



Item 4.2: Financial Summary

H. B. "Trip" Doggett

President & Chief Executive Officer

Board of Directors Meeting

ERCOT Public

April 14, 2015

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

Net Revenues After Department Expenditures as of February 28, 2015

Net Revenues Year to Date: \$2.2 M Favorable

Major Revenue Variances

\$1.7 M over budget: system administration fees are favorable due to colder-than-expected temperatures

Major Expenditure Variances

\$0.6 M under budget: hardware/software vendor services due to timing differences

Net Revenues Year End: \$1.5 M Unfavorable

Major Revenue Variances

\$1.5 M under budget: system administration fees are unfavorable due to new model which forecasts lower load than previous model

Major Expenditure Variances

None forecasted at this time

Financial Summary: Statement of Financial Position

As of February 28, 2015 and 2014 (\$ in Millions)

| | <u>2015</u> | <u>2014</u> |
|--|-----------------|-------------------|
| Assets | | |
| Current assets | \$ 733.3 | \$ 941.0 |
| Long term assets | 135.4 | 204.6 |
| Total assets | <u>\$ 868.7</u> | <u>\$ 1,145.6</u> |
| Liabilities and Unrestricted Net Assets | | |
| Current liabilities | \$ 770.2 | \$ 976.3 |
| Long term liabilities | 89.9 | 160.1 |
| Unrestricted net assets | 8.6 | 9.2 |
| Total liabilities and unrestricted net assets | <u>\$ 868.7</u> | <u>\$ 1,145.6</u> |

Financial Summary: Statement of Activities and Net Assets

For the Two Months Ended February 28, 2015 and 2014 (\$ in Millions)

| | <u>2015</u> | <u>2014</u> |
|--|---------------|---------------|
| Operating revenues | \$ 28.6 | \$ 28.0 |
| Operating expenses | 29.5 | 28.5 |
| Gain (Loss) from operations | (0.9) | (0.5) |
| Other income (expense) | (0.1) | (0.5) |
| Change in unrestricted net assets | (1.0) | (1.0) |
| Unrestricted net assets, beginning of year | 9.6 | 10.2 |
| Unrestricted net assets, end of period | <u>\$ 8.6</u> | <u>\$ 9.2</u> |

Appendices

| Electric Reliability Council of Texas, Inc. 2015 Financial Summary For the Two Months Ended February 28, 2015 (\$ in Millions) | | | | | | | | | | | |
|---|---|--------------|----------|---------|--------|--------|----------|----------|----------|----------|---------|
| | | Year to Date | | | | | Year End | | | | |
| | | 2014 | 2015 | | | | 2014 | 2015 | | | |
| | | | Variance | | | | | Variance | | | |
| Line | | Actual | Budget | Actual | \$ | % | Actual | Budget | Forecast | \$ | % |
| 1 | System Administration Revenue | \$ 24.7 | \$ 23.5 | \$ 25.2 | \$ 1.7 | 7.2 | \$ 158.7 | \$ 163.3 | \$ 161.8 | \$ (1.5) | (0.9) |
| 2 | Department Net Expenditures | | | | | | | | | | |
| 3 | Information Technology | 7.3 | 9.0 | 8.8 | 0.2 | 2.2 | 48.1 | 55.5 | 55.5 | - | - |
| 4 | Operations | 6.4 | 6.7 | 6.7 | - | - | 41.1 | 41.7 | 41.7 | - | - |
| 5 | Finance & Treasury | 2.3 | 2.4 | 2.1 | 0.3 | 12.5 | 13.6 | 15.3 | 15.3 | - | - |
| 6 | General Counsel and GRC | 2.4 | 2.5 | 2.4 | 0.1 | 4.0 | 14.5 | 15.0 | 15.0 | - | - |
| 7 | External Affairs & Corporate Communications | 0.8 | 0.9 | 1.0 | (0.1) | (11.1) | 4.9 | 5.8 | 5.8 | - | - |
| 8 | Human Resources | 0.8 | 0.7 | 0.7 | - | - | 5.7 | 4.5 | 4.5 | - | - |
| 9 | Corporate Administration | 0.5 | 0.4 | 0.4 | - | - | 2.7 | 2.8 | 2.8 | - | - |
| 10 | Entity | - | - | - | - | - | (0.2) | - | - | - | - |
| 11 | Total Department Net Expenditures | 20.5 | 22.6 | 22.1 | 0.5 | 2.2 | 130.4 | 140.6 | 140.6 | - | - |
| 12 | | | | | | | | | | | |
| 13 | Net Revenues After Department Expenditures | 4.2 | 0.9 | 3.1 | 2.2 | 244.4 | 28.3 | 22.7 | 21.2 | (1.5) | (6.5) |
| 14 | | | | | | | | | | | |
| 15 | Less: Project Expenditures | 4.1 | 3.0 | 3.1 | (0.1) | (3.3) | 26.5 | 21.7 | 21.7 | - | - |
| 16 | Net Available for Debt & Working Capital | \$ 0.1 | \$ (2.1) | \$ - | \$ 2.1 | 100.0 | \$ 1.8 | \$ 1.0 | \$ (0.5) | \$ (1.5) | (148.0) |
| 17 | | | | | | | | | | | |

