



## **Item 12.1: Review 2017 Financial Summary**

*Sean Taylor*  
Controller

Finance & Audit Committee Meeting

ERCOT Public  
February 19, 2018

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

**Preliminary Net Revenues at Year End: \$10.8 M Favorable**

## **Major Revenue Variances**

\$1.7 M over budget: system administration fees due to colder-than-forecasted weather and stronger economy

\$0.9 M over budget: interconnection revenue

## **Major Expenditure Variances**

\$4.7 M under budget: interest expense due to project funding and no revolver usage; interest income due to higher rates

\$1.6 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; \$1.7 M project work; \$0.7 M staffing management)

\$1.0 M over budget: enterprise-wide license agreement to ensure availability of key operations tools

## **2018 Revenues** *(as of February 5, 2018)*

## **Major Revenue Variances**

\$1.4 M over budget: system administration fees due to colder-than-forecasted weather



# Review 2017 Financial Summary: Statements of Financial Position

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

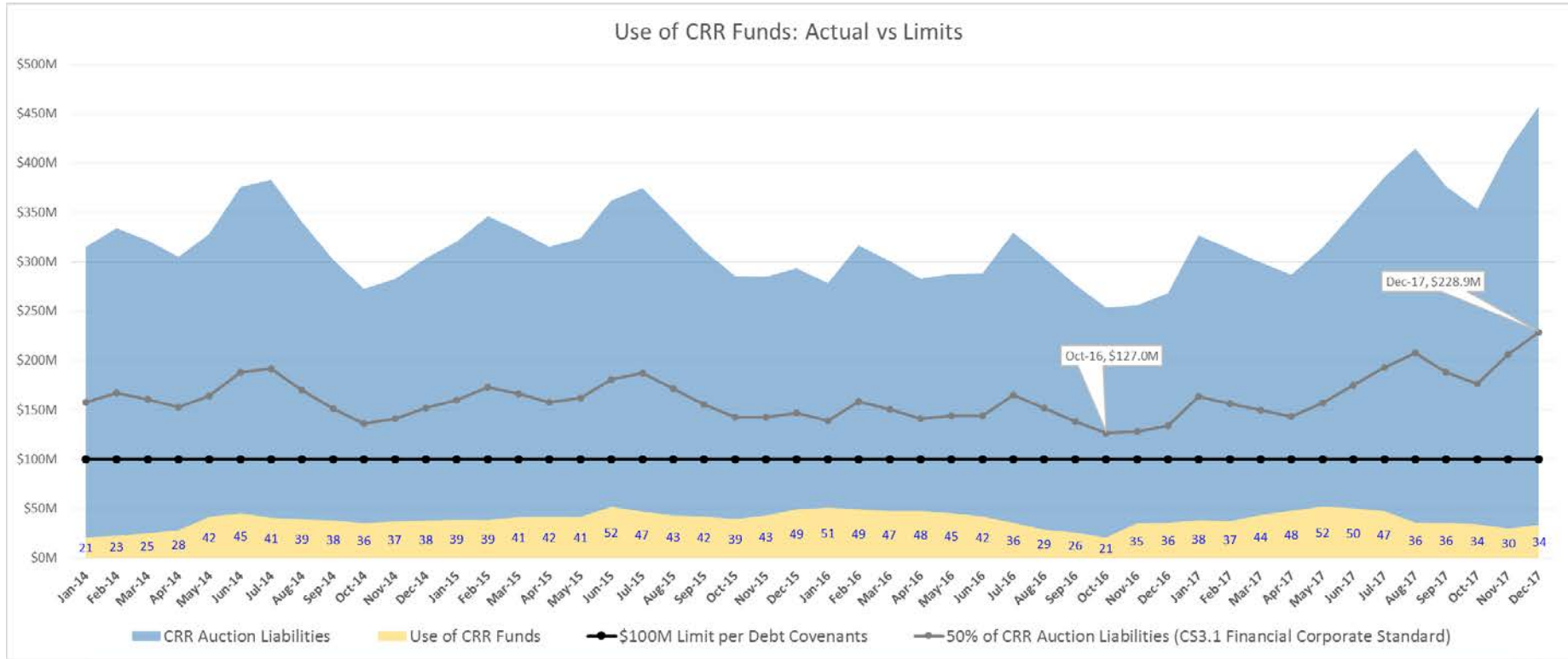
	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current assets		
Unrestricted cash	\$ 501.0	\$ 307.1
Restricted cash	556.0	387.2
Other current assets	35.5	29.2
Total current assets	<u>1,092.5</u>	<u>723.5</u>
Long term assets	131.3	124.9
Total assets	<u>\$ 1,223.8</u>	<u>\$ 848.4</u>
 <b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities		
CRR auction liabilities	\$ 457.8	\$ 268.4
Other market liabilities	76.8	74.5
Total market settlement liabilities	<u>534.6</u>	<u>342.9</u>
Security deposits	556.0	387.2
Other current liabilities	23.5	22.4
Total current liabilities	<u>1,114.1</u>	<u>752.5</u>
Long term liabilities	55.2	59.2
Unrestricted net assets	54.5	36.7
Total liabilities and unrestricted net assets	<u>\$ 1,223.8</u>	<u>\$ 848.4</u>

