



## **Item 7.1: Review 2017 Financial Summary**

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Controller

Finance & Audit Committee Meeting

ERCOT Public  
October 16, 2017

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

**Net Revenues Year to Date Actuals: \$7.2 M Favorable** *(as of August 31, 2017)*

## **Major Revenue Variances**

\$1.3 M under budget: system administration fees unfavorable due to mild weather

\$0.6 M over budget: interconnection revenue

## **Major Expenditure Variances**

\$2.7 M under budget: interest expense due to project funding and no revolver usage; interest income due to higher rates

\$0.9 M under budget: computer hardware and equipment purchases

\$0.6 M under budget: building maintenance and property tax

\$1.2 M under budget: resource management (\$-1.0 M staff backfill and augmentation; \$1.4 M project work; \$0.8 M staffing management)

\$2.2 M under budget: timing differences

**Net Revenues Year End Forecast: \$6.2 M Favorable** *(as of September 29, 2017)*

## **Major Revenue Variances**

\$1.3 M under budget: system administration fees unfavorable based on current actuals and load forecast for remainder of year

\$0.6 M over budget: interconnection revenue

## **Major Expenditure Variances**

\$3.8 M under budget: interest expense due to project funding and minimal revolver usage; interest income due to higher rates

\$1.0 M under budget: computer hardware and equipment purchases

\$0.8 M under budget: building maintenance and property tax

\$0.3 M under budget: resource management (\$-2.1 M staff backfill and augmentation; \$1.4 M project work; \$1.0 M staffing management)



# Review 2017 Financial Summary: Statements of Financial Position

## As of August 31, 2017 and 2016 (\$ in Millions)

	2017	2016
<b>Assets</b>		
Current assets		
Unrestricted cash	\$ 469.4	\$ 347.3
Restricted cash	440.6	367.1
Other current assets	37.9	30.1
Total current assets	947.9	744.5
Long term assets	132.1	119.9
Total assets	<u>\$ 1,080.0</u>	<u>\$ 864.4</u>
 <b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities		
CRR auction liabilities	\$ 414.6	\$ 304.4
Other market liabilities	90.8	71.4
Total market settlement liabilities	505.4	375.8
Security deposits	440.6	367.1
Other current liabilities	24.9	29.1
Total current liabilities	970.9	772.0
Long term liabilities	57.2	61.2
Unrestricted net assets	51.9	31.2
Total liabilities and unrestricted net assets	<u>\$ 1,080.0</u>	<u>\$ 864.4</u>

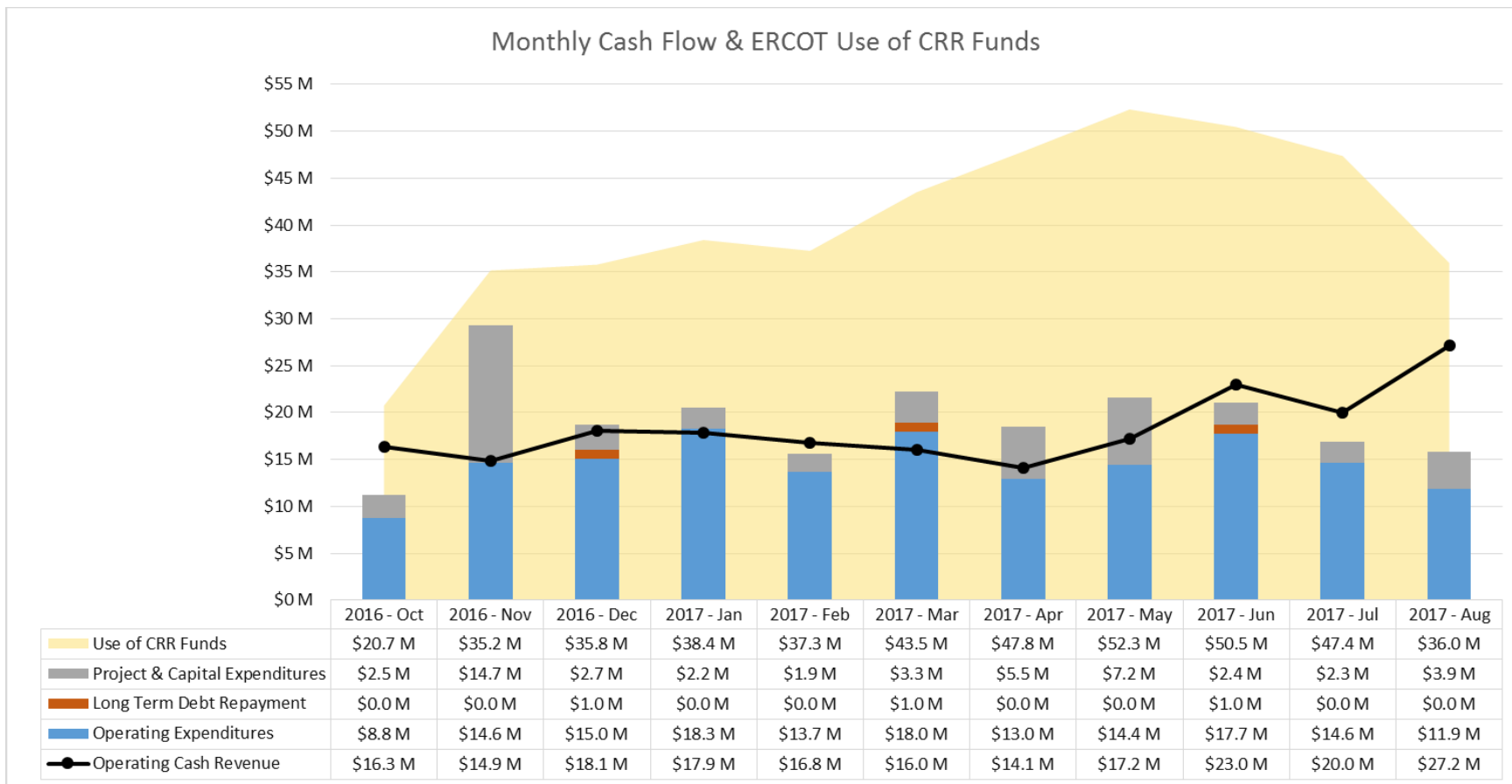
# Review 2017 Financial Summary: Statements of Activities and Net Assets

