



## **Item 7.1: Review 2015 Financial Summary**

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Controller

Finance & Audit Committee Meeting

ERCOT Public

October 12, 2015

# **Review 2015 Financial Summary: Variance to Budget (\$ in Millions)**

## **Net Revenues After Department Expenditures as of August 31, 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

\$1.0 M over budget: higher benefit cost

\$0.6 M under budget: interest expense due to lower revolver usage and project funding

\$0.5 M under budget: minor capital spending postponed

### **Net Revenues Year End: \$1.9 M Unfavorable**

#### Major Revenue Variances

\$0.7 M under budget: system administration fees unfavorable based on current actuals and load forecast for remainder of year

#### Major Expenditure Variances

\$1.4 M over budget: higher benefit cost

\$0.7 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

# Review 2015 Financial Summary: Statements of Financial Position

## As of August 31, 2015 and 2014 (\$ in Millions)

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Current assets	\$ 756.1	\$ 890.0
Long term assets	116.1	171.3
Total assets	<u>\$ 872.2</u>	<u>\$ 1,061.3</u>
 <b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities	\$ 794.7	\$ 923.6
Long term liabilities	65.3	124.8
Unrestricted net assets	12.2	12.9
Total liabilities and unrestricted net assets	<u>\$ 872.2</u>	<u>\$ 1,061.3</u>

# Review 2015 Financial Summary: Statements of Activities and Net Assets

## For the Eight Months Ended August 31, 2015 and 2014 (\$ in Millions)

	<b>2015</b>	<b>2014</b>
Operating revenues	\$ 124.0	\$ 120.7
Operating expenses	120.4	116.3
Gain (Loss) from operations	3.6	4.4
Other income (expense)	(1.0)	(1.7)
Change in unrestricted net assets	2.6	2.7
Unrestricted net assets, beginning of year	9.6	10.2
Unrestricted net assets, end of period	\$ 12.2	\$ 12.9

# Appendices

Electric Reliability Council of Texas, Inc. 2015 Financial Summary As of August 31, 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	\$ 107.8	\$ 111.9	\$ 111.1	\$ (0.8)	(0.7)	\$ 158.7	\$ 163.3	\$ 162.6	\$ (0.7)	(0.4)
2	Department Net Expenditures										
3	Information Technology	31.8	36.6	36.2	0.4	1.1	49.5	55.7	55.8	(0.1)	(0.2)
4	Operations	27.9	27.8	29.2	(1.4)	(5.0)	41.4	41.4	43.8	(2.4)	(5.8)
5	Finance & Treasury	9.3	10.2	9.0	1.2	11.8	14.0	15.4	13.9	1.5	9.7
6	General Counsel and GRC	9.4	9.9	9.9	-	-	14.9	15.0	15.0	-	-
7	External Affairs & Corporate Communications	3.2	4.0	4.3	(0.3)	(7.5)	4.8	6.0	6.3	(0.3)	(5.0)
8	Human Resources	3.8	3.1	2.9	0.2	6.5	5.7	4.4	4.4	-	-
9	Corporate Administration	1.8	1.9	1.7	0.2	10.5	2.7	2.8	2.7	0.1	3.6
10	Total Department Net Expenditures	87.2	93.5	93.2	0.3	0.3	133.0	140.7	141.9	(1.2)	(0.9)
11	Net Revenues After Department Expenditures	20.6	18.4	17.9	(0.5)	(2.7)	25.7	22.6	20.7	(1.9)	(8.4)
12	Less: Project Expenditures	17.4	17.1	17.6	(0.5)	(2.9)	24.1	21.7	22.2	(0.5)	(2.3)
13	Net Available for Debt & Working Capital	\$ 3.2	\$ 1.3	\$ 0.3	\$ (1.0)	76.9	\$ 1.6	\$ 0.9	\$ (1.5)	\$ (2.4)	(266.7)

Electric Reliability Council of Texas, Inc.  
2015 Financial Summary - Year to Date and Year End Variance Explanations  
As of August 31, 2015

