



Item 4.2: Financial Summary

Bill Magness

President & Chief Executive Officer

Board of Directors Meeting

ERCOT Public

June 14, 2016

Financial Summary: Variance to Budget (\$ in Millions) Net Revenues After Department Expenditures

Net Revenues Year to Date Actuals: \$2.3 M Favorable *(as of April 30, 2016)*

Major Revenue Variances

\$2.2 M under budget: system administration fees unfavorable due to milder-than-expected weather

Major Expenditure Variances

\$1.2 M under budget: resource management

\$0.7 M under budget: employee benefit costs

\$0.6 M under budget: computer hardware and other equipment purchases

\$1.4 M under budget: timing differences

Net Revenues Year End Forecast: \$3.1 M Favorable *(as of June 1, 2016)*

Major Revenue Variances

\$1.9 M under budget: system administration fees unfavorable based on current actuals and load forecast for remainder of year

Major Expenditure Variances

\$3.0 M under budget: resource management

\$0.7 M under budget: employee benefit costs

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

\$0.6 M under budget: computer hardware and other equipment purchases



Financial Summary: Statements of Financial Position

As of April 30, 2016 and 2015 (\$ in Millions)

	2016		2015	
Assets				
Current assets	\$	615.3	\$	723.7
Long term assets		116.8		123.3
Total assets	\$	732.1	\$	847.0
Liabilities and Unrestricted Net Assets				
Current liabilities	\$	660.4	\$	765.2
Long term liabilities		62.1		77.7
Unrestricted net assets		9.6		4.1
Total liabilities and unrestricted net assets	\$	732.1	\$	847.0

Financial Summary: Statements of Activities and Net Assets

For the Four Months Ended April 30, 2016 and 2015 (\$ in Millions)

	2016		2015	
Operating revenues	\$	62.4	\$	55.5
Operating expenses		59.9		60.7
Gain (Loss) from operations		2.5		(5.2)
Other income (expense)		(0.5)		(0.3)
Change in unrestricted net assets		2.0		(5.5)
Unrestricted net assets, beginning of year		7.6		9.6
Unrestricted net assets, end of period	\$	9.6	\$	4.1

Appendices

Electric Reliability Council of Texas, Inc. 2016 Financial Summary As of April 30, 2016 (\$ in Millions)															
						Year to Date (April 30)					Year End (December 31)				
						2015	2016				2015	2016			
								Variance					Variance		
Line		Actual	Budget	Actual	\$	%	Actual	Budget	Forecast	\$	%				
1	System Administration Revenue	\$ 48.9	\$ 58.1	\$ 55.9	\$ (2.2)	(3.8)	\$ 162.0	\$ 193.9	\$ 192.0	\$ (1.9)	(1.0)				
2	Department Net Expenditures														
3	Information Technology	17.9	20.2	18.2	2.0	9.9	55.4	61.5	59.8	1.7	2.8				
4	Operations	18.2	19.9	18.4	1.5	7.5	55.7	58.5	57.2	1.3	2.2				
5	Finance & Treasury	4.5	4.7	4.5	0.3	6.4	13.3	14.8	13.6	1.2	8.1				
6	External Affairs & Corporate Communications	2.1	2.3	2.3	-	-	6.5	6.8	6.7	0.1	1.5				
7	Human Resources	1.4	1.7	1.2	0.4	23.5	4.2	5.3	5.2	0.1	1.9				
8	General Counsel	1.0	1.5	1.1	0.4	26.7	3.3	4.5	3.9	0.6	13.3				
9	Corporate Administration	0.9	0.9	1.1	(0.2)	(22.2)	2.8	2.8	2.8	-	-				
10	Total Department Net Expenditures	46.0	51.1	46.7	4.5	8.8	141.2	154.1	149.2	5.0	3.2				
11	Net Revenues After Department Expenditures	2.9	7.0	9.3	2.3	32.9	20.8	39.8	42.8	3.1	7.8				
12															
13	Less: Project Expenditures														
14	Current Budget Year Project Expenditures	6.4	6.5	5.5	1.0	15.4	21.7	37.1	36.6	0.5	1.3				
15	2016 Budget Expended in 2015	0.1	5.4	-	5.4	100.0	5.4	5.4	-	5.4	100.0				
16	Total Project Expenditures	6.5	11.9	5.5	6.4	53.8	27.1	42.5	36.6	5.9	13.9				
17															
18	Net Available for Debt & Working Capital	\$ (3.6)	\$ (4.9)	\$ 3.8	\$ 8.7	177.6	\$ (6.3)	\$ (2.7)	\$ 6.2	\$ 9.0	333.3				
Note: Schedule may not foot due to rounding.															