**For the Eight Months Ended August 31, 2017 and 2016 (\$ in Millions)**

	2017	2016
Operating revenues	\$ 148.0	\$ 144.7
Operating expenses	133.0	120.3
Gain (Loss) from operations	15.0	24.4
Other income (expense)	0.2	(0.8)
Change in unrestricted net assets	15.2	23.6
Unrestricted net assets, beginning of year	36.7	7.6
Unrestricted net assets, end of period	\$ 51.9	\$ 31.2

# Review 2017 Financial Summary:

## Monthly Cash Flow & ERCOT Use of CRR Funds



# Appendices

Electric Reliability Council of Texas, Inc. 2017 Financial Summary As of September 29, 2017 (\$ in Millions)											
		Year to Date (August 31)					Year End (December 31)				
		2016	2017				2016	2017			
Line		Actual	Budget	Actual	\$	%	Actual	Budget	Forecast	\$	%
1	System Administration Revenue	\$ 132.2	\$ 135.6	\$ 134.3	\$ (1.3)	(1.0)	\$ 195.9	\$ 197.5	\$ 196.2	\$ (1.3)	(0.7)
2	Department Net Expenditures										
3	Information Technology	38.4	42.5	41.7	0.9	2.1	59.6	63.7	63.6	0.1	0.2
4	Operations	35.9	40.5	38.0	2.5	6.2	54.4	60.2	58.4	1.8	3.0
5	Finance & Treasury	8.3	10.6	7.3	3.3	31.1	12.2	15.9	12.1	3.8	23.9
6	External Affairs & Corporate Communications	4.2	4.4	3.9	0.5	11.4	6.2	6.4	6.2	0.2	3.1
7	Human Resources	2.9	3.7	3.1	0.6	16.2	4.6	5.3	4.9	0.4	7.5
8	General Counsel	2.7	3.3	2.8	0.5	15.2	3.1	5.0	4.2	0.8	16.0
9	Corporate Administration	1.6	1.6	1.2	0.3	18.8	2.6	2.5	2.1	0.4	16.0
10	Total Department Net Expenditures	94.0	106.5	98.0	8.5	8.0	142.7	159.0	151.5	7.5	4.7
11	Net Revenues After Department Expenditures	38.2	29.1	36.3	7.2	24.7	53.2	38.5	44.7	6.2	16.1
12											
13	Less: Project Expenditures	15.7	30.8	29.1	1.7	5.6	31.8	40.5	42.0	(1.5)	(3.7)
14											
15	Net Available for Debt & Working Capital	\$ 22.5	\$ (1.7)	\$ 7.2	\$ 8.9	526.5	\$ 21.4	\$ (2.0)	\$ 2.7	\$ 4.7	235.0
Note: Schedule may not foot due to rounding											

