



Item 12.1: Review 2015 Financial Summary

Sean Taylor

Controller

Finance & Audit Committee Meeting

ERCOT Public

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Review 2015 Financial Summary: Variance to Budget (\$ in Millions) Net Revenues After Department Expenditures as of December 31, 2015

Preliminary Net Revenues at Year End: \$1.8 M Unfavorable

Major Revenue Variances

\$1.3 M under budget: system administration fees unfavorable due to milder-than-expected weather

Major Expenditure Variances

\$2.0 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

\$0.8 M under budget: IT resource allocation due to more work on projects

Review 2015 Financial Summary: Preliminary Statements of Financial Position

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

	<u>2015</u>	<u>2014</u>
Assets		
Current assets	\$ 692.6	\$ 745.6
Long term assets	118.7	147.7
Total assets	<u>\$ 811.3</u>	<u>\$ 893.3</u>
Liabilities and Unrestricted Net Assets		
Current liabilities	\$ 740.3	\$ 782.7
Long term liabilities	63.4	101.0
Unrestricted net assets	7.6	9.6
Total liabilities and unrestricted net assets	<u>\$ 811.3</u>	<u>\$ 893.3</u>

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

For the Twelve Months Ended December 31, 2015 and 2014 (\$ in Millions)

	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 181.0	\$ 178.0
Operating expenses	181.3	176.3
Gain (Loss) from operations	(0.3)	1.7
Other income (expense)	(1.7)	(2.3)
Change in unrestricted net assets	(2.0)	(0.6)
Unrestricted net assets, beginning of year	9.6	10.2
Unrestricted net assets, end of period	<u>\$ 7.6</u>	<u>\$ 9.6</u>

Appendices

Electric Reliability Council of Texas, Inc. 2015 Financial Summary As of December 31, 2015 (Preliminary) (\$ in Millions)					
Preliminary Year End					
Line	2014	2015			
	Actual	Budget	Actual	\$	<u>Variance</u> %
1	\$ 158.7	\$ 163.3	\$ 162.0	\$ (1.3)	(0.8)
2	Department Net Expenditures				
3	Information Technology	49.5	55.7	55.4	0.3 0.5
4	Operations	41.4	41.4	44.1	(2.7) (6.5)
5	Finance & Treasury	14.0	15.4	13.3	2.1 13.6
6	General Counsel and GRC	14.9	15.0	14.9	0.1 0.7
7	External Affairs & Corporate Communications	4.8	6.0	6.5	(0.5) (8.3)
8	Human Resources	5.7	4.4	4.2	0.2 4.5
9	Corporate Administration	2.7	2.8	2.8	- -
10	Total Department Net Expenditures	133.0	140.7	141.2	(0.5) (0.4)
11	Net Revenues After Department Expenditures	25.7	22.6	20.8	(1.8) (8.0)
12	Less: Project Expenditures	24.1	21.7	27.1	(5.4) (24.9)
13	Net Available for Debt & Working Capital	\$ 1.6	\$ 0.9	\$ (6.3)	\$ (7.2) 800.0

Electric Reliability Council of Texas, Inc.
2015 Financial Summary - Year End Variance Explanations
As of December 31, 2015 (Preliminary)

