



Item 4.2: Financial Summary

H. B. "Trip" Doggett
President & Chief Executive Officer

Board of Directors Meeting
ERCOT Public
December 8, 2015

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

Net Revenues After Department Expenditures as of October 31, 2015

Net Revenues Year to Date: \$0.1 M Unfavorable

Major Revenue Variances

\$0.6 M under budget: system administration fees are unfavorable due to milder-than-expected weather

Major Expenditure Variances

\$1.1 M over budget: higher benefit cost

\$0.5 M over budget: additional responsibilities surrounding new NERC transmission planning standards

\$0.8 M under budget: interest expense due to lower revolver usage and project funding

\$0.8 M under budget: minor capital spending postponed

Net Revenues Year End: \$0.4 M Unfavorable

Major Revenue Variances

\$0.1 M under budget: system administration fees unfavorable based on current actuals and load forecast for remainder of year

Major Expenditure Variances

\$1.1 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

\$0.5 M under budget: minor capital spending postponed

Financial Summary: Statements of Financial Position

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

	<u>2015</u>	<u>2014</u>
Assets		
Current assets	\$ 760.8	\$ 902.6
Long term assets	116.7	159.8
Total assets	<u>\$ 877.5</u>	<u>\$ 1,062.4</u>
Liabilities and Unrestricted Net Assets		
Current liabilities	\$ 799.2	\$ 935.7
Long term liabilities	64.4	112.9
Unrestricted net assets	13.9	13.8
Total liabilities and unrestricted net assets	<u>\$ 877.5</u>	<u>\$ 1,062.4</u>

Financial Summary: Statements of Activities and Net Assets

For the Ten Months Ended October 31, 2015 and 2014 (\$ in Millions)

	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 154.8	\$ 151.2
Operating expenses	149.1	145.5
Gain (Loss) from operations	5.7	5.7
Other income (expense)	(1.4)	(2.1)
Change in unrestricted net assets	4.3	3.6
Unrestricted net assets, beginning of year	9.6	10.2
Unrestricted net assets, end of period	<u>\$ 13.9</u>	<u>\$ 13.8</u>



Appendices

Electric Reliability Council of Texas, Inc.											
2015 Financial Summary											
As of October 31, 2015											
(\$ in Millions)											
Line	Year to Date					Year End					
	2014	2015				2014	2015				
	Actual	Budget	Actual	Variance		Actual	Budget	Forecast	Variance		
				\$	%				\$	%	
1	System Administration Revenue	\$ 135.1	\$ 139.4	\$ 138.8	\$ (0.6)	(0.4)	\$ 158.7	\$ 163.3	\$ 163.2	\$ (0.1)	(0.1)
2	Department Net Expenditures										
3	Information Technology	40.3	45.8	45.5	0.3	0.7	49.5	55.7	55.3	0.4	0.7
4	Operations	35.0	34.7	36.5	(1.8)	(5.2)	41.4	41.4	43.8	(2.4)	(5.8)
5	Finance & Treasury	11.4	12.9	11.1	1.8	14.0	14.0	15.4	13.5	1.9	12.3
6	General Counsel and GRC	11.9	12.4	12.3	0.1	0.8	14.9	15.0	15.0	-	-
7	External Affairs & Corporate Communications	4.0	5.0	5.4	(0.4)	(8.0)	4.8	6.0	6.4	(0.4)	(6.7)
8	Human Resources	4.8	3.7	3.5	0.2	5.4	5.7	4.4	4.3	0.1	2.3
9	Corporate Administration	2.2	2.4	2.1	0.3	12.5	2.7	2.8	2.7	0.1	3.6
10	Total Department Net Expenditures	109.6	116.9	116.4	0.5	0.4	133.0	140.7	141.0	(0.3)	(0.2)
11	Net Revenues After Department Expenditures	25.5	22.5	22.4	(0.1)	(0.4)	25.7	22.6	22.2	(0.4)	(1.8)
12	Less: Project Expenditures	20.7	19.9	20.9	(1.0)	(5.0)	24.1	21.7	26.6	(4.9)	(22.6)
13	Net Available for Debt & Working Capital	\$ 4.8	\$ 2.6	\$ 1.5	\$ (1.1)	42.3	\$ 1.6	\$ 0.9	\$ (4.4)	\$ (5.3)	(588.9)

