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# Item 4.2: Financial Summary

*H. B. "Trip" Doggett*

President & Chief Executive Officer

Board of Directors Meeting

ERCOT Public

August 11, 2015

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

## Net Revenues After Department Expenditures as of June 30, 2015

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### Net Revenues Year to Date: \$0.5 M Unfavorable

#### Major Revenue Variances

\$0.8 M under budget: system administration fees are unfavorable due to milder-than-expected weather

#### Major Expenditure Variances

\$0.9 M over budget: higher benefit cost

\$0.5 M under budget: interest expense due to lower revolver usage and project funding

### Net Revenues Year End: \$3.5 M Unfavorable

#### Major Revenue Variances

\$2.0 M under budget: system administration fees unfavorable based on current actuals and load forecast for remainder of year

#### Major Expenditure Variances

\$1.7 M over budget: higher benefit cost

\$0.8 M over budget: additional responsibilities surrounding new NERC transmission planning standards

\$1.0 M under budget: interest expense due to lower revolver usage and project funding

# Financial Summary: Statement of Financial Position

## As of June 30, 2015 and 2014 (\$ in Millions)

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Current assets	\$ 758.9	\$ 846.8
Long term assets	115.6	182.8
Total assets	<u>\$ 874.5</u>	<u>\$ 1,029.6</u>
<b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities	\$ 804.8	\$ 887.9
Long term liabilities	65.3	135.9
Unrestricted net assets	4.4	5.8
Total liabilities and unrestricted net assets	<u>\$ 874.5</u>	<u>\$ 1,029.6</u>

# Financial Summary: Statement of Activities and Net Assets

## For the Six Months Ended June 30, 2015 and 2014 (\$ in Millions)

	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 86.4	\$ 84.7
Operating expenses	90.9	87.7
Gain (Loss) from operations	<u>(4.5)</u>	<u>(3.0)</u>
Other income (expense)	<u>(0.7)</u>	<u>(1.4)</u>
Change in unrestricted net assets	<u>(5.2)</u>	<u>(4.4)</u>
Unrestricted net assets, beginning of year	9.6	10.2
Unrestricted net assets, end of period	<u><u>\$ 4.4</u></u>	<u><u>\$ 5.8</u></u>

## Appendices

Electric Reliability Council of Texas, Inc. 2015 Financial Summary As of June 30, 2015 (\$ in Millions)						Year to Date					Year End				
						2014		2015			2014		2015		
						Actual	Budget	Actual	Variance	%	Actual	Budget	Forecast	Variance	%
Line			\$						\$						
1	System Administration Revenue	\$ 74.9	\$ 77.4	\$ 76.6	\$ (0.8)	(1.0)	\$ 158.7	\$ 163.3	\$ 161.3	\$ (2.0)	(1.2)				
2	Department Net Expenditures														
3	Information Technology	23.6	27.4	27.2	0.2	0.7	49.5	55.7	56.0	(0.3)	(0.5)				
4	Operations	21.0	20.9	21.6	(0.7)	(3.3)	41.4	41.4	43.8	(2.4)	(5.8)				
5	Finance & Treasury	7.1	7.5	6.7	0.8	10.7	14.0	15.4	14.1	1.3	8.4				
6	General Counsel and GRC	7.0	7.5	7.6	(0.1)	(1.3)	14.9	15.0	15.0	-	-				
7	External Affairs & Corporate Communications	2.4	3.1	3.2	(0.1)	(3.2)	4.8	6.0	6.2	(0.2)	(3.3)				
8	Human Resources	2.8	2.2	2.1	0.1	4.5	5.7	4.4	4.4	-	-				
9	Corporate Administration	1.4	1.4	1.3	0.1	7.1	2.7	2.8	2.7	0.1	3.6				
10	Total Department Net Expenditures	65.3	70.0	69.7	0.3	0.4	133.0	140.7	142.2	(1.5)	(1.1)				
11	Net Revenues After Department Expenditures	9.6	7.4	6.9	(0.5)	(6.8)	25.7	22.6	19.1	(3.5)	(15.5)				
12	Less: Project Expenditures	13.4	14.3	14.3	-	-	24.1	21.7	22.2	(0.5)	(2.3)				
13	Net Available for Debt & Working Capital	\$ (3.8)	\$ (6.9)	\$ (7.4)	\$ (0.5)	(7.2)	\$ 1.6	\$ 0.9	\$ (3.1)	\$ (4.0)	(444.4)				

