



Item 7.1: Review 2018 Financial Summary

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Controller

Finance & Audit Committee Meeting

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

Net Revenues Year to Date Actuals: \$27.0 M Favorable *(as of October 31, 2018)*

Highlighted Revenue Variances

- \$8.9 M over budget: interest income due to higher investment balance and rates
- \$7.3 M over budget: system administration fees due to weather and stronger economy
- \$1.4 M over budget: interconnection revenue

Highlighted Expenditure Variances

- \$2.5 M under budget: external studies/consulting/legal services
- \$1.1 M under budget: employee health costs
- \$0.3 M under budget: computer hardware and equipment purchases
- \$0.2 M under budget: resource management (\$-1.8 M staffing management; \$2.0 M project work)
- \$2.0 M under budget: timing differences

Net Revenues Year End Forecast: \$26.1 M Favorable *(as of November 29, 2018)*

Highlighted Revenue Variances

- \$11.0 M over budget: interest income due to higher investment balance and rates
- \$7.5 M over budget: system administration fees based on current actuals and load forecast for remainder of year
- \$1.6 M over budget: interconnection revenue

Highlighted Expenditure Variances

- \$2.5 M under budget: external studies/consulting/legal services
- \$1.4 M under budget: employee health costs
- \$1.4 M over budget: computer hardware and equipment purchases
- \$0.2 M over budget: resource management (\$-2.2 M staffing management; \$2.0 M project work)



Review 2018 Financial Summary: Statements of Financial Position

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

	<u>2018</u>	<u>2017</u>
Assets		
Unrestricted cash	\$ 717.5	\$ 405.0
Bond investments	100.1	-
Total unrestricted cash and bond investments	817.6	405.0
Restricted cash	463.5	475.9
Other current assets	35.1	33.8
Other long term assets	140.5	131.0
Total assets	<u>\$ 1,456.7</u>	<u>\$ 1,045.7</u>
Liabilities and Net Assets		
CRR auction liabilities-current	\$ 390.6	\$ 249.9
CRR auction liabilities-long term	339.2	103.8
Other market liabilities	100.2	85.6
Total market settlement liabilities	830.0	439.3
Security deposits	463.5	475.9
Other current liabilities	22.0	20.3
Other long term liabilities	52.2	56.2
Net assets without donor restrictions	89.0	54.0
Total liabilities and net assets	<u>\$ 1,456.7</u>	<u>\$ 1,045.7</u>



