



Item 10.1: Review 2016 Financial Summary

Sean Taylor
Controller

Finance & Audit Committee Meeting

ERCOT Public
February 13, 2017

Review 2016 Financial Summary: Variance to Budget (\$ in Millions) Net Revenues After Department Expenditures

Preliminary Net Revenues at Year End: \$13.4 M Favorable

Major Revenue Variances

\$2.0 M over budget: system administration fees favorable due to stronger economy ¹

Major Expenditure Variances

\$3.7 M under budget: resource management (\$3.5 M staffing management; \$1.0 M project work; \$-0.8 M staff backfill)

\$2.5 M under budget: computer hardware and other equipment purchases

\$1.8 M under budget: employee health, relocation and immigration costs

\$1.4 M under budget: interest expense due to project funding and no revolver usage; interest income due to higher rates

\$1.2 M under budget: external studies/consulting services

Note ¹: The 2017 Year to Date system administration fees are under budget by \$1.4 M (as of February 5, 2017).

Review 2016 Financial Summary: Statements of Financial Position

As of December 31, 2016 and 2015 (\$ in Millions)

	2016	2015
Assets		
Current assets	\$ 723.5	\$ 692.6
Long term assets	124.9	118.5
Total assets	<u>\$ 848.4</u>	<u>\$ 811.1</u>
Liabilities and Unrestricted Net Assets		
Current liabilities	\$ 752.5	\$ 740.3
Long term liabilities	59.2	63.2
Unrestricted net assets	36.7	7.6
Total liabilities and unrestricted net assets	<u>\$ 848.4</u>	<u>\$ 811.1</u>

Review 2016 Financial Summary: Statements of Activities and Net Assets

For the Twelve Months Ended December 31, 2016 and 2015 (\$ in Millions)

	2016	2015
Operating revenues	\$ 215.1	\$ 181.0
Operating expenses	184.7	181.3
Gain (Loss) from operations	30.4	(0.3)
Other income (expense)	(1.3)	(1.7)
Change in unrestricted net assets	29.1	(2.0)
Unrestricted net assets, beginning of year	7.6	9.6
Unrestricted net assets, end of period	\$ 36.7	\$ 7.6

Appendices

Electric Reliability Council of Texas, Inc. 2016 Financial Summary As of February 2, 2017 (\$ in Millions)		Preliminary Year End				
Line		2015	2016			
		Actual	Budget	Actual	Variance	
					\$	%
1	System Administration Revenue	\$ 162.0	\$ 193.9	\$ 195.9	\$ 2.0	1.0
2	Department Net Expenditures					
3	Information Technology	55.4	61.8	59.6	2.2	3.6
4	Operations	55.7	58.5	54.4	4.1	7.0
5	Finance & Treasury	13.3	14.8	12.2	2.6	17.6
6	External Affairs & Corporate Communications	6.5	6.5	6.2	0.3	4.6
7	Human Resources	4.2	5.3	4.6	0.7	13.2
8	General Counsel	3.3	4.5	3.1	1.4	31.1
9	Corporate Administration	2.8	2.8	2.6	0.2	7.1
10	Total Department Net Expenditures	141.2	154.1	142.7	11.4	7.4
11	Net Revenues After Department Expenditures	20.8	39.8	53.2	13.4	33.7
12						
13	Less: Project Expenditures					
14	Current Budget Year Project Expenditures	21.7	37.1	31.8	5.3	14.3
15	2016 Budget Expended in 2015	5.4	5.4	-	5.4	100.0
16	Total Project Expenditures	27.1	42.5	31.8	10.7	25.2
17						
18	Net Available for Debt & Working Capital	\$ (6.3)	\$ (2.7)	\$ 21.4	\$ 24.1	892.4
Note: Schedule may not foot due to rounding.						

Electric Reliability Council of Texas, Inc.
2016 Financial Summary Variance Explanations
As of February 2, 2017