Electric Reliability Council of Texas, Inc. 2017 Financial Summary Variance Explanations As of September 29, 2017		
Line	Year to Date (August 31)	Year End (December 31)
1 System Administration Fee Revenue	-\$1.3 M - Mild weather	-\$1.3 M - Based on current actuals and load forecast for remainder of year
3 Information Technology	+\$0.8 M - HW/SW vendor support services (Resource Management) +\$0.4 M - Common infrastructure purchases (Computer Hardware) +\$0.3 M - Minor capital purchases (Equipment Purchases) +\$0.2 M - Building systems maintenance +\$0.1 M - HW/SW support and maintenance renewals +\$0.1 M - Other miscellaneous variances -\$0.7 M - Contracted staff augmentation (Resource Management) -\$0.3 M - Contracted staff backfill (Resource Management) -\$0.3 M - Lower-than-budgeted vacancy (Resource Management) -\$0.2 M - Higher allocated employee health costs  <u>Timing Differences</u> +\$0.3 M - Common infrastructure purchases (Computer Hardware) +\$0.1 M - Employee training and business travel +\$0.1 M - Higher amount of project funded labor (Resource Management)	+\$1.0 M - HW/SW vendor support services (Resource Management) +\$0.4 M - Common infrastructure purchases (Computer Hardware) +\$0.4 M - Minor capital purchases (Equipment Purchases) +\$0.3 M - Building systems maintenance +\$0.3 M - HW/SW support and maintenance renewals +\$0.2 M - Other miscellaneous variances -\$1.4 M - Contracted staff augmentation (Resource Management) -\$0.7 M - Contracted staff backfill (Resource Management) -\$0.3 M - Lower-than-budgeted vacancy (Resource Management) -\$0.1 M - Higher allocated employee health costs
4 Operations	+\$0.6 M - Interconnection revenue +\$0.5 M - Higher-than-budgeted vacancy (Resource Management) +\$0.6 M - Higher amount of project funded labor (Resource Management) +\$0.2 M - Minor capital purchases (Equipment Purchases) +\$0.1 M - External studies/consulting services -\$0.2 M - Higher allocated employee health costs  <u>Timing Differences</u> +\$0.5 M - External studies/consulting services +\$0.3 M - Minor capital purchases (Equipment Purchases) -\$0.1 M - Data service subscriptions	+\$0.6 M - Interconnection revenue +\$0.6 M - Higher-than-budgeted vacancy (Resource Management) +\$0.5 M - Higher amount of project funded labor (Resource Management) +\$0.2 M - Minor capital purchases (Equipment Purchases) +\$0.1 M - External studies/consulting services -\$0.2 M - Higher allocated employee health costs
5 Finance & Treasury	+\$1.5 M - Interest income +\$1.2 M - Lower interest expense due to project funding and no revolver usage +\$0.3 M - Property tax +\$0.1 M - Building maintenance +\$0.1 M - External audit services -\$0.3 M - Lower-than-budgeted vacancy (Resource Management)  <u>Timing Differences</u> +\$0.3 M - Fewer facilities improvements (Equipment Purchases) +\$0.1 M - Corporate insurance	+\$2.1 M - Interest income +\$1.7 M - Lower interest expense due to project funding and minimal revolver usage +\$0.4 M - Property tax +\$0.1 M - Building maintenance +\$0.1 M - External audit services -\$0.5 M - Lower-than-budgeted vacancy (Resource Management) -\$0.1 M - Corporate insurance
6 External Affairs & Corporate Communications	+\$0.2 M - Higher-than-budgeted vacancy (Resource Management)  <u>Timing Differences</u> +\$0.3 M - Public Service Announcements (PSAs)	+\$0.3 M - Higher-than-budgeted vacancy (Resource Management) -\$0.1 M - Lower-than-budgeted project funded labor (Resource Management)
7 Human Resources	+\$0.2 M - New hire relocation +\$0.1 M - Immigration services  <u>Timing Differences</u> +\$0.1 M - Employee reward & recognition program +\$0.1 M - Online training subscription +\$0.1 M - Other miscellaneous variances	+\$0.3 M - New hire relocation +\$0.2 M - Immigration services -\$0.1 M - Lower-than-budgeted vacancy (Resource Management)
8 General Counsel	+\$0.4 M - Higher-than-budgeted vacancy (Resource Management) +\$0.1 M - Regulatory studies not required yet	+\$0.6 M - Higher-than-budgeted vacancy (Resource Management) +\$0.2 M - Regulatory studies may not be required
9 Corporate Administration	+\$0.3 M - Higher-than-budgeted vacancy (Resource Management)	+\$0.4 M - Higher-than-budgeted vacancy (Resource Management)
13 Project Expenditures	+\$1.7 M - Multiple projects	-\$1.5 M - Multiple projects