**Electric Reliability Council of Texas, Inc.**  
**2015 Financial Summary - Year to Date and Year End Variance Explanations**  
**As of June 30, 2015**

<b>Line</b>	<b>Category</b>	<b>Year to Date</b>	<b>Year End</b>
1	System Administration Fee Revenue	-\$0.8 M - Primarily due to milder-than-expected weather	-\$2.0 M - Based on current actuals and load forecast for remainder of year
3	Information Technology	+\$1.9 M - HW/SW vendor services due to timing differences and more work on projects -\$0.9 M - Staff augmentation -\$0.8 M - Project cost mix is less labor driven than planned  +\$0.3 M - Savings for wind generation forecasting subscription -\$0.3 M - Benefits higher than expected	+\$2.1 M - HW/SW vendor support services due to more work on projects -\$1.3 M - Staff augmentation -\$0.8 M - Project cost mix is less labor driven than planned  +\$0.4 M - Savings for wind generation forecasting subscription -\$0.4 M - Enterprise Resource Planning solution not budgeted -\$0.3 M - Benefits higher than expected
4	Operations	-\$0.3 M - Benefits higher than expected -\$0.2 M - Additional responsibilities surrounding new NERC transmission planning standards -\$0.1 M - Unbudgeted separation benefits -\$0.1 M - Electric Power Research Institute data subscription unbudgeted	-\$0.8 M - Additional responsibilities surrounding new NERC transmission planning standards -\$0.5 M - Unbudgeted external consulting services -\$0.5 M - Benefits higher than expected -\$0.2 M - Executive recruiting expense -\$0.2 M - Risk verification fee revenue will not be collected -\$0.2 M - Electric Power Research Institute data subscription unbudgeted
5	Finance & Treasury	+\$0.5 M - Interest expense due to lower revolver usage and project funding +\$0.3 M - Lower property taxes +\$0.2 M - Lower electricity consumption -\$0.2 M - Unbudgeted separation benefits	+\$1.0 M - Interest expense due to lower revolver usage and project funding +\$0.4 M - Lower property taxes +\$0.2 M - Lower electricity consumption -\$0.2 M - Miscellaneous expenses -\$0.1 M - Training for Enterprise Resource Planning solution
6	General Counsel and GRC	-\$0.1 M - Unbudgeted separation benefits -\$0.1 M - Other immaterial expenses +\$0.1 M - Minor capital spending delayed	+\$0.2 M - Legal fees expected to be under budget -\$0.1 M - Salaries and related benefits -\$0.1 M - Employee expenses
7	External Affairs & Corporate Communications	-\$0.1 M - Project funded labor and benefits and taxes	-\$0.1 M - Project funded labor is expected to be lower than budget -\$0.1 M - Benefits and taxes expected to be over budget
8	Human Resources	+\$0.1 M - External training and immigration services	\$0.0 M
9	Corporate Administration	+\$0.1 M - Budgeted Board Strategic Planning consultant funding not needed	+\$0.1 M - Budgeted Board Strategic Planning consultant funding not needed
12	Less: Project Expenditures	\$0.0 M	-\$0.5 M - Higher project demand

Electric Reliability Council of Texas, Inc.

Summary of Technical Foundation Portfolio Demand vs. Year End (YE) Forecast - Project Expenditures