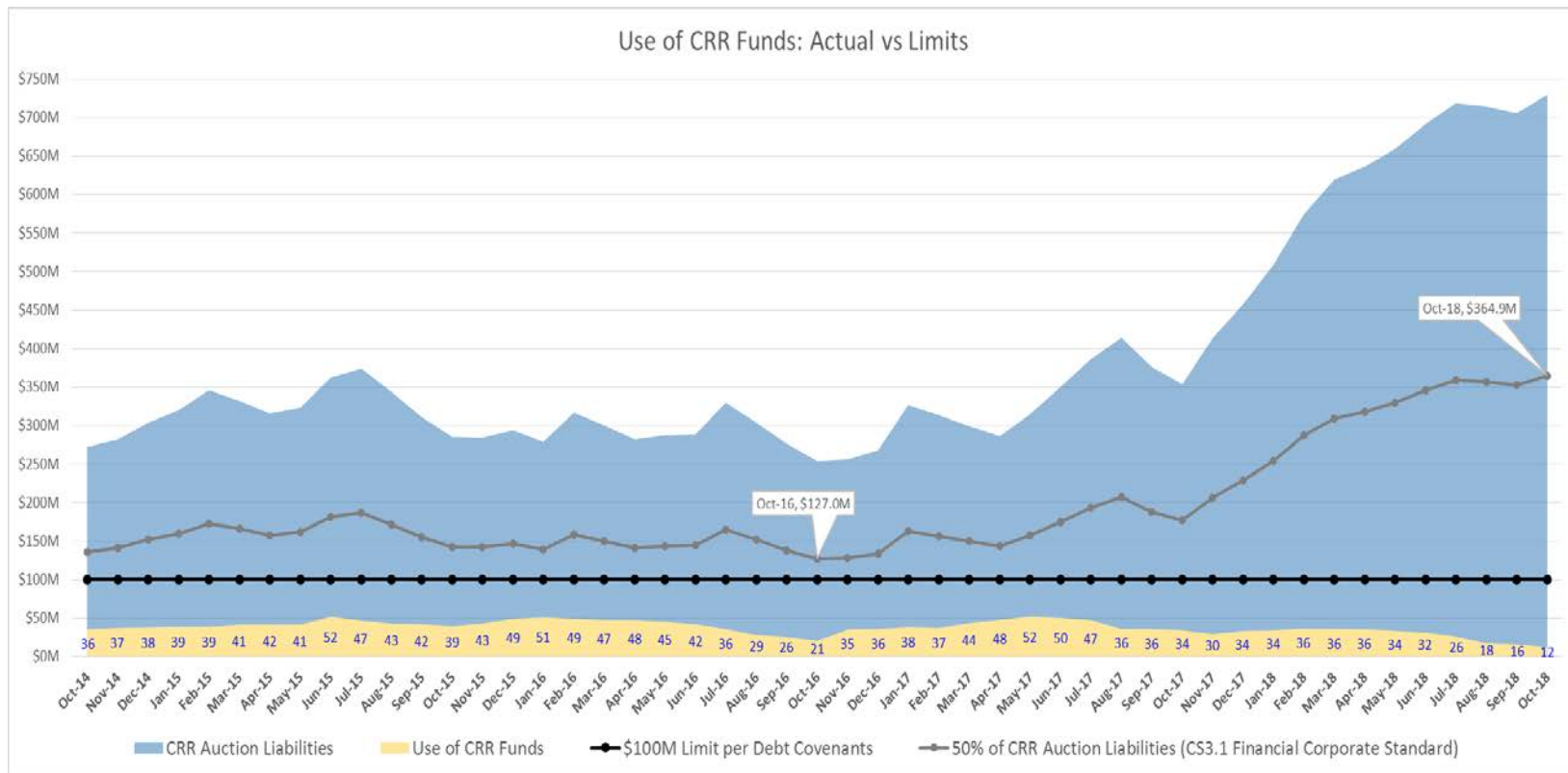
Review 2018 Financial Summary: Statements of Activities and Net Assets

For the Ten Months Ended October 31, 2018 and 2017 (\$ in Millions)

	<u>2018</u>		<u>2017</u>
Operating revenues	\$ 197.6	\$	184.9
Operating expenses	171.9		168.1
Income from operations	25.7		16.8
Other income (expense)	8.8		0.5
Change in net assets without donor restrictions	34.5		17.3
Net assets without donor restrictions, beginning of year	54.5		36.7
Net assets without donor restrictions, end of period	<u>\$ 89.0</u>	\$	<u>54.0</u>



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



Appendices

Electric Reliability Council of Texas, Inc. 2018 Financial Summary As of November 29, 2018 (\$ in Millions)		Year to Date (October 31)					Year End (December 31)				
		2017	2018				2017	2018			
			Actual	Budget	Actual	\$		%	Actual	Budget	Forecast
Line					Variance				Variance		
1	System Administration Revenue	\$ 167.9	\$ 171.6	\$ 178.8	\$ 7.3	4.3	\$ 199.3	\$ 201.8	\$ 209.3	\$ 7.5	3.7
2	Department Net Expenditures										
3	Information Technology	53.2	56.9	54.0	2.9	5.1	64.9	68.3	67.4	0.9	1.3
4	Operations	47.6	53.8	49.4	4.4	8.2	57.7	64.4	60.4	4.0	6.2
5	Finance & Treasury	9.1	12.2	1.7	10.4	85.2	10.6	14.5	2.0	12.5	86.2
6	External Affairs & Corporate Communications	4.9	5.4	5.0	0.5	9.3	5.9	6.6	6.1	0.5	7.6
7	Human Resources	3.9	4.5	3.6	0.8	17.8	4.6	5.3	4.9	0.4	7.5
8	General Counsel	3.6	3.9	3.3	0.6	15.4	4.3	4.8	4.3	0.5	10.4
9	Corporate Administration	1.5	1.7	1.6	0.1	5.9	1.9	2.1	2.2	(0.1)	(4.8)
10	Total Department Net Expenditures	123.8	138.3	118.6	19.7	14.2	149.9	165.8	147.2	18.6	11.2
11	Net Revenues After Department Expenditures	44.1	33.2	60.2	27.0	81.3	49.4	36.0	62.1	26.1	72.5
12											
13	Less: Project Expenditures	33.4	23.8	34.3	(10.5)	(44.1)	38.1	28.5	40.1	(11.6)	(40.7)
14											
15	Net Available for Debt & Working Capital	\$ 10.7	\$ 9.4	\$ 25.9	\$ 16.5	(175.5)	\$ 11.3	\$ 7.5	\$ 22.0	\$ 14.5	(193.3)