Electric Reliability Council of Texas, Inc.  
Project Expenditures - Technical Foundation Demand vs. Year End (YE) Forecast  
As of September 29, 2017  
(\$ in Millions)

Project Name [Projects listed are at or above \$0.7 Million Estimate at Completion (EAC) Budget threshold]					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			
											\$	%		
Current Phase														
Technical Foundation														
Network Model Management System (NMMS) Upgrade	Stabilization	1	1	\$	1.6	94.1	\$	2.1	\$	1.7	\$	0.4	19.0	
Identity and Access Management: Evaluation & Execution	Planning	-	2		1.6	59.3		2.7		2.7		-	-	
EDI Translator and Mapping Replacement	Not Yet Initiated	3	3		-	n/a		-		-		-	n/a	
Corporate Wireless	Planning	-	4		-	-		0.3		0.3		-	-	
Projects Below \$0.7 Million EAC Budget Threshold by Phase														
	Complete				0.6	100.0		0.6		0.6		-	-	
	Closing				-	n/a		-		-		-	n/a	
	Stabilization				0.6	100.0		0.6		0.6		-	-	
	Execution				0.2	50.0		0.4		0.4		-	-	
	Planning				-	-		1.0		1.0		-	-	
	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								-		-		-	n/a	
Variance of In-flight & Not Yet Initiated Projects								2.3		-		2.3	100.0	
Subtotal					\$	4.6	63.0	\$	10.0	\$	7.3	\$	2.7	27.0
Data Center 4.0 Optimization (DC4) Program	Planning					13.9	69.5		20.0		20.0		-	-
Total - Technical Foundation					\$	18.5	67.8	\$	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 September 29, 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				
											\$	%			
Technical Foundation															
Network Model Management System (NMMS) Upgrade	Stabilization	1	1	\$	8.5	100.0	\$	8.9	\$	8.5	\$	0.4	4.5		
Identity and Access Management: Evaluation & Execution	Planning	-	2		1.7	33.3		5.1		5.1		-	-		
EDI Translator and Mapping Replacement	Not Yet Initiated	3	3		-	-		1.5		1.5		-	-		
Corporate Wireless	Planning	-	4		-	-		0.3		0.3		-	-		
Projects Below \$0.7 Million EAC Budget Threshold by Phase															
	Complete				0.8	100.0		0.8		0.8		-	-		
	Closing				-	n/a		-		-		-	n/a		
	Stabilization				0.6	85.7		0.7		0.7		-	-		
	Execution				0.2	22.2		0.9		0.9		-	-		
	Planning				0.1	9.1		1.1		1.1		-	-		
	Initiation				-	n/a		-		-		-	n/a		
	On Hold				-	n/a		-		-		-	n/a		
	Not Yet Initiated				-	-		0.2		0.2		-	-		
				Subtotal	\$	11.9		62.3	\$	19.5	\$	19.1	\$	0.4	2.1
Data Center 4.0 Optimization (DC4) Program	Planning					33.5		69.8		48.0		48.0		-	-
Total - Technical Foundation					\$	45.4		67.7	\$	67.5	\$	67.1	\$	0.4	0.6

