



## **Item 8.1: Review 2018 Financial Summary**

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Controller

Finance & Audit Committee Meeting

ERCOT Public  
October 8, 2018

# Review 2018 Financial Summary: Variance to Budget (\$ in Millions) Net Revenues After Department Expenditures

**Net Revenues Year to Date Actuals: \$23.3 M Favorable** *(as of August 31, 2018)*

## Highlighted Revenue Variances

- \$6.4 M over budget: interest income due to higher investment balance and rates
- \$6.7 M over budget: system administration fees due to weather and stronger economy
- \$1.2 M over budget: interconnection revenue

## Highlighted Expenditure Variances

- \$1.4 M under budget: HW/SW support and maintenance renewals
- \$1.2 M under budget: external studies/consulting services
- \$0.7 M under budget: employee health costs
- \$0.3 M under budget: resource management (\$-1.2 M staffing management; \$1.5 M project work)
- \$2.8 M under budget: timing differences

**Net Revenues Year End Forecast: \$25.5 M Favorable** *(as of September 27, 2018)*

## Highlighted Revenue Variances

- \$9.8 M over budget: interest income due to higher investment balance and rates
- \$7.8 M over budget: system administration fees based on current actuals and load forecast for remainder of year
- \$1.7 M over budget: interconnection revenue

## Highlighted Expenditure Variances

- \$1.5 M under budget: HW/SW support and maintenance renewals
- \$1.3 M under budget: external studies/consulting services
- \$1.1 M under budget: employee health costs
- \$0.8 M over budget: resource management (\$-2.3 M staffing management; \$1.5 M project work)



# Review 2018 Financial Summary: Statements of Financial Position

## As of August 31, 2018 and 2017 (\$ in Millions)

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Current assets		
Unrestricted cash	\$ 803.9	\$ 469.4
Restricted cash	613.9	440.6
Other current assets	45.0	37.9
Total current assets	<u>1,462.8</u>	<u>947.9</u>
Long term assets	138.4	132.1
Total assets	<u>\$ 1,601.2</u>	<u>\$ 1,080.0</u>
 <b>Liabilities and Net Assets</b>		
Current liabilities		
CRR auction liabilities	\$ 714.9	\$ 414.6
Other market liabilities	106.7	90.8
Total market settlement liabilities	<u>821.6</u>	<u>505.4</u>
Security deposits	613.9	440.6
Other current liabilities	28.1	24.9
Total current liabilities	<u>1,463.6</u>	<u>970.9</u>
Long term liabilities	53.2	57.2
Net assets without donor restrictions	84.4	51.9
Total liabilities and net assets	<u>\$ 1,601.2</u>	<u>\$ 1,080.0</u>



