



Item 4.2: Financial Summary

Bill Magness

President & Chief Executive Officer

Board of Directors Meeting

ERCOT Public

April 19, 2016

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

Net Revenues After Department Expenditures

Net Revenues Year to Date Actuals: \$1.8 M Favorable *(as of February 29, 2016)*

Major Revenue Variances

\$1.7 M under budget: system administration fees unfavorable due to milder-than-expected weather

Major Expenditure Variances

\$3.1 M under budget: timing differences

\$0.9 M: computer hardware and other equipment purchases

\$0.7 M: employee benefit costs

\$1.5 M: external studies/consulting services, staffing management, miscellaneous spending

Net Revenues Year End Forecast: \$0.9 M Favorable *(as of April 4, 2016)*

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

\$0.9 M under budget: savings for staffing management

\$0.7 M under budget: interest expense due to project funding and no revolver usage



Financial Summary: Statements of Financial Position

As of February 29, 2016 and 2015 (\$ in Millions)

	2016		2015	
Assets				
Current assets	\$	669.0	\$	733.3
Long term assets		117.7		135.2
Total assets	\$	786.7	\$	868.5
 Liabilities and Unrestricted Net Assets				
Current liabilities	\$	713.6	\$	770.2
Long term liabilities		63.1		89.7
Unrestricted net assets		10.0		8.6
Total liabilities and unrestricted net assets	\$	786.7	\$	868.5

Note: Effective January 1, 2016, capitalization threshold increased to \$5K; internal labor rate for projects increased to \$75 per hour.



Financial Summary: Statements of Activities and Net Assets

For the Two Months Ended February 29, 2016 and 2015 (\$ in Millions)

	2016		2015
Operating revenues	\$ 31.9	\$	28.6
Operating expenses	29.3		29.5
Gain (Loss) from operations	2.6		(0.9)
Other income (expense)	(0.2)		(0.1)
Change in unrestricted net assets	2.4		(1.0)
Unrestricted net assets, beginning of year	7.6		9.6
Unrestricted net assets, end of period	\$ 10.0	\$	8.6

Appendices

Electric Reliability Council of Texas, Inc. 2016 Financial Summary As of February 29, 2016 (\$ in Millions)		Year to Date (February 29)					Year End (December 31)					
		2015		2016			2015		2016			
		Line	Actual	Budget	Actual	Variance		Actual	Budget	Forecast (as of April 4)	Variance	
						\$	%				\$	%
1	System Administration Revenue	\$ 25.2	\$ 30.2	\$ 28.5	\$ (1.7)	(5.6)	\$ 162.0	\$ 193.9	\$ 193.2	\$ (0.7)	(0.4)	
2	Department Net Expenditures											
3	Information Technology	8.8	10.2	8.7	1.5	14.7	55.4	61.5	61.0	0.5	0.8	
4	Operations	8.6	10.1	8.7	1.4	13.9	55.7	58.5	58.2	0.3	0.5	
5	Finance & Treasury	2.1	2.4	2.2	0.2	8.3	13.3	14.8	14.1	0.7	4.7	
6	External Affairs & Corporate Communications	1.0	1.2	1.1	-	-	6.5	6.8	6.8	-	-	
7	Human Resources	0.7	0.8	0.6	0.3	37.5	4.2	5.3	5.3	-	-	
8	General Counsel	0.5	0.7	0.5	0.2	28.6	3.3	4.5	3.9	0.6	13.3	
9	Corporate Administration	0.4	0.5	0.6	(0.1)	(20.0)	2.8	2.8	3.2	(0.4)	(14.3)	
10	Total Department Net Expenditures	22.1	25.9	22.4	3.5	13.5	141.2	154.1	152.5	1.6	1.0	
11	Net Revenues After Department Expenditures	3.1	4.3	6.1	1.8	41.9	20.8	39.8	40.7	0.9	2.3	
12												
13	Less: Project Expenditures											
14	Current Budget Year Project Expenditures	3.1	2.8	2.8	-	-	21.7	37.1	37.1	-	-	
15	2016 Budget Expended in 2015	-	0.3	-	0.3	100.0	5.4	5.4	-	5.4	100.0	
16	Total Project Expenditures	3.1	3.1	2.8	0.3	9.7	27.1	42.5	37.1	5.4	12.7	
17												
18	Net Available for Debt & Working Capital	\$ -	\$ 1.2	\$ 3.3	\$ 2.1	175.0	\$ (6.3)	\$ (2.7)	\$ 3.6	\$ 6.3	(233.3)	
Note: Schedule may not foot due to rounding.												