**Electric Reliability Council of Texas, Inc.**  
**Project Expenditures - Capital Enhancements Demand vs. Year End (YE) Forecast**  
**As of September 29, 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	Variance					
Project Name [Projects listed are at or above \$0.7 Million Estimate at Completion (EAC) Budget threshold]		Current Phase					Project Budget	Project Forecast	\$		%	
Regulatory												
Physical Security Project #2		Closing	1	1	\$ 0.8	88.9	\$ 0.9	\$ 0.9	\$ -	-		
Records Management and eDiscovery		Stabilization	-	2	0.4	100.0	0.4	0.4	-	-		
Business Strategy												
Resource Asset Registration Form (RARF) Replacement		Planning	1	1	0.1	50.0	0.4	0.2	0.2	50.0		
2015 Credit Monitoring and Management (CMM) NPRRs		Execution	2	2	0.9	56.3	1.6	1.6	-	-		
Congestion Revenue Rights (CRR) UI Framework Upgrade		Execution	4	3	1.2	70.6	1.7	1.7	-	-		
Enterprise Content Alignment Program (ECAP)		Execution	5	4	0.3	42.9	0.8	0.7	0.1	12.5		
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation		Planning	6	5	0.6	54.5	1.1	1.1	-	-		
Reactive Power Coordination: Assessment & Proof of Concept (PoC)		Execution	-	6	-	-	0.3	0.3	-	-		
Multi Station Breaker to Breaker One Lines (Planning)		Execution	7	7	0.3	37.5	1.0	0.8	0.2	20.0		
Training Facility - Scope and Design		Planning	-	8	0.3	33.3	0.9	0.9	-	-		
Efficiencies / Enhancements												
IT Change and Configuration Management: Evaluation & Phase 2		Execution	1	1	1.1	45.8	2.4	2.4	-	-		
SAS Technical Architecture Redesign		Execution	2	2	1.0	66.7	1.5	1.5	-	-		
Projects Below \$0.7 Million EAC Budget Threshold by Phase												
		Complete			1.2	100.0	1.8	1.2	0.6	33.3		
		Closing			0.1	100.0	0.1	0.1	-	-		
		Stabilization			0.5	83.3	0.7	0.6	0.1	14.3		
		Execution			0.9	64.3	1.5	1.4	0.1	6.7		
		Planning			0.2	28.6	0.8	0.7	0.1	12.5		
		Initiation			0.1	8.3	1.7	1.2	0.5	29.4		
		On Hold			-	-	0.1	0.1	-	-		
		Not Yet Initiated			-	-	0.1	0.1	-	-		
Other Project Spend												
Capital Efficiencies & Enhancements		Execution			0.6	66.7	0.8	0.9	(0.1)	(12.5)		
Variance of Completed Projects							(0.6)	-	(0.6)	100.0		
Variance of In-flight & Not Yet Initiated Projects							(9.5)	(4.1)	(5.4)	56.8		
Total - Capital Enhancements					\$ 10.6	72.1	\$ 10.5	\$ 14.7	\$ (4.2)	(40.0)		

**Electric Reliability Council of Texas, Inc.**

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

**As of September 29, 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		Closing	1	1	\$	1.8	94.7	\$	1.9	\$	1.9	\$	-	-				
Records Management and eDiscovery		Stabilization	-	2		0.7	100.0		0.7		0.7		-	-				
Business Strategy																		
Resource Asset Registration Form (RARF) Replacement		Planning	1	1		0.4	22.2		1.8		1.8		-	-				
2015 Credit Monitoring and Management (CMM) NPRRs		Execution	2	2		1.4	46.7		3.0		3.0		-	-				
Congestion Revenue Rights (CRR) UI Framework Upgrade		Execution	4	3		1.7	77.3		2.2		2.2		-	-				
Enterprise Content Alignment Program (ECAP)		Execution	5	4		1.0	20.8		4.8		4.8		-	-				
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation		Planning	6	5		0.6	54.5		1.1		1.1		-	-				
Reactive Power Coordination: Assessment & Proof of Concept (PoC)		Execution	-	6		0.1	14.3		0.7		0.7		-	-				
Multi Station Breaker to Breaker One Lines (Planning)		Execution	7	7		0.4	33.3		1.2		1.2		-	-				
Training Facility - Scope and Design		Planning	-	8		0.3	33.3		0.9		0.9		-	-				
Efficiencies / Enhancements																		
IT Change and Configuration Management: Evaluation & Phase 2		Execution	1	1		1.2	31.6		3.8		3.8		-	-				
SAS Technical Architecture Redesign		Execution	2	2		1.0	66.7		1.5		1.5		-	-				
Projects Below \$0.7 Million EAC Budget Threshold by Phase																		
		Complete				3.0	100.0		3.9		3.0		0.9	23.1				
		Closing				0.3	100.0		0.3		0.3		-	-				
		Stabilization				0.9	90.0		1.1		1.0		0.1	9.1				
		Execution				1.1	61.1		1.9		1.8		0.1	5.3				
		Planning				0.2	20.0		1.1		1.0		0.1	9.1				
		Initiation				0.1	3.8		2.9		2.6		0.3	10.3				
		On Hold				-	-		0.4		0.4		-	-				
		Not Yet Initiated				-	-		0.6		0.6		-	-				
Other Project Spend																		
Capital Efficiencies & Enhancements		Execution				0.6	66.7		0.8		0.9		(0.1)	(12.5)				
Total - Capital Enhancements						\$	16.8		47.7		\$	36.6	\$	35.2	\$	1.4		3.8