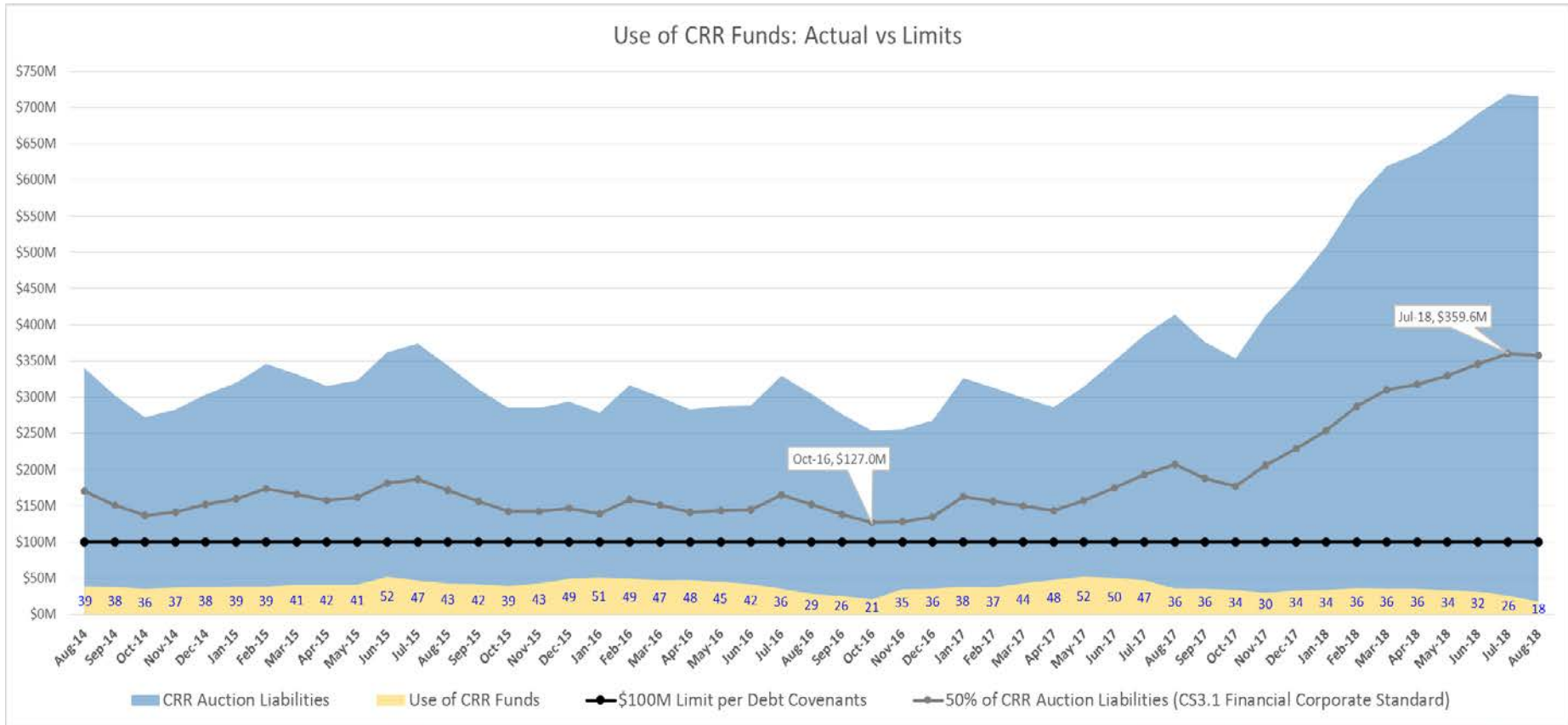
## Review 2018 Financial Summary: Statements of Activities and Net Assets

**For the Eight Months Ended August 31, 2018 and 2017 (\$ in Millions)**

	<b>2018</b>	<b>2017</b>
Operating revenues	\$ 159.7	\$ 148.0
Operating expenses	136.0	133.0
Income from operations	23.7	15.0
Other income (expense)	6.2	0.2
Change in net assets without donor restrictions	29.9	15.2
Net assets without donor restrictions, beginning of year	54.5	36.7
Net assets without donor restrictions, end of period	<u>\$ 84.4</u>	<u>\$ 51.9</u>