As of June 30, 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: Jan. 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		
								\$	%	
<b>Technical Foundation</b>										
Settlement System Upgrade	Complete	1	1	\$ 0.3	100.0	\$ 0.3	\$ 0.3	\$ -	-	
Energy Management System (EMS) Upgrade	Execution	2	2	7.0	68.6	9.9	10.2	(0.3)	(3.0)	
Network Model Management System (NMMS) Upgrade	Execution	3	3	1.5	41.7	3.6	3.6	-	-	
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	Stabilization	4	4	1.1	91.7	1.0	1.2	(0.2)	(20.0)	
Production Virtualization Expansion	Planning	5	5	0.1	25.0	2.0	0.4	1.6	80.0	
<b>Projects Below \$0.7 Million EAC Budget Threshold by Phase</b>										
	Complete			0.1	100.0	0.1	0.1	-	-	
	Closing			0.1	100.0	0.2	0.1	0.1	50.0	
	Stabilization			-	n/a	-	-	-	n/a	
	Execution			0.8	53.3	1.7	1.5	0.2	11.8	
	Planning			0.1	100.0	0.1	0.1	-	-	
	Initiation			-	n/a	-	-	-	n/a	
	On Hold			0.1	100.0	0.1	0.1	-	-	
	Not Yet Initiated			-	-	0.3	0.3	-	-	
<b>Other Project Spend</b>										
	Variance of Completed Projects				n/a	-	-	-	n/a	
	Variance of In-flight & Not Yet Initiated Projects				n/a	(2.6)	(1.1)	(1.5)	n/a	
<b>Total - Portfolio Projects</b>				<b>\$ 11.2</b>	<b>66.7</b>	<b>\$ 16.7</b>	<b>\$ 16.8</b>	<b>\$ (0.1)</b>	<b>(0.6)</b>	



Electric Reliability Council of Texas, Inc.  
 Summary of Technical Foundation Project Budgets vs. Estimates at Completion (EACs) - Project Expenditures  
 As of June 30, 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: Jan. 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	
								\$	%
<b>Technical Foundation</b>									
Settlement System Upgrade	Complete	1	1	\$ 7.5	100.0	\$ 7.5	\$ 7.5	\$ -	-
Energy Management System (EMS) Upgrade	Execution	2	2	11.9	64.7	18.9	18.4	0.5	2.6
Network Model Management System (NMMS) Upgrade	Execution	3	3	2.4	48.0	5.0	5.0	-	-
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	Stabilization	4	4	4.1	97.6	4.2	4.2	-	-
Production Virtualization Expansion	Planning	5	5	0.5	10.0	5.0	5.0	-	-
<b>Projects Below \$0.7 Million EAC Budget Threshold by Phase</b>									
	Complete			1.0	100.0	1.1	1.0	0.1	9.1
	Closing			0.7	100.0	0.8	0.7	0.1	12.5
	Stabilization			0.1	50.0	0.2	0.2	-	-
	Execution			2.1	72.4	3.0	2.9	0.1	3.3
	Planning			0.1	100.0	0.1	0.1	-	-
	Initiation			-	n/a	-	-	-	n/a
	On Hold			0.3	37.5	0.8	0.8	-	-
	Not Yet Initiated			-	-	0.3	0.3	-	-
<b>Total - Portfolio Projects</b>				<b>\$ 30.7</b>	<b>66.6</b>	<b>\$ 46.9</b>	<b>\$ 46.1</b>	<b>\$ 0.8</b>	<b>1.7</b>

