



Item 8.1: Review 2017 Financial Summary

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Controller

Finance & Audit Committee Meeting

ERCOT Public
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Review 2017 Financial Summary: Variance to Budget (\$ in Millions) Net Revenues After Department Expenditures

Net Revenues Year to Date Actuals: \$1.0 M Unfavorable *(as of February 28, 2017)*

Major Revenue Variances

\$2.8 M under budget: system administration fees unfavorable due to mild weather

Major Expenditure Variances

\$0.5 M under budget: interest expense due to project funding and no revolver usage; interest income due to higher rates

\$0.4 M under budget: computer hardware and equipment purchases

\$0.6 M over budget: higher employee health costs

\$0.2 M over budget: resource management

\$1.7 M under budget: timing differences

Net Revenues Year End Forecast: \$0.1 M Favorable *(as of March 23, 2017)*

Major Revenue Variances

\$0.9 M under budget: system administration fees unfavorable based on current actuals and load forecast for remainder of year

Major Expenditure Variances

\$2.3 M under budget: interest expense due to project funding and minimal revolver usage; interest income due to higher rates

\$1.4 M under budget: computer hardware and equipment purchases

\$1.6 M over budget: higher employee health costs

\$1.1 M over budget: resource management

Review 2017 Financial Summary: Statements of Financial Position

As of February 28, 2017 and February 29, 2016 (\$ in Millions)

	2017	2016
Assets		
Current assets	\$ 723.2	\$ 669.0
Long term assets	125.0	117.7
Total assets	<u>\$ 848.2</u>	<u>\$ 786.7</u>
Liabilities and Unrestricted Net Assets		
Current liabilities	\$ 754.0	\$ 713.6
Long term liabilities	59.2	63.1
Unrestricted net assets	35.0	10.0
Total liabilities and unrestricted net assets	<u>\$ 848.2</u>	<u>\$ 786.7</u>

Review 2017 Financial Summary: Statements of Activities and Net Assets

For the Two Months Ended February 28, 2017 and February 29, 2016 (\$ in Millions)

	2017	2016
Operating revenues	\$ 31.6	\$ 31.9
Operating expenses	33.2	29.3
Gain (Loss) from operations	(1.6)	2.6
Other income (expense)	(0.1)	(0.2)
Change in unrestricted net assets	(1.7)	2.4
Unrestricted net assets, beginning of year	36.7	7.6
Unrestricted net assets, end of period	<u>\$ 35.0</u>	<u>\$ 10.0</u>

Appendices

ERCOT 2017 Financial Summary As of March 23, 2017 (\$ in Millions)		Year to Date (February 28)					Year End (December 31)				
Line		2016	2017				2016	2017			
		Actual	Budget	Actual	\$	%	Actual	Budget	Forecast	\$	%
1	System Administration Revenue	\$ 28.5	\$ 30.8	\$ 28.0	\$ (2.8)	(9.1)	\$ 195.9	\$ 197.5	\$ 196.6	\$ (0.9)	(0.5)
2	Department Net Expenditures										
3	Information Technology	8.7	10.7	10.6	0.1	0.9	59.6	63.7	64.5	(0.8)	(1.3)
4	Operations	8.7	10.4	9.8	0.6	5.8	54.4	60.2	61.8	(1.6)	(2.7)
5	Finance & Treasury	2.2	2.7	2.0	0.7	25.9	12.2	15.9	13.6	2.3	14.5
6	External Affairs & Corporate Communications	1.1	1.0	1.1	(0.1)	(10.0)	6.2	6.4	6.2	0.2	3.1
7	Human Resources	0.6	0.9	0.6	0.3	33.3	4.6	5.3	5.4	(0.1)	(1.9)
8	General Counsel	0.5	0.8	0.7	0.1	12.5	3.1	5.0	4.4	0.6	12.0
9	Corporate Administration	0.6	0.4	0.3	0.1	25.0	2.6	2.5	2.1	0.4	16.0
10	Total Department Net Expenditures	22.4	27.0	25.1	1.8	6.7	142.7	159.0	158.0	1.0	0.6
11	Net Revenues After Department Expenditures	6.1	3.8	2.8	(1.0)	(26.3)	53.2	38.5	38.6	0.1	0.3
12											
13	Less: Project Expenditures	2.8	5.5	5.1	0.4	6.9	31.8	40.5	40.5	-	-
14											
15	Net Available for Debt & Working Capital	\$ 3.3	\$ (1.7)	\$ (2.3)	\$ (0.6)	(36.1)	\$ 21.4	\$ (2.0)	\$ (1.9)	\$ 0.1	5.0
Note: Schedule may not foot due to rounding											