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

## For the Twelve Months Ended December 31, 2017 and 2016 (\$ in Millions)

	<b>2017</b>		<b>2016</b>
Operating revenues	\$ 219.3	\$	215.1
Operating expenses	202.6		184.7
Gain from operations	16.7		30.4
Other income (expense)	1.1		(1.3)
Change in unrestricted net assets	17.8		29.1
Unrestricted net assets, beginning of year	36.7		7.6
Unrestricted net assets, end of period	\$ 54.5	\$	36.7

# Review 2017 Financial Summary: Use of CRR Funds: Actual vs Limits



# Appendices

Electric Reliability Council of Texas, Inc. 2017 Financial Summary As of February 8, 2018 (\$ in Millions)		2017 Preliminary Year End				
		2016	2017			
		Line	Actual	Budget	Actual	Variance
\$	%					
1	System Administration Revenue	\$ 195.9	\$ 197.5	\$ 199.3	\$ 1.7	0.9
2	Department Net Expenditures					
3	Information Technology	59.6	63.7	64.9	(1.2)	(1.9)
4	Operations	54.4	60.2	57.7	2.5	4.2
5	Finance & Treasury	12.2	15.9	10.6	5.3	33.3
6	External Affairs & Corporate Communications	6.2	6.4	5.9	0.5	7.8
7	Human Resources	4.6	5.3	4.6	0.7	13.2
8	General Counsel	3.1	5.0	4.3	0.7	14.0
9	Corporate Administration	2.6	2.5	1.9	0.5	20.0
10	<b>Total Department Net Expenditures</b>	<b>142.7</b>	<b>159.0</b>	<b>149.9</b>	<b>9.1</b>	<b>5.7</b>
11	<b>Net Revenues After Department Expenditures</b>	<b>53.2</b>	<b>38.5</b>	<b>49.4</b>	<b>10.8</b>	<b>28.1</b>
12						
13	<b>Less: Project Expenditures</b>	<b>31.8</b>	<b>40.5</b>	<b>38.1</b>	<b>2.4</b>	<b>6.0</b>
14						
15	<b>Net Available for Debt &amp; Working Capital</b>	<b>\$ 21.4</b>	<b>\$ (2.0)</b>	<b>\$ 11.3</b>	<b>\$ 13.3</b>	<b>665.6</b>
Note: Schedule may not foot due to rounding						

