



Item 5.1: 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: \$1.3 M Favorable *(as of April 30, 2017)*

Major Revenue Variances

\$2.3 M under budget: system administration fees unfavorable due to mild weather

Major Expenditure Variances

\$1.0 M under budget: interest expense due to project funding and no revolver usage; interest income due to higher rates

\$0.5 M under budget: computer hardware and equipment purchases

\$0.3 M over budget: higher employee health costs

\$0.3 M over budget: resource management (\$-0.5 M staff backfill; \$0.4M project work, \$-0.2M staffing management)

\$2.2 M under budget: timing differences

Net Revenues Year End Forecast: \$2.6 M Favorable *(as of May 24, 2017)*

Major Revenue Variances

\$0.4 M under budget: system administration fees unfavorable based on current actuals and load forecast for remainder of year

Major Expenditure Variances

\$2.9 M under budget: interest expense due to project funding and minimal revolver usage; interest income due to higher rates

\$1.2 M under budget: computer hardware and equipment purchases

\$0.8 M over budget: higher employee health costs

\$0.4 M over budget: resource management (\$-1.1 M staff backfill; \$0.5 M project work; \$0.2 M staffing management)

Review 2017 Financial Summary: Statements of Financial Position

As of April 30, 2017 and 2016 (\$ in Millions)

	2017	2016
Assets		
Current assets	\$ 718.0	\$ 615.3
Long term assets	133.1	116.8
Total assets	<u>\$ 851.1</u>	<u>\$ 732.1</u>
 Liabilities and Unrestricted Net Assets		
Current liabilities	\$ 758.7	\$ 660.4
Long term liabilities	58.2	62.1
Unrestricted net assets	34.2	9.6
Total liabilities and unrestricted net assets	<u>\$ 851.1</u>	<u>\$ 732.1</u>

Review 2017 Financial Summary: Statements of Activities and Net Assets

For the Four Months Ended April 30, 2017 and 2016 (\$ in Millions)

	2017	2016
Operating revenues	\$ 64.0	\$ 62.4
Operating expenses	66.4	59.9
Gain (Loss) from operations	(2.4)	2.5
Other income (expense)	(0.1)	(0.5)
Change in unrestricted net assets	(2.5)	2.0
Unrestricted net assets, beginning of year	36.7	7.6
Unrestricted net assets, end of period	<u>\$ 34.2</u>	<u>\$ 9.6</u>

Appendices

ERCOT 2017 Financial Summary As of May 24, 2017 (\$ in Millions)											
		Year to Date (April 30)					Year End (December 31)				
		2016	2017				2016	2017			
				Variance					Variance		
Line		Actual	Budget	Actual	\$	%	Actual	Budget	Forecast	\$	%
1	System Administration Revenue	\$ 55.9	\$ 59.3	\$ 57.0	\$ (2.3)	(3.9)	\$ 195.9	\$ 197.5	\$ 197.1	\$ (0.4)	(0.2)
2	Department Net Expenditures										
3	Information Technology	18.2	21.4	21.7	(0.3)	(1.4)	59.6	63.7	64.6	(0.9)	(1.4)
4	Operations	18.4	20.6	19.1	1.5	7.3	54.4	60.2	60.0	0.2	0.3
5	Finance & Treasury	4.5	5.3	4.0	1.3	24.5	12.2	15.9	13.4	2.5	15.7
6	External Affairs & Corporate Communications	2.3	2.1	2.1	-	-	6.2	6.4	6.1	0.3	4.7
7	Human Resources	1.2	1.7	1.2	0.5	29.4	4.6	5.3	5.3	-	-
8	General Counsel	1.1	1.6	1.3	0.3	18.8	3.1	5.0	4.5	0.5	10.0
9	Corporate Administration	1.1	0.8	0.7	0.1	12.5	2.6	2.5	2.1	0.4	16.0
10	Total Department Net Expenditures	46.7	53.5	50.1	3.4	6.4	142.7	159.0	156.0	3.0	1.9
11	Net Revenues After Department Expenditures	9.3	5.8	7.1	1.3	22.4	53.2	38.5	41.1	2.6	6.8
12											
13	Less: Project Expenditures	5.5	16.5	18.4	(1.8)	(11.1)	31.8	40.5	40.5	-	-
14											
15	Net Available for Debt & Working Capital	\$ 3.8	\$ (10.7)	\$ (11.3)	\$ (0.5)	(5.0)	\$ 21.4	\$ (2.0)	\$ 0.6	\$ 2.6	130.0
Note: Schedule may not foot due to rounding											