# Review 2018 Financial Summary: Use of CRR Funds: Actual vs Limits



# Appendices

Electric Reliability Council of Texas, Inc. 2018 Financial Summary As of September 27, 2018 (\$ in Millions)						Year to Date (August 31)					Year End (December 31)				
Line	2017	2018				Actual	2017	2018			Actual	Budget	Forecast	Variance	
	Actual	Budget	Actual	Variance			Actual	Budget	Forecast	\$				%	
				\$	%										\$
1	\$ 134.3	\$ 137.8	\$ 144.5	\$ 6.7	4.9	\$ 199.3	\$ 201.8	\$ 209.6	\$ 7.8	3.9					
2	<b>Department Net Expenditures</b>														
3	Information Technology	41.7	45.4	41.6	3.8	8.4	64.9	68.3	65.8	2.5	3.7				
4	Operations	38.0	43.1	39.3	3.8	8.8	57.7	64.4	61.1	3.3	5.1				
5	Finance & Treasury	7.3	9.9	2.3	7.6	76.8	10.6	14.5	3.2	11.3	77.9				
6	External Affairs & Corporate Communications	3.9	4.4	4.0	0.4	9.1	5.9	6.6	6.0	0.6	9.1				
7	Human Resources	3.1	3.7	3.1	0.6	16.2	4.6	5.3	5.1	0.2	3.8				
8	General Counsel	2.8	3.1	2.8	0.4	12.9	4.3	4.8	4.9	(0.1)	(2.1)				
9	Corporate Administration	1.2	1.3	1.3	-	-	1.9	2.1	2.2	(0.1)	(4.8)				
10	<b>Total Department Net Expenditures</b>	<b>98.0</b>	<b>110.9</b>	<b>94.4</b>	<b>16.6</b>	<b>15.0</b>	<b>149.9</b>	<b>165.8</b>	<b>148.3</b>	<b>17.7</b>	<b>10.7</b>				
11	<b>Net Revenues After Department Expenditures</b>	<b>36.3</b>	<b>26.9</b>	<b>50.1</b>	<b>23.3</b>	<b>86.6</b>	<b>49.4</b>	<b>36.0</b>	<b>61.3</b>	<b>25.5</b>	<b>70.8</b>				
12															
13	<b>Less: Project Expenditures</b>	<b>29.1</b>	<b>19.0</b>	<b>26.9</b>	<b>(7.9)</b>	<b>(41.6)</b>	<b>38.1</b>	<b>28.5</b>	<b>41.1</b>	<b>(12.6)</b>	<b>(44.2)</b>				
14															
15	<b>Net Available for Debt &amp; Working Capital</b>	<b>\$ 7.2</b>	<b>\$ 7.9</b>	<b>\$ 23.2</b>	<b>\$ 15.3</b>	<b>(193.7)</b>	<b>\$ 11.3</b>	<b>\$ 7.5</b>	<b>\$ 20.2</b>	<b>\$ 12.7</b>	<b>(169.3)</b>				

Note: Schedule may not foot due to rounding

**Electric Reliability Council of Texas, Inc.**  
**2018 Financial Summary Variance Explanations**  
**As of September 27, 2018**