Electric Reliability Council of Texas, Inc. 2017 Financial Summary Variance Explanations As of March 23, 2017		
Line	Year to Date (February 28)	Year End (December 31)
1 System Administration Fee Revenue	-\$2.8 M - Mild weather	-\$0.9 M - Based on current actuals and load forecast for remainder of year
3 Information Technology	-\$0.2 M - Lower-than-budgeted vacancy (Resource Management) -\$0.3 M - Higher allocated employee health costs +\$0.2 M - Common infrastructure purchases (Computer Hardware) +\$0.1 M - Minor capital purchases (Equipment Purchases) <u>Timing Differences</u> +\$0.4 M - HW/SW vendor support services +\$0.2 M - Non-capital equipment purchases -\$0.2 M - Contracted staff backfill (Resource Management) -\$0.1 M - Lower project funded labor (Resource Management)	-\$1.0 M - Lower-than-budgeted vacancy (Resource Management) -\$0.8 M - Higher allocated employee health costs +\$0.7 M - Common infrastructure purchases (Computer Hardware) +\$0.3 M - Minor capital purchases (Equipment Purchases)
4 Operations	-\$0.3 M - Higher allocated employee health costs -\$0.1 M - Lower-than-budgeted vacancy (Resource Management) <u>Timing Differences</u> +\$0.5 M - External studies/consulting services +\$0.3 M - Minor capital purchases (Equipment Purchases) +\$0.1 M - Operator Training Seminar (OTS) training costs +\$0.1 M - Higher amount of project funded labor (Resource Management)	-\$0.8 M - Higher allocated employee health costs -\$0.6 M - Lower-than-budgeted vacancy (Resource Management) -\$0.2 M - Studies, training and other services
5 Finance & Treasury	+\$0.3 M - Lower interest expense due to project funding and no revolver usage +\$0.2 M - Interest income +\$0.1 M - Fewer facilities improvements (Equipment Purchases) +\$0.1 M - Property tax -\$0.1 M - Lower-than-budgeted vacancy (Resource Management) <u>Timing Differences</u> +\$0.1 M - Corporate insurance	+\$1.6 M - Lower interest expense due to project funding and minimal revolver usage +\$0.7 M - Interest income +\$0.4 M - Fewer facilities improvements (Equipment Purchases) +\$0.1 M - Property tax -\$0.5 M - Lower-than-budgeted vacancy (Resource Management)
6 External Affairs & Corporate Communications	No material variance	+\$0.2 M - Higher-than-budgeted vacancy (Resource Management)
7 Human Resources	<u>Timing Differences</u> +\$0.1 M - Employee reward & recognition program +\$0.1 M - Online training subscription +\$0.1 M - Immigration services	-\$0.1 M - Lower-than-budgeted vacancy (Resource Management)
8 General Counsel	+\$0.1 M - Higher-than-budgeted vacancy (Resource Management)	+\$0.5 M - Higher-than-budgeted vacancy (Resource Management) +\$0.2 M - Regulatory studies may not be required -\$0.1 M - Outside legal services
9 Corporate Administration	+\$0.1 M - Higher-than-budgeted vacancy (Resource Management)	+\$0.4 M - Higher-than-budgeted vacancy (Resource Management)
14 Project Expenditures	+0.4 M - See Project Expenditures summaries in following pages	No variance