Line	Preliminary Year End
1 System Administration Fee Revenue	+\$2.0 M - Primarily due to stronger economy
3 Information Technology	+\$1.3 M - Common infrastructure purchases (Computer Hardware) +\$0.7 M - HW/SW vendor support services due to work on projects (Resource Management) +\$0.6 M - Minor capital purchases (Equipment Purchases) +\$0.6 M - Lower employee health costs +\$0.5 M - Savings for staffing management (Resource Management) +\$0.5 M - Wide Area Network (WAN) net revenues -\$0.7 M - Contracted staff backfill (Resource Management) -\$0.6 M - Studies, training and other services -\$0.5 M - Other hardware and software services -\$0.2 M - Lower project funded labor (Resource Management)
4 Operations	+\$2.0 M - Savings for staffing management (Resource Management) +\$1.1 M - External studies/consulting services +\$0.6 M - Higher amount of project funded labor (Resource Management) +\$0.6 M - Lower employee health costs +\$0.3 M - Minor capital purchases (Equipment Purchases) -\$0.2 M - Unbudgeted data subscriptions -\$0.2 M - Other miscellaneous spending -\$0.1 M - Contracted staff backfill (Resource Management)
5 Finance & Treasury	+\$0.9 M - Lower interest expense due to project funding and no revolver usage +\$0.5 M - Property tax +\$0.5 M - Interest income +\$0.3 M - Fewer facilities improvements (Equipment Purchases) +\$0.2 M - Lower electricity cost +\$0.2 M - Office rent and building maintenance +\$0.1 M - Lower employee health costs -\$0.1 M - Over-spend for staffing management (Resource Management)
6 External Affairs & Corporate Communications	+\$0.2 M - Public Service Announcements (PSAs) not required +\$0.1 M - Savings for staffing management (Resource Management) +\$0.1 M - Lower employee health costs -\$0.1 M - Lower project funded labor (Resource Management)
7 Human Resources	+\$0.2 M - Data subscription for online training +\$0.2 M - Studies, training and other services +\$0.1 M - Immigration services +\$0.1 M - New employee relocation +\$0.1 M - Lower employee health costs
8 General Counsel	+\$0.7 M - Savings for staffing management (Resource Management) +\$0.3 M - Outside legal services +\$0.2 M - Regulatory studies not required +\$0.1 M - Employee training and business travel +\$0.1 M - Lower employee health costs
9 Corporate Administration	+\$0.3 M - Savings for staffing management (Resource Management) -\$0.1 M - Executive recruiting expense
14 Less: Current Budget Year Project Expenditures	+\$5.3 M - See Project Expenditures summaries in following pages

Electric Reliability Council of Texas, Inc.
Project Expenditures - Technical Foundation Demand vs. Year End (YE) Forecast
As of February 2, 2017 (Preliminary)
(\$ 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	Complete	1	1	\$ 3.5	100.0	\$ 4.0	\$ 3.5	\$ 0.5	12.5
Network Model Management System (NMMS) Upgrade	Execution	2	2	2.9	100.0	2.9	2.9	-	-
Projects Below \$0.7 Million EAC Budget Threshold by Phase									
	Complete			0.3	100.0	0.6	0.3	0.3	50.0
	Closing			-	n/a	-	-	-	n/a
	Stabilization			-	n/a	-	-	-	n/a
	Execution			0.3	100.0	0.6	0.3	0.3	50.0
	Planning			0.1	100.0	0.2	0.1	0.1	50.0
	Initiation			-	n/a	-	-	-	n/a
	On Hold			-	n/a	-	-	-	n/a
	Not Yet Initiated			-	n/a	-	-	-	n/a
Other Project Spend									
Variance of Completed Projects						(0.8)	-	(0.8)	100.0
Variance of In-flight & Not Yet Initiated Projects						2.5	-	2.5	100.0
				Subtotal	\$ 7.1 100.0	\$ 10.0	\$ 7.1	\$ 2.9	29.0
Data Center 4.0 Optimization (DC4) Program	Planning			15.9	100.0	16.4	15.9	0.5	3.0
2016 Budget Expended in 2015						3.6	-	3.6	100.0
				Total - Technical Foundation	\$ 23.0 100.0	\$ 30.0	\$ 23.0	\$ 7.0	23.3

Electric Reliability Council of Texas, Inc.
Project Expenditures - Technical Foundation Project Budgets vs. Estimates at Completion (EACs)
As of February 2, 2017 (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, 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		Complete	1	1	\$	17.8	100.0	\$	18.9	\$	17.8	\$	1.1	5.8				
Network Model Management System (NMMS) Upgrade		Execution	2	2		6.9	88.5		7.0		7.8		(0.8)	(11.4)				
Projects Below \$0.7 Million EAC Budget Threshold by Phase																		
		Complete				2.4	100.0		2.9		2.4		0.5	17.2				
		Closing				-	n/a		-		-		-	n/a				
		Stabilization				-	n/a		-		-		-	n/a				
		Execution				0.3	25.0		1.2		1.2		-	-				
		Planning				0.1	12.5		0.8		0.8		-	-				
		Initiation				-	n/a		-		-		-	n/a				
		On Hold				-	n/a		-		-		-	n/a				
		Not Yet Initiated				-	-		0.2		0.2		-	-				
				Subtotal		\$	27.5		91.1		\$	31.0	\$	30.2	\$	0.8		2.6
Data Center 4.0 Optimization (DC4) Program		Planning				19.7	41.0		48.0		48.0		-	-				
Total - Technical Foundation						\$	47.2		60.4		\$	79.0	\$	78.2	\$	0.8		1.0