**Electric Reliability Council of Texas, Inc.**  
**Summary of Capital Enhancements Portfolio Demand vs. Year End (YE) Forecast - Project Expenditures**  
**As of June 30, 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: Jan. 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		
								\$	%	
<b>Regulatory</b>										
Privileged Account Management (PAM)	Execution	1	1	\$ 0.5	55.6	\$ 1.1	\$ 0.9	\$ 0.2	18.2	
Physical Security Project #2	Initiation	-	2	-	-	0.2	0.2	-	-	
Configuration Management System (CMS) Requirements for CIP v5 Readiness	Planning	-	3	0.2	16.7	0.8	1.2	(0.4)	(50.0)	
<b>Business Strategy</b>										
Market Participant Online Data Entry: Phase 1	Planning	1	1	-	-	0.4	0.4	-	-	
Market System Enhancements 2015	Execution	-	2	0.7	87.5	0.9	0.8	0.1	11.1	
2015 Outage Scheduler Enhancements	Not Yet Initiated	-	3	-	-	0.3	0.3	-	-	
Short Circuit Ratio Functionality	Planning	4	4	-	-	0.7	0.5	0.2	28.6	
Congestion Revenue Rights (CRR) UI Framework Upgrade	Not Yet Initiated	-	5	-	-	0.2	0.2	-	-	
Enterprise Content Alignment Program (ECAP)	Planning	-	6	0.1	12.5	0.8	0.8	-	-	
<b>Efficiencies / Enhancements</b>										
OSI PI Visualization Enhancements	Execution	1	1	0.3	50.0	0.6	0.6	-	-	
<b>Projects Below \$0.7 Million EAC Budget Threshold by Phase</b>										
	Complete			0.1	100.0	0.2	0.1	0.1	50.0	
	Closing			0.1	100.0	0.1	0.1	-	-	
	Stabilization			0.3	100.0	0.3	0.3	-	-	
	Execution			0.3	50.0	0.6	0.6	-	-	
	Planning			0.3	23.1	1.1	1.3	(0.2)	(18.2)	
	Initiation			-	-	0.2	0.2	-	-	
	On Hold			-	n/a	-	-	-	n/a	
	Not Yet Initiated			-	-	1.3	1.3	-	-	
<b>Other Project Spend</b>										
Capital Efficiencies & Enhancements	Execution			0.2	33.3	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	(5.3)	(5.0)	(0.3)	n/a	
<b>Total - Portfolio Projects</b>				<b>\$ 3.1</b>	<b>57.4</b>	<b>\$ 5.0</b>	<b>\$ 5.4</b>	<b>\$ (0.4)</b>	<b>(8.0)</b>	

**Electric Reliability Council of Texas, Inc.**  
**Summary of Capital Enhancements Project Budgets vs. Estimates at Completion (EACs) - Project Expenditures**  
**As of June 30, 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: Jan. 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		
								\$	%	
<b>Regulatory</b>										
Privileged Account Management (PAM)	Execution	1	1	\$ 1.1	73.3	\$ 1.7	\$ 1.5	\$ 0.2	11.8	
Physical Security Project #2	Initiation	-	2	-	-	1.5	1.5	-	-	
Configuration Management System (CMS) Requirements for CIP v5 Readiness	Planning	-	3	0.2	16.7	0.8	1.2	(0.4)	(50.0)	
<b>Business Strategy</b>										
Market Participant Online Data Entry: Phase 1	Planning	1	1	0.3	37.5	0.8	0.8	-	-	
Market System Enhancements 2015	Execution	-	2	0.8	88.9	1.0	0.9	0.1	10.0	
2015 Outage Scheduler Enhancements	Not Yet Initiated	-	3	-	-	1.4	1.4	-	-	
Short Circuit Ratio Functionality	Planning	4	4	-	-	0.7	0.7	-	-	
Congestion Revenue Rights (CRR) UI Framework Upgrade	Not Yet Initiated	-	5	-	-	1.7	1.7	-	-	
Enterprise Content Alignment Program (ECAP)	Planning	-	6	0.1	4.0	2.5	2.5	-	-	
<b>Efficiencies / Enhancements</b>										
OSI PI Visualization Enhancements	Execution	1	1	0.7	70.0	1.0	1.0	-	-	
<b>Projects Below \$0.7 Million EAC Budget Threshold by Phase</b>										
	Complete			1.4	100.0	1.4	1.4	-	-	
	Closing			0.8	100.0	0.9	0.8	0.1	11.1	
	Stabilization			0.3	100.0	0.3	0.3	-	-	
	Execution			0.5	71.4	0.7	0.7	-	-	
	Planning			0.3	23.1	1.1	1.3	(0.2)	(18.2)	
	Initiation			-	-	0.6	0.6	-	-	
	On Hold			-	-	0.2	0.2	-	-	
	Not Yet Initiated			-	-	5.4	5.4	-	-	
<b>Other Project Spend</b>										
Capital Efficiencies & Enhancements	Execution			0.2	33.3	0.6	0.6	-	-	
<b>Total - Portfolio Projects</b>				<b>\$ 6.7</b>	<b>27.3</b>	<b>\$ 24.3</b>	<b>\$ 24.5</b>	<b>\$ (0.2)</b>	<b>(0.8)</b>	

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# ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