Note: Schedule may not foot due to rounding

Electric Reliability Council of Texas, Inc.
2018 Financial Summary Variance Explanations
As of November 29, 2018

Line	Year to Date (October 31)	Year End (December 31)
1 System Administration Fee Revenue	+\$5.6 M - Weather +\$1.7 M - Stronger economy	+\$7.5 M - Based on current actuals and load forecast for remainder of year
3 Information Technology	+\$1.2 M - HW/SW vendor support services (Resource Management) +\$0.6 M - Project funded labor (Resource Management) +\$0.4 M - Minor capital purchases (Equipment Purchases) +\$0.5 M - Building systems maintenance +\$0.4 M - Lower allocated employee health costs +\$0.1 M - HW/SW support and maintenance renewals +\$0.4 M - Employee training and business travel +\$0.1 M - Data service subscriptions +\$0.1 M - Network telecommunications -\$0.2 M - Common infrastructure purchases (Computer Hardware) -\$0.7 M - Contingent labor (Resource Management) -\$0.5 M - Lower-than-budgeted vacancy (Resource Management) Timing Differences +\$0.2 M - Project funded labor (Resource Management) +\$0.2 M - Miscellaneous variances +\$0.1 M - HW/SW vendor support services (Resource Management)	+\$1.2 M - HW/SW vendor support services (Resource Management) +\$0.6 M - Project funded labor (Resource Management) +\$0.6 M - Minor capital purchases (Equipment Purchases) +\$0.5 M - Building systems maintenance +\$0.5 M - Lower allocated employee health costs +\$0.4 M - HW/SW support and maintenance renewals +\$0.4 M - Employee training and business travel +\$0.1 M - Data service subscriptions +\$0.1 M - Network telecommunications -\$2.1 M - Common infrastructure purchases (Computer Hardware) -\$0.8 M - Contingent labor (Resource Management) -\$0.6 M - Lower-than-budgeted vacancy (Resource Management)
4 Operations	+\$1.6 M - External studies/consulting services +\$1.4 M - Interconnection revenue +\$0.5 M - Lower allocated employee health costs +\$0.3 M - Employee training and business travel +\$0.3 M - Project funded labor (Resource Management) +\$0.1 M - Minor capital purchases (Equipment Purchases) -\$0.6 M - Lower-than-budgeted vacancy (Resource Management) -\$0.1 M - HW/SW support and maintenance renewals Timing Differences +\$0.7 M - Minor capital purchases (Equipment Purchases) +\$0.1 M - External studies/consulting services +\$0.1 M - Employee training and business travel	+\$1.6 M - External studies/consulting services +\$1.6 M - Interconnection revenue +\$0.7 M - Lower allocated employee health costs +\$0.3 M - Employee training and business travel +\$0.3 M - Project funded labor (Resource Management) +\$0.1 M - Minor capital purchases (Equipment Purchases) +\$0.1 M - Miscellaneous variances -\$0.6 M - Lower-than-budgeted vacancy (Resource Management) -\$0.1 M - HW/SW support and maintenance renewals

Electric Reliability Council of Texas, Inc.
2018 Financial Summary Variance Explanations
As of November 29, 2018