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**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.****Statements of Financial Position****As of August 31, 2017 and 2016**(Dollars in Thousands)

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	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 469,409	\$ 347,300
Accounts receivable	2,937	6,545
Unbilled revenue	3,154	3,440
Restricted cash	440,618	367,111
Prepaid expenses and other current assets	31,809	20,119
Total current assets	947,927	744,515
Property and equipment, net	106,010	96,518
Systems under development	26,065	23,332
Total assets	<u>\$ 1,080,002</u>	<u>\$ 864,365</u>
<b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 5,734	\$ 7,512
Accrued liabilities	10,309	12,806
Deferred revenue	4,880	4,753
Market settlement liabilities	505,371	375,821
Security deposits	440,618	367,111
Notes payable, current portion	4,000	4,000
Total current liabilities	970,912	772,003
Long term liabilities:		
Notes payable, less current portion:		
Principal	57,000	61,000
Less unamortized debt issuance costs	203	216
Notes payable less current portion and	56,797	60,784
Other long term liabilities	381	345
Total long term liabilities	57,178	61,129
Total liabilities	1,028,090	833,132
Unrestricted net assets	51,912	31,233
Total liabilities and unrestricted net assets	<u>\$ 1,080,002</u>	<u>\$ 864,365</u>

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**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.****Statements of Activities and Net Assets****For the Eight Months Ended August 31, 2017 and 2016**(Dollars in Thousands)

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	2017	2016
Operating revenues		
System administration fees	\$ 134,342	\$ 132,182
Reliability organization pass-through	9,563	9,318
Other services revenue	4,085	3,238
Total operating revenues	147,990	144,738
Operating expenses		
Salaries and related benefits	69,010	64,445
Facility and equipment costs	6,320	6,395
Outside services	7,895	6,927
Hardware and software maintenance and licensing	17,891	15,101
Reliability organization assessment	9,563	9,318
Depreciation	17,950	13,594
Other	4,414	4,565
Total operating expenses	133,043	120,345
Income from operations	14,947	24,393
Other income (expense)		
Interest income	1,510	338
Interest expense	(1,286)	(1,243)
Non-operating income	3	128
Change in unrestricted net assets	15,174	23,616
Unrestricted net assets, beginning of year	36,738	7,617
Unrestricted net assets, end of period	\$ 51,912	\$ 31,233

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**Statements of Cash Flows**  
**For the Eight Months Ended August 31, 2017 and 2016**  
(Dollars in Thousands)

	<b>2017</b>	<b>2016</b>
<b>Operating activities:</b>		
Change in unrestricted net assets	\$ 15,174	\$ 23,616
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	17,950	13,594
Amortization of debt issuance costs	13	11
Net gain on capital assets	-	(113)
Changes in operating assets and liabilities:		
Accounts receivable	1,463	(4,286)
Unbilled revenue	9	(1,061)
Prepaid expenses and other assets	(10,174)	(3,078)
Other long-term liabilities	6	(7)
Accounts payable	2,907	3,167
Accrued liabilities	(1,236)	1,966
Deferred revenue	677	887
Net cash provided by operating activities	<u>26,789</u>	<u>34,696</u>
<b>Investing activities:</b>		
Capital expenditures for property and equipment and systems under development	(24,970)	(11,878)
Proceeds from sale of property and equipment	-	1
Net cash (used in) investing activities	<u>(24,970)</u>	<u>(11,877)</u>
<b>Financing activities:</b>		
Repayment of notes payable	(2,000)	(2,000)
Payment of debt issuance costs	(3)	(6)
(Increase) in restricted cash	(53,433)	(3,562)
Increase in market settlement liabilities	162,502	19,134
Increase in security deposits	53,433	3,562
Net cash provided by financing activities	<u>160,499</u>	<u>17,128</u>
Net increase in cash and cash equivalents	162,318	39,947
Cash and cash equivalents, beginning of year	307,091	307,353
Cash and cash equivalents, end of period	<u>\$ 469,409</u>	<u>\$ 347,300</u>