Electric Reliability Council of Texas, Inc. 2017 Financial Summary Variance Explanations As of May 24, 2017		
Line	Year to Date (April 30)	Year End (December 31)
1 System Administration Fee Revenue	-\$2.3 M - Mild weather	-\$0.4 M - Based on current actuals and load forecast for remainder of year
3 Information Technology	-\$0.5 M - Contracted staff backfill (Resource Management) -\$0.3 M - Lower-than-budgeted vacancy (Resource Management) -\$0.2 M - Higher allocated employee health costs +\$0.3 M - Common infrastructure purchases (Computer Hardware) +\$0.1 M - Minor capital purchases (Equipment Purchases) <u>Timing Differences</u> +\$0.4 M - Non-capital equipment purchases +\$0.3 M - Miscellaneous spending -\$0.4 M - HW/SW support and maintenance renewals	-\$1.2 M - Contracted staff backfill (Resource Management) -\$0.6 M - Lower-than-budgeted vacancy (Resource Management) -\$0.3 M - Higher allocated employee health costs -\$0.2 M - Lower amount of project funded labor (Resource Management) +\$0.7 M - Common infrastructure purchases (Computer Hardware) +\$0.4 M - Minor capital purchases (Equipment Purchases) +\$0.3 M - HW/SW vendor support services (Resource Management)
4 Operations	+\$0.4 M - Higher amount of project funded labor (Resource Management) -\$0.1 M - Higher allocated employee health costs <u>Timing Differences</u> +\$0.7 M - External studies/consulting services +\$0.5 M - Minor capital purchases (Equipment Purchases) +\$0.2 M - OTS and ITC Revenues -\$0.2 M - Lower-than-budgeted vacancy	+\$0.5 M - Higher amount of project funded labor (Resource Management) +\$0.2 M - Higher-than-budgeted vacancy (Resource Management) -\$0.5 M - Higher allocated employee health costs
5 Finance & Treasury	+\$0.6 M - Lower interest expense due to project funding and no revolver usage +\$0.4 M - Interest income +\$0.2 M - Property tax +\$0.1 M - Fewer facilities improvements (Equipment Purchases) -\$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 +\$1.3 M - Interest income +\$0.2 M - Property tax +\$0.1 M - Fewer facilities improvements (Equipment Purchases) -\$0.5 M - Lower-than-budgeted vacancy (Resource Management) -\$0.2 M - Corporate Insurance
6 External Affairs & Corporate Communications	No material variance	+\$0.3 M - Higher-than-budgeted vacancy (Resource Management) +\$0.1 M - Budgeted external resource converted to employee (Resource Management) -\$0.1 M - Lower-than-budgeted project funded labor (Resource Management)
7 Human Resources	<u>Timing Differences</u> +\$0.1 M - Employee reward & recognition program +\$0.1 M - New hire relocation +\$0.1 M - Online training subscription +\$0.1 M - Immigration services +\$0.1 M - Other miscellaneous variances	No material variance
8 General Counsel	+\$0.1 M - Higher-than-budgeted vacancy (Resource Management) +\$0.1 M - Regulatory studies not required yet <u>Timing Differences</u> +\$0.1 M - Outside legal services	+\$0.4 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	-\$1.8 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 May 24, 2017
(\$ in Millions)