Line	Year to Date (October 31)	Year End (December 31)
5 Finance & Treasury	+\$8.9 M - Interest income +\$0.5 M - Interest expense +\$0.4 M - Insurance premiums +\$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) Timing Differences +\$0.2 M - Facilities maintenance and repairs +\$0.1 M - Office rent -\$0.2 M - Minor capital purchases	+\$11.0 M - Interest income +\$0.6 M - Interest expense +\$0.4 M - Insurance premiums +\$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 +\$0.1 M - Lower allocated employee health costs	+\$0.2 M - External studies/consulting services +\$0.1 M - Higher-than-budgeted vacancy (Resource Management) +\$0.1 M - Employee training and business travel +\$0.1 M - Lower allocated employee health costs
7 Human Resources	+\$0.2 M - External studies/consulting services +\$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 - Corporate events	+\$0.2 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	+\$0.5 M - Outside legal services +\$0.1 M - Board of Directors recruiting -\$0.1 M - Lower-than-budgeted vacancy (Resource Management) Timing Differences +\$0.1 M - Board of Directors expense	+\$0.5 M - Outside legal services +\$0.1 M - Board of Directors recruiting -\$0.1 M - Lower-than-budgeted vacancy (Resource Management)
9 Corporate Administration	Timing Differences +\$0.1 M - Employee training and business travel	-\$0.1 M - Lower-than-budgeted vacancy (Resource Management)
13 Project Expenditures	-\$10.5 M - Multiple projects	-\$11.6 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 October 31, 2018		Year End (YE) As of November 29, 2018		Life to Date As of October 31, 2018		Estimate at Completion (EAC) As of November 29, 2018			
		Actual	% of YE Forecast	YE Forecast	% of All Included Projects	Actual	% of EAC Forecast	EAC Forecast	% of All Included Projects	Budget	Variance
1	Projects with EAC Budget Over \$2.5 M										
2	Data Center 4.0 Optimization (DC4) Program	\$ 6.9	91%	\$ 7.5	19%	\$ 42.4	91%	\$ 46.5	40%	\$ 48.0	\$ 1.5
3	Training Facility	6.9	76%	9.1	23%	7.8	78%	10.0	9%	11.0	1.0
4	Identity and Access Management	2.9	84%	3.4	8%	5.3	70%	7.6	6%	7.7	0.0
5	IT Change and Configuration Management	3.0	87%	3.4	9%	5.4	89%	6.0	5%	6.1	0.0
6	2015 Credit Monitoring and Management (CMM) NPRRs	1.3	91%	1.4	4%	2.4	46%	5.1	4%	5.1	0.0
7	Enterprise Content Alignment Program (ECAP)	1.7	85%	2.0	5%	3.8	83%	4.6	4%	4.6	(0.0)
8	Security Constrained Unit Commitment (SCUC)	0.0	100%	0.0	0%	0.0	1%	3.2	3%	3.2	0.0
9	Congestion Revenue Rights (CRR) Framework Upgrade	0.5	68%	0.7	2%	2.5	89%	2.9	2%	2.9	0.0
10	Privileged Account Management (PAM)	0.8	86%	0.9	2%	0.8	29%	2.6	2%	2.6	0.0
11	Total Projects with EAC Budget Over \$2.5 M	23.9	84%	28.5	71%	70.4	80%	88.5	76%	91.0	2.5
12											
13	Other Projects	10.4	90%	11.6	29%	17.2	60%	28.7	24%	30.0	1.3
14											
15	Total Project Expenditures	\$ 34.3	86%	\$ 40.1	100%	\$ 87.6	75%	\$ 117.2	100%	\$ 121.0	\$ 3.8

Note: Schedule may not foot due to rounding.

