



## **Item 10.1: Review 2019 Financial Summary**

*Sean Taylor*

Vice President and Chief Financial Officer

Finance & Audit Committee Meeting

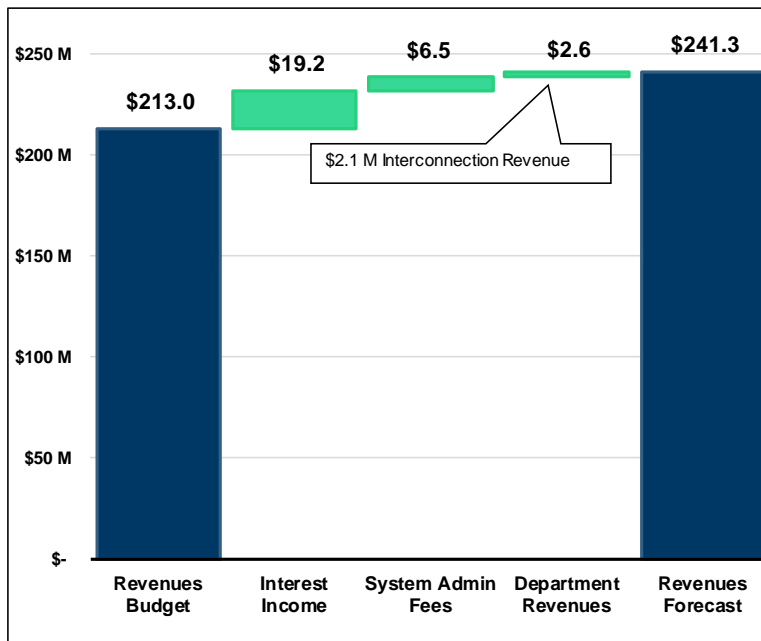
ERCOT Public

February 11, 2020

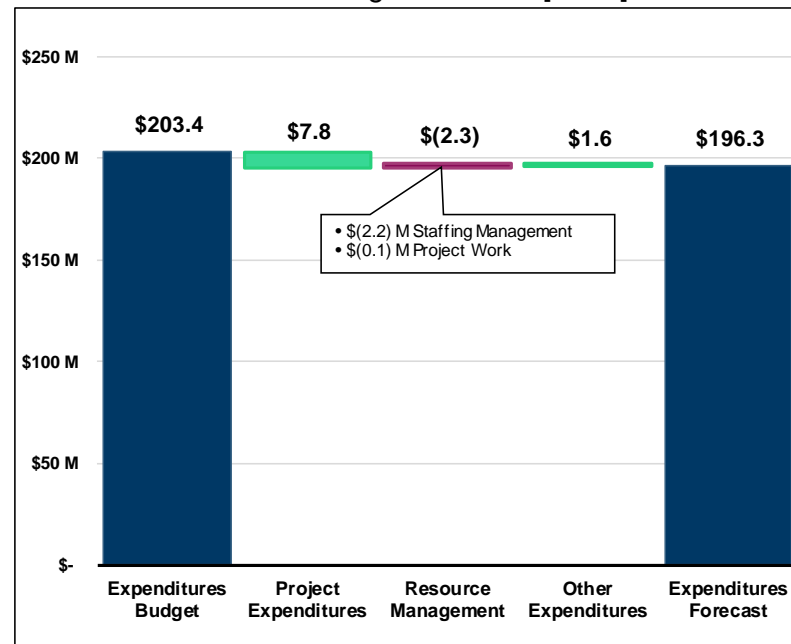
# Review 2019 Financial Summary: 2019 Variance to Budget (\$ in Millions)

**Preliminary Net Available Year-End Variance to Budget = \$35.4 M**

Preliminary Revenues Year-End  
Variance to Budget = \$28.3 M [13.3%]



Preliminary Expenditures Year-End  
Variance to Budget = \$7.1 M [3.4%]



Charts may not foot due to rounding.