Electric Reliability Council of Texas, Inc.
2016 Financial Summary Variance Explanations
As of February 29, 2016

Line	Year to Date (February 29)	Year End (December 31)
1 System Administration Fee Revenue	-\$1.7 M - Primarily due to milder-than-expected weather	-\$0.4 M - Based on actuals and 4/4/16 load forecast
3 Information Technology	+\$0.2 M - Fewer HW/SW vendor support service hours due to more work on projects <u>Timing Differences</u> +\$0.4 M - Computer hardware purchases +\$0.3 M - Employee benefit costs +\$0.2 M - Common infrastructure purchases +\$0.1 M - Internal labor effort on projects +\$0.1 M - HW/SW vendor support services +\$0.2 M - Miscellaneous spending	+\$0.2 M - Fewer HW/SW vendor support service hours due to more work on projects +\$0.2 M - Savings for budgeted HW/SW support and maintenance renewals +\$0.1 M - Savings for staffing management
4 Operations	 <u>Timing Differences</u> +\$0.4 M - Employee benefit costs +\$0.4 M - External studies/consulting services +\$0.3 M - Capitalizable computer hardware and other equipment +\$0.1 M - Operator Training Seminar (OTS) revenues +\$0.1 M - Employee expenses +\$0.1 M - Internal labor effort on projects	+\$0.5 M - Savings for staffing management +\$0.1 M - Cost avoidance for capitalizable server licenses -\$0.3 M - Outside services
5 Finance & Treasury	+\$0.1 M - Lower interest due to project funding <u>Timing Differences</u> +\$0.1 M - Miscellaneous spending	+\$0.7 M - Lower interest expense due to project funding and no revolver usage
6 External Affairs & Corporate Communications	\$0.0 M	\$0.0 M
7 Human Resources	 <u>Timing Differences</u> +\$0.1 M - Data subscription +\$0.1 M - New hire relocation costs +\$0.1 M - Miscellaneous spending	\$0.0 M
8 General Counsel	+\$0.1 M - Savings for staffing management +\$0.1 M - Outside legal services	+\$0.3 M - Savings for staffing management +\$0.3 M - Outside legal services
9 Corporate Administration	-\$0.1 M - Miscellaneous spending	-\$0.4 M - Miscellaneous spending
14 Less: Current Budget Year Project Expenditures	\$0.0 M	\$0.0 M

Electric Reliability Council of Texas, Inc.
Project Expenditures - Technical Foundation Demand vs. Year End (YE) Forecast
As of February 29, 2016
(\$ 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, 2016	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										
Energy Management System (EMS) Upgrade	Execution	1	1	\$ 0.7	25.9	\$ 4.0	\$ 2.7	\$ 1.3	32.5	
Network Model Management System (NMMS) Upgrade	Execution	2	2	0.3	18.8	1.6	1.6	-	-	
Production Virtualization Expansion	On Hold	3	3	-	-	2.6	2.6	-	-	
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			-	-	0.3	0.2	0.1	33.3	
	Planning			-	n/a	-	-	-	n/a	
	Initiation			-	n/a	-	-	-	n/a	
	On Hold			-	-	0.5	0.5	-	-	
	Not Yet Initiated			-	-	2.3	2.3	-	-	
Other Project Spend										
	Variance of Completed Projects					-	-	-	n/a	
	Variance of In-flight & Not Yet Initiated Projects					(1.4)	-	(1.4)	100.0	
			Subtotal	\$ 1.1	11.0	\$ 10.0	\$ 10.0	\$ -	-	
Data Center 4.0 Optimization (DC4) Program	Planning			0.3	1.8	16.4	16.4	-	-	
2016 Budget Expended in 2015						3.6	-	3.6	100.0	
			Total - Technical Foundation	\$ 1.4	5.3	\$ 30.0	\$ 26.4	\$ 3.6	12.0	

Electric Reliability Council of Texas, Inc.
Project Expenditures - Technical Foundation Project Budgets vs. Estimates at Completion (EACs)
As of February 29, 2016
(\$ 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, 2016	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										
Energy Management System (EMS) Upgrade	Execution	1	1	\$ 15.0	88.2	\$ 18.9	\$ 17.0	\$ 1.9	10.1	
Network Model Management System (NMMS) Upgrade	Execution	2	2	4.3	78.2	5.5	5.5	-	-	
Production Virtualization Expansion	On Hold	3	3	0.5	10.6	4.7	4.7	-	-	
Projects Below \$0.7 Million EAC Budget Threshold by Phase										
	Complete			-	n/a	-	-	-	n/a	
	Closing			-	n/a	-	-	-	n/a	
	Stabilization			1.0	90.9	1.0	1.1	(0.1)	(10.0)	
	Execution			0.4	66.7	0.8	0.6	0.2	25.0	
	Planning			-	n/a	-	-	-	n/a	
	Initiation			-	n/a	-	-	-	n/a	
	On Hold			0.3	37.5	0.8	0.8	-	-	
	Not Yet Initiated			-	-	2.3	2.3	-	-	
				Subtotal	\$ 21.5	67.2	\$ 34.0	\$ 32.0	\$ 2.0	5.9
Data Center 4.0 Optimization (DC4) Program	Planning			4.1	8.5	48.0	48.0	-	-	
				Total - Technical Foundation	\$ 25.6	32.0	\$ 82.0	\$ 80.0	\$ 2.0	2.4

