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## **Item 13.1: Review 2014 Financial Summary**

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Controller

Finance & Audit Committee  
ERCOT Public  
February 9, 2015

# Review 2014 Financial Summary: Variance to Budget (\$ in Millions) Net Revenues After Base Operating Expenses as of December 31, 2014

## Preliminary Net Revenues at Year End: \$0.5 M Favorable

### Major Revenue Variances

\$0.6 M under budget system administration fees which represents a 0.4% variance

\$0.5 M over budget due to more generation interconnection studies

### Major Expense Variances

\$1.6 M under budget hardware/software vendor support services due to more work on projects

\$1.3 M under budget hardware/software maintenance due to net savings for contract renewals

\$1.0 M under budget market design contingency was not utilized

\$1.6 M over budget external staffing due to backfilling permanent positions

\$1.2 M over budget due to higher health claims

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

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current assets	\$ 745.5	\$ 999.9
Long term assets	147.7	215.1
Total assets	<u>\$ 893.2</u>	<u>\$ 1,215.0</u>
 <b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities	\$ 782.7	\$ 1,033.7
Long term liabilities	101.0	171.1
Unrestricted net assets	9.5	10.2
Total liabilities and unrestricted net assets	<u>\$ 893.2</u>	<u>\$ 1,215.0</u>

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

## For the Twelve Months Ended December 31, 2014 and 2013 (\$ in Millions)

	<b>2014</b>		<b>2013</b>
Operating revenues	\$ 178.0	\$	156.5
Operating expenses	176.4		168.6
Gain (Loss) from operations	1.6		(12.1)
Other income (expense)	(2.3)		(3.7)
Change in unrestricted net assets	(0.7)		(15.8)
Unrestricted net assets, beginning of year	10.2		26.0
Unrestricted net assets, end of period	\$ 9.5	\$	10.2

## Appendices

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

Line	Year End (Preliminary)				
	2013		2014		Variance
	Actual	Budget	Actual	\$	
1	<b>Revenue Sources</b>				
2	\$ 138.7	\$ 159.3	\$ 158.7	\$ (0.6)	(0.4)
3	1.6	1.1	1.6	0.5	45.5
4	<b>\$ 140.3</b>	<b>\$ 160.4</b>	<b>\$ 160.3</b>	<b>\$ (0.1)</b>	<b>(0.1)</b>
5					
6	<b>Base Operating Expenses</b>				
7	\$ 65.9	\$ 72.0	\$ 74.0	\$ (2.0)	(2.8)
8	20.1	22.6	23.8	(1.2)	(5.3)
9	(8.4)	(8.3)	(9.7)	1.4	(16.9)
10	<b>\$ 77.6</b>	<b>\$ 86.3</b>	<b>\$ 88.1</b>	<b>\$ (1.8)</b>	<b>(2.1)</b>
11	16.9	19.7	16.8	2.9	14.7
12	8.3	9.2	8.6	0.6	6.5
13	10.5	9.2	11.3	(2.1)	(22.8)
14	-	1.0	-	1.0	100.0
15	6.3	6.5	6.5	-	-
16	<b>\$ 119.6</b>	<b>\$ 131.9</b>	<b>\$ 131.3</b>	<b>\$ 0.6</b>	<b>0.5</b>
17					
18	<b>\$ 20.7</b>	<b>\$ 28.5</b>	<b>\$ 29.0</b>	<b>\$ 0.5</b>	<b>1.8</b>
19					
20	\$ 3.5	\$ -	\$ -	\$ -	-
21	16.4	26.0	26.3	(0.3)	(1.2)
22	2.4	2.6	2.2	0.4	15.4
23	<b>\$ 5.4</b>	<b>\$ (0.1)</b>	<b>\$ 0.5</b>	<b>\$ 0.6</b>	<b>(600.0)</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 End Variance Explanations**  
**As of December 31, 2014**