# Review 2019 Financial Summary: Statements of Financial Position

## As of December 31, 2019 and 2018 (\$ in Millions)

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Unrestricted cash	\$ 973.1	\$ 791.3
Bond investments	102.6	100.2
Total unrestricted cash and bond investments	<u>1,075.7</u>	<u>891.5</u>
Restricted cash	503.8	458.5
Other current assets	37.9	36.6
Other long-term assets	133.2	143.2
Total assets	<u>\$ 1,750.6</u>	<u>\$ 1,529.8</u>
<b>Liabilities and Net Assets</b>		
CRR auction liabilities-current	\$ 538.0	\$ 498.3
CRR auction liabilities-long term	359.3	303.4
Other market liabilities	153.9	102.5
Total market settlement liabilities	<u>1,051.2</u>	<u>904.2</u>
Security deposits	503.8	458.5
Other current liabilities	23.0	25.6
Other long-term liabilities	47.2	51.2
Net assets without donor restrictions	125.4	90.3
Total liabilities and net assets	<u>\$ 1,750.6</u>	<u>\$ 1,529.8</u>

Preliminary - Unaudited



# Review 2019 Financial Summary: Statements of Activities and Net Assets

## For the Twelve Months Ended December 31, 2019 and 2018 (\$ in Millions)

	<b>2019</b>	<b>2018</b>
Operating revenues	\$ 220.9	\$ 215.5
Operating expenses	204.5	191.4
Income from operations	16.4	24.1
Other income	18.7	11.7
Change in net assets without donor restrictions	35.1	35.8
Net assets without donor restrictions, beginning of year	90.3	54.5
Net assets without donor restrictions, end of period	\$ 125.4	\$ 90.3

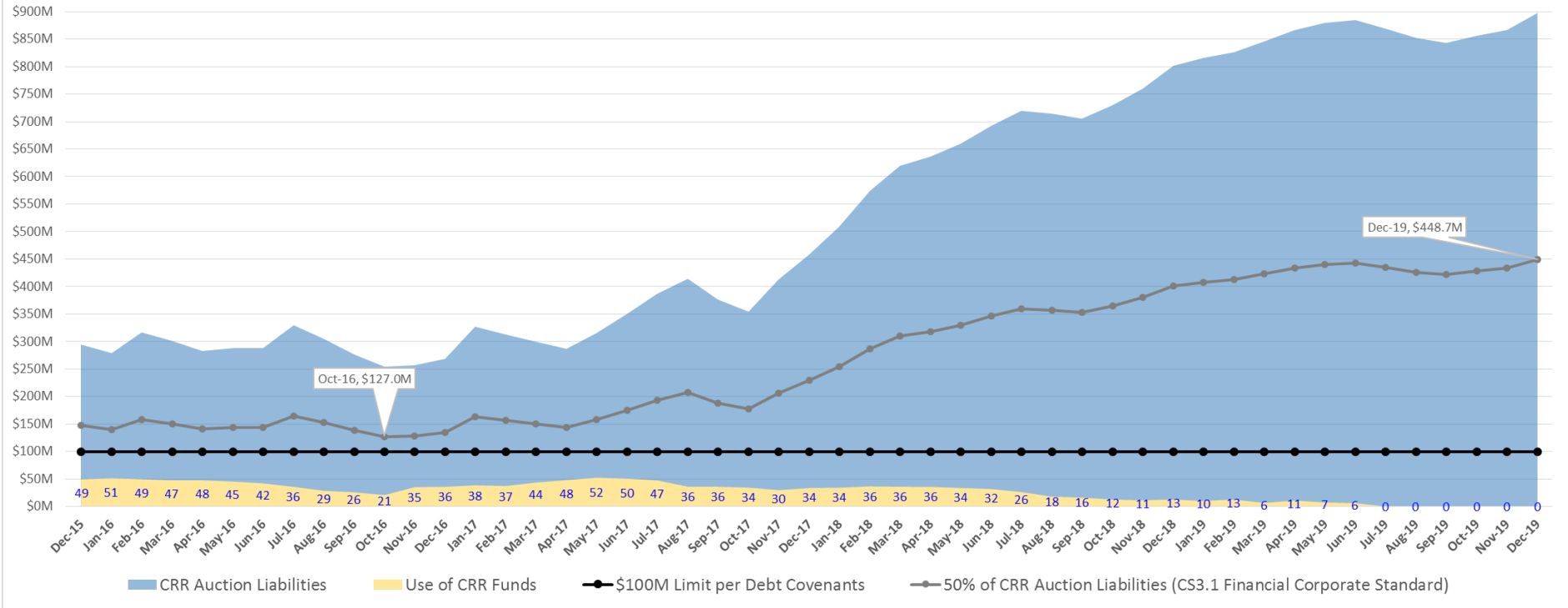
Preliminary - Unaudited

*GAAP Update: The new revenue accounting standard moves the Reliability Organization Pass-Through from the face of the financial statements to the notes. The amounts were approximately \$19 million and \$16 million in 2019 and 2018, respectively. This update is reflected in these materials.*



# Review 2019 Financial Summary: Use of CRR Funds: Actual vs Limits

Use of CRR Funds: Actual vs Limits



As of December 31, 2019, Unrestricted Cash and Bond Investments exceeded Market Liabilities by approximately \$24M.