Electric Reliability Council of Texas, Inc. 2017 Financial Summary Variance Explanations As of February 8, 2018	
Line	2017 Preliminary Year End
1 System Administration Revenue	+\$1.7 M - Colder-than-forecasted weather and stronger economy
3 Information Technology	-\$1.4 M - Contracted staff augmentation (Resource Management) -\$1.0 M - Enterprise-wide license agreement to ensure availability of key operations tools -\$0.7 M - Contracted staff backfill (Resource Management) -\$0.5 M - Lower-than-budgeted vacancy (Resource Management) -\$0.2 M - Higher allocated employee health costs +\$0.7 M - HW/SW vendor support services (Resource Management) +\$0.6 M - Common infrastructure purchases (Computer Hardware) +\$0.5 M - Minor capital purchases (Equipment Purchases) +\$0.3 M - Building systems maintenance +\$0.3 M - Higher-than-budgeted project funded labor (Resource Management) +\$0.2 M - Other miscellaneous variances
4 Operations	+\$0.9 M - Interconnection revenue +\$0.8 M - Higher-than-budgeted project funded labor (Resource Management) +\$0.5 M - Higher-than-budgeted vacancy (Resource Management) +\$0.4 M - External studies/consulting services +\$0.2 M - Minor capital purchases (Equipment Purchases) +\$0.1 M - Other miscellaneous variances -\$0.3 M - Higher allocated employee health costs -\$0.1 M - Data subscription services
5 Finance & Treasury	+\$2.9 M - Interest income +\$1.8 M - Lower interest expense due to project funding and no revolver usage +\$0.4 M - Property tax +\$0.3 M - Fewer facilities improvements (Equipment Purchases) +\$0.1 M - External audit services +\$0.1 M - Building maintenance +\$0.1 M - Office and storage rent +\$0.1 M - Miscellaneous facility services -\$0.5 M - Lower-than-budgeted vacancy (Resource Management)
6 External Affairs & Corporate Communications	+\$0.3 M - Higher-than-budgeted vacancy (Resource Management) +\$0.3 M - Public Service Announcements (PSAs) -\$0.1 M - Lower-than-budgeted project funded labor (Resource Management)
7 Human Resources	+\$0.3 M - New hire relocation +\$0.2 M - Immigration services +\$0.1 M - Health insurance brokerage fees +\$0.1 M - Data subscription services +\$0.1 M - Corporate events -\$0.1 M - Lower-than-budgeted vacancy (Resource Management)
8 General Counsel	+\$0.5 M - Higher-than-budgeted vacancy (Resource Management) +\$0.2 M - Regulatory studies not required +\$0.1 M - Employee training and business travel -\$0.1 M - Outside legal services
9 Corporate Administration	+\$0.5 M - Higher-than-budgeted vacancy (Resource Management)
13 Project Expenditures	+\$2.4 M - Multiple projects



**Electric Reliability Council of Texas, Inc.**  
**Project Expenditures - Technical Foundation Demand vs. Year End (YE) Forecast**  
**As of February 8, 2018 (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, 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 \$ %			
<b>Technical Foundation</b>											
Network Model Management System (NMMS) Upgrade	Complete	1	1	\$ 1.6	100.0	\$ 2.1	\$ 1.6	\$ 0.5	23.8		
Identity and Access Management: Evaluation & Execution	Planning	-	2	2.3	100.0	2.3	2.3	-	-		
EDI Translator and Mapping Replacement	Not Yet Initiated	3	3	-	n/a	-	-	-	n/a		
Corporate Wireless	Execution	-	4	0.1	100.0	0.1	0.1	-	-		
<b>Projects Below \$0.7 Million EAC Budget Threshold by Phase</b>											
	Complete			1.0	100.0	1.0	1.0	-	-		
	Closing			0.2	100.0	0.2	0.2	-	-		
	Stabilization			0.2	100.0	0.2	0.2	-	-		
	Execution			0.5	100.0	0.8	0.5	0.3	37.5		
	Planning			-	n/a	-	-	-	n/a		
	Initiation			-	n/a	-	-	-	n/a		
	On Hold			-	n/a	-	-	-	n/a		
	Not Yet Initiated			-	n/a	-	-	-	n/a		
<b>Other Project Spend</b>											
Variance of Completed Projects						(0.5)	-	(0.5)	100.0		
Variance of In-flight & Not Yet Initiated Projects						3.8	-	3.8	100.0		
			<b>Subtotal</b>	<b>\$ 5.9</b>	<b>100.0</b>	<b>\$ 10.0</b>	<b>\$ 5.9</b>	<b>\$ 4.1</b>	<b>41.0</b>		
Data Center 4.0 Optimization (DC4) Program	Planning			15.9	100.0	20.0	15.9	4.1	20.5		
			<b>Total - Technical Foundation</b>	<b>\$ 21.8</b>	<b>100.0</b>	<b>\$ 30.0</b>	<b>\$ 21.8</b>	<b>\$ 8.2</b>	<b>27.3</b>		

