



Item 10.1: Review 2018 Financial Summary

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Controller

Finance & Audit Committee Meeting

ERCOT Public
February 11, 2019

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

Preliminary 2018 Net Revenues at Year End: \$29.1 M Favorable

Highlighted Revenue Variances

\$11.9 M over budget: interest income due to higher investment balance and rates

\$8.1 M over budget: system administration fees due to weather and stronger economy

\$1.2 M over budget: interconnection revenue

Highlighted Expenditure Variances

\$2.8 M under budget: external studies/consulting/legal services

\$1.3 M under budget: employee health costs

\$1.2 M under budget: employee training and business travel

\$0.5 M under budget: resource management (\$-2.0 M staffing management; \$2.5 M project work)

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

2019 Revenues *(as of January 29, 2019)*

Highlighted Revenue Variances

\$13.0 M over budget: interest income due to higher investment balance and rates

\$6.2 M over budget: system administration fees based on current actuals and load forecast for remainder of year

2020-2021 Budget Request

- We will present the first draft of the 2020-2021 Budget Request at the April Finance & Audit Committee Meeting.
- We do not anticipate a change in the System Administration Fee Rate.



Review 2018 Financial Summary: 2018 Project Timing Differences

Electric Reliability Council of Texas, Inc. 2018 Financial Summary As of January 29, 2019 (\$ in Millions)		2018 Preliminary Year End				
Line	2017	2018				
	Actual	Budget	Actual	Variance		
				\$	%	
1	System Administration Revenue	\$ 199.3	\$ 201.8	\$ 209.9	\$ 8.1	4.0
2	Department Net Expenditures					
3	Information Technology	64.9	68.3	67.4	0.9	1.3
4	Operations	57.7	64.4	60.0	4.3	6.7
5	Finance & Treasury	10.6	14.5	0.8	13.6	93.8
6	External Affairs & Corporate Communications	5.9	6.6	6.0	0.6	9.1
7	Human Resources	4.6	5.3	4.6	0.8	15.1
8	General Counsel	4.3	4.8	4.0	0.7	14.6
9	Corporate Administration	1.9	2.1	2.0	0.1	4.8
10	Total Department Net Expenditures	149.9	165.8	144.8	21.0	12.7
11	Net Revenues After Department Expenditures	49.4	36.0	65.1	29.1	80.8
12						
13	Less: Project Expenditures	38.1	28.5	40.3	(11.8)	(41.4)
14						
15	Net Available for Debt & Working Capital	\$ 11.3	\$ 7.5	\$ 24.8	\$ 17.3	(230.7)

Note: Schedule may not foot due to rounding

Project Timing Differences		
Project	Variance	2018 First Published
DC4	\$ (3.1)	Apr-18
Training Facility	(4.4)	Apr-18
Other Projects	(4.3)	Oct-18
Total	\$ (11.8)	



Review 2018 Financial Summary: PUCT Directs ERCOT to Implement Real-Time Co-optimization of Energy and Ancillary Services

Real Time Co-optimization

I believe real time co-optimization brings not only economic benefits that exceed its costs, but operational benefits for ERCOT as well. These benefits and costs were discussed in detail by ERCOT and the IMM in filings made on June 29, 2018. After consideration of the information provided by ERCOT, the IMM, and the many parties that commented on the issue, I propose that the Commission instruct ERCOT to proceed with the implementation of real time co-optimization. If the Commission determines that real time co-optimization should be implemented, then there are additional issues that must be addressed either by the Commission or in the stakeholder process before ERCOT can move forward with implementation.

If the Commission decides to implement real time co-optimization, then I propose having the Commission Staff bring back to the Commission on February 7th a list of policy issues that can be published for stakeholder comment. I also propose requesting that ERCOT submit a high-level implementation plan and timeline, so that the Commission can determine the expectations for timing and milestones during the implementation of the project. Lastly, I propose that the project be funded through the favorable variance in the revenues that occurred in 2018 and will likely occur in 2019 by ERCOT. Such funds should be set aside for future use for this project.