## Statements of Financial Position

As of June 30, 2015 and 2014

(Dollars in Thousands)

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	2015	2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 360,447	\$ 361,247
Accounts receivable	3,013	2,698
Unbilled revenue	2,750	2,909
Restricted cash	372,822	462,414
Prepaid expenses and other current assets	19,837	17,523
Total current assets	758,869	846,791
Property and equipment, net	87,365	157,584
Systems under development	28,035	24,954
Debt issuance cost	228	260
Total assets	<u>\$ 874,497</u>	<u>\$ 1,029,589</u>
<b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 2,385	\$ 2,496
Accrued liabilities	9,213	8,812
Deferred revenue	3,816	3,738
Market settlement liabilities	412,517	406,444
Security deposits	372,822	462,414
Notes payable, current portion	4,000	4,000
Total current liabilities	804,753	887,904
Notes payable	65,000	69,000
Regulatory liabilities	-	66,439
Other long term liabilities	342	419
Total liabilities	870,095	1,023,762
Unrestricted net assets	4,402	5,827
Total liabilities and unrestricted net assets	<u>\$ 874,497</u>	<u>\$ 1,029,589</u>

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## ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

### Statements of Activities and Net Assets

For the Six Months Ended June 30, 2015 and 2014

(Dollars in Thousands)

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	<u>2015</u>	<u>2014</u>
Operating revenues		
System administration fees	\$ 76,594	\$ 74,920
Reliability organization pass-through	7,352	7,175
Other services revenue	2,502	2,588
Total operating revenues	<u>86,448</u>	<u>84,683</u>
Operating expenses		
Salaries and related benefits	49,410	43,141
Facility and equipment costs	5,226	5,683
Outside services	5,059	6,312
Hardware and software maintenance and licensing	8,936	8,147
Reliability organization assessment	7,352	7,175
Depreciation	45,301	47,321
Amortization of regulatory asset	(33,526)	(33,338)
Other	3,207	3,181
Total operating expenses	<u>90,965</u>	<u>87,622</u>
Loss from operations	(4,517)	(2,939)
Other income (expense)		
Interest income	14	12
Interest expense	(1,072)	(1,405)
Non-operating income	356	1
Change in unrestricted net assets	(5,219)	(4,331)
Unrestricted net assets, beginning of year	9,621	10,158
Unrestricted net assets, end of period	<u>\$ 4,402</u>	<u>\$ 5,827</u>

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## ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

### Statements of Cash Flows

For the Six Months Ended June 30, 2015 and 2014

(Dollars in Thousands)

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	<u>2015</u>	<u>2014</u>
<b>Operating activities:</b>		
Change in unrestricted net assets	\$ (5,219)	\$ (4,331)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	45,301	47,321
Amortization of regulatory liabilities	(33,526)	(33,338)
Amortization of debt issuance costs	16	62
Net gain on capital assets	(310)	-
Changes in operating assets and liabilities:		
Accounts receivable	211	(504)
Unbilled revenue	(440)	304
Prepaid expenses and other assets	(3,541)	(7,356)
Other long-term liabilities	(87)	-
Accounts payable	(1,554)	(1,074)
Accrued liabilities	1,197	577
Deferred revenue	(362)	(139)
Net cash provided by operating activities	<u>1,686</u>	<u>1,522</u>
<b>Investing activities:</b>		
Capital expenditures for property and equipment and systems under development	(13,738)	(14,614)
Proceeds from sale of property and equipment	-	-
Net cash (used in) investing activities	<u>(13,738)</u>	<u>(14,614)</u>
<b>Financing activities:</b>		
Repayment of notes payable	(2,000)	(15,630)
Payment of debt issuance costs	-	(4)
Decrease in restricted cash	36,190	186,703
Increase in market settlement liabilities	59,698	54,732
(Decrease) in security deposits	(36,190)	(186,703)
Net cash provided by financing activities	<u>57,698</u>	<u>39,098</u>
Net increase in cash and cash equivalents	45,646	26,006
Cash and cash equivalents, beginning of year	314,801	335,241
Cash and cash equivalents, end of period	<u>\$ 360,447</u>	<u>\$ 361,247</u>