Electric Reliability Council of Texas, Inc.
Project Expenditures - Capital Enhancements Demand vs. Year End (YE) Forecast
As of February 29, 2016
(\$ 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, 2016	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											
Physical Security Project #2	Planning	1	1	\$ -	-	\$ 1.4	\$ 1.4	\$ -	-		
Configuration Management System (CMS) Requirements for CIP v5 Readiness	Stabilization	2	2	0.1	100.0	0.1	0.1	-	-		
CIP v5 Readiness Project	Execution	3	3	0.2	100.0	0.2	0.2	-	-		
Business Strategy											
Market Participant Online Data Entry: Phase 1	On Hold	1	1	-	-	0.6	0.6	-	-		
2015 Credit Monitoring and Management (CMM) NPRRs	Planning	2	2	0.1	8.3	1.2	1.2	-	-		
2015 Outage Scheduler Enhancements	Execution	4	3	0.3	42.9	0.7	0.7	-	-		
Short Circuit Ratio Functionality	Execution	5	4	0.2	28.6	0.7	0.7	-	-		
Congestion Revenue Rights (CRR) UI Framework Upgrade	Planning	6	5	-	-	1.3	1.3	-	-		
Enterprise Content Alignment Program (ECAP)	Execution	7	6	-	-	2.2	2.2	-	-		
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation	Not Yet Initiated	-	7	-	-	0.2	0.2	-	-		
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			0.2	40.0	0.5	0.5	-	-		
	Planning			0.1	4.5	2.3	2.2	0.1	4.3		
	Initiation			-	n/a	-	-	-	-	n/a	
	On Hold			-	-	0.1	0.1	-	-		
	Not Yet Initiated			-	-	2.0	2.0	-	-		
Other Project Spend											
Capital Efficiencies & Enhancements	Execution			0.1	16.7	0.6	0.6	-	-		
Variance of Completed Projects						-	-	-	-	n/a	
Variance of In-flight & Not Yet Initiated Projects						(3.5)	(3.4)	(0.1)		2.9	
				Subtotal		\$ 1.4	13.1	\$ 10.7	\$ 10.7	\$ -	-
2016 Budget Expended in 2015							1.8	-	1.8	100.0	
				Total - Capital Enhancements		\$ 1.4	13.1	\$ 12.5	\$ 10.7	\$ 1.8	14.4

Electric Reliability Council of Texas, Inc.
Project Expenditures - Capital Enhancements Project Budgets vs. Estimates at Completion (EACs)
As of February 29, 2016
(\$ 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, 2016	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									
Physical Security Project #2	Planning	1	1	\$ 0.1	6.7	\$ 1.5	\$ 1.5	\$ -	-
Configuration Management System (CMS) Requirements for CIP v5 Readiness	Stabilization	2	2	1.3	100.0	1.3	1.3	-	-
CIP v5 Readiness Project	Execution	3	3	1.0	100.0	1.0	1.0	-	-
Business Strategy									
Market Participant Online Data Entry: Phase 1	On Hold	1	1	0.3	33.3	0.9	0.9	-	-
2015 Credit Monitoring and Management (CMM) NPRRs	Planning	2	2	0.1	4.8	2.1	2.1	-	-
2015 Outage Scheduler Enhancements	Execution	4	3	0.8	66.7	1.2	1.2	-	-
Short Circuit Ratio Functionality	Execution	5	4	0.2	25.0	0.8	0.8	-	-
Congestion Revenue Rights (CRR) UI Framework Upgrade	Planning	6	5	-	-	1.8	1.8	-	-
Enterprise Content Alignment Program (ECAP)	Execution	7	6	0.2	4.1	4.9	4.9	-	-
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation	Not Yet Initiated	-	7	-	-	1.1	1.1	-	-
Projects Below \$0.7 Million EAC Budget Threshold by Phase									
	Complete			-	n/a	-	-	-	n/a
	Closing			-	n/a	-	-	-	n/a
	Stabilization			0.4	100.0	0.4	0.4	-	-
	Execution			0.4	66.7	0.6	0.6	-	-
	Planning			0.2	8.3	2.4	2.4	-	-
	Initiation			-	n/a	-	-	-	n/a
	On Hold			-	-	0.1	0.1	-	-
	Not Yet Initiated			-	-	2.2	2.2	-	-
Other Project Spend									
Capital Efficiencies & Enhancements	Execution			0.1	16.7	0.6	0.6	-	-
Total - Capital Enhancements				\$ 5.1	22.3	\$ 22.9	\$ 22.9	\$ -	-