Review 2018 Financial Summary: 2018-2019 Favorable Variance Summary (\$ in Millions)

	2018		
	Preliminary	2019	
	Actual	Forecast	Total
Net Revenues After Department Expenditures	\$ 29.1	\$ 18.3	\$ 47.4
Project Timing Differences:			
Data Center 4.0 Optimization (DC4)	\$ (3.1)	\$ 0.6	\$ (2.5)
Training Facility	(4.4)	4.1	(0.3)
Other Projects	(4.3)	3.4	(0.9)
Total Project Timing Differences	\$ (11.8)	\$ 8.1	\$ (3.7)
Net Available for Debt & Working Capital	\$ 17.3	\$ 26.4	\$ 43.7



Review 2018 Financial Summary: Real Time Co-optimization Funding

The PUCT directed ERCOT to use the 2018 and 2019 budget favorable variances to fund the Real Time Co-optimization Project.

- How will this be accomplished?
 - Determine 2018 and 2019 favorable financial variances, which are currently forecast to be approximately \$40 million. Final amounts will be based on the financial statement audit results, available in April 2019 and April 2020.
 - Track Real Time Co-optimization Project implementation costs along with the ERCOT project portfolio.
 - Provide regular reporting on both the Real Time Co-optimization Project costs and the remaining available funding from 2018 and 2019 favorable variances.
- Currently, there is no anticipated impact to the System Administration Fee due to use of 2018 and 2019 favorable variances.



Review 2018 Financial Summary: Statements of Financial Position

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

	<u>2018</u>	<u>2017</u>
Assets		
Unrestricted cash	\$ 791.3	\$ 501.0
Bond investments	100.2	-
Total unrestricted cash and bond investments	<u>891.5</u>	<u>501.0</u>
Restricted cash	458.5	556.0
Other current assets	36.6	35.5
Other long term assets	143.3	131.3
Total assets	<u>\$ 1,529.9</u>	<u>\$ 1,223.8</u>
Liabilities and Net Assets		
CRR auction liabilities-current	\$ 498.3	\$ 372.1
CRR auction liabilities-long term	303.4	85.6
Other market liabilities	102.5	76.9
Total market settlement liabilities	<u>904.2</u>	<u>534.6</u>
Security deposits	458.5	556.0
Other current liabilities	25.3	23.5
Other long term liabilities	51.2	55.2
Net assets without donor restrictions	90.7	54.5
Total liabilities and net assets	<u>\$ 1,529.9</u>	<u>\$ 1,223.8</u>