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

Li Category	Year to Date	Year End
1 System Administration Fee Revenue	-\$0.6 M - Primarily due to milder-than-expected weather	-\$0.1 M - Based on current actuals and load forecast for remainder of year
3 Information Technology	<u>Resource Allocation:</u> +\$2.8 M - HW/SW vendor support services due to more work on projects -\$1.4 M - Staff augmentation -\$1.1 M - Project cost mix is less labor driven than planned +\$0.4 M - Savings for wind generation forecasting subscription +\$0.2 M - Minor capital -\$0.4 M - Benefits higher than expected -\$0.2 M - Enterprise Resource Planning Solution not budgeted	<u>Resource Allocation:</u> +\$2.9 M - HW/SW vendor support services due to more work on projects -\$1.5 M - Staff augmentation -\$0.7 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 -\$0.5 M - Unbudgeted studies, training, and other services -\$0.5 M - Benefits higher than expected -\$0.2 M - Executive recruiting expense -\$0.1 M - Electric Power Research Institute data subscription unbudgeted	-\$0.7 M - Additional responsibilities surrounding new NERC transmission planning standards -\$0.6 M - Unbudgeted studies, training, and other 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 -\$0.1 M - Electric Power Research Institute data subscription unbudgeted -\$0.1 M - Minor capital
5 Finance & Treasury	+\$0.8 M - Interest expense savings due to lower revolver usage +\$0.4 M - Lower property taxes +\$0.3 M - Minor capital +\$0.2 M - Lower electricity consumption +\$0.1 M - Miscellaneous expenses	+\$1.0 M - Interest expense savings due to lower revolver usage +\$0.4 M - Lower property taxes +\$0.3 M - Minor capital +\$0.3 M - Lower electricity consumption +\$0.1 M - Mandated audit service -\$0.1 M - Miscellaneous expenses -\$0.1 M - Training for Enterprise Resource Planning solution
6 General Counsel and GRC	+\$0.3 M - Legal fees +\$0.2 M - Minor capital -\$0.2 M - Miscellaneous expenses -\$0.1 M - Salaries and related benefits -\$0.1 M - Employee expenses	+\$0.3 M - Legal fees +\$0.1 M - Minor capital -\$0.2 M - Miscellaneous expenses -\$0.1 M - Salaries and related benefits -\$0.1 M - Employee expenses
7 External Affairs & Corporate Communications	-\$0.2 M - Miscellaneous expenses -\$0.1 M - Project funded labor lower than planned -\$0.1 M - Benefits and taxes higher than expected	-\$0.2 M - Miscellaneous expenses -\$0.1 M - Project funded labor lower than planned -\$0.1 M - Benefits and taxes higher than expected
8 Human Resources	+\$0.2 M - External training and immigration services	+\$0.3 M - External training and immigration services -\$0.2 M - Miscellaneous expenses
9 Corporate Administration	+\$0.2 M - Board strategic planning consultant funding not needed +\$0.1 M - Miscellaneous expenses	+\$0.2 M - Board strategic planning consultant funding not needed -\$0.1 M - Salaries & related benefits
12 Less: Project Expenditures	-\$0.5M - Acceleration of hardware purchases for Data Center 4.0 Optimization (DC4) Program -\$0.5 M - Higher project demand	-\$3.6 M - Acceleration of hardware purchases for Data Center 4.0 Optimization (DC4) Program -\$1.3 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 October 31, 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		
								\$	%	
Technical Foundation										
Settlement System Upgrade	Complete	1	1	\$ 0.3	100.0	\$ 0.3	\$ 0.3	\$ -	-	-
Energy Management System (EMS) Upgrade	Execution	2	2	8.5	90.4	9.9	9.4	0.5	5.1	
Network Model Management System (NMMS) Upgrade	Execution	3	3	2.6	83.9	3.6	3.1	0.5	13.9	
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	Closing	4	4	1.1	100.0	0.9	1.1	(0.2)	(22.2)	
Production Virtualization Expansion	Planning	5	5	0.1	100.0	0.1	0.1	-	-	
Data Center 4.0 Optimization (DC4) Program	Planning	-	6	0.5	12.8	0.3	3.9	(3.6)	(1,200.0)	
Projects Below \$0.7 Million EAC Budget Threshold by Phase										
	Complete			0.2	100.0	0.2	0.2	-	-	
	Closing			0.6	100.0	0.7	0.6	0.1	14.3	
	Stabilization			0.1	100.0	0.1	0.1	-	-	
	Execution			0.7	77.8	0.9	0.9	-	-	
	Planning			-	-	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	
Other Project Spend										
	Variance of Completed Projects				n/a	-	-	-	n/a	
	Variance of In-flight & Not Yet Initiated Projects				n/a	(0.5)	(0.6)	0.1	n/a	
Total - Portfolio Projects				\$ 14.8	76.7	\$ 16.7	\$ 19.3	\$ (2.6)	(15.6)	