Electric Reliability Council of Texas, Inc.
Project Expenditures - Technical Foundation Demand vs. Year End (YE) Forecast
As of March 23, 2017
(\$ in Millions)

				Year to Date		Year End							
		Order Based on PPL Priority: Jan. 1, 2017	Order Based on PPL Priority: Current	Year to Date Project Actual	% Spend to Year End Forecast	Project Budget	Project Forecast	Variance					
Project Name [Projects listed are at or above \$0.7 Million Estimate at Completion (EAC) Budget threshold]	Current Phase							\$	%				
Technical Foundation													
Network Model Management System (NMMS) Upgrade	Execution	1	1	\$	0.2	10.5	\$	1.9	\$	1.9	\$	-	-
Identity and Access Management	Initiation	-	2		-	-		2.4		2.4		-	-
Replace Paperfree	Not Yet Initiated	3	3		-	-		0.5		0.5		-	-
Corporate Wireless	Not Yet Initiated	-	4		-	-		1.3		1.3		-	-
Projects Below \$0.7 Million EAC Budget Threshold by Phase													
	Complete				0.1	100.0		0.1		0.1		-	-
	Closing				0.1	100.0		0.1		0.1		-	-
	Stabilization				0.3	75.0		0.4		0.4		-	-
	Execution				0.1	20.0		0.5		0.5		-	-
	Planning				-	-		1.3		1.3		-	-
	Initiation				-	-		0.2		0.2		-	-
	On Hold				-	n/a		-		-		-	n/a
	Not Yet Initiated				-	-		0.1		0.1		-	-
Other Project Spend													
Variance of Completed Projects								-		-		-	n/a
Variance of In-flight & Not Yet Initiated Projects								1.2		-		1.2	100.0

Electric Reliability Council of Texas, Inc.

Project Expenditures - Technical Foundation Project Budgets vs. Estimates at Completion (EACs)

As of March 23, 2017

(\$ in Millions)

Project Name [Projects listed are at or above \$0.7 Million Estimate at Completion (EAC) Budget threshold]				Life to Date		Estimate at Completion (EAC)							
				Order Based on PPL Priority: Jan. 1, 2017	Order Based on PPL Priority: Current	Life to Date Project Actual	% Spend to EAC Forecast	Project Budget	Project Forecast	Variance			
										\$	%		
Current Phase													
Technical Foundation													
Network Model Management System (NMMS) Upgrade	Execution	1	1	\$	7.1	79.8	\$	8.9	\$	8.9	\$	-	-
Identity and Access Management	Initiation	-	2		-	-		4.9		4.9		-	-
Replace Paperfree	Not Yet Initiated	3	3		-	-		1.5		1.5		-	-
Corporate Wireless	Not Yet Initiated	-	4		-	-		1.3		1.3		-	-
Projects Below \$0.7 Million EAC Budget Threshold by Phase													
	Complete				0.1	100.0		0.1		0.1		-	-
	Closing				0.3	100.0		0.3		0.3		-	-
	Stabilization				0.3	75.0		0.4		0.4		-	-
	Execution				0.2	40.0		0.5		0.5		-	-
	Planning				0.1	7.7		1.3		1.3		-	-
	Initiation				-	-		0.2		0.2		-	-
	On Hold				-	n/a		-		-		-	n/a
	Not Yet Initiated				-	-		2.9		2.9		-	-
					</								