Electric Reliability Council of Texas, Inc.
2015 Financial Summary - Year to Date and Year End Variance Explanations
For the Two Months Ended February 28, 2015

| <u>Line</u> | <u>Category</u> | <u>Year to Date</u> | <u>Year End</u> |
|-------------|--|---|---|
| 1 | SystemAdministration Fee Revenue | +\$1.7 M - Primarily due to colder-than-expected temperatures | -\$1.5 M - SystemAdministration Fees are expected to be under budget based on the new load model which forecasts lower load than previous model |
| 3 | Information Technology | +\$0.6 M -HW/SW vendor services due to timing differences -\$0.2 M - Project funded labor lower than planned -\$0.2 M - External staffing higher than budget | \$0.0 M |
| 4 | Operations | +\$0.0 M | \$0.0 M |
| 5 | Finance & Treasury | +\$0.2 M - Lower property taxes and electricity consumption +\$0.1 M - Interest expense | \$0.0 M |
| 6 | General Counsel and Governance, Risk, & Compliance | +\$0.1 M -Underspend for budgeted studies, training, and other services | \$0.0 M |
| 7 | External Affairs & Corporate Communications | -\$0.1 M - Overbudget due to higher benefits and taxes, vacation liability, and lower than planned project labor | \$0.0 M |
| 8 | Human Resources | \$0.0 M | \$0.0 M |
| 9 | Corporate Administration | \$0.0 M | \$0.0 M |
| 10 | Entity | \$0.0 M | \$0.0 M |
| 15 | Less: Project Expenditures | -\$0.1 M - Primarily due to contract resources on the Settlement System Upgrade project requiring more stabilization labor than expected to remediate production defects and performance issues and to complete knowledge transfer to ERCOT staff | \$0.0 M |

Electric Reliability Council of Texas, Inc.
Summary of Technical Foundation Portfolio Demand vs. Year End (YE) Forecast - Project Expenditures
As of February 28, 2015
(\$ in Millions)

| | | | | Year to Date | | Year End | | | | | | | |
|--|-------------------|--|---|-----------------------------------|------------------------------------|-------------------|---------------------|----------|--------|------|----|---|---|
| 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, 2015 | Order Based on PPL Priority: Current | Year to Date Project Actual | % Spend to Year End Forecast | Project Budget | Project Forecast | Variance | | | | | |
| | | | | | | | | \$ | % | | | | |
| Technical Foundation | | | | | | | | | | | | | |
| Settlement System Upgrade | Stabilization | 1 | 1 | 0.1 | 33.3 | 0.2 | 0.3 | (0.1) | (50.0) | | | | |
| Energy Management System (EMS) Upgrade | Execution | 2 | 2 | 0.7 | 7.1 | 9.9 | 9.9 | - | - | | | | |
| Network Model Management System (NMMS) Upgrade | Execution | 3 | 3 | 0.6 | 17.6 | 3.4 | 3.4 | - | - | | | | |
| Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh | Execution | 4 | 4 | 0.4 | 33.3 | 1.2 | 1.2 | - | - | | | | |
| Production Virtualization Expansion | Planning | 5 | 5 | - | - | 2.0 | 1.4 | 0.6 | 30.0 | | | | |
| ERCOT Enterprise NAS Solution | Not Yet Initiated | 6 | 6 | - | - | 0.7 | 0.7 | - | - | | | | |
| Voice Over IP (VOIP) Replacement for PBX | Not Yet Initiated | 7 | 7 | - | - | 0.8 | 0.8 | - | - | | | | |
| Projects Below \$0.7 Million EAC Budget Threshold by Phase | | | | | | | | | | | | | |
| | Complete | | | - | n/a | - | - | - | n/a | | | | |
| | Closing | | | - | n/a | - | - | - | n/a | | | | |
| | Stabilization | | | 0.1 | 100.0 | 0.2 | 0.1 | 0.1 | 50.0 | | | | |
| | Execution | | | 0.3 | 23.1 | 1.3 | 1.3 | - | - | | | | |
| | Planning | | | 0.1 | 20.0 | 0.5 | 0.5 | - | - | | | | |
| | Initiation | | | - | - | 0.2 | 0.2 | - | - | | | | |
| | On Hold | | | - | n/a | - | - | - | n/a | | | | |
| | Not Yet Initiated | | | - | n/a | - | - | - | n/a | | | | |
| Other Project Spend | | | | | | | | | | | | | |
| Variance of Completed Projects | | | | | n/a | - | - | - | n/a | | | | |
| Variance of In-flight & Not Yet Initiated Projects | | | | | n/a | (3.7) | (3.1) | (0.6) | n/a | | | | |
| Total - Portfolio Projects | | | | \$ | 2.3 | 13.8 | \$ | 16.7 | \$ | 16.7 | \$ | - | - |