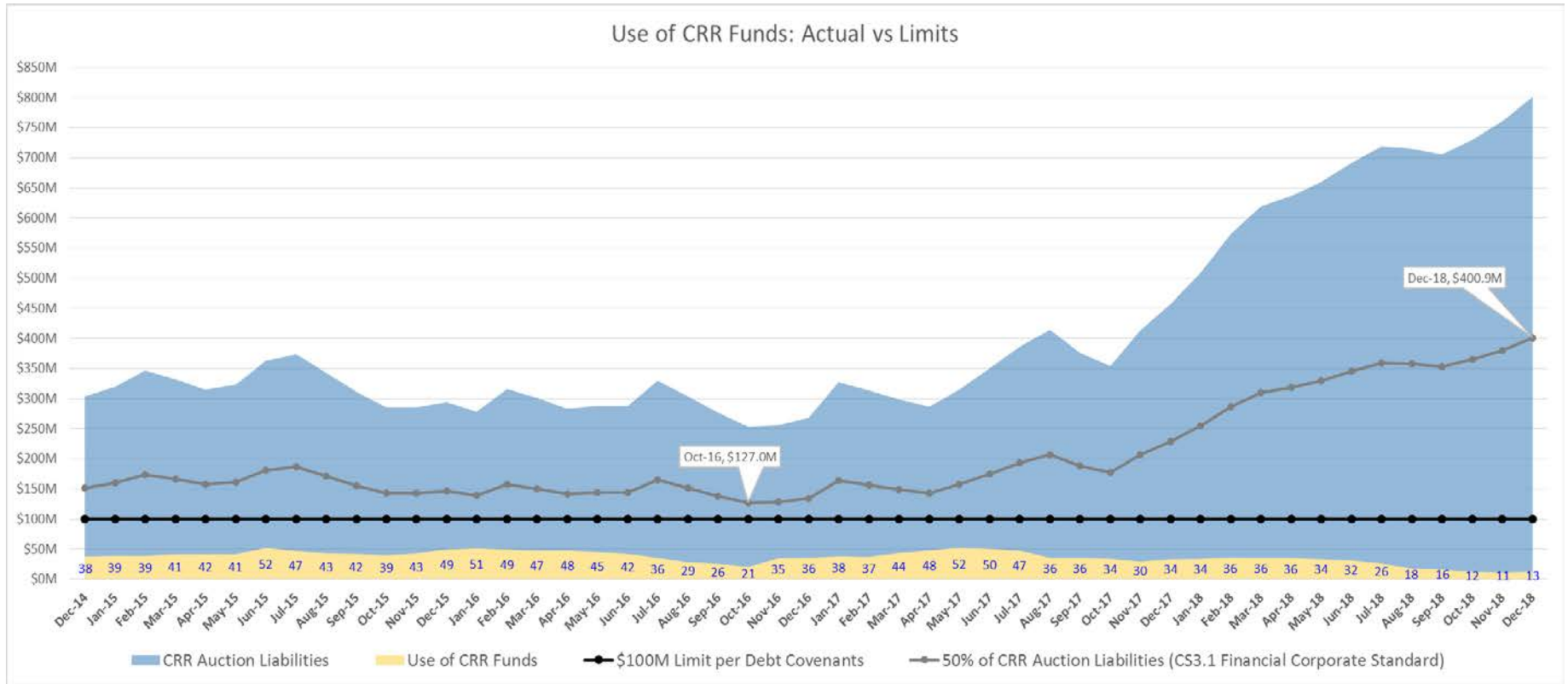
Review 2018 Financial Summary: Statements of Activities and Net Assets

For the Twelve Months Ended December 31, 2018 and 2017 (\$ in Millions)

	<u>2018</u>		<u>2017</u>
Operating revenues	\$ 231.8	\$	219.3
Operating expenses	207.3		202.6
Income from operations	24.5		16.7
Other income (expense)	11.7		1.1
Change in net assets without donor restrictions	36.2		17.8
Net assets without donor restrictions, beginning of year	54.5		36.7
Net assets without donor restrictions, end of period	\$ 90.7	\$	54.5



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



Appendices

Electric Reliability Council of Texas, Inc. 2018 Financial Summary As of January 29, 2019 (\$ in Millions)		2018 Preliminary Year End				
		2017	2018			
		Actual	Budget	Actual	Variance	
Line				\$	%	
1	System Administration Revenue	\$ 199.3	\$ 201.8	\$ 209.9	\$ 8.1	4.0
2	Department Net Expenditures					
3	Information Technology	64.9	68.3	67.4	0.9	1.3
4	Operations	57.7	64.4	60.0	4.3	6.7
5	Finance & Treasury	10.6	14.5	0.8	13.6	93.8
6	External Affairs & Corporate Communications	5.9	6.6	6.0	0.6	9.1
7	Human Resources	4.6	5.3	4.6	0.8	15.1
8	General Counsel	4.3	4.8	4.0	0.7	14.6
9	Corporate Administration	1.9	2.1	2.0	0.1	4.8
10	Total Department Net Expenditures	149.9	165.8	144.8	21.0	12.7
11	Net Revenues After Department Expenditures	49.4	36.0	65.1	29.1	80.8
12						
13	Less: Project Expenditures	38.1	28.5	40.3	(11.8)	(41.4)
14						
15	Net Available for Debt & Working Capital	\$ 11.3	\$ 7.5	\$ 24.8	\$ 17.3	(230.7)

Note: Schedule may not foot due to rounding

Electric Reliability Council of Texas, Inc.
2018 Financial Summary Variance Explanations
As of January 29, 2019