				Year to Date			Year End							
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 Project Actual	% Spend to Year End Forecast	Project Budget	Project Forecast	Variance					
									\$		%			
Technical Foundation														
Network Model Management System (NMMS) Upgrade		Execution	1	1	\$	0.5	35.7	\$	1.9	\$	1.4	\$	0.5	26.3
Identity and Access Management: Evaluation & Execution		Initiation	-	2		0.2	7.4		2.7		2.7		-	-
Replace Paperfree		Not Yet Initiated	3	3		-	-		0.5		0.5		-	-
Corporate Wireless		Initiation	-	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				-	n/a		-		-		-	n/a
		Stabilization				0.3	75.0		0.4		0.4		-	-
		Execution				0.3	37.5		0.8		0.8		-	-
		Planning				0.1	14.3		0.8		0.7		0.1	12.5
		Initiation				-	-		0.2		0.2		-	-
		On Hold				-	n/a		-		-		-	n/a
		Not Yet Initiated				-	-		0.5		0.5		-	-
Other Project Spend														
Variance of Completed Projects									-		-		-	n/a
Variance of In-flight & Not Yet Initiated Projects									0.8		(1.3)		2.1	262.5
				Subtotal	\$	1.5	20.5	\$	10.0	\$	7.3	\$	2.7	27.0
Data Center 4.0 Optimization (DC4) Program		Planning				11.6	58.0		20.0		20.0		-	-
Total - Technical Foundation					\$	13.1	48.0	\$	30.0	\$	27.3	\$	2.7	9.0

Electric Reliability Council of Texas, Inc.
Project Expenditures - Technical Foundation Project Budgets vs. Estimates at Completion (EACs)
As of May 24, 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						
									\$	%					
Technical Foundation															
Network Model Management System (NMMS) Upgrade		Execution	1	1	\$	7.4	88.1	\$	8.9	\$	8.4	\$	0.5	5.6	
Identity and Access Management: Evaluation & Execution		Initiation	-	2		0.2	3.9		5.1		5.1		-	-	
Replace Paperfree		Not Yet Initiated	3	3		-	-		1.5		1.5		-	-	
Corporate Wireless		Initiation	-	4		-	-		1.3		1.3		-	-	
Projects Below \$0.7 Million EAC Budget Threshold by Phase															
		Complete				0.3	100.0		0.3		0.3		-	-	
		Closing				-	n/a		-		-		-	n/a	
		Stabilization				0.3	75.0		0.4		0.4		-	-	
		Execution				0.4	44.4		0.9		0.9		-	-	
		Planning				0.2	28.6		0.8		0.7	0.1	12.5		
		Initiation				-	-		0.2		0.2		-	-	
		On Hold				-	n/a		-		-		-	n/a	
		Not Yet Initiated				-	-		1.5		1.5		-	-	
					Subtotal	\$	8.8	43.3	\$	20.9	\$	20.3	\$	0.6	2.9
Data Center 4.0 Optimization (DC4) Program		Planning				31.3	65.2		48.0		48.0		-	-	
Total - Technical Foundation					\$	40.1	58.7	\$	68.9	\$	68.3	\$	0.6	0.9	