Line	Category	Year to Date	Year End
1	System Administration Fee Revenue	-\$0.8 M Primarily due to milder-than-expected weather	-\$0.7 M - Based on current actuals and load forecast for remainder of year
3	Information Technology	+\$2.4 M - HW/SW vendor services due to timing differences and more work on projects -\$1.1 M - Staff augmentation -\$1.0 M - Project cost mix is less labor driven than planned +\$0.4 M - Savings for wind generation forecasting subscription +\$0.1 M - Other immaterial expenses -\$0.4 M - Benefits higher than expected	+\$2.5 M - HW/SW vendor support services due to more work on projects -\$1.5 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	-\$0.5 M - Additional responsibilities surrounding new NERC transmission planning standards -\$0.4 M - Benefits higher than expected -\$0.2 M - Executive recruiting expense -\$0.1 M - Unbudgeted separation benefits -\$0.1 M - Electric Power Research Institute data subscription unbudgeted -\$0.1 M - Minor capital	-\$0.7 M - Additional responsibilities surrounding new NERC transmission planning standards -\$0.6 M - Unbudgeted studies, training, and other studies -\$0.5 M - Benefits higher than expected -\$0.2 M - Executive recruiting expense -\$0.2 M - Risk verification fee revenue will not be collected -\$0.1 M - Electric Power Research Institute data subscription unbudgeted -\$0.1 M - Minor capital
5	Finance & Treasury	+\$0.6 M - Interest expense savings due to lower revolver usage +\$0.3 M - Lower property taxes +\$0.2 M - Lower electricity consumption +\$0.2 M - Miscellaneous expenses -\$0.1 M - Unbudgeted separation benefits	+\$1.0 M - Interest expense savings due to lower revolver usage +\$0.4 M - Lower property taxes +\$0.1 M - Mandated service +\$0.2 M - Lower electricity consumption -\$0.1 M - Miscellaneous expenses -\$0.1 M - Training for Enterprise Resource Planning
6	General Counsel and GRC	+\$0.2 M - Legal fees -\$0.1 M - Salaries and related benefits -\$0.1 M - Employee expenses	+\$0.2 M - Legal fees -\$0.1 M - Salaries and related benefits -\$0.1 M - Employee expenses
7	External Affairs & Corporate Communications	-\$0.1 M - Project funded labor lower than planned -\$0.1 M - Benefits and taxes higher than expected -\$0.1 M - Other immaterial expenses	-\$0.1 M - Project funded labor lower than planned -\$0.1 M - Benefits and taxes higher than expected -\$0.1 M - Other immaterial expenses
8	Human Resources	+\$0.2 M - External training and immigration services	\$0.0 M
9	Corporate Administration	+\$0.1 M - Board strategic planning consultant funding not needed +\$0.1 M - Other immaterial expenses	+\$0.2 M - Board strategic planning consultant funding not needed -\$0.1 M - Benefits higher than expected
12	Less: Project Expenditures	-\$0.5 M - Higher project demand	-\$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 August 31, 2015

(\$ in Millions)

			Year to Date		Year End				Variance	
Project Name		Order Based on PPL Priority: Jan. 1, 2015	Order Based on PPL Priority: Current	Year to Date Project Actual	% Spend to Year End Forecast	Project Budget	Project Forecast			
[Projects listed are at or above \$0.7 Million Estimate at Completion (EAC) Budget threshold]	Current Phase							\$	%	
<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	8.0	80.8	9.9	9.9	-	-	-
Network Model Management System (NMMS) Upgrade	Execution	3	3	2.3	63.9	3.6	3.6	-	-	-
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	Closing	4	4	1.1	100.0	1.0	1.1	(0.1)	(10.0)	
Production Virtualization Expansion	Planning	5	5	0.1	20.0	0.5	0.5	-	-	
<b>Projects Below \$0.7 Million EAC Budget Threshold by Phase</b>										
	Complete			0.1	100.0	0.1	0.1	-	-	
	Closing			0.4	100.0	0.4	0.4	-	-	
	Stabilization			0.3	100.0	0.4	0.3	0.1	25.0	
	Execution			0.6	60.0	1.0	1.0	-	-	
	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			-	n/a	-	-	-	n/a	
<b>Other Project Spend</b>										
Variance of Completed Projects					n/a	-	-	-	n/a	
Variance of In-flight & Not Yet Initiated Projects					n/a	(0.7)	(0.6)	(0.1)	n/a	
<b>Total - Portfolio Projects</b>				<b>\$ 13.4</b>	<b>79.8</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 August 31, 2015

(\$ in Millions)

				Life to Date		Estimate at Completion (EAC)							
		Order Based on PPL Priority:	Order Based on PPL Priority:	Life to Date Project	% Spend to EAC Forecast			Variance					
Project Name [Projects listed are at or above \$0.7 Million Estimate at Completion (EAC) Budget threshold]	Current Phase	Jan. 1, 2015	Current	Actual	Forecast	Project Budget	Project Forecast	\$		%			
Technical Foundation													
Settlement System Upgrade	Complete	1	1	\$	7.5	100.0	\$	7.5	\$	7.5	\$	-	-
Energy Management System (EMS) Upgrade	Execution	2	2		13.0	71.8		18.9		18.1		0.8	4.2
Network Model Management System (NMMS) Upgrade	Execution	3	3		3.1	62.0		5.0		5.0		-	-
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	Closing	4	4		4.1	100.0		4.2		4.1		0.1	2.4
Production Virtualization Expansion	Planning	5	5		0.4	8.0		5.0		5.0		-	-
Projects Below \$0.7 Million EAC Budget Threshold by Phase													
	Complete				1.1	100.0		1.2		1.1		0.1	8.3
	Closing				1.2	100.0		1.2		1.2		-	-
	Stabilization				0.9	100.0		1.0		0.9		0.1	10.0
	Execution				1.1	73.3		1.5		1.5		-	-
	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				-	n/a		-		-		-	n/a
Total - Portfolio Projects				\$	32.8	72.4	\$	46.4	\$	45.3	\$	1.1	2.4

Electric Reliability Council of Texas, Inc.