Preliminary - Unaudited

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Financial Position

As of February 29, 2016 and 2015

(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 312,929	\$ 347,700
Accounts receivable	6,058	3,633
Unbilled revenue	2,499	3,223
Restricted cash	328,464	360,607
Prepaid expenses and other current assets	19,046	18,161
Total current assets	<u>668,996</u>	<u>733,324</u>
Property and equipment, net	96,976	112,286
Systems under development	20,763	22,889
Total assets	<u>\$ 786,735</u>	<u>\$ 868,499</u>
 Liabilities and Unrestricted Net Assets		
Current liabilities:		
Accounts payable	\$ 4,776	\$ 5,675
Accrued liabilities	9,199	8,514
Deferred revenue	4,887	5,136
Market settlement liabilities	362,313	386,273
Security deposits	328,464	360,607
Notes payable, current portion	4,000	4,000
Total current liabilities	<u>713,639</u>	<u>770,205</u>
Notes payable:		
Principal	63,000	67,000
Less unamortized debt issuance cost	224	239
Notes payable less unamortized debt issuance cost	<u>62,776</u>	<u>66,761</u>
Regulatory liabilities	-	22,555
Other long term liabilities	351	428
Total liabilities	<u>776,766</u>	<u>859,949</u>
Unrestricted net assets	9,969	8,550
Total liabilities and unrestricted net assets	<u>\$ 786,735</u>	<u>\$ 868,499</u>

Preliminary - Unaudited

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Activities and Net Assets

For the Two Months Ended February 29, 2016 and 2015

(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>
Operating revenues		
System administration fees	\$ 28,487	\$ 25,164
Reliability organization pass-through	2,329	2,451
Other services revenue	1,102	993
Total operating revenues	<u>31,918</u>	<u>28,608</u>
Operating expenses		
Salaries and related benefits	16,123	15,920
Facility and equipment costs	1,708	1,722
Outside services	1,465	1,427
Hardware and software maintenance and licensing	3,268	2,964
Reliability organization assessment	2,329	2,451
Depreciation	3,431	15,088
Amortization of regulatory asset	-	(10,971)
Other	987	945
Total operating expenses	<u>29,311</u>	<u>29,546</u>
Income from operations	2,607	(938)
Other income (expense)		
Interest income	57	4
Interest expense	(312)	(361)
Non-operating income	-	224
Change in unrestricted net assets	<u>2,352</u>	<u>(1,071)</u>
Unrestricted net assets, beginning of year	7,617	9,621
Unrestricted net assets, end of period	<u>\$ 9,969</u>	<u>\$ 8,550</u>

Preliminary - Unaudited

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Cash Flows

For the Two Months Ended February 29, 2016 and 2015

(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>
Operating activities:		
Change in unrestricted net assets	\$ 2,352	\$ (1,071)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	3,431	15,088
Amortization of regulatory liabilities	-	(10,971)
Amortization of debt issuance costs	3	5
Net gain on capital assets	-	(300)
Changes in operating assets and liabilities:		
Accounts receivable	(3,799)	(409)
Unbilled revenue	(120)	(913)
Prepaid expenses and other assets	(2,014)	(1,865)
Other long-term liabilities	(1)	(1)
Accounts payable	1,708	2,045
Accrued liabilities	517	449
Deferred revenue	1,021	958
Net cash provided by operating activities	<u>3,098</u>	<u>3,015</u>
Investing activities:		
Capital expenditures for property and equipment and systems under development	(3,142)	(3,570)
Proceeds from sale of property and equipment	-	-
Net cash (used in) investing activities	<u>(3,142)</u>	<u>(3,570)</u>
Financing activities:		
Repayment of notes payable	-	-
Payment of debt issuance costs	(6)	-
Decrease in restricted cash	35,085	48,405
Increase in market settlement liabilities	5,626	33,454
(Decrease) in security deposits	(35,085)	(48,405)
Net cash provided by financing activities	<u>5,620</u>	<u>33,454</u>
Net increase in cash and cash equivalents	5,576	32,899
Cash and cash equivalents, beginning of year	307,353	314,801
Cash and cash equivalents, end of period	<u>\$ 312,929</u>	<u>\$ 347,700</u>