Electric Reliability Council of Texas, Inc.
Summary of Technical Foundation Project Budgets vs. Estimates at Completion (EACs) - Project Expenditures
As of October 31, 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		
								\$	%	
Technical Foundation										
Settlement System Upgrade	Complete	1	1	\$ 7.5	100.0	\$ 7.5	\$ 7.5	\$ -	-	-
Energy Management System (EMS) Upgrade	Execution	2	2	13.4	76.1	18.9	17.6	1.3	6.9	
Network Model Management System (NMMS) Upgrade	Execution	3	3	3.5	66.0	5.0	5.3	(0.3)	(6.0)	
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	Closing	4	4	4.2	100.0	4.2	4.2	-	-	
Production Virtualization Expansion	Planning	5	5	0.5	10.6	4.7	4.7	-	-	
Data Center 4.0 Optimization (DC4) Program	Planning	-	6	0.5	1.0	48.0	48.0	-	-	
Projects Below \$0.7 Million EAC Budget Threshold by Phase										
	Complete			1.2	100.0	1.3	1.2	0.1	7.7	
	Closing			1.9	100.0	2.0	1.9	0.1	5.0	
	Stabilization			0.2	100.0	0.2	0.2	-	-	
	Execution			1.2	80.0	1.5	1.5	-	-	
	Planning			-	-	0.2	0.2	-	-	
	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				\$ 34.4	36.9	\$ 94.3	\$ 93.1	\$ 1.2	1.3	

Electric Reliability Council of Texas, Inc.
Summary of Capital Enhancements Portfolio Demand vs. Year End (YE) Forecast - Project Expenditures
As of October 31, 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		
								\$	%	
Regulatory										
Privileged Account Management (PAM)	Stabilization	1	1	\$ 0.8	100.0	\$ 1.1	\$ 0.8	\$ 0.3	27.3	
Physical Security Project #2	Planning	-	2	-	-	0.1	0.1	-	-	
Configuration Management System (CMS) Requirements for CIP v5 Readiness	Execution	-	3	0.9	81.8	1.2	1.1	0.1	8.3	
CIP v5 Readiness Project	Execution	-	4	0.6	75.0	0.7	0.8	(0.1)	(14.3)	
Business Strategy										
Market Participant Online Data Entry: Phase 1	Planning	1	1	-	-	0.4	0.1	0.3	75.0	
Market System Enhancements 2015	Closing	5	2	0.8	100.0	1.0	0.8	0.2	20.0	
2015 Outage Scheduler Enhancements	Planning	-	3	0.2	33.3	0.5	0.6	(0.1)	(20.0)	
Short Circuit Ratio Functionality	Planning	4	4	-	-	0.5	0.3	0.2	40.0	
Congestion Revenue Rights (CRR) UI Framework Upgrade	Initiation	-	5	-	-	0.1	0.1	-	-	
Enterprise Content Alignment Program (ECAP)	Execution	6	6	0.2	100.0	0.8	0.2	0.6	75.0	
Efficiencies / Enhancements										
OSI PI Visualization Enhancements	Execution	1	1	0.6	100.0	0.6	0.6	-	-	
Projects Below \$0.7 Million EAC Budget Threshold by Phase										
	Complete			0.5	100.0	0.6	0.5	0.1	16.7	
	Closing			-	n/a	-	-	-	n/a	
	Stabilization			0.7	100.0	0.7	0.7	-	-	
	Execution			0.4	80.0	0.5	0.5	-	-	
	Planning			0.1	50.0	0.4	0.2	0.2	50.0	
	Initiation			-	-	0.1	0.1	-	-	
	On Hold			-	n/a	-	-	-	n/a	
	Not Yet Initiated			-	-	0.1	0.1	-	-	
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	(4.9)	(0.6)	(4.3)	n/a	
Total - Portfolio Projects				\$ 6.1	83.6	\$ 5.0	\$ 7.3	\$ (2.3)	(46.0)	