<u>Line</u>	<u>Category</u>	<u>Preliminary Year End</u>
1	System Administration Fee Revenue	-\$1.3 M - Primarily due to milder-than-expected weather
3	Information Technology	<u>Resource Allocation:</u> +\$3.2 M - HW/SW vendor support services due to more work on projects -\$1.7 M - Staff augmentation <u>-\$0.7 M</u> - Project cost mix is less labor driven than planned +\$0.8 M +\$0.5 M - Savings for wind generation forecasting subscription +\$0.1 M - Minor capital spending delayed -\$0.7 M - Benefits higher than expected -\$0.4M - Enterprise Resource Planning solution not budgeted
4	Operations	-\$0.8 M - Benefits higher than expected -\$0.7 M - Additional responsibilities surrounding new NERC transmission planning standards -\$0.6 M - Unbudgeted studies, staff backfill, and other services -\$0.2 M - Executive recruiting expense -\$0.2 M - Budgeted risk verification fee (revenue) not implemented -\$0.1 M - Electric Power Research Institute data subscription unbudgeted -\$0.1 M - Minor capital
5	Finance & Treasury	+\$1.0 M - Interest expense savings due to lower revolver usage and project funding +\$0.5 M - Lower property taxes +\$0.4 M - Minor capital spending delayed +\$0.3 M - Lower electricity consumption -\$0.1 M - Training for Enterprise Resource Planning solution
6	General Counsel and GRC	+\$0.3 M - Legal fees +\$0.2 M - Minor capital spending delayed -\$0.2 M - Miscellaneous expenses -\$0.1 M - Salaries and related benefits -\$0.1 M - Employee expenses
7	External Affairs & Corporate Communications	-\$0.3 M - Miscellaneous expenses -\$0.1 M - Project funded labor lower than planned -\$0.1 M - Benefits higher than expected
8	Human Resources	+\$0.3 M - External training, immigration services, and employee wellness program -\$0.1 M - Miscellaneous expenses
9	Corporate Administration	+\$0.2 M - Board strategic planning consultant funding not needed -\$0.2 M - Salaries & related benefits
12	Less: Project Expenditures	-\$3.6 M - Acceleration of hardware purchases for DC 4 -\$1.8 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 December 31, 2015 (Preliminary)
(\$ 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	9.3	100.0	9.8	9.3	0.5	5.1	
Network Model Management System (NMMS) Upgrade	Execution	3	3	3.1	100.0	3.6	3.1	0.5	13.9	
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	Complete	4	4	1.2	100.0	1.0	1.2	(0.2)	(20.0)	
Production Virtualization Expansion	On Hold	5	5	0.1	100.0	0.1	0.1	-	-	
Data Center 4.0 Optimization (DC4) Program	Planning	-	6	3.8	100.0	0.2	3.8	(3.6)	(1,800.0)	
Projects Below \$0.7 Million EAC Budget Threshold by Phase										
	Complete			0.6	100.0	0.8	0.6	0.2	25.0	
	Closing			0.3	100.0	0.3	0.3	-	-	
	Stabilization			-	n/a	-	-	-	n/a	
	Execution			0.9	100.0	1.0	0.9	0.1	10.0	
	Planning			-	n/a	-	-	-	n/a	
	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
	Variance of In-flight & Not Yet Initiated Projects							(0.5)	(0.5)	n/a
Total - Portfolio Projects				\$ 19.7	100.0	\$ 16.7	\$ 19.7	\$ (3.0)	(18.0)	

Electric Reliability Council of Texas, Inc.
Summary of Technical Foundation Project Budgets vs. Estimates at Completion (EACs) - Project Expenditures
As of December 31, 2015 (Preliminary)
(\$ 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	14.3	81.3	18.9	17.6	1.3	6.9	
Network Model Management System (NMMS) Upgrade	Execution	3	3	3.9	72.2	5.0	5.4	(0.4)	(8.0)	
Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	Complete	4	4	4.2	100.0	4.2	4.2	-	-	
Production Virtualization Expansion	On Hold	5	5	0.5	10.6	4.7	4.7	-	-	
Data Center 4.0 Optimization (DC4) Program	Planning	-	6	3.8	7.9	48.0	48.0	-	-	
Projects Below \$0.7 Million EAC Budget Threshold by Phase										
	Complete			2.7	100.0	3.0	2.7	0.3	10.0	
	Closing			0.6	100.0	0.6	0.6	-	-	
	Stabilization			-	n/a	-	-	-	n/a	
	Execution			1.3	92.9	1.5	1.4	0.1	6.7	
	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				\$ 39.1	42.0	\$ 94.4	\$ 93.1	\$ 1.3	1.4	