Electric Reliability Council of Texas, Inc.  
**Project Expenditures - Technical Foundation Project Budgets vs. Estimates at Completion (EACs)**  
As of February 8, 2018 (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, 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 \$ %		
<b>Technical Foundation</b>										
Network Model Management System (NMMS) Upgrade	Complete	1	1	\$ 8.4	100.0	\$ 8.9	\$ 8.4	\$ 0.5	5.6	
Identity and Access Management: Evaluation & Execution	Planning	-	2	2.4	41.4	5.8	5.8	-	-	
EDI Translator and Mapping Replacement	Not Yet Initiated	3	3	-	-	1.5	1.5	-	-	
Corporate Wireless	Execution	-	4	0.1	25.0	0.4	0.4	-	-	
<b>Projects Below \$0.7 Million EAC Budget Threshold by Phase</b>										
	Complete			1.4	100.0	1.4	1.4	-	-	
	Closing			0.2	100.0	0.2	0.2	-	-	
	Stabilization			0.2	100.0	0.2	0.2	-	-	
	Execution			0.5	26.3	2.1	1.9	0.2	9.5	
	Planning			-	n/a	-	-	-	n/a	
	Initiation			-	n/a	-	-	-	n/a	
	On Hold			-	-	0.1	0.1	-	-	
	Not Yet Initiated			-	n/a	-	-	-	n/a	
			<b>Subtotal</b>	<b>\$ 13.2</b>	<b>66.3</b>	<b>\$ 20.6</b>	<b>\$ 19.9</b>	<b>\$ 0.7</b>	<b>3.4</b>	
Data Center 4.0 Optimization (DC4) Program	Planning			35.6	74.2	48.0	48.0	-	-	
			<b>Total - Technical Foundation</b>	<b>\$ 48.8</b>	<b>71.9</b>	<b>\$ 68.6</b>	<b>\$ 67.9</b>	<b>\$ 0.7</b>	<b>1.0</b>	

**Electric Reliability Council of Texas, Inc.**  
**Project Expenditures - Capital Enhancements Demand vs. Year End (YE) Forecast**  
**As of February 8, 2018 (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, 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		
								\$	%	
<b>Regulatory</b>										
Physical Security Project #2	Complete	1	1	\$ 0.8	100.0	\$ 0.9	\$ 0.8	\$ 0.1	11.1	
Records Management and eDiscovery	Closing	-	2	0.4	100.0	0.4	0.4	-	-	
<b>Business Strategy</b>										
Resource Asset Registration Form (RARF) Replacement	Execution	1	1	0.2	100.0	0.2	0.2	-	-	
2015 Credit Monitoring and Management (CMM) NPRRs	Execution	2	2	1.6	100.0	1.6	1.6	-	-	
Congestion Revenue Rights (CRR) UI Framework Upgrade	Execution	4	3	1.6	100.0	1.8	1.6	0.2	11.1	
Enterprise Content Alignment Program (ECAP)	Execution	5	4	0.3	100.0	0.5	0.3	0.2	40.0	
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation	Execution	6	5	0.7	100.0	0.7	0.7	-	-	
Reactive Power Coordination: Assessment & Proof of Concept (PoC)	Execution	-	6	0.1	100.0	0.3	0.1	0.2	66.7	
Multi Station Breaker to Breaker One Lines (Planning)	Execution	7	7	0.5	100.0	0.8	0.5	0.3	37.5	
Training Facility	Execution	-	8	1.0	100.0	1.0	1.0	-	-	
<b>Efficiencies / Enhancements</b>										
IT Change and Configuration Management: Evaluation & Phase 2	Execution	1	1	2.3	100.0	2.4	2.3	0.1	4.2	
SAS Technical Architecture Redesign	Stabilization	2	2	1.2	100.0	1.4	1.2	0.2	14.3	
<b>Projects Below \$0.7 Million EAC Budget Threshold by Phase</b>										
	Complete			2.4	100.0	3.1	2.4	0.7	22.6	
	Closing			0.1	100.0	0.1	0.1	-	-	
	Stabilization			0.1	100.0	0.2	0.1	0.1	50.0	
	Execution			1.5	100.0	1.5	1.5	-	-	
	Planning			0.5	100.0	0.7	0.5	0.2	28.6	
	Initiation			-	n/a	0.1	-	0.1	100.0	
	On Hold			-	n/a	-	-	-	n/a	
	Not Yet Initiated			-	n/a	-	-	-	n/a	
<b>Other Project Spend</b>										
Capital Efficiencies & Enhancements	Execution			1.0	100.0	1.0	1.0	-	-	
Variance of Completed Projects						(0.8)	-	(0.8)	100.0	
Variance of In-flight & Not Yet Initiated Projects						(7.4)	-	(7.4)	100.0	
<b>Total - Capital Enhancements</b>				<b>\$ 16.3</b>	<b>100.0</b>	<b>\$ 10.5</b>	<b>\$ 16.3</b>	<b>\$ (5.8)</b>	<b>(55.2)</b>	