# Appendices

Electric Reliability Council of Texas, Inc. 2019 Financial Summary As of January 23, 2020 (\$ in Millions)					
2019 Preliminary Year End					
Line	2018	2019			
	Actual	Budget	Actual	Variance	
			\$	%	
1 System Administration Revenue	\$ 209.9	\$ 207.4	\$ 214.0	\$ 6.5	3.1
2 Department Net Expenditures					
3 Chief Information Office	72.4	72.5	75.2	(2.7)	(3.7)
4 Chief Administrative Office	38.6	42.9	40.9	2.0	4.6
5 Grid Planning & Operations	29.5	32.5	30.3	2.1	6.5
6 Commercial Operations	13.6	15.8	15.2	0.6	3.8
7 External Affairs & Corporate Communications	6.0	6.9	6.3	0.6	9.3
8 General Counsel	3.9	5.0	4.3	0.7	13.5
9 Chief Executive Office	3.0	3.0	2.9	0.2	5.1
10 Project Funded Labor	(10.6)	(9.8)	(7.9)	(1.9)	(19.1)
11 Total Department Net Expenditures	156.6	168.6	167.1	1.6	0.9
12 Net Revenues After Department Expenditures	53.3	38.8	46.9	8.1	20.9
13					
14 Less: Project Expenditures	40.3	28.5	20.7	7.8	27.3
15 Less: Interest Expense	1.4	2.0	1.7	0.3	14.0
16 Add: Interest Income	13.1	1.3	20.5	19.2	1,475.3
17					
18 Net Available	\$ 24.8	\$ 9.6	\$ 44.9	\$ 35.4	369.0

Note: Schedule may not foot due to rounding



**Electric Reliability Council of Texas, Inc.**  
**2019 Financial Summary Variance Explanations**  
**As of January 23, 2020**

Line	2019 Preliminary Year End
1 System Administration Revenue	+\$4.1 M - Weather +\$2.4 M - Stronger economy
3 Chief Information Office	-\$2.0 M - HW/SW support and maintenance renewals -\$1.7 M - Contingent labor [Resource Management-Staffing Management] -\$0.8 M - Outside services -\$0.7 M - Minor capital purchases -\$0.7 M - Lower-than-budgeted vacancy [Resource Management-Staffing Management] +\$1.8 M - HW/SW vendor support services [Resource Management-Project Work] +\$0.7 M - Building systems maintenance +\$0.4 M - Employee training and business travel +\$0.3 M - Wide Area Network (WAN) revenue
4 Chief Administrative Office	+\$0.7 M - Electricity and building maintenance +\$0.6 M - Insurance premiums +\$0.5 M - Property tax +\$0.4 M - Minor capital purchases +\$0.3 M - Employee training and business travel +\$0.1 M - Higher-than-budgeted vacancy [Resource Management-Staffing Management] +\$0.1 M - Professional and consulting services +\$0.1 M - Office rent +\$0.1 M - Equipment and maintenance -\$0.7 M - Hardware maintenance and software -\$0.1 M - Contingent labor [Resource Management-Staffing Management] -\$0.1 M - Protocol services