<b>Line</b>	<b>Category</b>	<b>Year End (Preliminary)</b>
2	System Administration Fee Revenue	-\$0.6 M - Immaterial, only a 0.4% variance
3	Other Revenue	+\$0.5 M - Generation Interconnection studies providing more revenue than planned
7	Salaries	-\$0.7 M - Vacation balance liability has increased -\$0.7 M - Other labor related expenses -\$0.6 M - Costs for reward and recognition and unbudgeted separation payouts
8	Benefits & Taxes	-\$1.2 M - Increase in health claims
9	Project Funded Labor	+\$1.4 M - More project efforts performed by employees than planned
11	Hardware & Software Support & Maintenance	+\$1.6 M - Fewer vendor support service hours due to more work on projects +\$1.5 M - Savings for contract renewals negotiated at lower rates with no change in level of service +\$0.7 M - Savings for renewals with decreased level of service -\$0.5 M - Overspend for budgeted renewals with no change in level of service -\$0.4 M - Unplanned cost for new, unbudgeted renewals
12	Facilities & Equipment	+\$0.4 M - Lower property tax costs +\$0.2 M - Electricity consumption lower than planned +\$0.2 M - Web conferencing, telephone, and internet service lower than budget +\$0.1 M - Building security costs and other immaterial expenses lower than budget -\$0.3 M - Office rental higher than expected
13	Outside Services	-\$1.6 M - Unbudgeted staff backfill  -\$2.7 M - Unbudgeted studies, training, and other services +\$2.2 M - Underspent budgeted studies, training, and other services
14	Market Design Contingency	+\$1.0 M - PUCT did not order 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 -\$0.3 M - Other immaterial expenses
21	Less: Project Expenditures	-\$0.3 M - More high priority projects were initiated
22	Less: Interest Expense	+\$0.4 M - Portion of interest was capitalized; therefore, less was allocated to base operations