Electric Reliability Council of Texas, Inc.
Project Expenditures - Capital Enhancements Demand vs. Year End (YE) Forecast
As of February 2, 2017 (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, 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	Execution	1	1	\$	0.9	100.0	\$ 1.4	\$ 0.9	\$ 0.5	35.7	
Configuration Management System (CMS) Requirements for CIP v5 Readiness	Complete	2	2		0.4	100.0	0.5	0.4	0.1	20.0	
CIP v5 Readiness Project	Complete	3	3		0.2	100.0	0.2	0.2	-	-	
Business Strategy											
Market Participant Online Data Entry: Phase 1	On Hold	1	1		-	n/a	-	-	-	n/a	
2015 Credit Monitoring and Management (CMM) NPRRs	Planning	2	2		0.6	100.0	0.7	0.6	0.1	14.3	
Load Forecast Enhancements	Execution	-	3		0.4	100.0	0.5	0.4	0.1	20.0	
2015 Outage Scheduler Enhancements	Complete	4	4		0.8	100.0	0.8	0.8	-	-	
Short Circuit Ratio Functionality	Complete	5	5		0.4	100.0	0.7	0.4	0.3	42.9	
ERCOT Flight Certification Website	Execution	-	6		0.2	100.0	0.3	0.2	0.1	33.3	
Congestion Revenue Rights (CRR) UI Framework Upgrade	Execution	6	8		0.5	100.0	0.5	0.5	-	-	
Enterprise Content Alignment Program (ECAP)	Execution	7	8		0.6	100.0	0.8	0.6	0.2	25.0	
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation	Planning	-	9		-	n/a	-	-	-	n/a	
Multi Station Breaker to Breaker One Lines (Planning)	Planning	-	10		-	n/a	0.1	-	0.1	100.0	
Efficiencies / Enhancements											
IT Change and Configuration Management Phase 2	Initiation	-	1		-	n/a	0.1	-	0.1	100.0	
SAS Technical Architecture Redesign	Planning	-	2		-	n/a	0.7	-	0.7	100.0	
Projects Below \$0.7 Million EAC Budget Threshold by Phase											
	Complete				0.9	100.0	1.0	0.9	0.1	10.0	
	Closing				0.2	100.0	0.2	0.2	-	-	
	Stabilization				0.2	100.0	0.4	0.2	0.2	50.0	
	Execution				1.8	100.0	2.1	1.8	0.3	14.3	
	Planning				0.1	100.0	0.2	0.1	0.1	50.0	
	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				0.6	100.0	0.6	0.6	-	-	
Variance of Completed Projects							(0.3)	-	(0.3)	100.0	
Variance of In-flight & Not Yet Initiated Projects							(0.8)		(0.8)	100.0	
Subtotal					\$	8.8	100.0	\$ 10.7	\$ 8.8	\$ 1.9	17.8
2016 Budget Expended in 2015							1.8	-	1.8	100.0	
Total - Capital Enhancements					\$	8.8	100.0	\$ 12.5	\$ 8.8	\$ 3.7	29.6

Electric Reliability Council of Texas, Inc.
Project Expenditures - Capital Enhancements Project Budgets vs. Estimates at Completion (EACs)
As of February 2, 2017 (Preliminary)
(\$ 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					
									\$	%				
Regulatory														
Physical Security Project #2		Execution	1	1	\$	1.0	55.6	\$	1.8	\$	1.8	\$	-	-
Configuration Management System (CMS) Requirements for CIP v5 Readiness		Complete	2	2		1.6	100.0		1.6		1.6		-	-
CIP v5 Readiness Project		Complete	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		0.6	22.2		2.7		2.7		-	-
Load Forecast Enhancements		Execution	-	3		0.4	57.1		0.7		0.7		-	-
2015 Outage Scheduler Enhancements		Complete	4	4		1.3	100.0		1.3		1.3		-	-
Short Circuit Ratio Functionality		Complete	5	5		0.5	100.0		0.8		0.5	0.3	37.5	
ERCOT Flight Certification Website		Execution	-	6		0.4	40.0		1.0		1.0		-	-
Congestion Revenue Rights (CRR) UI Framework Upgrade		Execution	6	8		0.5	26.3		1.9		1.9		-	-
Enterprise Content Alignment Program (ECAP)		Execution	7	8		0.7	14.3		4.9		4.9		-	-
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation		Planning	-	9		-	-		1.1		1.1		-	-
Multi Station Breaker to Breaker One Lines (Planning)		Planning	-	10		-	-		1.2		1.2		-	-
Efficiencies / Enhancements														
IT Change and Configuration Management Phase 2		Not Yet Initiated	-	1		-	-		1.9		1.9		-	-
SAS Technical Architecture Redesign		Not Yet Initiated	-	2		-	-		1.4		1.4		-	-
Projects Below \$0.7 Million EAC Budget Threshold by Phase														
		Complete				1.4	100.0		1.5		1.4	0.1	6.7	
		Closing				0.2	100.0		0.2		0.2	-	-	
		Stabilization				0.2	100.0		0.4		0.2	0.2	50.0	
		Execution				1.8	45.0		4.2		4.0	0.2	4.8	
		Planning				0.1	11.1		0.9		0.9	-	-	
		Initiation				-	n/a		-		-	-	n/a	
		On Hold				-	-		0.1		0.1	-	-	
		Not Yet Initiated				-	-		0.3		0.3	-	-	
Other Project Spend														
Capital Efficiencies & Enhancements		Execution				0.6	100.0		0.6		0.6	-	-	
Total - Capital Enhancements					\$	12.6	39.9	\$	32.4	\$	31.6	\$	0.8	2.5