**Electric Reliability Council of Texas, Inc.**  
**Project Expenditures - Capital Enhancements Project Budgets vs. Estimates at Completion (EACs)**  
**As of February 8, 2018 (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, 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			
								\$	%	\$	%
<b>Regulatory</b>											
Physical Security Project #2	Complete	1	1	\$ 1.8	100.0	\$ 1.9	\$ 1.8	\$ 0.1	5.3		
Records Management and eDiscovery	Closing	-	2	0.7	100.0	0.7	0.7	-	-		
<b>Business Strategy</b>											
Resource Asset Registration Form (RARF) Replacement	Execution	1	1	0.5	27.8	1.8	1.8	-	-		
2015 Credit Monitoring and Management (CMM) NPRRs	Execution	2	2	2.1	70.0	3.0	3.0	-	-		
Congestion Revenue Rights (CRR) UI Framework Upgrade	Execution	4	3	2.1	87.5	2.4	2.4	-	-		
Enterprise Content Alignment Program (ECAP)	Execution	5	4	1.0	20.8	4.8	4.8	-	-		
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation	Execution	6	5	0.7	50.0	1.4	1.4	-	-		
Reactive Power Coordination: Assessment & Proof of Concept (PoC)	Execution	-	6	0.2	40.0	0.7	0.5	0.2	28.6		
Multi Station Breaker to Breaker One Lines (Planning)	Execution	7	7	0.6	50.0	1.2	1.2	-	-		
Training Facility	Execution	-	8	1.0	9.1	11.0	11.0	-	-		
<b>Efficiencies / Enhancements</b>											
IT Change and Configuration Management: Evaluation & Phase 2	Execution	1	1	2.4	61.5	3.8	3.9	(0.1)	(2.6)		
SAS Technical Architecture Redesign	Stabilization	2	2	1.3	81.3	1.6	1.6	-	-		
<b>Projects Below \$0.7 Million EAC Budget Threshold by Phase</b>											
	Complete			4.9	100.0	5.9	4.9	1.0	16.9		
	Closing			0.1	100.0	0.1	0.1	-	-		
	Stabilization			0.1	100.0	0.2	0.1	0.1	50.0		
	Execution			1.7	45.9	3.9	3.7	0.2	5.1		
	Planning			0.5	23.8	2.1	2.1	-	-		
	Initiation			-	-	0.9	0.9	-	-		
	On Hold			-	n/a	-	-	-	n/a		
	Not Yet Initiated			-	n/a	-	-	-	n/a		
<b>Other Project Spend</b>											
Capital Efficiencies & Enhancements	Execution			1.0	100.0	1.0	1.0	-	-		
<b>Total - Capital Enhancements</b>				<b>\$ 22.7</b>	<b>48.4</b>	<b>\$ 48.4</b>	<b>\$ 46.9</b>	<b>\$ 1.5</b>	<b>3.1</b>		