Electric Reliability Council of Texas, Inc.  
 Summary of Portfolio Demand vs. Year End (YE) Forecast - Project Expenditures  
 As of December 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				
								\$	%			
<b>Regulatory</b>												
2014 Market System Enhancements	Complete	1	1	\$ 1.5	100.0	\$ 1.6	\$ 1.5	\$ 0.1	6.3			
Privileged Account Management (PAM)	Planning	-	2	0.6	100.0	0.8	0.6	0.2	25.0			
<b>Business Strategy</b>												
Market Participant Online Data Entry: Phase 1	Planning	1	1	0.2	100.0	0.3	0.2	0.1	33.3			
<b>Technical Foundation</b>												
Settlement System Upgrade	Stabilization	1	1	2.3	100.0	2.3	2.3	-	-			
Oracle 11G Upgrade	Complete	2	2	0.4	100.0	0.3	0.4	(0.1)	(33.3)			
Energy Management System (EMS) Upgrade	Execution	3	3	3.3	100.0	3.3	3.3	-	-			
Network Model Management System (NMMS) Upgrade	Execution	-	4	0.7	100.0	0.7	0.7	-	-			
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	Execution	4	5	2.3	100.0	2.5	2.3	0.2	8.0			
2013 / 2014 Network Refresh	Complete	5	6	0.9	100.0	0.9	0.9	-	-			
SQL Server 2012 Upgrade / Cluster Consolidation	Execution	6	7	0.4	100.0	0.4	0.4	-	-			
Cyber Security Project #14	Stabilization	7	8	0.7	100.0	0.8	0.7	0.1	12.5			
Production Virtualization Expansion	Planning	-	9	0.4	100.0	0.4	0.4	-	-			
<b>Efficiencies / Enhancements</b>												
Content Management System (CMS) and Market Information Repository (MIR) Replacement	Closing	1	1	0.5	100.0	0.6	0.5	0.1	16.7			
Taylor Control Room Upgrade	Complete	2	2	3.2	100.0	3.5	3.2	0.3	8.6			
OSI PI Visualization Enhancements	Planning	-	3	0.4	100.0	0.4	0.4	-	-			
<b>Projects Below \$0.7 Million EAC Budget Threshold by Phase</b>												
	Complete			1.0	100.0	1.2	1.0	0.2	16.7			
	Closing			1.1	100.0	1.1	1.1	-	-			
	Stabilization			0.8	100.0	0.8	0.8	-	-			
	Execution			1.8	100.0	2.1	1.8	0.3	14.3			
	Planning			0.7	100.0	1.0	0.7	0.3	30.0			
	Initiation			-	n/a	0.2	-	0.2	100.0			
	On Hold			-	n/a	0.2	-	0.2	100.0			
	Not Yet Initiated			-	n/a	-	-	-	n/a			
<b>Other Project Spend</b>												
Minor Capital	Execution			2.2	100.0	2.3	2.2	0.1	4.3			
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	(0.5)	-	(0.5)	n/a			
Variance of In-flight & Not Yet Initiated Projects					n/a	(2.1)	-	(2.1)	n/a			
<b>Total - Portfolio Projects</b>				<b>\$ 26.3</b>	<b>100.0</b>	<b>\$ 26.0</b>	<b>\$ 26.3</b>	<b>\$ (0.3)</b>	<b>(1.2)</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 December 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		
								\$	%	
<b>Regulatory</b>										
2014 Market System Enhancements	Complete	1	1	\$ 1.6	100.0	\$ 1.7	\$ 1.6	\$ 0.1	5.9	
Privileged Account Management (PAM)	Planning	-	2	0.6	60.0	1.0	1.0	-	-	
<b>Business Strategy</b>										
Market Participant Online Data Entry: Phase 1	Planning	1	1	0.3	37.5	0.8	0.8	-	-	
<b>Technical Foundation</b>										
Settlement System Upgrade	Stabilization	1	1	7.2	97.3	7.4	7.4	-	-	
Oracle 11G Upgrade	Complete	2	2	2.5	100.0	2.4	2.5	(0.1)	(4.2)	
Energy Management System (EMS) Upgrade	Execution	3	3	5.0	26.5	18.9	18.9	-	-	
Network Model Management System (NMMS) Upgrade	Execution	-	4	0.9	18.8	4.8	4.8	-	-	
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	Execution	4	5	3.0	81.1	3.9	3.7	0.2	5.1	
2013 / 2014 Network Refresh	Complete	5	6	1.0	100.0	1.0	1.0	-	-	
SQL Server 2012 Upgrade / Cluster Consolidation	Execution	6	7	0.4	66.7	0.6	0.6	-	-	
Cyber Security Project #14	Stabilization	7	8	0.7	100.0	0.8	0.7	0.1	12.5	
Production Virtualization Expansion	Planning	-	9	0.4	8.0	5.0	5.0	-	-	
<b>Efficiencies / Enhancements</b>										
Content Management System (CMS) and Market Information Repository (MIR) Replacement	Closing	1	1	1.6	100.0	1.7	1.6	0.1	5.9	
Taylor Control Room Upgrade	Complete	2	2	3.3	100.0	3.6	3.3	0.3	8.3	
OSI PI Visualization Enhancements	Planning	-	3	0.4	40.0	1.0	1.0	-	-	
<b>Projects Below \$0.7 Million EAC Budget Threshold by Phase</b>										
	Complete			2.2	100.0	2.5	2.2	0.3	12.0	
	Closing			1.2	100.0	1.3	1.2	0.1	7.7	
	Stabilization			1.4	93.3	1.5	1.5	-	-	
	Execution			2.2	78.6	3.0	2.8	0.2	6.7	
	Planning			0.7	28.0	2.5	2.5	-	-	
	Initiation			-	-	0.6	0.6	-	-	
	On Hold			-	-	0.2	0.2	-	-	
	Not Yet Initiated			-	n/a	-	-	-	n/a	
<b>Other Project Spend</b>										
Minor Capital	Execution			2.2	100.0	2.3	2.2	0.1	4.3	
Common Infrastructure	Execution			0.3	100.0	0.3	0.3	-	-	
Capital Efficiencies & Enhancements	Execution			0.6	100.0	0.6	0.6	-	-	
<b>Total - Portfolio Projects</b>				<b>\$ 39.7</b>	<b>58.4</b>	<b>\$ 69.4</b>	<b>\$ 68.0</b>	<b>\$ 1.4</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.