Note: The 2016 infrastructure refresh purchases for the Energy Management System (EMS) Upgrade program will be accelerated into 2015 to avoid converting to a new infrastructure shortly after the new EMS system goes on-line. We will continue to manage total 2015 project spend with the goal of meeting the original budgeted amount, however, this accelerated purchase may place the 2015 PPL budget at risk.

Electric Reliability Council of Texas, Inc.
Summary of Technical Foundation Project Budgets vs. Estimates at Completion (EACs) - Project Expenditures
As of February 28, 2015
(\$ 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, 2015 | 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 | |
| | | | | | | | | \$ | % |
| | | | | | | | | | |
| Technical Foundation | | | | | | | | | |
| Settlement System Upgrade | Stabilization | 1 | 1 | 7.3 | 98.6 | 7.4 | 7.4 | - | - |
| Energy Management System (EMS) Upgrade | Execution | 2 | 2 | 5.5 | 29.1 | 18.9 | 18.9 | - | - |
| Network Model Management System (NMMS) Upgrade | Execution | 3 | 3 | 1.5 | 31.3 | 4.8 | 4.8 | - | - |
| Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh | Execution | 4 | 4 | 3.4 | 81.0 | 4.2 | 4.2 | - | - |
| Production Virtualization Expansion | Planning | 5 | 5 | 0.4 | 8.0 | 5.0 | 5.0 | - | - |
| ERCOT Enterprise NAS Solution | Not Yet Initiated | 6 | 6 | - | - | 0.7 | 0.7 | - | - |
| Voice Over IP (VOIP) Replacement for PBX | Not Yet Initiated | 7 | 7 | - | - | 0.8 | 0.8 | - | - |
| Projects Below \$0.7 Million EAC Budget Threshold by Phase | | | | | | | | | |
| | Complete | | | 0.1 | 100.0 | 0.1 | 0.1 | - | - |
| | Closing | | | 0.8 | 100.0 | 0.8 | 0.8 | - | - |
| | Stabilization | | | 0.7 | 100.0 | 0.8 | 0.7 | 0.1 | 12.5 |
| | Execution | | | 1.5 | 57.7 | 2.6 | 2.6 | - | - |
| | Planning | | | 0.4 | 50.0 | 0.8 | 0.8 | - | - |
| | Initiation | | | - | - | 0.2 | 0.2 | - | - |
| | On Hold | | | - | n/a | - | - | - | n/a |
| | Not Yet Initiated | | | - | n/a | - | - | - | n/a |
| Total - Portfolio Projects | | | | \$ 21.6 | 46.0 | \$ 47.1 | \$ 47.0 | \$ 0.1 | 0.2 |