Electric Reliability Council of Texas, Inc.
Summary of Capital Enhancements Portfolio Demand vs. Year End (YE) Forecast - Project Expenditures
As of December 31, 2015 (Preliminary)
(\$ 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	100.0	0.1	0.1	-	-	
Configuration Management System (CMS) Requirements for CIP v5 Readiness	Execution	-	3	1.2	100.0	1.2	1.2	-	-	
CIP v5 Readiness Project	Execution	-	4	0.8	100.0	0.8	0.8	-	-	
Business Strategy										
Market Participant Online Data Entry: Phase 1	On Hold	1	1	-	n/a	0.5	-	0.5	100.0	
Market System Enhancements 2015	Complete	5	2	0.8	100.0	1.0	0.8	0.2	20.0	
2015 Outage Scheduler Enhancements	Execution	-	3	0.5	100.0	0.5	0.5	-	-	
Short Circuit Ratio Functionality	Planning	4	4	0.1	100.0	0.5	0.1	0.4	80.0	
Congestion Revenue Rights (CRR) UI Framework Upgrade	Planning	-	5	-	n/a	-	-	-	n/a	
Enterprise Content Alignment Program (ECAP)	Execution	6	6	0.2	100.0	0.7	0.2	0.5	71.4	
Efficiencies / Enhancements										
OSI PI Visualization Enhancements	Execution	1	1	0.7	100.0	0.7	0.7	-	-	
Projects Below \$0.7 Million EAC Budget Threshold by Phase										
	Complete			0.6	100.0	0.7	0.6	0.1	14.3	
	Closing			0.2	100.0	0.2	0.2	-	-	
	Stabilization			0.4	100.0	0.4	0.4	-	-	
	Execution			0.5	100.0	0.6	0.5	0.1	16.7	
	Planning			0.2	100.0	0.5	0.2	0.3	60.0	
	Initiation			-	n/a	-	-	-	n/a	
	On Hold			-	n/a	-	-	-	n/a	
	Not Yet Initiated			-	n/a	-	-	-	n/a	
Other Project Spend										
Capital Efficiencies & Enhancements	Execution			0.3	100.0	0.6	0.3	0.3	50.0	
Variance of Completed Projects						(0.3)	-	(0.3)	n/a	
Variance of In-flight & Not Yet Initiated Projects						(4.8)	-	(4.8)	n/a	
Total - Portfolio Projects				\$ 7.4	100.0	\$ 5.0	\$ 7.4	\$ (2.4)	(48.0)	

Electric Reliability Council of Texas, Inc.
Summary of Capital Enhancements Project Budgets vs. Estimates at Completion (EACs) - Project Expenditures
As of December 31, 2015 (Preliminary)
(\$ 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	\$ 1.5	100.0	\$ 1.7	\$ 1.5	\$ 0.2	11.8	
Physical Security Project #2	Planning	-	2	0.1	6.7	1.5	1.5	-	-	
Configuration Management System (CMS) Requirements for CIP v5 Readiness	Execution	-	3	1.2	100.0	1.2	1.2	-	-	
CIP v5 Readiness Project	Execution	-	4	0.9	90.0	1.0	1.0	-	-	
Business Strategy										
Market Participant Online Data Entry: Phase 1	On Hold	1	1	0.3	37.5	0.8	0.8	-	-	
Market System Enhancements 2015	Complete	5	2	0.8	100.0	1.0	0.8	0.2	20.0	
2015 Outage Scheduler Enhancements	Execution	-	3	0.5	41.7	1.2	1.2	-	-	
Short Circuit Ratio Functionality	Planning	4	4	0.1	12.5	0.8	0.8	-	-	
Congestion Revenue Rights (CRR) UI Framework Upgrade	Planning	-	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	90.9	1.1	1.1	-	-	
Projects Below \$0.7 Million EAC Budget Threshold by Phase										
	Complete			2.8	100.0	2.9	2.8	0.1	3.4	
	Closing			0.2	100.0	0.2	0.2	-	-	
	Stabilization			0.4	100.0	0.4	0.4	-	-	
	Execution			0.5	71.4	0.7	0.7	-	-	
	Planning			0.2	5.4	3.7	3.7	-	-	
	Initiation			-	-	0.6	0.6	-	-	
	On Hold			-	-	0.3	0.1	0.2	66.7	
	Not Yet Initiated			-	n/a	-	-	-	n/a	
Other Project Spend										
Capital Efficiencies & Enhancements	Execution			0.3	100.0	0.6	0.3	0.3	50.0	
Total - Portfolio Projects				\$ 11.0	48.0	\$ 23.9	\$ 22.9	\$ 1.0	4.2	

Preliminary - Unaudited

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Financial Position

As of December 31, 2015 and 2014

(Dollars in Thousands)