Electric Reliability Council of Texas, Inc.
2016 Financial Summary Variance Explanations
As of April 30, 2016

Line	Year to Date	Year End
1 System Administration Fee Revenue	-\$2.2 M - Primarily due to milder-than-expected weather	-\$1.9 M - Based on actuals and 6/1/16 load forecast
3 Information Technology	+\$0.6 M - HW/SW vendor support services due to more work on projects (Resource Management) +\$0.4 M - Common infrastructure purchases +\$0.3 M - Employee benefit costs +\$0.2 M - Savings for staffing management (Resource Management) +\$0.1 M - Minor capital purchases <u>Timing Differences</u> +\$0.1 M - Minor capital purchases +\$0.1 M - HW/SW support and maintenance renewals +\$0.2 M - Miscellaneous spending	+\$0.7 M - Savings for staffing management (Resource Management) +\$0.6 M - HW/SW vendor support services due to more project work (Resource Management) +\$0.4 M - Common infrastructure purchases +\$0.3 M - Employee benefit costs +\$0.1 M - Minor capital purchases -\$0.2 M - Unbudgeted HW/SW support and maintenance renewals -\$0.2 M - External staffing (Resource Management)
4 Operations	+\$0.3 M - Savings for staffing management (Resource Management) +\$0.3 M - Employee benefit costs +\$0.1 M - Minor capital purchases -\$0.2 M - Unbudgeted data subscriptions <u>Timing Differences</u> +\$0.6 M - External studies/consulting services +\$0.4 M - Minor capital purchases	+\$1.2 M - Savings for staffing management (Resource Management) +\$0.3 M - Employee benefit costs +\$0.2 M - Higher amount of project funded labor (Resource Management) +\$0.1 M - Minor capital purchases -\$0.4 M - Unbudgeted data subscriptions -\$0.1 M - Outside services
5 Finance & Treasury	+\$0.2 M - Lower interest expense due to project funding +\$0.2 M - Property tax <u>Timing Differences</u> -\$0.1 M - Minor capital purchases	+\$0.7 M - Lower interest expense due to project funding and no revolver usage +\$0.5 M - Property tax +\$0.1 M - Outside services -\$0.1 M - Insurance
6 External Affairs & Corporate Communications	<u>Timing Differences</u> +\$0.1 M - Public Service Announcements (PSAs) not required yet -\$0.1 M - External studies/consulting services	+\$0.1 M - Savings for staffing management (Resource Management)
7 Human Resources	+\$0.1 M - Immigration services <u>Timing Differences</u> +\$0.1 M - Data subscription +\$0.1 M - Employee reward & recognition +\$0.1 M - New hire relocation costs	+\$0.1 M - Immigration services
8 General Counsel	+\$0.1 M - Savings for staffing management (Resource Management) +\$0.1 M - Regulatory studies not required +\$0.1 M - Employee benefit costs +\$0.1 M - Outside legal services	+\$0.4 M - Savings for staffing management (Resource Management) +\$0.2 M - Regulatory studies may not be required +\$0.1 M - Employee benefit costs -\$0.1 M - Outside legal services
9 Corporate Administration	<u>Timing Differences</u> -\$0.1 M - Unbudgeted executive recruiting services -\$0.1 M - Miscellaneous spending	\$0.0 M
14 Less: Current Budget Year Project Expenditures	+\$1.0 M - See Project Expenditures summary in following pages	+\$0.5 M - Labor resource constraints due to competing high priority projects