Line	2018 Preliminary Year End
1 System Administration Fee Revenue	+\$5.7 M - Weather +\$2.4 M - Stronger economy
3 Information Technology	+\$1.8 M - HW/SW vendor support services (Resource Management) +\$0.5 M - Project funded labor (Resource Management) +\$0.5 M - Building systems maintenance +\$0.5 M - Lower allocated employee health costs +\$0.4 M - Employee training and business travel +\$0.3 M - Minor capital purchases (Equipment Purchases) +\$0.1 M - Data service subscriptions +\$0.1 M - Network Telecom -\$2.0 M - Common infrastructure purchases (Computer Hardware) -\$0.8 M - Contingent labor (Resource Management) -\$0.5 M - Lower-than-budgeted vacancy (Resource Management)
4 Operations	+\$1.7 M - External studies/consulting services +\$1.2 M - Interconnection revenue +\$0.7 M - Lower allocated employee health costs +\$0.7 M - Minor capital purchases (Equipment Purchases) +\$0.5 M - Employee training and business travel +\$0.3 M - Project funded labor (Resource Management) +\$0.1 M - Miscellaneous variances -\$0.7 M - Lower-than-budgeted vacancy (Resource Management) -\$0.2 M - HW/SW support and maintenance renewals

Electric Reliability Council of Texas, Inc.
2018 Financial Summary Variance Explanations
As of January 29, 2019

Line	2018 Preliminary Year End
5 Finance & Treasury	+\$11.9 M - Interest income +\$0.6 M - Interest expense +\$0.5 M - Insurance premiums +\$0.4 M - Facilities maintenance and repairs +\$0.3 M - Property tax +\$0.1 M - Contingent labor (Resource Management) +\$0.1 M - Electricity +\$0.1 M - Office rent +\$0.1 M - Employee training and business travel -\$0.2 M - Lower-than-budgeted vacancy (Resource Management) -\$0.2 M - Minor capital purchases (Equipment Purchases) -\$0.1 M - Project funded labor (Resource Management)
6 External Affairs & Corporate Communications	+\$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	+\$0.2 M - External studies/consulting services +\$0.2 M - Employee reward & recognition program +\$0.2 M - Employee recruiting +\$0.1 M - New hire relocation +\$0.1 M - Internship program (Resource Management)
8 General Counsel	+\$0.6 M - Outside legal services +\$0.2 M - Board of Directors recruiting and expense -\$0.1 M - Lower-than-budgeted vacancy (Resource Management)
9 Corporate Administration	+\$0.1 M - Employee training and business travel
13 Project Expenditures	-\$11.8 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 December 31, 2018		Life to Date As of December 31, 2018		Estimate at Completion (EAC) As of January 29, 2019			
		Preliminary Actual		Preliminary 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	\$	7.1	\$	42.6 93%	\$	46.0 39%	\$	48.0 \$ 2.0
3	Training Facility		8.9		9.8 96%		10.2 9%		11.0 0.8
4	Identity and Access Management		3.4		5.8 76%		7.6 6%		7.7 0.0
5	IT Change and Configuration Management		3.4		5.8 95%		6.1 5%		6.1 (0.0)
6	2015 Credit Monitoring and Management (CMM) NPRRs		1.5		2.5 51%		4.9 4%		5.1 0.2
7	Enterprise Content Alignment Program (ECAP)		2.0		4.1 87%		4.7 4%		4.7 (0.0)
8	Security Constrained Unit Commitment (SCUC)		0.0		0.0 1%		3.1 3%		3.2 0.0
9	Congestion Revenue Rights (CRR) Framework Upgrade		0.7		2.7 96%		2.9 2%		2.9 (0.0)
10	Privileged Account Management (PAM)		0.8		0.8 33%		2.6 2%		2.6 (0.0)
11	Total Projects with EAC Budget Over \$2.5 M		27.8		74.3 84%		88.1 75%		91.1 3.0
12									
13	Other Projects		12.5		19.3 66%		29.3 25%		30.8 1.5
14									
15	Total Project Expenditures	\$	40.3	\$	93.6 80%	\$	117.4 100%	\$	121.9 \$ 4.6

Note: Schedule may not foot due to rounding.