	<u>2015</u>		<u>2014</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 307,353	\$	314,801
Accounts receivable	2,259		3,224
Unbilled revenue	2,379		2,310
Restricted cash	363,549		409,012
Prepaid expenses and other current assets	17,032		16,296
Total current assets	<u>692,572</u>		<u>745,643</u>
Property and equipment, net	99,116		126,546
Systems under development	19,359		20,856
Debt issuance cost	221		244
Total assets	<u>\$ 811,268</u>	\$	<u>893,289</u>
 Liabilities and Unrestricted Net Assets			
Current liabilities:			
Accounts payable	\$ 3,618	\$	4,138
Accrued liabilities	8,579		8,566
Deferred revenue	3,866		4,178
Market settlement liabilities	356,687		352,819
Security deposits	363,549		409,012
Notes payable, current portion	4,000		4,000
Total current liabilities	<u>740,299</u>		<u>782,713</u>
Notes payable	63,000		67,000
Regulatory liabilities	-		33,526
Other long term liabilities	352		429
Total liabilities	<u>803,651</u>		<u>883,668</u>
Unrestricted net assets	7,617		9,621
Total liabilities and unrestricted net assets	<u>\$ 811,268</u>	\$	<u>893,289</u>

Preliminary - Unaudited

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Activities and Net Assets

For the Twelve Months Ended December 31, 2015 and 2014

(Dollars in Thousands)

	<u>2015</u>		<u>2014</u>
Operating revenues			
System administration fees	\$ 162,020	\$	158,741
Reliability organization pass-through	14,704		14,351
Other services revenue	4,287		4,925
Total operating revenues	<u>181,011</u>		<u>178,017</u>
Operating expenses			
Salaries and related benefits	98,646		88,813
Facility and equipment costs	10,279		11,291
Outside services	10,281		11,901
Hardware and software maintenance and licensing	18,730		16,547
Reliability organization assessment	14,704		14,351
Depreciation	55,443		92,864
Amortization of regulatory asset	(33,526)		(66,252)
Other	6,759		6,747
Total operating expenses	<u>181,316</u>		<u>176,262</u>
Income from operations	(305)		1,755
Other income (expense)			
Interest income	40		27
Interest expense	(2,103)		(2,490)
Non-operating income	364		171
Change in unrestricted net assets	<u>(2,004)</u>		<u>(537)</u>
Unrestricted net assets, beginning of year	9,621		10,158
Unrestricted net assets, end of period	<u>\$ 7,617</u>	\$	<u>9,621</u>

Preliminary - Unaudited

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Cash Flows

For the Twelve Months Ended December 31, 2015 and 2014

(Dollars in Thousands)

	<u>2015</u>	<u>2014</u>
Operating activities:		
Change in unrestricted net assets	\$ (2,004)	\$ (537)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	55,443	92,864
Amortization of regulatory liabilities	(33,526)	(66,252)
Amortization of debt issuance costs	32	78
Net gain on capital assets	(310)	(97)
Changes in operating assets and liabilities:		
Accounts receivable	965	(1,030)
Unbilled revenue	(69)	903
Prepaid expenses and other assets	(736)	(6,129)
Other long-term liabilities	(77)	10
Accounts payable	(149)	(121)
Accrued liabilities	(722)	(36)
Deferred revenue	(312)	301
Net cash provided by operating activities	<u>18,535</u>	<u>19,954</u>
Investing activities:		
Capital expenditures for property and equipment and systems under development	(25,842)	(23,870)
Proceeds from sale of property and equipment	-	3
Net cash (used in) investing activities	<u>(25,842)</u>	<u>(23,867)</u>
Financing activities:		
Repayment of notes payable	(4,000)	(17,630)
Payment of debt issuance costs	(9)	(4)
Decrease in restricted cash	45,463	240,105
Increase in market settlement liabilities	3,868	1,107
(Decrease) in security deposits	(45,463)	(240,105)
Net cash (used in) financing activities	<u>(141)</u>	<u>(16,527)</u>
Net (decrease) in cash and cash equivalents	(7,448)	(20,440)
Cash and cash equivalents, beginning of year	314,801	335,241
Cash and cash equivalents, end of period	<u>\$ 307,353</u>	<u>\$ 314,801</u>