Electric Reliability Council of Texas, Inc.
Summary of Capital Enhancements Portfolio Demand vs. Year End (YE) Forecast - Project Expenditures
As of February 28, 2015
(\$ 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, 2015 | 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 | | | | | | | | | | | |
| Privileged Account Management (PAM) | Planning | 1 | 1 | 0.2 | 50.0 | 0.4 | 0.4 | - | - | | |
| Physical Security Project #2 | Not Yet Initiated | - | 2 | - | - | 0.2 | 0.2 | - | - | | |
| Business Strategy | | | | | | | | | | | |
| Market Participant Online Data Entry: Phase 1 | Planning | 1 | 1 | - | - | 0.4 | 0.4 | - | - | | |
| Market System Enhancements 2015 | Execution | - | 2 | 0.3 | 30.0 | 1.0 | 1.0 | - | - | | |
| Outage Scheduler Usability and Filtering Enhancements | Not Yet Initiated | - | 3 | - | - | 0.2 | 0.2 | - | - | | |
| Short Circuit Ratio Functionality | Not Yet Initiated | 4 | 4 | - | - | 0.5 | 0.5 | - | - | | |
| CRR UI Framework Upgrade | Not Yet Initiated | - | 5 | - | - | 0.2 | 0.2 | - | - | | |
| Efficiencies / Enhancements | | | | | | | | | | | |
| OSI PI Visualization Enhancements | Execution | 1 | 1 | 0.1 | 16.7 | 0.6 | 0.6 | - | - | | |
| Projects Below \$0.7 Million EAC Budget Threshold by Phase | | | | | | | | | | | |
| | Complete | | | - | n/a | - | - | - | n/a | | |
| | Closing | | | - | n/a | - | - | - | n/a | | |
| | Stabilization | | | 0.1 | 100.0 | 0.1 | 0.1 | - | - | | |
| | Execution | | | 0.1 | 33.3 | 0.3 | 0.3 | - | - | | |
| | Planning | | | - | - | 0.3 | 0.3 | - | - | | |
| | Initiation | | | - | - | 0.8 | 0.8 | - | - | | |
| | On Hold | | | - | n/a | - | - | - | n/a | | |
| | Not Yet Initiated | | | - | - | 1.2 | 1.2 | - | - | | |
| Other Project Spend | | | | | | | | | | | |
| Capital Efficiencies & Enhancements | Execution | | | - | | 0.6 | 0.6 | - | - | | |
| Variance of Completed Projects | | | | | n/a | - | - | - | n/a | | |
| Variance of In-flight & Not Yet Initiated Projects | | | | | n/a | (1.8) | (1.8) | - | n/a | | |
| Total - Portfolio Projects | | | | \$ | 0.8 | 16.0 | \$ | 5.0 | \$ | - | - |

Electric Reliability Council of Texas, Inc.
Summary of Capital Enhancements Project Budgets vs. Estimates at Completion (EACs) - Project Expenditures
As of February 28, 2015
(\$ 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, 2015 | 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 | | | | | | | | | |
| Privileged Account Management (PAM) | Planning | 1 | 1 | 0.8 | 80.0 | 1.0 | 1.0 | - | - |
| Physical Security Project #2 | Not Yet Initiated | - | 2 | - | - | 1.5 | 1.5 | - | - |
| Business Strategy | | | | | | | | | |
| Market Participant Online Data Entry: Phase 1 | Planning | 1 | 1 | 0.3 | 37.5 | 0.8 | 0.8 | - | - |
| Market System Enhancements 2015 | Execution | - | 2 | 0.3 | 27.3 | 1.1 | 1.1 | - | - |
| Outage Scheduler Usability and Filtering Enhancements | Not Yet Initiated | - | 3 | - | - | 0.8 | 0.8 | - | - |
| Short Circuit Ratio Functionality | Not Yet Initiated | 4 | 4 | - | - | 0.8 | 0.8 | - | - |
| CRR UI Framework Upgrade | Not Yet Initiated | - | 5 | - | - | 1.7 | 1.7 | - | - |
| Efficiencies / Enhancements | | | | | | | | | |
| OSI PI Visualization Enhancements | Execution | 1 | 1 | 0.4 | 40.0 | 1.0 | 1.0 | - | - |
| Projects Below \$0.7 Million EAC Budget Threshold by Phase | | | | | | | | | |
| | Complete | | | 1.4 | 100.0 | 1.4 | 1.4 | - | - |
| | Closing | | | 0.6 | 100.0 | 0.6 | 0.6 | - | - |
| | Stabilization | | | 0.2 | 100.0 | 0.2 | 0.2 | - | - |
| | Execution | | | 0.4 | 66.7 | 0.6 | 0.6 | - | - |
| | Planning | | | - | - | 0.3 | 0.3 | - | - |
| | Initiation | | | - | - | 0.9 | 0.9 | - | - |
| | On Hold | | | - | - | 0.2 | 0.2 | - | - |
| | Not Yet Initiated | | | - | - | 4.9 | 4.9 | - | - |
| Other Project Spend | | | | | | | | | |
| Capital Efficiencies & Enhancements | Execution | | | - | - | 0.6 | 0.6 | - | - |
| Total - Portfolio Projects | | | | \$ 4.4 | 23.9 | \$ 18.4 | \$ 18.4 | \$ - | - |