Electric Reliability Council of Texas, Inc.
Project Expenditures - Technical Foundation Demand vs. Year End (YE) Forecast
As of April 30, 2016
(\$ in Millions)

Project Name [Projects listed are at or above \$0.7 Million Estimate at Completion (EAC) Budget threshold]		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	\$	1.6	57.1	\$	4.0	\$	2.8	\$	1.2	30.0		
Network Model Management System (NMMS) Upgrade	Execution	2	2		0.6	37.5		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				0.1	100.0		0.2		0.1		0.1	50.0		
	Closing				-	n/a		-		-		-	n/a		
	Stabilization				-	n/a		-		-		-	n/a		
	Execution				0.1	50.0		0.2		0.2		-	-		
	Planning				-	n/a		-		-		-	n/a		
	Initiation				-	n/a		-		-		-	n/a		
	On Hold				-	n/a		0.3		-		0.3	100.0		
	Not Yet Initiated				-	-		2.2		2.2		-	-		
Other Project Spend															
Variance of Completed Projects								(0.1)		-		(0.1)	100.0		
Variance of In-flight & Not Yet Initiated Projects								(1.0)				(1.0)	100.0		
				Subtotal	\$	2.4		25.3	\$	10.0	\$	9.5	\$	0.5	5.0
Data Center 4.0 Optimization (DC4) Program	Planning				0.6	3.7		16.4		16.4		-	-		
2016 Budget Expended in 2015								3.6		-		3.6	100.0		
Total - Technical Foundation					\$	3.0		11.6	\$	30.0	\$	25.9	\$	4.1	13.7

Electric Reliability Council of Texas, Inc.
Project Expenditures - Technical Foundation Project Budgets vs. Estimates at Completion (EACs)
As of April 30, 2016
(\$ 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, 2016	Order Based on PPL Priority: Current	Life to Date Project Actual	% Spend to EAC Forecast	Project Budget	Project Forecast	Variance	
									\$	%
Technical Foundation										
Energy Management System (EMS) Upgrade		Execution	1	1	\$ 15.8	91.9	\$ 18.9	\$ 17.2	\$ 1.7	9.0
Network Model Management System (NMMS) Upgrade		Execution	2	2	4.6	83.6	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			0.9	100.0	1.1	0.9	0.2	18.2
		Closing			0.5	100.0	0.3	0.5	(0.2)	(66.7)
		Stabilization			-	n/a	-	-	-	n/a
		Execution			0.2	100.0	0.2	0.2	-	-
		Planning			-	n/a	-	-	-	n/a
		Initiation			-	n/a	-	-	-	n/a
		On Hold			0.3	37.5	0.8	0.8	-	-
Not Yet Initiated					-	-	2.7	2.7	-	-
Subtotal					\$ 22.8	70.2	\$ 34.2	\$ 32.5	\$ 1.7	5.0
Data Center 4.0 Optimization (DC4) Program		Planning			4.3	9.0	48.0	48.0	-	-
Total - Technical Foundation					\$ 27.1	33.7	\$ 82.2	\$ 80.5	\$ 1.7	2.1