Electric Reliability Council of Texas, Inc.
Project Expenditures - Capital Enhancements Demand vs. Year End (YE) Forecast
As of March 23, 2017
(\$ 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, 2017	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	\$ 0.3	42.9	\$ 0.3	\$ 0.7	\$ (0.4)	(133.3)
Business Strategy									
Market Participant Online Data Entry: Phase 1	On Hold	1	1	-	-	0.6	0.6	-	-
2015 Credit Monitoring and Management (CMM) NPRRs	Execution	2	2	0.2	12.5	1.6	1.6	-	-
Congestion Revenue Rights (CRR) UI Framework Upgrade	Execution	4	3	0.4	26.7	1.5	1.5	-	-
Enterprise Content Alignment Program (ECAP)	Execution	5	4	0.1	25.0	0.4	0.4	-	-
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation	Planning	6	5	-	-	1.1	1.1	-	-
Reactive Power Coordination Proof of Concept (PoC)	Initiation	-	6	-	-	0.8	0.8	-	-
Multi Station Breaker to Breaker One Lines (Planning)	Execution	7	7	0.1	10.0	1.0	1.0	-	-
Training Facility - Scope and Design	Not Yet Initiated	-	8	-	-	0.9	0.9	-	-
Efficiencies / Enhancements									
IT Change and Configuration Management Phase 2	Planning	1	1	0.2	10.5	1.9	1.9	-	-
SAS Technical Architecture Redesign	Execution	2	2	0.7	46.7	1.5	1.5	-	-
Projects Below \$0.7 Million EAC Budget Threshold by Phase									
	Complete			-	n/a	-	-	-	n/a
	Closing			-	n/a	-	-	-	n/a
	Stabilization			-	n/a	-	-	-	n/a
	Execution			0.5	20.0	2.7	2.5	0.2	7.4
	Planning			-	-	1.1	1.1	-	-
	Initiation			-	n/a	-	-	-	n/a
	On Hold			-	n/a	-	-	-	n/a
	Not Yet Initiated			-	-	1.5	1.5	-	-
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						(7.0)	(6.0)	(1.0)	14.3
Total - Capital Enhancements				\$ 2.6	22.2	\$ 10.5	\$ 11.7	\$ (1.2)	(11.4)

Electric Reliability Council of Texas, Inc.

Project Expenditures - Capital Enhancements Project Budgets vs. Estimates at Completion (EACs)

As of March 23, 2017

(\$ 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, 2017	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	Execution	1	1	\$ 1.3	68.4	\$ 1.8	\$ 1.9	\$ (0.1)			(5.6)
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	Execution	2	2	0.8	26.7	3.0	3.0	-			-
Congestion Revenue Rights (CRR) UI Framework Upgrade	Execution	4	3	1.0	52.6	1.9	1.9	-			-
Enterprise Content Alignment Program (ECAP)	Execution	5	4	0.8	16.3	4.9	4.9	-			-
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation	Planning	6	5	-	-	1.1	1.1	-			-
Reactive Power Coordination Proof of Concept (PoC)	Initiation	-	6	-	-	0.8	0.8	-			-
Multi Station Breaker to Breaker One Lines (Planning)	Execution	7	7	0.1	8.3	1.2	1.2	-			-
Training Facility - Scope and Design	Not Yet Initiated	-	8	-	-	0.9	0.9	-			-
Efficiencies / Enhancements											
IT Change and Configuration Management Phase 2	Planning	1	1	0.2	10.5	1.9	1.9	-			-
SAS Technical Architecture Redesign	Execution	2	2	0.7	46.7	1.5	1.5	-			-
Projects Below \$0.7 Million EAC Budget Threshold by Phase											
	Complete			0.2	100.0	0.2	0.2	-			-
	Closing			0.3	100.0	0.4	0.3	0.1			25.0
	Stabilization			0.3	100.0	0.6	0.3	0.3			50.0
	Execution			2.3	52.3	4.6	4.4	0.2			4.3
	Planning			0.2	15.4	1.3	1.3	-			-
	Initiation			-	n/a	-	-	-			n/a
	On Hold			-	n/a	-	-	-			n/a
	Not Yet Initiated			-	-	2.7	2.7	-			-
Other Project Spend											
Capital Efficiencies & Enhancements	Execution			0.1	16.7	0.6	0.6	-			-
Total - Capital Enhancements				\$ 8.6	28.9	\$ 30.3	\$ 29.8	\$ 0.5			1.7

Preliminary - Unaudited

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Financial Position

As of February 28, 2017 and February 29, 2016

(Dollars in Thousands)