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statement of Financial Position

As of December 31, 2016 and 2015

(Dollars in Thousands)

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 307,091	\$ 307,353
Accounts receivable	4,400	2,259
Unbilled revenue	3,163	2,379
Restricted cash	387,185	363,549
Prepaid expenses and other current assets	21,696	17,042
Total current assets	723,535	692,582
Property and equipment, net	109,014	99,116
Systems under development	15,869	19,359
Total assets	848,418	811,057
Liabilities and Unrestricted Net Assets		
Current liabilities:		
Accounts payable	2,427	3,628
Accrued liabilities	11,848	8,579
Deferred revenue	4,203	3,866
Market settlement liabilities	342,869	356,687
Security deposits	387,185	363,549
Notes payable, current portion	4,000	4,000
Total current liabilities	752,532	740,309
Notes payable:		
Principal	59,000	63,000
Less unamortized debt issuance cost	213	221
Notes payable less unamortized debt issuance cost	58,787	62,779
Other long term liabilities	355	352
Total liabilities	811,674	803,440
Unrestricted net assets	36,744	7,617
Total liabilities and unrestricted net assets	\$ 848,418	\$ 811,057

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statement of Activities and Net Assets

For the Twelve Months Ended December 31, 2016 and 2015

(Dollars in Thousands)

	2016	2015
Operating revenues		
System administration fees	\$ 196,035	\$ 162,020
Reliability organization pass-through	13,977	14,704
Other services revenue	5,069	4,287
Total operating revenues	215,081	181,011
Operating expenses		
Salaries and related benefits	97,151	98,646
Facility and equipment costs	9,870	9,576
Outside services	10,650	9,957
Hardware and software maintenance and licensing	24,743	19,757
Reliability organization assessment	13,977	14,704
Depreciation	21,727	55,443
Amortization of regulatory asset	-	(33,526)
Other	6,592	6,759
Total operating expenses	184,710	181,316
Income (loss) from operations	30,371	(305)
Other income (expense)		
Interest income	559	40
Interest expense	(1,934)	(2,103)
Non-operating income	131	364
Change in unrestricted net assets	29,127	(2,004)
Unrestricted net assets, beginning of year	7,617	9,621
Unrestricted net assets, end of period	<u>\$ 36,744</u>	<u>\$ 7,617</u>

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statement of Cash Flows

For the Twelve Months Ended December 31, 2016 and 2015

(Dollars in Thousands)

	2016	2015
Operating activities:		
Change in unrestricted net assets	\$ 29,127	\$ (2,004)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	21,727	55,443
Amortization of regulatory liabilities	-	(33,526)
Amortization of debt issuance costs	17	32
Net gain on capital assets	(113)	(315)
Changes in operating assets and liabilities:		-
Accounts receivable	(2,141)	965
Unbilled revenue	(784)	(69)
Prepaid expenses and other assets	(4,654)	(716)
Other long-term liabilities	3	(77)
Accounts payable	(305)	(169)
Accrued liabilities	3,452	(722)
Deferred revenue	337	(312)
Net cash provided by operating activities	<u>46,666</u>	<u>18,530</u>
Investing activities:		
Capital expenditures for property and equipment and systems under development	(29,102)	(25,842)
Proceeds from sale of property and equipment	1	5
Net cash (used in) investing activities	<u>(29,101)</u>	<u>(25,837)</u>
Financing activities:		
Repayment of notes payable	(4,000)	(4,000)
Payment of debt issuance costs	(9)	(9)
(Increase) decrease in restricted cash	(23,636)	45,463
(Decrease) increase in market settlement liabilities	(13,818)	3,868
Increase (decrease) in security deposits	23,636	(45,463)
Net cash (used in) financing activities	<u>(17,827)</u>	<u>(141)</u>
Net (decrease) in cash and cash equivalents	(262)	(7,448)
Cash and cash equivalents, beginning of year	307,353	314,801
Cash and cash equivalents, end of period	<u><u>\$ 307,091</u></u>	<u><u>\$ 307,353</u></u>