Electric Reliability Council of Texas, Inc.
Project Expenditures - Capital Enhancements Demand vs. Year End (YE) Forecast
As of April 30, 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	\$ 0.1	7.1	\$ 1.4	\$ 1.4	\$ -	-		
Configuration Management System (CMS) Requirements for CIP v5 Readiness	Stabilization	2	2	0.3	60.0	0.5	0.5	-	-		
CIP v5 Readiness Project	Stabilization	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	0.1	0.5	83.3		
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	0.5	71.4	0.7	0.7	-	-		
Short Circuit Ratio Functionality	Execution	5	4	0.2	40.0	0.7	0.5	0.2	28.6		
ERCOT Flight Certification Website	Planning	-	5	-	-	0.5	0.5	-	-		
Congestion Revenue Rights (CRR) UI Framework Upgrade	Planning	6	6	0.1	10.0	1.0	1.0	-	-		
Enterprise Content Alignment Program (ECAP)	Execution	7	7	0.1	8.3	1.2	1.2	-	-		
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation	Planning	-	8	-	-	0.1	0.1	-	-		
Multi Station Breaker to Breaker One Lines (Planning)	Not Yet Initiated	-	9	-	-	1.2	1.2	-	-		
Projects Below \$0.7 Million EAC Budget Threshold by Phase											
	Complete			0.1	100.0	0.1	0.1	-	-		
	Closing			-	n/a	-	-	-	n/a		
	Stabilization			0.1	100.0	0.1	0.1	-	-		
	Execution			0.4	30.8	1.3	1.3	-	-		
	Planning			0.1	6.7	1.5	1.5	-	-		
	Initiation			-	-	0.2	0.2	-	-		
	On Hold			-	-	0.1	0.1	-	-		
	Not Yet Initiated			-	-	1.2	1.2	-	-		
Other Project Spend											
Capital Efficiencies & Enhancements	Execution			0.2	33.3	0.6	0.6	-	-		
Variance of Completed Projects						-	-	-	n/a		
Variance of In-flight & Not Yet Initiated Projects						(3.7)	(3.0)	(0.7)	18.9		
			Subtotal	\$ 2.5	23.4	\$ 10.7	\$ 10.7	\$ -	-		
2016 Budget Expended in 2015						1.8	-	1.8	100.0		
			Total - Capital Enhancements	\$ 2.5	23.4	\$ 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 April 30, 2016
(\$ in Millions)

Project Name [Projects listed are at or above \$0.7 Million Estimate at Completion (EAC) Budget threshold]		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			
								\$		%	
Current Phase											
Regulatory											
Physical Security Project #2		Planning	1	1	\$ 0.2	12.5	\$ 1.6	\$ 1.6	\$ -	-	-
Configuration Management System (CMS) Requirements for CIP v5 Readiness		Stabilization	2	2	1.5	93.8	1.6	1.6	-	-	-
CIP v5 Readiness Project		Stabilization	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	0.2	9.5	2.1	2.1	-	-	-
2015 Outage Scheduler Enhancements		Execution	4	3	0.9	75.0	1.2	1.2	-	-	-
Short Circuit Ratio Functionality		Execution	5	4	0.3	50.0	0.8	0.6	0.2	25.0	-
ERCOT Flight Certification Website		Planning	-	5	0.1	10.0	1.0	1.0	-	-	-
Congestion Revenue Rights (CRR) UI Framework Upgrade		Planning	6	6	0.1	5.6	1.8	1.8	-	-	-
Enterprise Content Alignment Program (ECAP)		Execution	7	7	0.3	6.1	4.9	4.9	-	-	-
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation		Planning	-	8	-	-	1.1	1.1	-	-	-
Multi Station Breaker to Breaker One Lines (Planning)		Not Yet Initiated	-	9	-	-	1.2	1.2	-	-	-
Projects Below \$0.7 Million EAC Budget Threshold by Phase											
Complete					0.4	100.0	0.4	0.4	-	-	-
Closing					-	n/a	-	-	-	-	n/a
Stabilization					0.1	100.0	0.1	0.1	-	-	-
Execution					0.6	42.9	1.4	1.4	-	-	-
Planning					0.2	12.5	1.6	1.6	-	-	-
Initiation					-	-	0.2	0.2	-	-	-
On Hold					-	-	0.1	0.1	-	-	-
Not Yet Initiated					-	-	2.2	2.2	-	-	-
Other Project Spend											
Capital Efficiencies & Enhancements		Execution			0.2	33.3	0.6	0.6	-	-	-
Total - Capital Enhancements					\$ 6.4	25.0	\$ 25.8	\$ 25.6	\$ 0.2	0.8	

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**Statements of Financial Position****As of April 30, 2016 and 2015**

(Dollars in Thousands)