Summary of Capital Enhancements Portfolio Demand vs. Year End (YE) Forecast - Project Expenditures

As of August 31, 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: Jan. 1, 2015	Order Based on PPL Priority: Current	Year to Date Project Actual	% Spend to Year End Forecast	Project Budget	Project Forecast	Variance									
									\$	%								
Regulatory																		
Privileged Account Management (PAM)		Execution	1	1	\$	0.7	77.8	\$	1.1	\$	0.9	\$	0.2	18.2				
Physical Security Project #2		Planning	-	2		-	-		0.1		0.1		-	-				
Configuration Management System (CMS) Requirements for CIP v5 Readiness		Execution	-	3		0.4	33.3		1.2		1.2		-	-				
Business Strategy																		
Market Participant Online Data Entry: Phase 1		Planning	1	1		-	-		0.4		0.3		0.1	25.0				
Market System Enhancements 2015		Stabilization	-	2		0.8	100.0		0.9		0.8		0.1	11.1				
2015 Outage Scheduler Enhancements		Initiation	-	3		-	-		0.3		0.5		(0.2)	(66.7)				
Short Circuit Ratio Functionality		Planning	4	4		-	-		0.4		0.4		-	-				
Congestion Revenue Rights (CRR) UI Framework Upgrade		Not Yet Initiated	-	5		-	-		0.2		0.2		-	-				
Enterprise Content Alignment Program (ECAP)		Execution	-	6		0.1	50.0		0.8		0.2		0.6	75.0				
Efficiencies / Enhancements																		
OSI PI Visualization Enhancements		Execution	1	1		0.4	66.7		0.6		0.6		-	-				
Projects Below \$0.7 Million EAC Budget Threshold by Phase																		
		Complete				0.3	100.0		0.4		0.3		0.1	25.0				
		Closing				0.2	100.0		0.2		0.2		-	-				
		Stabilization				-	n/a		-		-		-	n/a				
		Execution				0.8	57.1		1.4		1.4		-	-				
		Planning				0.2	25.0		0.8		0.8		-	-				
		Initiation				-	-		0.2		0.1		0.1	50.0				
		On Hold				-	n/a		-		-		-	n/a				
		Not Yet Initiated				-	-		0.6		0.6		-	-				
Other Project Spend																		
Capital Efficiencies & Enhancements		Execution				0.3	100.0		0.6		0.3		0.3	50.0				
Variance of Completed Projects							n/a		(0.1)		-		(0.1)	n/a				
Variance of In-flight & Not Yet Initiated Projects							n/a		(5.1)		(3.5)		(1.6)	n/a				
Total - Portfolio Projects						\$	4.2		77.8		\$	5.0	\$	5.4	\$	(0.4)		(8.0)

Electric Reliability Council of Texas, Inc.

Summary of Capital Enhancements Project Budgets vs. Estimates at Completion (EACs) - Project Expenditures

As of August 31, 2015

(\$ in Millions)

				Life to Date		Estimate at Completion (EAC)										
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 Project Actual	% Spend to EAC Forecast	Project Budget	Project Forecast	Variance							
									\$	%						
Regulatory																
Privileged Account Management (PAM)		Execution	1	1	\$	1.3	81.3	\$	1.8	\$	1.6	\$	0.2	11.1		
Physical Security Project #2		Planning	-	2		-	-		1.5		1.5		-	-		
Configuration Management System (CMS) Requirements for CIP v5 Readiness		Execution	-	3		0.4	33.3		1.2		1.2		-	-		
Business Strategy																
Market Participant Online Data Entry: Phase 1		Planning	1	1		0.3	37.5		0.8		0.8		-	-		
Market System Enhancements 2015		Stabilization	-	2		0.8	100.0		1.0		0.8		0.2	20.0		
2015 Outage Scheduler Enhancements		Initiation	-	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)		Execution	-	6		0.1	4.0		2.5		2.5		-	-		
Efficiencies / Enhancements																
OSI PI Visualization Enhancements		Execution	1	1		0.8	80.0		1.0		1.0		-	-		
Projects Below \$0.7 Million EAC Budget Threshold by Phase																
		Complete				2.4	100.0		2.5		2.4		0.1	4.0		
		Closing				0.2	100.0		0.2		0.2		-	-		
		Stabilization				-	n/a		-		-		-	n/a		
		Execution				0.9	60.0		1.5		1.5		-	-		
		Planning				0.2	18.2		1.3		1.1		0.2	15.4		
		Initiation				-	-		0.1		0.1		-	-		
		On Hold				-	-		0.2		0.2		-	-		
		Not Yet Initiated				-	-		4.0		4.0		-	-		
Other Project Spend																
Capital Efficiencies & Enhancements		Execution				0.3	100.0		0.6		0.3		0.3	50.0		
Total - Portfolio Projects						\$	7.7		33.5	\$	24.0	\$	23.0	\$	1.0	4.2