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Electric Reliability Council of Texas, Inc.
Project Expenditures - Capital Enhancements Demand vs. Year End (YE) Forecast
As of May 24, 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	\$	0.5	55.6	\$	0.9	\$	0.9	\$	-	-		
Records Management and eDiscovery		Execution	-	2		0.2	50.0		0.4		0.4		-	-		
Business Strategy																
Resource Asset Registration Form (RARF) Replacement		Planning	1	1		-	-		0.4		0.4		-	-		
2015 Credit Monitoring and Management (CMM) NPRRs		Execution	2	2		0.4	25.0		1.6		1.6		-	-		
Congestion Revenue Rights (CRR) UI Framework Upgrade		Execution	4	3		0.8	53.3		1.5		1.5		-	-		
Enterprise Content Alignment Program (ECAP)		Execution	5	4		0.2	50.0		0.4		0.4		-	-		
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation		Planning	6	5		-	-		1.1		1.1		-	-		
Reactive Power Coordination: Assessment & Proof of Concept (PoC)		Planning	-	6		-	-		1.1		1.1		-	-		
Multi Station Breaker to Breaker One Lines (Planning)		Execution	7	7		0.2	20.0		1.0		1.0		-	-		
Training Facility - Scope and Design		Initiation	-	8		-	-		0.9		0.9		-	-		
Efficiencies / Enhancements																
IT Change and Configuration Management Phase 2		Planning	1	1		0.4	18.2		2.2		2.2		-	-		
SAS Technical Architecture Redesign		Execution	2	2		0.8	53.3		1.5		1.5		-	-		
Projects Below \$0.7 Million EAC Budget Threshold by Phase																
		Complete				0.1	100.0		0.1		0.1		-	-		
		Closing				0.1	100.0		0.2		0.1		0.1	50.0		
		Stabilization				0.1	100.0		0.1		0.1		-	-		
		Execution				1.1	57.9		2.1		1.9		0.2	9.5		
		Planning				0.1	12.5		0.9		0.8		0.1	11.1		
		Initiation				-	-		0.3		0.2		0.1	33.3		
		On Hold				-	n/a		-		-		-	n/a		
		Not Yet Initiated				-	-		1.2		1.2		-	-		
Other Project Spend																
Capital Efficiencies & Enhancements		Execution				0.3	50.0		0.6		0.6		-	-		
Variance of Completed Projects									-		-		-	n/a		
Variance of In-flight & Not Yet Initiated Projects									(8.0)		(4.8)		(3.2)	40.0		
Total - Capital Enhancements						\$	5.3		40.2	\$	10.5	\$	13.2	\$	(2.7)	(25.7)

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Electric Reliability Council of Texas, Inc.

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

As of May 24, 2017

(\$ 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, 2017	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	\$	1.5	78.9	\$	1.9	\$	1.9	\$	-	-
Records Management and eDiscovery		Execution	-	2		0.5	71.4		0.7		0.7		-	-
Business Strategy														
Resource Asset Registration Form (RARF) Replacement		Planning	1	1		0.3	16.7		1.8		1.8		-	-
2015 Credit Monitoring and Management (CMM) NPRRs		Execution	2	2		1.0	33.3		3.0		3.0		-	-
Congestion Revenue Rights (CRR) UI Framework Upgrade		Execution	4	3		1.3	65.0		2.0		2.0		-	-
Enterprise Content Alignment Program (ECAP)		Execution	5	4		0.9	18.4		4.9		4.9		-	-
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation		Planning	6	5		-	-		1.1		1.1		-	-
Reactive Power Coordination: Assessment & Proof of Concept (PoC)		Planning	-	6		-	-		1.1		1.1		-	-
Multi Station Breaker to Breaker One Lines (Planning)		Execution	7	7		0.2	16.7		1.2		1.2		-	-
Training Facility - Scope and Design		Initiation	-	8		-	-		0.9		0.9		-	-
Efficiencies / Enhancements														
IT Change and Configuration Management Phase 2		Planning	1	1		0.4	18.2		2.2		2.2		-	-
SAS Technical Architecture Redesign		Execution	2	2		0.8	53.3		1.5		1.5		-	-
Projects Below \$0.7 Million EAC Budget Threshold by Phase														
		Complete				0.6	100.0		0.7		0.6		0.1	14.3
		Closing				0.4	100.0		0.9		0.4		0.5	55.6
		Stabilization				0.5	100.0		0.5		0.5		-	-
		Execution				2.5	69.4		3.8		3.6		0.2	5.3
		Planning				0.1	10.0		1.1		1.0		0.1	9.1
		Initiation				-	-		0.4		0.3		0.1	25.0
		On Hold				-	n/a		-		-		-	n/a
		Not Yet Initiated				-	-		1.3		1.3		-	-
Other Project Spend														
Capital Efficiencies & Enhancements		Execution				0.3	50.0		0.6		0.6		-	-
Total - Capital Enhancements					\$	11.3	36.9	\$	31.6	\$	30.6	\$	1.0	3.2