Electric Reliability Council of Texas, Inc.
Summary of Capital Enhancements Project Budgets vs. Estimates at Completion (EACs) - Project Expenditures
As of October 31, 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		
								\$	%	
Regulatory										
Privileged Account Management (PAM)	Stabilization	1	1	\$ 1.4	93.3	\$ 1.8	\$ 1.5	\$ 0.3	16.7	
Physical Security Project #2	Planning	-	2	-	-	1.5	1.5	-	-	
Configuration Management System (CMS) Requirements for CIP v5 Readiness	Execution	-	3	0.9	81.8	1.2	1.1	0.1	8.3	
CIP v5 Readiness Project	Execution	-	4	0.6	66.7	0.8	0.9	(0.1)	(12.5)	
Business Strategy										
Market Participant Online Data Entry: Phase 1	Planning	1	1	0.3	37.5	0.8	0.8	-	-	
Market System Enhancements 2015	Closing	5	2	0.8	100.0	1.0	0.8	0.2	20.0	
2015 Outage Scheduler Enhancements	Planning	-	3	0.2	16.7	1.2	1.2	-	-	
Short Circuit Ratio Functionality	Planning	4	4	-	-	0.7	0.7	-	-	
Congestion Revenue Rights (CRR) UI Framework Upgrade	Initiation	-	5	-	-	1.7	1.7	-	-	
Enterprise Content Alignment Program (ECAP)	Execution	6	6	0.2	8.0	2.5	2.5	-	-	
Efficiencies / Enhancements										
OSI PI Visualization Enhancements	Execution	1	1	1.0	100.0	1.0	1.0	-	-	
Projects Below \$0.7 Million EAC Budget Threshold by Phase										
	Complete			2.6	100.0	2.7	2.6	0.1	3.7	
	Closing			-	n/a	-	-	-	n/a	
	Stabilization			0.7	87.5	0.8	0.8	-	-	
	Execution			0.4	66.7	0.6	0.6	-	-	
	Planning			0.1	9.1	1.1	1.1	-	-	
	Initiation			-	-	0.2	0.2	-	-	
	On Hold			-	-	0.3	0.1	0.2	66.7	
	Not Yet Initiated			-	-	1.1	1.1	-	-	
Other Project Spend										
Capital Efficiencies & Enhancements	Execution			0.3	100.0	0.6	0.3	0.3	50.0	
Total - Portfolio Projects				\$ 9.5	46.3	\$ 21.6	\$ 20.5	\$ 1.1	5.1	

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Financial Position

As of October 31, 2015 and 2014

(Dollars in Thousands)