Electric Reliability Council of Texas, Inc. 2019 Financial Summary Variance Explanations As of January 23, 2020	
Line	2019 Preliminary Year End
5 Grid Planning & Operations	+\$2.1 M - Interconnection revenue +\$0.4 M - Employee training and business travel +\$0.3 M - Consulting services +\$0.2 M - Black Start and Operator Training Seminar expense +\$0.1 M - Special project billing revenue -\$0.4 M - Contingent labor [Resource Management-Staffing Management] -\$0.4 M - Data service and training subscriptions -\$0.1 M - Lower-than-budgeted vacancy [Resource Management-Staffing Management] -\$0.1 M - Minor capital purchases
6 Commercial Operations	+\$0.4 M - Higher-than-budgeted vacancy [Resource Management-Staffing Management] +\$0.1 M - Employee training and business travel +\$0.1 M - Data service subscriptions
7 External Affairs & Corporate Communications	+\$0.3 M - Higher-than-budgeted vacancy [Resource Management-Staffing Management] +\$0.2 M - Public service announcements +\$0.1 M - Employee training and business travel
8 General Counsel	+\$0.5 M - Outside legal services +\$0.1 M - Special project billing revenue +\$0.1 M - Board member expense +\$0.1 M - Other miscellaneous -\$0.1 M - Lower-than-budgeted vacancy [Resource Management-Staffing Management]
9 Chief Executive Office	+\$0.1 M - Higher-than-budgeted vacancy [Resource Management-Staffing Management] +\$0.1 M - Employee training and business travel
10 Project Funded Labor	-\$1.9 M - Multiple projects [Resource Management-Project Work]
14 Project Expenditures	+\$7.8 M - Multiple projects
15 Interest Expense	+\$0.4 M - Use of revolver was not necessary -\$0.1 M - Lower capitalized interest
16 Interest Income	+\$19.2 M - Interest rate and average investment balance approximately six and three times higher than budget, respectively

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

Line	Project	Year to Date As of December 31, 2019		Life to Date As of December 31, 2019		Estimate at Completion (EAC) As of January 23, 2020			
		Preliminary Actual	% of All Included Projects	Preliminary Actual	% of EAC Forecast	EAC Forecast	% of All Included Projects	Budget	Variance
<b>Projects with EAC Budget Over \$2.0 M</b>									
1	Data Center 4.0 Optimization (DC4) Program	\$ 2.6	12%	\$ 45.2	100%	\$ 45.2	30%	\$ 48.0	\$ 2.8
2	Training Facility	0.6	3%	10.4	100%	10.4	7%	11.0	0.6
3	Identity and Access Management (IAM)	2.1	10%	7.9	97%	8.1	5%	8.5	0.4
4	Credit Monitoring and Management (CMM) NPRRs	1.3	6%	5.4	67%	8.1	5%	7.8	(0.3)
5	Grid Geospatial (Grid Geo) Program	2.1	10%	4.7	70%	6.7	4%	6.4	(0.3)
6	Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh	0.5	3%	0.5	8%	6.4	4%	6.4	0.0
7	IT Change and Configuration Management (ITCM)	0.5	3%	6.3	100%	6.3	4%	6.3	(0.0)
8	Resource Asset Registration Form (RARF) Replacement (RIOO)	2.1	10%	3.0	51%	5.9	4%	5.9	0.0
9	Enterprise Content Alignment Program (ECAP)	1.1	5%	3.6	72%	5.0	3%	5.0	0.0
10	Reactive Power Coordination (RPC)	0.0	0%	0.0	1%	4.7	3%	4.6	(0.0)
11	Energy Management System (EMS) Upgrade 2024	0.0	0%	0.0	0%	4.1	3%	4.1	0.0
12	Retail Portfolio Refresh Program	1.7	8%	1.9	49%	4.0	3%	4.0	0.0
13	Delivery Tool Chain Modernization	0.0	0%	0.0	0%	3.4	2%	3.4	0.0
14	Privileged Account Management (PAM)	0.0	0%	0.8	33%	2.6	2%	2.6	0.0
15	<b>Total Projects with EAC Budget Over \$2.0 M</b>	<b>14.6</b>	<b>70%</b>	<b>89.9</b>	<b>74%</b>	<b>120.8</b>	<b>81%</b>	<b>124.0</b>	<b>3.1</b>
16	<b>Other Projects</b>	<b>6.1</b>	<b>30%</b>	<b>15.1</b>	<b>53%</b>	<b>28.4</b>	<b>19%</b>	<b>28.9</b>	<b>0.5</b>
17	<b>Total Project Expenditures</b>	<b>\$ 20.7</b>	<b>100%</b>	<b>\$ 105.0</b>	<b>70%</b>	<b>\$ 149.3</b>	<b>100%</b>	<b>\$ 152.9</b>	<b>\$ 3.6</b>

Note: Schedule may not foot due to rounding.