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

(Dollars in Thousands)

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 791,346	\$ 501,001
Accounts receivable	5,871	4,757
Unbilled revenue	3,136	4,402
Restricted cash and cash equivalents	458,524	556,008
Short term investments	99,935	-
Prepaid expenses and other current assets	27,793	26,365
Total current assets	1,386,605	1,092,533
Long term investments	-	-
Property and equipment, net	111,911	112,442
Systems under development	31,427	18,807
Total assets	<u>\$ 1,529,943</u>	<u>\$ 1,223,782</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 2,050	\$ 5,330
Accrued liabilities	13,552	9,519
Deferred revenue	5,666	4,639
Market settlement liabilities	600,828	448,949
Security deposits	458,524	556,008
Notes payable, current portion	4,000	4,000
Total current liabilities	1,084,620	1,028,445
Long term liabilities:		
Notes payable, less current portion:		
Principal	51,000	55,000
Less unamortized debt issuance costs	186	197
Notes payable less current portion and unamortized debt issuance costs	50,814	54,803
Long term CRR liabilities	303,399	85,613
Other long term liabilities	426	388
Total long term liabilities	354,639	140,804
Total liabilities	1,439,259	1,169,249
Net assets without donor restrictions	90,684	54,533
Total liabilities and net assets	<u>\$ 1,529,943</u>	<u>\$ 1,223,782</u>

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

(Dollars in Thousands)

	<u>2018</u>	<u>2017</u>
Operating revenues		
System administration fees	\$ 209,881	\$ 199,283
Reliability organization pass-through	16,328	14,345
Other services revenue	5,629	5,702
Total operating revenues	<u>231,838</u>	<u>219,330</u>
Operating expenses		
Salaries and related benefits	106,260	103,820
Facility and equipment costs	8,983	9,664
Outside services	15,224	12,715
Hardware and software maintenance and licensing	25,374	28,153
Reliability organization assessment	16,328	14,345
Depreciation	28,104	27,148
Other	7,074	6,744
Total operating expenses	<u>207,347</u>	<u>202,589</u>
Income from operations	24,491	16,741
Other income (expense)		
Investment return, net	13,100	2,933
Interest expense	(1,438)	(1,884)
Non-operating (expense) income	(2)	5
Change in net assets without donor restrictions	<u>36,151</u>	<u>17,795</u>
Net assets without donor restrictions, beginning of year	54,533	36,738
Net assets without donor restrictions, end of period	<u>\$ 90,684</u>	<u>\$ 54,533</u>

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**Statements of Cash Flows****For the Twelve Months Ended December 31, 2018 and 2017**

(Dollars in Thousands)

	2018	2017
Operating activities:		
Change in net assets without donor restrictions	\$ 36,151	\$ 17,795
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation	28,104	27,148
Amortization of debt issuance costs	15	19
Amortization of bond discount	(311)	-
Net loss (gains) on capital assets	22	(3)
Changes in operating assets and liabilities:		
Accounts receivable	(1,114)	(357)
Unbilled revenue	1,266	(1,239)
Prepaid expenses and other assets	(1,428)	(4,730)
Other long-term liabilities	38	13
Accounts payable	(1,873)	1,244
Accrued liabilities	1,732	(1,643)
Deferred revenue	1,027	436
Net cash provided by operating activities	<u>63,629</u>	<u>38,683</u>
Investing activities:		
Payment for purchase of bond	(113,232)	-
Proceeds from sale of bond	13,608	-
Capital expenditures for property and equipment and systems under development	(39,336)	(32,466)
Proceeds from sale of property and equipment	15	3
Net cash (used in) investing activities	<u>(138,945)</u>	<u>(32,463)</u>
Financing activities:		
Repayment of notes payable	(4,000)	(4,000)
Payment of debt issuance costs	(4)	(3)
Decrease (increase) in restricted cash	97,484	(168,823)
Increase in market settlement liabilities	369,665	191,693
(Decrease) increase in security deposits	(97,484)	168,823
Net cash provided by financing activities	<u>365,661</u>	<u>187,690</u>
Net increase in cash and cash equivalents	290,345	193,910
Cash and cash equivalents, beginning of year	501,001	307,091
Cash and cash equivalents, end of period	<u>\$ 791,346</u>	<u>\$ 501,001</u>