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

	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 501,001	\$ 307,091
Accounts receivable	4,757	4,400
Unbilled revenue	4,402	3,163
Restricted cash	556,008	387,185
Prepaid expenses and other current assets	26,365	21,635
Total current assets	1,092,533	723,474
Property and equipment, net	112,442	109,014
Systems under development	18,807	15,869
Total assets	<u>\$ 1,223,782</u>	<u>\$ 848,357</u>
<b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 5,330	\$ 2,427
Accrued liabilities	9,519	11,773
Deferred revenue	4,639	4,203
Market settlement liabilities	534,562	342,869
Security deposits	556,008	387,185
Notes payable, current portion	4,000	4,000
Total current liabilities	1,114,058	752,457
Long term liabilities:		
Notes payable, less current portion:		
Principal	55,000	59,000
Less unamortized debt issuance costs	197	213
Notes payable less current portion and unamortized debt issuance costs	54,803	58,787
Other long term liabilities	388	375
Total long term liabilities	55,191	59,162
Total liabilities	1,169,249	811,619
Unrestricted net assets	54,533	36,738
Total liabilities and unrestricted net assets	<u>\$ 1,223,782</u>	<u>\$ 848,357</u>

## Preliminary - Unaudited

### ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

#### Statements of Activities and Net Assets

For the Twelve Months Ended December 31, 2017 and 2016

(Dollars in Thousands)

	2017	2016
Operating revenues		
System administration fees	\$ 199,283	\$ 196,035
Reliability organization pass-through	14,345	13,977
Other services revenue	5,702	5,069
Total operating revenues	219,330	215,081
Operating expenses		
Salaries and related benefits	103,820	97,169
Facility and equipment costs	9,664	9,848
Outside services	12,715	10,650
Hardware and software maintenance and licensing	28,153	24,745
Reliability organization assessment	14,345	13,977
Depreciation	27,148	21,727
Other	6,744	6,599
Total operating expenses	202,589	184,715
Income from operations	16,741	30,366
Other income (expense)		
Interest income	2,933	559
Interest expense	(1,884)	(1,934)
Non-operating income	5	130
Change in unrestricted net assets	17,795	29,121
Unrestricted net assets, beginning of year	36,738	7,617
Unrestricted net assets, end of period	\$ 54,533	\$ 36,738

**Preliminary - Unaudited**

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

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	<u>2017</u>	<u>2016</u>
<b>Operating activities:</b>		
Change in unrestricted net assets	\$ 17,795	\$ 29,121
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	27,148	21,727
Amortization of debt issuance costs	19	17
Net gain on capital assets	(3)	(113)
Changes in operating assets and liabilities:		
Accounts receivable	(357)	(2,141)
Unbilled revenue	(1,239)	(784)
Prepaid expenses and other assets	(4,730)	(4,593)
Other long-term liabilities	13	23
Accounts payable	1,244	(305)
Accrued liabilities	(1,643)	3,429
Deferred revenue	436	337
Net cash provided by operating activities	<u>38,683</u>	<u>46,718</u>
<b>Investing activities:</b>		
Capital expenditures for property and equipment and systems under development	(32,466)	(29,154)
Proceeds from sale of property and equipment	3	1
Net cash (used in) investing activities	<u>(32,463)</u>	<u>(29,153)</u>
<b>Financing activities:</b>		
Repayment of notes payable	(4,000)	(4,000)
Payment of debt issuance costs	(3)	(9)
(Increase) in restricted cash	(168,823)	(23,636)
Increase (decrease) in market settlement liabilities	191,693	(13,818)
Increase in security deposits	168,823	23,636
Net cash provided by (used in) financing activities	<u>187,690</u>	<u>(17,827)</u>
Net increase (decrease) in cash and cash equivalents	193,910	(262)
Cash and cash equivalents, beginning of year	307,091	307,353
Cash and cash equivalents, end of period	<u>\$ 501,001</u>	<u>\$ 307,091</u>