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ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
Statements of Financial Position
As of April 30, 2017 and 2016
(Dollars in Thousands)

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 326,302	\$ 290,767
Accounts receivable	1,964	1,768
Unbilled revenue	3,973	3,469
Restricted cash	360,167	304,083
Prepaid expenses and other current assets	25,586	15,249
Total current assets	717,992	615,336
Property and equipment, net	104,558	95,105
Systems under development	28,599	21,678
Total assets	851,149	732,119
Liabilities and Unrestricted Net Assets		
Current liabilities:		
Accounts payable	2,225	1,897
Accrued liabilities	15,610	9,533
Deferred revenue	2,588	2,512
Market settlement liabilities	374,144	338,375
Security deposits	360,167	304,083
Notes payable, current portion	4,000	4,000
Total current liabilities	758,734	660,400
Notes payable, less current portion:		
Principal	58,000	62,000
Less unamortized debt issuance costs	210	221
Notes payable less current portion and unamortized debt issuance costs	57,790	61,779
Other long term liabilities	378	341
Total liabilities	816,902	722,520
Unrestricted net assets	34,247	9,599
Total liabilities and unrestricted net assets	\$ 851,149	\$ 732,119

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**Statements of Activities and Net Assets****For the Four Months Ended April 30, 2017 and 2016**(Dollars in Thousands)

	2017	2016
Operating revenues		
System administration fees	\$ 57,045	\$ 55,947
Reliability organization pass-through	4,782	4,659
Other services revenue	2,217	1,807
Total operating revenues	64,044	62,413
Operating expenses		
Salaries and related benefits	35,061	32,779
Facility and equipment costs	3,293	3,190
Outside services	3,358	3,229
Hardware and software maintenance and licensing	8,949	6,894
Reliability organization assessment	4,782	4,659
Depreciation	8,790	6,939
Amortization of regulatory asset	-	-
Other	2,164	2,242
Total operating expenses	66,397	59,932
(Loss) Income from operations	(2,353)	2,481
Other income (expense)		
Interest income	491	140
Interest expense	(632)	(640)
Non-operating income	3	1
Change in unrestricted net assets	(2,491)	1,982
Unrestricted net assets, beginning of year	36,738	7,617
Unrestricted net assets, end of period	\$ 34,247	\$ 9,599

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**Statements of Cash Flows****For the Four Months Ended April 30, 2017 and 2016**(Dollars in Thousands)

	2017	2016
Operating activities:		
Change in unrestricted net assets	\$ (2,491)	\$ 1,982
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	8,790	6,939
Amortization of debt issuance costs	6	5
Net gain on capital assets	-	-
Changes in operating assets and liabilities:		
Accounts receivable	2,436	491
Unbilled revenue	(810)	(1,090)
Prepaid expenses and other assets	(3,951)	1,792
Other long-term liabilities	3	(11)
Accounts payable	(559)	(1,181)
Accrued liabilities	(936)	1,286
Deferred revenue	(1,615)	(1,354)
Net cash provided by operating activities	873	8,859
Investing activities:		
Capital expenditures for property and equipment and systems under development	(11,934)	(6,129)
Proceeds from sale of property and equipment	-	1
Net cash (used in) investing activities	(11,934)	(6,128)
Financing activities:		
Repayment of notes payable	(1,000)	(1,000)
Payment of debt issuance costs	(3)	(5)
Decrease in restricted cash	27,018	59,466
Increase (Decrease) in market settlement liabilities	31,275	(18,312)
(Decrease) in security deposits	(27,018)	(59,466)
Net cash provided by (used in) financing activities	30,272	(19,317)
Net increase (decrease) in cash and cash equivalents	19,211	(16,586)
Cash and cash equivalents, beginning of year	307,091	307,353
Cash and cash equivalents, end of period	\$ 326,302	\$ 290,767