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.****Statements of Financial Position****As of December 31, 2019 and 2018**

(Dollars in Thousands)

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 973,050	\$ 791,346
Accounts receivable	5,856	5,871
Unbilled revenue	2,985	3,136
Restricted cash and cash equivalents	503,809	458,524
Short-term investments	102,097	99,943
Prepaid expenses and other current assets	29,595	27,792
Total current assets	1,617,392	1,386,612
Property and equipment, net	114,497	112,246
Systems under development	18,752	30,906
Total assets	<u>\$ 1,750,641</u>	<u>\$ 1,529,764</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 2,240	\$ 2,050
Accrued liabilities	11,053	13,740
Deferred revenue	5,694	5,666
Market settlement liabilities	691,914	600,828
Security deposits	503,809	458,524
Notes payable, current portion	4,000	4,000
Total current liabilities	1,218,710	1,084,808
Long-term liabilities:		
Notes payable, less current portion:		
Principal	47,000	51,000
Less unamortized debt issuance costs	170	186
Notes payable less current portion and unamortized debt issuance costs	46,830	50,814
Long-term CRR liabilities	359,345	303,399
Other long-term liabilities	359	426
Total long-term liabilities	406,534	354,639
Total liabilities	1,625,244	1,439,447
Net assets without donor restrictions	125,397	90,317
Total liabilities and net assets	<u>\$ 1,750,641</u>	<u>\$ 1,529,764</u>

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**Statements of Activities and Net Assets**  
**For the Twelve Months Ended December 31, 2019 and 2018**

(Dollars in Thousands)

	<b>2019</b>	<b>2018</b>
Operating revenues		
System administration fees	\$ 213,959	\$ 209,881
Other services revenue	6,908	5,629
Total operating revenues	220,867	215,510
Operating expenses		
Salaries and related benefits	114,830	106,356
Facility and equipment costs	9,514	8,992
Outside services	16,936	15,236
Hardware and software maintenance and licensing	26,872	25,374
Depreciation	29,015	28,321
Other	7,367	7,135
Total operating expenses	204,534	191,414
Income from operations	16,333	24,096
Other income (expense)		
Investment return, net	20,479	13,091
Interest expense	(1,717)	(1,438)
Non-operating (expense) income	(15)	35
Change in net assets without donor restrictions	35,080	35,784
Net assets without donor restrictions, beginning of year	90,317	54,533
Net assets without donor restrictions, end of period	<u>\$ 125,397</u>	<u>\$ 90,317</u>

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**  
**Statements of Cash Flows**  
**For the Twelve Months Ended December 31, 2019 and 2018**  
(Dollars in Thousands)

	<b>2019</b>	<b>2018</b>
<b>Operating activities:</b>		
Change in net assets without donor restrictions	\$ 35,080	\$ 35,784
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation	29,015	28,321
Amortization of debt issuance costs	16	15
Amortization of bond discount	(1,089)	(319)
Net loss on capital assets	3	22
Changes in operating assets and liabilities:		
Accounts receivable	15	(1,114)
Unbilled revenue	151	1,266
Prepaid expenses and other assets	(1,803)	(1,427)
Other long-term liabilities	(67)	38
Accounts payable	138	(1,873)
Accrued liabilities	(181)	1,895
Deferred revenue	28	1,027
Security deposits	45,285	(97,484)
Market settlement liabilities	91,086	151,878
Long-term CRR liabilities	55,946	217,787
Net cash provided by operating activities	<u>253,623</u>	<u>335,816</u>
<b>Investing activities:</b>		
Purchase of Investments	(210,502)	(113,232)
Proceeds from Investments	209,437	13,608
Capital expenditures for property and equipment and systems under development	(21,569)	(39,342)
Proceeds from sale of property and equipment	-	15
Net cash (used in) investing activities	<u>(22,634)</u>	<u>(138,951)</u>
<b>Financing activities:</b>		
Repayment of notes payable	(4,000)	(4,000)
Payment of debt issuance costs	-	(4)
Net cash (used in) financing activities	<u>(4,000)</u>	<u>(4,004)</u>
Net increase in cash, cash equivalents, and restricted cash and cash equivalents	226,989	192,861
Cash, cash equivalents, and restricted cash and cash equivalents, beginning of year	1,249,870	1,057,009
Cash, cash equivalents, and restricted cash and cash equivalents, end of period	<u>\$ 1,476,859</u>	<u>\$ 1,249,870</u>