	<u>2015</u>	<u>2014</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 298,749	\$ 284,785
Accounts receivable	1,548	1,597
Unbilled revenue	2,502	2,639
Restricted cash	440,422	596,616
Prepaid expenses and other current assets	17,567	16,996
Total current assets	<u>760,788</u>	<u>902,633</u>
Property and equipment, net	84,607	132,114
Systems under development	31,836	27,431
Debt issuance cost	226	249
Total assets	<u>\$ 877,457</u>	<u>\$ 1,062,427</u>
Liabilities and Unrestricted Net Assets		
Current liabilities:		
Accounts payable	\$ 2,589	\$ 4,630
Accrued liabilities	11,301	7,571
Deferred revenue	2,670	2,589
Market settlement liabilities	338,184	320,308
Security deposits	440,422	596,616
Notes payable, current portion	4,000	4,000
Total current liabilities	<u>799,166</u>	<u>935,714</u>
Notes payable	64,000	68,000
Regulatory liabilities	-	44,497
Other long term liabilities	346	424
Total liabilities	<u>863,512</u>	<u>1,048,635</u>
Unrestricted net assets	13,945	13,792
Total liabilities and unrestricted net assets	<u>\$ 877,457</u>	<u>\$ 1,062,427</u>

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Activities and Net Assets

For the Ten Months Ended October 31, 2015 and 2014

(Dollars in Thousands)

	<u>2015</u>	<u>2014</u>
Operating revenues		
System administration fees	\$ 138,806	\$ 135,116
Reliability organization pass-through	12,253	11,959
Other services revenue	3,742	4,168
Total operating revenues	<u>154,801</u>	<u>151,243</u>
Operating expenses		
Salaries and related benefits	81,533	73,421
Facility and equipment costs	8,593	9,278
Outside services	8,336	10,123
Hardware and software maintenance and licensing	15,788	14,014
Reliability organization assessment	12,253	11,959
Depreciation	50,560	76,572
Amortization of regulatory asset	(33,526)	(55,280)
Other	5,557	5,427
Total operating expenses	<u>149,094</u>	<u>145,514</u>
Income from operations	5,707	5,729
Other income (expense)		
Interest income	23	21
Interest expense	(1,765)	(2,131)
Non-operating income	359	15
Change in unrestricted net assets	4,324	3,634
Unrestricted net assets, beginning of year	9,621	10,158
Unrestricted net assets, end of period	<u>\$ 13,945</u>	<u>\$ 13,792</u>

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Cash Flows

For the Ten Months Ended October 31, 2015 and 2014

(Dollars in Thousands)

	<u>2015</u>	<u>2014</u>
Operating activities:		
Change in unrestricted net assets	\$ 4,324	\$ 3,634
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	50,560	76,572
Amortization of regulatory liabilities	(33,526)	(55,280)
Amortization of debt issuance costs	27	73
Net gain on capital assets	(310)	-
Changes in operating assets and liabilities:		
Accounts receivable	1,676	597
Unbilled revenue	(192)	574
Prepaid expenses and other assets	(1,271)	(6,829)
Other long-term liabilities	(83)	5
Accounts payable	(561)	1,193
Accrued liabilities	2,229	(628)
Deferred revenue	(1,508)	(1,288)
Net cash provided by operating activities	<u>21,365</u>	<u>18,623</u>
Investing activities:		
Capital expenditures for property and equipment and systems under development	(19,773)	(21,041)
Proceeds from sale of property and equipment	-	-
Net cash (used in) investing activities	<u>(19,773)</u>	<u>(21,041)</u>
Financing activities:		
Repayment of notes payable	(3,000)	(16,630)
Payment of debt issuance costs	(9)	(4)
(Increase) Decrease in restricted cash	(31,410)	52,501
(Decrease) in market settlement liabilities	(14,635)	(31,404)
Increase (Decrease) in security deposits	31,410	(52,501)
Net cash provided by (used in) financing activities	<u>(17,644)</u>	<u>(48,038)</u>
Net increase (decrease) in cash and cash equivalents	(16,052)	(50,456)
Cash and cash equivalents, beginning of year	314,801	335,241
Cash and cash equivalents, end of period	<u>\$ 298,749</u>	<u>\$ 284,785</u>