Line	Year to Date (August 31)	Year End (December 31)
1 System Administration Fee Revenue	+\$5.7 M - Weather +\$1.0 M - Stronger economy	+\$7.8 M - Based on current actuals and load forecast for remainder of year
3 Information Technology	+\$1.4 M - HW/SW support and maintenance renewals +\$0.9 M - HW/SW vendor support services (Resource Management) +\$0.5 M - Project funded labor (Resource Management) +\$0.3 M - Building systems maintenance +\$0.3 M - Lower allocated employee health costs +\$0.2 M - Minor capital purchases (Equipment Purchases) +\$0.2 M - Employee training and business travel +\$0.1 M - Data service subscriptions +\$0.1 M - Network telecommunications -\$0.5 M - Contingent labor (Resource Management) -\$0.3 M - Common infrastructure purchases (Computer Hardware) -\$0.3 M - Lower-than-budgeted vacancy (Resource Management)  Timing Differences +\$0.2 M - Employee training and business travel +\$0.2 M - Project funded labor (Resource Management) +\$0.1 M - Data service subscriptions +\$0.1 M - HW/SW vendor support services (Resource Management) +\$0.3 M - Miscellaneous variances	+\$1.5 M - HW/SW support and maintenance renewals +\$0.9 M - HW/SW vendor support services (Resource Management) +\$0.5 M - Project funded labor (Resource Management) +\$0.4 M - Building systems maintenance +\$0.4 M - Lower allocated employee health costs +\$0.4 M - Minor capital purchases (Equipment Purchases) +\$0.2 M - Employee training and business travel +\$0.1 M - Data service subscriptions +\$0.1 M - Network telecommunications -\$0.8 M - Contingent labor (Resource Management) -\$0.6 M - Common infrastructure purchases (Computer Hardware) -\$0.6 M - Lower-than-budgeted vacancy (Resource Management)
4 Operations	+\$1.2 M - Interconnection revenue +\$1.0 M - External studies/consulting services +\$0.2 M - Lower allocated employee health costs +\$0.3 M - Minor capital purchases (Equipment Purchases) +\$0.2 M - Project funded labor (Resource Management) +\$0.2 M - Employee training and business travel +\$0.1 M - Data service subscriptions -\$0.4 M - Lower-than-budgeted vacancy (Resource Management) -\$0.1 M - Software maintenance -\$0.1 M - Miscellaneous variances  Timing Differences +\$0.6 M - External studies/consulting services +\$0.3 M - Minor capital purchases (Equipment Purchases) +\$0.2 M - Employee training and business travel +\$0.1 M - Miscellaneous variances	+\$1.7 M - Interconnection revenue +\$1.0 M - External studies/consulting services +\$0.6 M - Lower allocated employee health costs +\$0.3 M - Minor capital purchases (Equipment Purchases) +\$0.2 M - Project funded labor (Resource Management) +\$0.2 M - Employee training and business travel +\$0.1 M - Data service subscriptions -\$0.6 M - Lower-than-budgeted vacancy (Resource Management) -\$0.1 M - Software maintenance -\$0.1 M - Miscellaneous variances



**Electric Reliability Council of Texas, Inc.**  
**2018 Financial Summary Variance Explanations**  
**As of September 27, 2018**

Line	Year to Date (August 31)	Year End (December 31)
5 Finance & Treasury	+\$6.4 M - Interest income +\$0.4 M - Insurance premiums +\$0.4 M - Interest expense +\$0.2 M - Facilities maintenance and repairs +\$0.2 M - Property tax +\$0.1 M - Insurance claim +\$0.1 M - Contingent labor (Resource Management) +\$0.1 M - Electricity  -\$0.2 M - Lower-than-budgeted vacancy (Resource Management) -\$0.1 M - Project funded labor (Resource Management)  Timing Differences +\$0.1 M - Facilities maintenance and repairs -\$0.1 M - Minor capital purchases (Facilities Improvements)	+\$9.8 M - Interest income +\$0.6 M - Insurance premiums +\$0.4 M - Interest expense +\$0.2 M - Facilities maintenance and repairs +\$0.2 M - Property tax +\$0.1 M - Insurance claim +\$0.1 M - Contingent labor (Resource Management) +\$0.1 M - Electricity +\$0.1 M - Lower allocated employee health costs -\$0.2 M - Lower-than-budgeted vacancy (Resource Management) -\$0.1 M - Project funded labor (Resource Management)
6 External Affairs & Corporate Communications	+\$0.2 M - External studies/consulting services +\$0.1 M - Higher-than-budgeted vacancy (Resource Management) +\$0.1 M - Employee training and business travel	+\$0.3 M - External studies/consulting services +\$0.1 M - Higher-than-budgeted vacancy (Resource Management) +\$0.1 M - Employee training and business travel +\$0.1 M - Lower allocated employee health costs
7 Human Resources	+\$0.1 M - Employee recruiting +\$0.1 M - New hire relocation +\$0.1 M - Internship program (Resource Management)  Timing Differences +\$0.2 M - Employee reward & recognition program +\$0.1 M - External studies/consulting services	+\$0.1 M - Employee recruiting +\$0.1 M - New hire relocation +\$0.1 M - Internship program (Resource Management) -\$0.1 M - Lower-than-budgeted vacancy (Resource Management)
8 General Counsel	-\$0.1 M - Lower-than-budgeted vacancy (Resource Management) +\$0.1 M - Board of Directors recruiting  Timing Differences +\$0.4 M - Outside legal services	-\$0.2 M - Lower-than-budgeted vacancy (Resource Management) +\$0.1 M - Board of Directors recruiting
9 Corporate Administration	No material variance	-\$0.1 M - Lower-than-budgeted vacancy (Resource Management)
13 Project Expenditures	-\$7.9 M - Multiple projects	-\$12.6 M - Primarily due to timing differences for Data Center 4.0 Optimization (DC4) and Training Facility