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## ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

### Statements of Financial Position

As of August 31, 2015 and 2014

(Dollars in Thousands)

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	2015	2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 353,121	\$ 346,525
Accounts receivable	5,485	3,999
Unbilled revenue	2,868	4,317
Restricted cash	373,651	514,638
Prepaid expenses and other current assets	20,952	20,476
Total current assets	756,077	889,955
Property and equipment, net	85,738	144,037
Systems under development	30,119	27,066
Debt issuance cost	223	254
Total assets	<u>\$ 872,157</u>	<u>\$ 1,061,312</u>
<b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 5,369	\$ 5,182
Accrued liabilities	10,552	9,197
Deferred revenue	4,996	4,886
Market settlement liabilities	396,092	385,660
Security deposits	373,651	514,638
Notes payable, current portion	4,000	4,000
Total current liabilities	794,660	923,563
Notes payable	65,000	69,000
Regulatory liabilities	-	55,468
Other long term liabilities	342	418
Total liabilities	860,002	1,048,449
Unrestricted net assets	12,155	12,863
Total liabilities and unrestricted net assets	<u>\$ 872,157</u>	<u>\$ 1,061,312</u>

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## ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

### Statements of Activities and Net Assets

For the Eight Months Ended August 31, 2015 and 2014

(Dollars in Thousands)

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	2015	2014
Operating revenues		
System administration fees	\$ 111,110	\$ 107,780
Reliability organization pass-through	9,802	9,567
Other services revenue	3,068	3,326
Total operating revenues	123,980	120,673
Operating expenses		
Salaries and related benefits	65,596	58,165
Facility and equipment costs	7,057	7,457
Outside services	6,759	8,042
Hardware and software maintenance and licensing	12,268	11,169
Reliability organization assessment	9,802	9,567
Depreciation	47,967	61,898
Amortization of regulatory asset	(33,526)	(44,310)
Other	4,481	4,247
Total operating expenses	120,404	116,235
Income from operations	3,576	4,438
Other income (expense)		
Interest income	20	17
Interest expense	(1,419)	(1,762)
Non-operating income	357	12
Change in unrestricted net assets	2,534	2,705
Unrestricted net assets, beginning of year	9,621	10,158
Unrestricted net assets, end of period	\$ 12,155	\$ 12,863

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## ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

### Statements of Cash Flows

For the Eight Months Ended August 31, 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	\$ 2,534	\$ 2,705
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	47,967	61,898
Amortization of regulatory liabilities	(33,526)	(44,310)
Amortization of debt issuance costs	21	68
Net gain on capital assets	(310)	-
Changes in operating assets and liabilities:		
Accounts receivable	(2,261)	(1,805)
Unbilled revenue	(558)	(1,104)
Prepaid expenses and other assets	(4,656)	(10,309)
Other long-term liabilities	(87)	(1)
Accounts payable	2,034	1,712
Accrued liabilities	2,229	1,153
Deferred revenue	818	1,009
Net cash provided by operating activities	<u>14,205</u>	<u>11,016</u>
<b>Investing activities:</b>		
Capital expenditures for property and equipment and systems under development	(17,158)	(18,046)
Proceeds from sale of property and equipment	-	-
Net cash (used in) investing activities	<u>(17,158)</u>	<u>(18,046)</u>
<b>Financing activities:</b>		
Repayment of notes payable	(2,000)	(15,630)
Payment of debt issuance costs	-	(4)
Decrease in restricted cash	35,361	134,479
Increase in market settlement liabilities	43,273	33,948
(Decrease) in security deposits	(35,361)	(134,479)
Net cash provided by financing activities	<u>41,273</u>	<u>18,314</u>
Net increase in cash and cash equivalents	38,320	11,284
Cash and cash equivalents, beginning of year	314,801	335,241
Cash and cash equivalents, end of period	<u><u>\$ 353,121</u></u>	<u><u>\$ 346,525</u></u>