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

(Dollars in Thousands)

	<u>2018</u>	<u>2017</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 717,498	\$ 405,009
Accounts receivable	4,489	3,208
Unbilled revenue	2,958	2,746
Restricted cash and cash equivalents	463,456	475,899
Short term investments	76,423	-
Prepaid expenses and other current assets	28,073	27,794
Total current assets	<u>1,292,897</u>	<u>914,656</u>
Long term investments	23,332	-
Property and equipment, net	109,163	105,390
Systems under development	31,339	25,606
Total assets	<u>\$ 1,456,731</u>	<u>\$ 1,045,652</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 3,427	\$ 3,469
Accrued liabilities	11,682	10,160
Deferred revenue	2,928	2,587
Market settlement liabilities	490,770	335,546
Security deposits	463,456	475,899
Notes payable, current portion	4,000	4,000
Total current liabilities	<u>976,263</u>	<u>831,661</u>
Long term liabilities:		
Notes payable, less current portion:		
Principal	52,000	56,000
Less unamortized debt issuance costs	189	200
Notes payable less current portion and unamortized debt issuance costs	<u>51,811</u>	<u>55,800</u>
Long term CRR liabilities	339,255	103,766
Other long term liabilities	422	384
Total long term liabilities	<u>391,488</u>	<u>159,950</u>
Total liabilities	<u>1,367,751</u>	<u>991,611</u>
Net assets without donor restrictions	88,980	54,041
Total liabilities and net assets	<u>\$ 1,456,731</u>	<u>\$ 1,045,652</u>

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**Statements of Activities and Net Assets****For the Ten Months Ended October 31, 2018 and 2017**(Dollars in Thousands)

	<u>2018</u>	<u>2017</u>
Operating revenues		
System administration fees	\$ 178,849	\$ 167,946
Reliability organization pass-through	13,607	11,954
Other services revenue	5,124	4,952
Total operating revenues	<u>197,580</u>	<u>184,852</u>
Operating expenses		
Salaries and related benefits	88,161	86,583
Facility and equipment costs	7,386	7,871
Outside services	11,870	10,217
Hardware and software maintenance and licensing	21,527	23,447
Reliability organization assessment	13,607	11,954
Depreciation	23,437	22,367
Other	5,914	5,610
Total operating expenses	<u>171,902</u>	<u>168,049</u>
Income from operations	25,678	16,803
Other income (expense)		
Investment return, net	9,930	2,136
Interest expense	(1,192)	(1,639)
Non-operating income	31	3
Change in net assets without donor restrictions	<u>34,447</u>	<u>17,303</u>
Net assets without donor restrictions, beginning of year	54,533	36,738
Net assets without donor restrictions, end of period	<u>\$ 88,980</u>	<u>\$ 54,041</u>

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

	<u>2018</u>	<u>2017</u>
Operating activities:		
Change in net assets without donor restrictions	\$ 34,447	\$ 17,303
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation	23,437	22,367
Amortization of debt issuance costs	12	16
Amortization of bond discount	(126)	-
Net (gains) on capital assets	(12)	-
Changes in operating assets and liabilities:		
Accounts receivable	268	1,192
Unbilled revenue	1,444	417
Prepaid expenses and other assets	(1,708)	(6,159)
Other long-term liabilities	34	9
Accounts payable	(683)	295
Accrued liabilities	1,589	(926)
Deferred revenue	(1,711)	(1,616)
Net cash provided by operating activities	<u>56,991</u>	<u>32,898</u>
Investing activities:		
Payment for purchase of bond	(106,237)	-
Proceeds from sale of bond	6,608	-
Capital expenditures for property and equipment and systems under development	(33,339)	(28,420)
Proceeds from sale of property and equipment	15	-
Net cash (used in) investing activities	<u>(132,953)</u>	<u>(28,420)</u>
Financing activities:		
Repayment of notes payable	(3,000)	(3,000)
Payment of debt issuance costs	(4)	(3)
Decrease (increase) in restricted cash	92,552	(88,714)
Increase in market settlement liabilities	295,463	96,443
(Decrease) increase in security deposits	(92,552)	88,714
Net cash provided by financing activities	<u>292,459</u>	<u>93,440</u>
Net increase in cash and cash equivalents	216,497	97,918
Cash and cash equivalents, beginning of year	501,001	307,091
Cash and cash equivalents, end of period	<u>\$ 717,498</u>	<u>\$ 405,009</u>