**Electric Reliability Council of Texas, Inc.**  
**Project Expenditures Summary**  
(\$ in Millions)

Line	Project	Year to Date As of August 31, 2018		Year End (YE) As of September 27, 2018		Life to Date As of August 31, 2018		Estimate at Completion (EAC) As of September 27, 2018				
		Actual	% of YE Forecast	YE Forecast	% of All Included Projects	Actual	% of EAC Forecast	EAC Forecast	% of All Included Projects	Budget	Variance	
1	<b>Projects with EAC Budget Over \$2.5 M</b>											
2	Data Center 4.0 Optimization (DC4) Program	\$ 5.7	63%	\$ 9.1	22%	\$ 41.3	88%	\$ 46.8	41%	\$ 48.0	\$ 1.2	
3	Training Facility	5.0	50%	10.0	24%	5.9	54%	11.0	10%	11.0	0.0	
4	Identity and Access Management	2.2	65%	3.4	8%	4.6	69%	6.8	6%	6.4	(0.4)	
5	IT Change and Configuration Management	2.5	77%	3.2	8%	4.8	84%	5.7	5%	5.3	(0.4)	
6	Enterprise Content Alignment Program (ECAP)	1.1	84%	1.3	3%	2.2	50%	4.3	4%	4.3	(0.0)	
7	2015 Credit Monitoring and Management (CMM) NPRRs	1.4	71%	2.0	5%	3.5	72%	4.9	4%	4.3	(0.6)	
8	Security Constrained Unit Commitment (SCUC)	0.0	13%	0.2	0%	0.0	1%	3.2	3%	3.2	0.0	
9	Congestion Revenue Rights (CRR) Framework Upgrade	0.4	59%	0.7	2%	2.5	87%	2.9	2%	2.9	0.0	
10	Privileged Account Management (PAM)	0.6	51%	1.2	3%	0.6	24%	2.6	2%	2.6	0.0	
11	<b>Total Projects with EAC Budget Over \$2.5 M</b>	<b>19.0</b>	<b>61%</b>	<b>31.1</b>	<b>76%</b>	<b>65.5</b>	<b>74%</b>	<b>88.1</b>	<b>76%</b>	<b>87.9</b>	<b>(0.2)</b>	
12												
13	<b>Other Projects</b>	<b>8.0</b>	<b>79%</b>	<b>10.0</b>	<b>24%</b>	<b>14.7</b>	<b>54%</b>	<b>27.4</b>	<b>24%</b>	<b>28.7</b>	<b>1.3</b>	
14												
15	<b>Total Project Expenditures</b>	<b>\$ 26.9</b>	<b>65%</b>	<b>\$ 41.1</b>	<b>100%</b>	<b>\$ 80.2</b>	<b>69%</b>	<b>\$ 115.5</b>	<b>100%</b>	<b>\$ 116.6</b>	<b>\$ 1.1</b>	

Note: Schedule may not foot due to rounding.

