n/a		
Total - Portfolio Projects					\$	22.0		83.0	\$	26.0	\$	26.5	\$	(0.5)	(1.9)

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 October 31, 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							
								\$	%						
Regulatory															
2014 Market System Enhancements	Closing	1	1	\$	1.6	100.0	\$	1.7	\$	1.6	\$	0.1	5.9		
Privileged Account Management (PAM)	Planning	-	2		0.2	20.0		1.0		1.0		-	-		
Business Strategy															
Market Participant Online Data Entry: Phase 1	Planning	1	1		0.3	37.5		0.8		0.8		-	-		
Technical Foundation															
Settlement System Upgrade	Execution	1	1		6.9	93.2		7.4		7.4		-	-		
Oracle 11G Upgrade	Closing	2	2		2.5	100.0		2.4		2.5		(0.1)	(4.2)		
Energy Management System (EMS) Upgrade	Execution	3	3		4.4	23.3		18.9		18.9		-	-		
Network Model Management System (NMMS) Upgrade	Planning	-	4		0.7	63.6		1.1		1.1		-	-		
Market Management System (MMS) / Outage Scheduler (OS)	Execution	4	5		2.7	69.2		3.9		3.9		-	-		
Technology Refresh															
2013 / 2014 Network Refresh	Execution	5	6		1.0	100.0		1.0		1.0		-	-		
SQL Server 2012 Upgrade / Cluster Consolidation	Planning	6	7		0.3	60.0		0.7		0.5		0.2	28.6		
Cyber Security Project #14	Execution	7	8		0.7	87.5		0.8		0.8		-	-		
Production Virtualization Expansion	Initiation	-	9		0.3	6.0		5.0		5.0		-	-		
Efficiencies / Enhancements															
Content Management System (CMS) and Market Information Repository (MIR) Replacement	Stabilization	1	1		1.6	100.0		1.7		1.6		0.1	5.9		
Taylor Control Room Upgrade	Stabilization	2	2		3.3	100.0		3.6		3.3		0.3	8.3		
OSI PI Visualization Enhancements	Planning	-	3		-	-		1.0		1.0		-	-		
Projects Below \$0.7 Million EAC Budget Threshold by Phase															
	Complete				1.4	100.0		1.6		1.4		0.2	12.5		
	Closing				0.7	87.5		0.8		0.8		-	-		
	Stabilization				1.1	100.0		1.2		1.1		0.1	8.3		
	Execution				3.0	78.9		3.8		3.8		-	-		
	Planning				0.6	22.2		2.7		2.7		-	-		
	Initiation				-	-		0.4		0.4		-	-		
	On Hold				-	-		0.2		0.2		-	-		
	Not Yet Initiated				-	-		1.2		1.2		-	-		
Other Project Spend															
Minor Capital	Execution				1.1	68.8		1.7		1.6		0.1	5.9		
Common Infrastructure	Execution				0.3	100.0		0.3		0.3		-	-		
Capital Efficiencies & Enhancements	Execution				0.6	100.0		0.6		0.6		-	-		
Total - Portfolio Projects					\$	35.3		54.7	\$	65.5	\$	64.5	\$	1.0	1.5

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.

Statements of Financial Position

As of October 31, 2014 and 2013

(Dollars in Thousands)

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 284,785	\$ 290,485
Accounts receivable	1,597	1,517
Unbilled revenue	2,639	2,666
Restricted cash	596,616	757,425
Prepaid expenses and other current assets	16,996	13,366
Total current assets	902,633	1,065,459
Property and equipment, net	132,114	211,662
Systems under development	27,431	16,414
Debt issuance cost	249	354
Total assets	<u>\$ 1,062,427</u>	<u>\$ 1,293,889</u>
Liabilities and Unrestricted Net Assets		
Current liabilities:		
Accounts payable	\$ 4,630	\$ 1,470
Accrued liabilities	7,571	8,732
Deferred revenue	2,589	2,158
Market settlement liabilities	320,308	308,871
Security deposits	596,616	757,425
Notes payable, current portion	4,000	17,630
Total current liabilities	935,714	1,096,286
Notes payable	68,000	72,000
Regulatory liabilities	44,497	110,890
Other long term liabilities	424	414
Total liabilities	1,048,635	1,279,590
Unrestricted net assets	13,792	14,299
Total liabilities and unrestricted net assets	<u>\$ 1,062,427</u>	<u>\$ 1,293,889</u>

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Activities and Net Assets

For the Ten Months Ended October 31, 2014 and 2013

(Dollars in Thousands)

	2014	2013
Operating revenues		
System administration fees	\$ 135,116	\$ 116,930
Nodal implementation surcharge	-	220
Reliability organization pass-through	11,959	9,771
Membership fees and other	4,168	5,085
Total operating revenues	151,243	132,006
Operating expenses		
Salaries and related benefits	73,421	66,103
Depreciation	76,572	82,451
Facility and equipment costs	9,278	8,944
Outside services	10,123	9,490
Hardware and software maintenance and licensing	14,014	14,453
Reliability organization assessment	11,959	9,771
Other	5,427	5,197
Amortization of regulatory asset	(55,280)	(55,834)
Total operating expenses	145,514	140,575
Gain (Loss) from operations	5,729	(8,569)
Other income (expense)		
Interest income	21	14
Interest expense	(2,131)	(3,167)
Non-operating income	15	5
Change in unrestricted net assets	3,634	(11,717)
Unrestricted net assets, beginning of year	10,158	26,016
Unrestricted net assets, end of period	\$ 13,792	\$ 14,299

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Cash Flows

For the Ten Months Ended October 31, 2014 and 2013

(Dollars in Thousands)

	2014	2013
Operating activities:		
Change in unrestricted net assets	\$ 3,634	\$ (11,717)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	76,572	82,451
Amortization of debt issuance costs	73	216
Net losses on capital assets	-	(2)
Changes in operating assets and liabilities:		
Accounts receivable	597	2,348
Unbilled revenue	574	3,702
Prepaid expenses and other assets	(6,829)	1,604
Other long-term liabilities	5	15
Accounts payable	1,193	(783)
Accrued liabilities	(628)	546
Deferred revenue	(1,288)	(1,124)
Regulatory liabilities	(55,280)	(55,834)
Net cash provided by operating activities	18,623	21,422
Investing activities:		
Capital expenditures for property and equipment and systems under development	(21,041)	(12,277)
Proceeds from sale of property and equipment	-	5
Net cash (used in) investing activities	(21,041)	(12,272)
Financing activities:		
Repayment of notes payable	(16,630)	(16,637)
Payment of debt issuance costs	(4)	(10)
Decrease (increase) in restricted cash	52,501	(285,549)
Decrease in market settlement liabilities	(31,404)	(21,280)
(Decrease) increase in security deposits	(52,501)	285,549
Net cash (used in) financing activities	(48,038)	(37,927)
Net (decrease) in cash and cash equivalents	(50,456)	(28,777)
Cash and cash equivalents, beginning of year	335,241	319,262
Cash and cash equivalents, end of period	\$ 284,785	\$ 290,485