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 290,767	\$ 319,082
Accounts receivable	1,768	1,619
Unbilled revenue	3,469	2,461
Restricted cash	304,083	385,848
Prepaid expenses and other current assets	15,243	14,725
Total current assets	615,330	723,735
Property and equipment, net	95,105	97,460
Systems under development	21,678	25,836
Total assets	<u>\$ 732,113</u>	<u>\$ 847,031</u>
Liabilities and Unrestricted Net Assets		
Current liabilities:		
Accounts payable	\$ 1,891	\$ 2,548
Accrued liabilities	9,533	9,537
Deferred revenue	2,512	2,637
Market settlement liabilities	338,375	360,665
Security deposits	304,083	385,848
Notes payable, current portion	4,000	4,000
Total current liabilities	660,394	765,235
Notes payable:		
Principal	62,000	66,000
Less unamortized debt issuance cost	221	233
Notes payable less unamortized debt issuance cost	61,779	65,767
Regulatory liabilities	-	11,584
Other long term liabilities	341	337
Total liabilities	722,514	842,923
Unrestricted net assets	9,599	4,108
Total liabilities and unrestricted net assets	<u>\$ 732,113</u>	<u>\$ 847,031</u>

Preliminary - Unaudited

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Activities and Net Assets

For the Four Months Ended April 30, 2016 and 2015

(Dollars in Thousands)

	2016	2015
Operating revenues		
System administration fees	\$ 55,947	\$ 48,853
Reliability organization pass-through	4,659	4,901
Other services revenue	1,807	1,754
Total operating revenues	62,413	55,508
Operating expenses		
Salaries and related benefits	32,779	32,779
Facility and equipment costs	3,428	3,408
Outside services	3,309	3,412
Hardware and software maintenance and licensing	6,576	5,948
Reliability organization assessment	4,659	4,901
Depreciation	6,939	30,190
Amortization of regulatory asset	-	(21,942)
Other	2,242	1,966
Total operating expenses	59,932	60,662
Income (loss) from operations	2,481	(5,154)
Other income (expense)		
Interest income	140	10
Interest expense	(640)	(724)
Non-operating income	1	355
Change in unrestricted net assets	1,982	(5,513)
Unrestricted net assets, beginning of year	7,617	9,621
Unrestricted net assets, end of period	\$ 9,599	\$ 4,108

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Cash Flows

For the Four Months Ended April 30, 2016 and 2015

(Dollars in Thousands)

	2016	2015
Operating activities:		
Change in unrestricted net assets	\$ 1,982	\$ (5,513)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	6,939	30,190
Amortization of regulatory liabilities	-	(21,942)
Amortization of debt issuance costs	5	11
Net gain on capital assets	-	(310)
Changes in operating assets and liabilities:		
Accounts receivable	491	1,605
Unbilled revenue	(1,090)	(151)
Prepaid expenses and other assets	1,789	1,571
Other long-term liabilities	(11)	(92)
Accounts payable	(1,178)	(938)
Accrued liabilities	1,286	1,483
Deferred revenue	(1,354)	(1,541)
Net cash provided by operating activities	<u>8,859</u>	<u>4,373</u>
Investing activities:		
Capital expenditures for property and equipment and systems under development	(6,129)	(6,938)
Proceeds from sale of property and equipment	1	-
Net cash (used in) investing activities	<u>(6,128)</u>	<u>(6,938)</u>
Financing activities:		
Repayment of notes payable	(1,000)	(1,000)
Payment of debt issuance costs	(5)	-
Decrease in restricted cash	59,466	23,164
(Decrease) increase in market settlement liabilities	(18,312)	7,846
(Decrease) in security deposits	(59,466)	(23,164)
Net cash (used in) provided by financing activities	<u>(19,317)</u>	<u>6,846</u>
Net (decrease) increase in cash and cash equivalents	(16,586)	4,281
Cash and cash equivalents, beginning of year	307,353	314,801
Cash and cash equivalents, end of period	<u>\$ 290,767</u>	<u>\$ 319,082</u>