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.****Statements of Financial Position****As of August 31, 2018 and 2017**

(Dollars in Thousands)

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 803,882	\$ 469,409
Accounts receivable	7,750	2,937
Unbilled revenue	4,128	3,154
Restricted cash and cash equivalents	613,917	440,618
Prepaid expenses and other current assets	33,145	31,809
Total current assets	<u>1,462,822</u>	<u>947,927</u>
Property and equipment, net	109,169	106,010
Systems under development	29,163	26,065
Total assets	<u>\$ 1,601,154</u>	<u>\$ 1,080,002</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 7,176	\$ 5,734
Accrued liabilities	11,289	10,309
Deferred revenue	5,538	4,880
Market settlement liabilities	821,650	505,371
Security deposits	613,917	440,618
Notes payable, current portion	4,000	4,000
Total current liabilities	<u>1,463,570</u>	<u>970,912</u>
Long term liabilities:		
Notes payable, less current portion:		
Principal	53,000	57,000
Less unamortized debt issuance costs	191	203
Notes payable less current portion and unamortized debt issuance costs	<u>52,809</u>	<u>56,797</u>
Other long term liabilities	418	381
Total long term liabilities	<u>53,227</u>	<u>57,178</u>
Total liabilities	1,516,797	1,028,090
Net assets without donor restrictions	84,357	51,912
Total liabilities and net assets	<u>\$ 1,601,154</u>	<u>\$ 1,080,002</u>

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.****Statements of Activities and Net Assets****For the Eight Months Ended August 31, 2018 and 2017**

(Dollars in Thousands)

	<u>2018</u>	<u>2017</u>
Operating revenues		
System administration fees	\$ 144,485	\$ 134,342
Reliability organization pass-through	10,885	9,563
Other services revenue	4,367	4,085
Total operating revenues	<u>159,737</u>	<u>147,990</u>
Operating expenses		
Salaries and related benefits	70,811	69,010
Facility and equipment costs	6,171	6,320
Outside services	9,278	7,895
Hardware and software maintenance and licensing	15,484	17,891
Reliability organization assessment	10,885	9,563
Depreciation	19,032	17,950
Other	4,426	4,414
Total operating expenses	<u>136,087</u>	<u>133,043</u>
Income from operations	23,650	14,947
Other income (expense)		
Interest income	7,227	1,510
Interest expense	(980)	(1,286)
Non-operating (expense) income	(73)	3
Change in net assets without donor restrictions	29,824	15,174
Net assets without donor restrictions, beginning of year	54,533	36,738
Net assets without donor restrictions, end of period	<u>\$ 84,357</u>	<u>\$ 51,912</u>

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**Statements of Cash Flows**  
**For the Eight Months Ended August 31, 2018 and 2017**  
(Dollars in Thousands)

	<b>2018</b>	<b>2017</b>
<b>Operating activities:</b>		
Change in net assets without donor restrictions	\$ 29,824	\$ 15,174
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation	19,032	17,950
Amortization of debt issuance costs	10	13
Net loss on capital assets	92	-
Changes in operating assets and liabilities:		
Accounts receivable	(2,993)	1,463
Unbilled revenue	274	9
Prepaid expenses and other assets	(6,780)	(10,174)
Other long-term liabilities	30	6
Accounts payable	2,898	2,907
Accrued liabilities	1,348	(1,236)
Deferred revenue	899	677
Net cash provided by operating activities	<u>44,634</u>	<u>26,789</u>
<b>Investing activities:</b>		
Capital expenditures for property and equipment and systems under development	(26,837)	(24,970)
Proceeds from sale of property and equipment	-	-
Net cash (used in) investing activities	<u>(26,837)</u>	<u>(24,970)</u>
<b>Financing activities:</b>		
Repayment of notes payable	(2,000)	(2,000)
Payment of debt issuance costs	(4)	(3)
(Increase) in restricted cash	(57,909)	(53,433)
Increase in market settlement liabilities	287,088	162,502
Increase in security deposits	57,909	53,433
Net cash provided by financing activities	<u>285,084</u>	<u>160,499</u>
Net increase in cash and cash equivalents	302,881	162,318
Cash and cash equivalents, beginning of year	501,001	307,091
Cash and cash equivalents, end of period	<u>\$ 803,882</u>	<u>\$ 469,409</u>