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# ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

## Statements of Financial Position

As of December 31, 2014 and 2013

(Dollars in Thousands)

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	2014	2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 314,800	\$ 335,241
Accounts receivable	2,095	2,194
Unbilled revenue	3,440	3,213
Restricted cash	409,012	649,117
Prepaid expenses and other current assets	16,184	10,167
Total current assets	745,531	999,932
Property and equipment, net	126,546	198,457
Systems under development	20,867	16,336
Debt issuance cost	244	318
Total assets	\$ 893,188	\$ 1,215,043

## Liabilities and Unrestricted Net Assets

Current liabilities:		
Accounts payable	\$ 4,149	\$ 3,322
Accrued liabilities	8,566	8,030
Deferred revenue	4,178	3,877
Market settlement liabilities	352,819	351,712
Security deposits	409,012	649,117
Notes payable, current portion	4,000	17,630
Total current liabilities	782,724	1,033,688
Notes payable	67,000	71,000
Regulatory liabilities	33,526	99,778
Other long term liabilities	429	419
Total liabilities	883,679	1,204,885
Unrestricted net assets	9,509	10,158
Total liabilities and unrestricted net assets	\$ 893,188	\$ 1,215,043

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## ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

### Statements of Activities and Net Assets

For the Twelve Months Ended December 31, 2014 and 2013

(Dollars in Thousands)

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	<u>2014</u>	<u>2013</u>
Operating revenues		
System administration fees	\$ 158,741	\$ 138,692
Nodal implementation surcharge	-	220
Reliability organization pass-through	14,351	11,725
Membership fees and other	4,925	5,899
Total operating revenues	<u>178,017</u>	<u>156,536</u>
Operating expenses		
Salaries and related benefits	88,813	78,777
Depreciation	92,864	98,441
Facility and equipment costs	11,288	11,101
Outside services	11,901	11,660
Hardware and software maintenance and licensing	16,662	17,466
Reliability organization assessment	14,351	11,725
Other	6,746	6,439
Amortization of regulatory asset	(66,251)	(66,946)
Total operating expenses	<u>176,374</u>	<u>168,663</u>
Gain (Loss) from operations	1,643	(12,127)
Other income (expense)		
Interest income	27	20
Interest expense	(2,490)	(3,756)
Non-operating income	171	5
Change in unrestricted net assets	(649)	(15,858)
Unrestricted net assets, beginning of year	10,158	26,016
Unrestricted net assets, end of period	<u>\$ 9,509</u>	<u>\$ 10,158</u>

**Preliminary - Unaudited**

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**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

**Statements of Cash Flows**

**For the Twelve Months Ended December 31, 2014 and 2013**

(Dollars in Thousands)

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	<u>2014</u>	<u>2013</u>
<b>Operating activities:</b>		
Change in unrestricted net assets	\$ (649)	\$ (15,858)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	92,864	98,441
Amortization of debt issuance costs	78	252
Net gain on capital assets	(97)	(2)
Changes in operating assets and liabilities:		
Accounts receivable	99	1,671
Unbilled revenue	(227)	3,155
Prepaid expenses and other assets	(6,017)	4,803
Other long-term liabilities	10	20
Accounts payable	(121)	917
Accrued liabilities	(37)	55
Deferred revenue	301	595
Regulatory liabilities	(66,251)	(66,946)
Net cash provided by operating activities	<u>19,953</u>	<u>27,103</u>
<b>Investing activities:</b>		
Capital expenditures for property and equipment and systems under development	(23,870)	(15,043)
Proceeds from sale of property and equipment	3	5
Net cash used in investing activities	<u>(23,867)</u>	<u>(15,038)</u>
<b>Financing activities:</b>		
Repayment of notes payable	(17,630)	(17,637)
Payment of debt issuance costs	(4)	(10)
Decrease (increase) in restricted cash	240,105	(177,241)
Increase in market settlement liabilities	1,107	21,561
(Decrease) increase in security deposits	(240,105)	177,241
Net cash (used in) provided by financing activities	<u>(16,527)</u>	<u>3,914</u>
Net (decrease) increase in cash and cash equivalents	(20,441)	15,979
Cash and cash equivalents, beginning of year	335,241	319,262
Cash and cash equivalents, end of period	<u>\$ 314,800</u>	<u>\$ 335,241</u>