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Financial Position

As of February 28, 2015 and 2014

(Dollars in Thousands)

| | 2015 | 2014 |
|--|-------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 347,700 | \$ 352,047 |
| Accounts receivable | 3,633 | 5,076 |
| Unbilled revenue | 3,223 | 2,667 |
| Restricted cash | 360,607 | 563,796 |
| Prepaid expenses and other current assets | 18,161 | 17,436 |
| Total current assets | 733,324 | 941,022 |
| Property and equipment, net | 112,286 | 184,993 |
| Systems under development | 22,889 | 19,242 |
| Debt issuance cost | 239 | 294 |
| Total assets | <u>\$ 868,738</u> | <u>\$ 1,145,551</u> |
| Liabilities and Unrestricted Net Assets | | |
| Current liabilities: | | |
| Accounts payable | \$ 5,675 | \$ 6,554 |
| Accrued liabilities | 8,514 | 8,687 |
| Deferred revenue | 5,136 | 5,016 |
| Market settlement liabilities | 386,273 | 374,615 |
| Security deposits | 360,607 | 563,796 |
| Notes payable, current portion | 4,000 | 17,630 |
| Total current liabilities | 770,205 | 976,298 |
| Notes payable | 67,000 | 71,000 |
| Regulatory liabilities | 22,555 | 88,665 |
| Other long term liabilities | 428 | 419 |
| Total liabilities | 860,188 | 1,136,382 |
| Unrestricted net assets | 8,550 | 9,169 |
| Total liabilities and unrestricted net assets | <u>\$ 868,738</u> | <u>\$ 1,145,551</u> |

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Activities and Net Assets

For the Two Months Ended February 28, 2015 and 2014

(Dollars in Thousands)

| | 2015 | 2014 |
|---|-----------|-----------|
| Operating revenues | | |
| System administration fees | \$ 25,164 | \$ 24,702 |
| Reliability organization pass-through | 2,451 | 2,392 |
| Other services revenue | 993 | 947 |
| Total operating revenues | 28,608 | 28,041 |
| Operating expenses | | |
| Salaries and related benefits | 15,920 | 14,136 |
| Depreciation | 15,088 | 15,738 |
| Facility and equipment costs | 1,722 | 1,898 |
| Outside services | 1,427 | 1,903 |
| Hardware and software maintenance and licensing | 2,964 | 2,715 |
| Reliability organization assessment | 2,451 | 2,392 |
| Other | 945 | 829 |
| Amortization of regulatory asset | (10,971) | (11,113) |
| Total operating expenses | 29,546 | 28,498 |
| Gain from operations | (938) | (457) |
| Other income (expense) | | |
| Interest income | 4 | 3 |
| Interest expense | (361) | (535) |
| Non-operating income | 224 | - |
| Change in unrestricted net assets | (1,071) | (989) |
| Unrestricted net assets, beginning of year | 9,621 | 10,158 |
| Unrestricted net assets, end of period | \$ 8,550 | \$ 9,169 |

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Cash Flows

For the Two Months Ended February 28, 2015 and 2014

(Dollars in Thousands)

| | 2015 | 2014 |
|--|------------|------------|
| Operating activities: | | |
| Change in unrestricted net assets | \$ (1,071) | \$ (989) |
| Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities: | | |
| Depreciation | 15,088 | 15,738 |
| Amortization of debt issuance costs | 5 | 29 |
| Net gain on capital assets | (300) | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (409) | (2,882) |
| Unbilled revenue | (913) | 546 |
| Prepaid expenses and other assets | (1,865) | (7,269) |
| Other long-term liabilities | (1) | - |
| Accounts payable | 2,045 | 3,196 |
| Accrued liabilities | 449 | (295) |
| Deferred revenue | 958 | 1,139 |
| Regulatory liabilities | (10,971) | (11,113) |
| Net cash provided by (used in) operating activities | 3,015 | (1,900) |
| Investing activities: | | |
| Capital expenditures for property and equipment and systems under development | (3,570) | (4,192) |
| Proceeds from sale of property and equipment | - | - |
| Net cash (used in) investing activities | (3,570) | (4,192) |
| Financing activities: | | |
| Repayment of notes payable | - | - |
| Payment of debt issuance costs | - | (5) |
| (Increase) in restricted cash | 48,405 | 85,321 |
| Increase in market settlement liabilities | 33,454 | 22,903 |
| Increase in security deposits | (48,405) | (85,321) |
| Net cash provided by financing activities | 33,454 | 22,898 |
| Net increase (decrease) in cash and cash equivalents | 32,899 | 16,806 |
| Cash and cash equivalents, beginning of year | 314,801 | 335,241 |
| Cash and cash equivalents, end of period | \$ 347,700 | \$ 352,047 |