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 347,414	\$ 312,929
Accounts receivable	3,078	6,058
Unbilled revenue	2,641	2,499
Restricted cash	342,266	328,464
Prepaid expenses and other current assets	27,780	19,052
Total current assets	<u>723,179</u>	<u>669,002</u>
Property and equipment, net	106,618	96,976
Systems under development	18,404	20,763
Total assets	<u><u>848,201</u></u>	<u><u>786,741</u></u>

Liabilities and Unrestricted Net Assets

Current liabilities:		
Accounts payable	8,557	4,782
Accrued liabilities	9,493	9,199
Deferred revenue	5,029	4,887
Market settlement liabilities	384,666	362,313
Security deposits	342,266	328,464
Notes payable, current portion	4,000	4,000
Total current liabilities	<u>754,011</u>	<u>713,645</u>
Notes payable:		
Principal	59,000	63,000
Less unamortized debt issuance costs	210	224
Notes payable less unamortized debt issuance costs	<u>58,790</u>	<u>62,776</u>
Other long term liabilities	374	351
Total liabilities	<u>813,175</u>	<u>776,772</u>
Unrestricted net assets	35,026	9,969
Total liabilities and unrestricted net assets	<u><u>\$ 848,201</u></u>	<u><u>\$ 786,741</u></u>

Preliminary - Unaudited

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Activities and Net Assets

For the Two Months Ended February 28, 2017 and February 29, 2016

(Dollars in Thousands)

	2017	2016
Operating revenues		
System administration fees	\$ 27,972	\$ 28,487
Reliability organization pass-through	2,391	2,329
Other services revenue	1,267	1,102
Total operating revenues	<u>31,630</u>	<u>31,918</u>
Operating expenses		
Salaries and related benefits	18,421	16,123
Facility and equipment costs	1,842	1,611
Outside services	1,541	1,440
Hardware and software maintenance and licensing	3,687	3,390
Reliability organization assessment	2,391	2,329
Depreciation	4,336	3,431
Other	1,003	987
Total operating expenses	<u>33,221</u>	<u>29,311</u>
(Loss) Income from operations	<u>(1,591)</u>	<u>2,607</u>
Other income (expense)		
Interest income	203	57
Interest expense	(324)	(312)
Non-operating income	<u>-</u>	<u>-</u>
Change in unrestricted net assets	<u>(1,712)</u>	<u>2,352</u>
Unrestricted net assets, beginning of year	<u>36,738</u>	<u>7,617</u>
Unrestricted net assets, end of period	<u><u>\$ 35,026</u></u>	<u><u>\$ 9,969</u></u>

Preliminary - Unaudited

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Cash Flows

For the Two Months Ended February 28, 2017 and February 29, 2016

(Dollars in Thousands)

	2017	2016
Operating activities:		
Change in unrestricted net assets	\$ (1,712)	\$ 2,352
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	4,336	3,431
Amortization of debt issuance costs	3	3
Net gain on capital assets	-	-
Changes in operating assets and liabilities:		
Accounts receivable	1,322	(3,799)
Unbilled revenue	522	(120)
Prepaid expenses and other assets	(6,145)	(2,010)
Other long-term liabilities	(1)	(1)
Accounts payable	5,228	1,704
Accrued liabilities	(1,774)	517
Deferred revenue	826	1,021
Net cash provided by operating activities	<u>2,605</u>	<u>3,098</u>
Investing activities:		
Capital expenditures for property and equipment and systems under development	(4,079)	(3,142)
Proceeds from sale of property and equipment	-	-
Net cash (used in) investing activities	<u>(4,079)</u>	<u>(3,142)</u>
Financing activities:		
Repayment of notes payable	-	-
Payment of debt issuance costs	-	(6)
Decrease in restricted cash	44,919	35,085
Increase in market settlement liabilities	41,797	5,626
(Decrease) in security deposits	(44,919)	(35,085)
Net cash provided by financing activities	<u>41,797</u>	<u>5,620</u>
Net increase in cash and cash equivalents	40,323	5,576
Cash and cash equivalents, beginning of year	307,091	307,353
Cash and cash equivalents, end of period	<u><u>\$ 347,414</u></u>	<u><u>\$ 312,929</u></u>