



Control Number: 27706



Item Number: 21

Addendum StartPage: 0

PUCT PROJECT NO. 27706

RECEIVED

2004 MAY 17 AM 9:07

REPORTS OF THE ELECTRIC  
RELIABILITY COUNCIL OF TEXAS

§  
§  
§

PUBLIC UTILITY COMMISSION

OF TEXAS PUBLIC UTILITY COMMISSION  
FILING CLERK

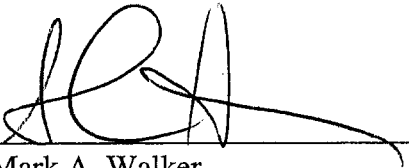
**ERCOT'S REPORT FOR THE FIRST QUARTER OF 2004**

COMES NOW, the Electric Reliability Council of Texas, Inc. (ERCOT) and files its *Report for the First Quarter of 2004* for the quarter ending March 31, 2004, pursuant to P.U.C. SUBST. R. §25.362(h)(2). Attachments marked with an asterisk (\*) contain information which are proprietary and confidential and shall be provided in accordance with Commission policy set forth in P.U.C. PROC. R. §22.71 and P.U.C. SUBST. R. §25.362. The following documents comprise this report:

Document Description	Required By	Attachment
ERCOT Financial Reports Ending March 31, 2004	§25.362(h)(2)(A)	A
Audit Cover Letter: ERCOT's Merchandise Sales Function	§25.362(h)(2)(A)	B
Audit: ERCOT's Merchandise Sales Function	§25.362(h)(2)(A)	B1*
Audit Cover Letter: Taylor Expansion Project	§25.362(h)(2)(A)	C
Audit: Taylor Expansion Project Review	§25.362(h)(2)(A)	C1*
Audit Cover Letter: Lawson Purchasing and Procurement Pre-Implementation Review	§25.362(h)(2)(A)	D
Audit: Lawson Purchasing and Procurement Pre-Implementation Review	§25.362(h)(2)(A)	D1*
Performance Measures Report for the First Quarter of 2004	§§25.362(h)(2)(B) and 25.88	Not attached. This document has been concurrently filed in P.U.C. Docket No. 24462
Status Report on Competitive Metering for the First Quarter of 2004	§25.311(e)(1)	Not attached. This document has been concurrently filed in P.U.C. Docket No. 28109

000001

Respectfully Submitted,

By: \_\_\_\_\_

Mark A. Walker  
Texas Bar No.: 20717318  
ERCOT  
7620 Metro Center Drive  
Austin, Texas 78744  
Telephone No. (512) 225-7076  
Fax No. (512) 225-7079  
Email: [mwalker@ercot.com](mailto:mwalker@ercot.com)

Shari Heino  
CORPORATE COUNSEL  
Texas Bar No: 90001866  
Phone: (512) 225-7073  
Fax: (512) 225-7079  
[sheino@ercot.com](mailto:sheino@ercot.com)

ERCOT  
7620 Metro Center Drive  
Austin, TX 78744

000002

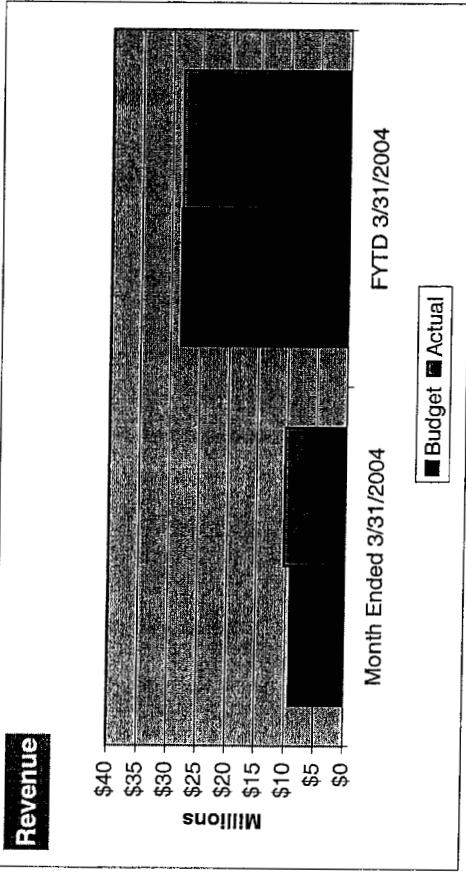
# **ERCOT**

## **Financial Summary**

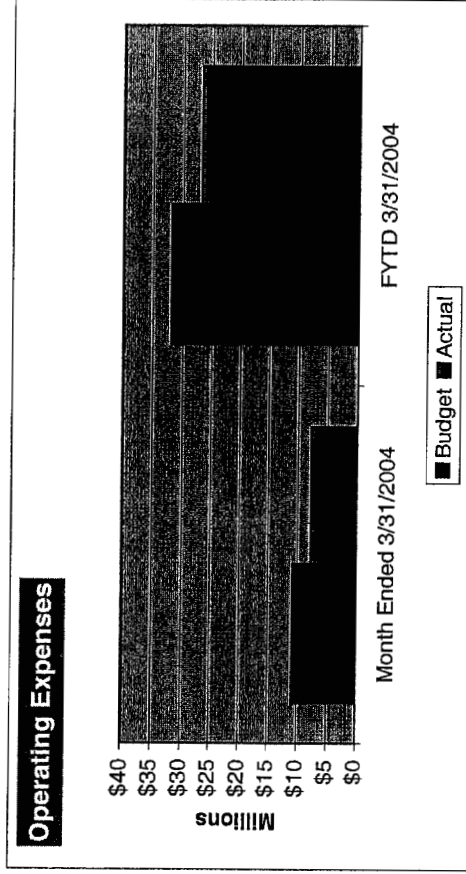
### **March 31, 2004**

# ERCOT financial snapshot

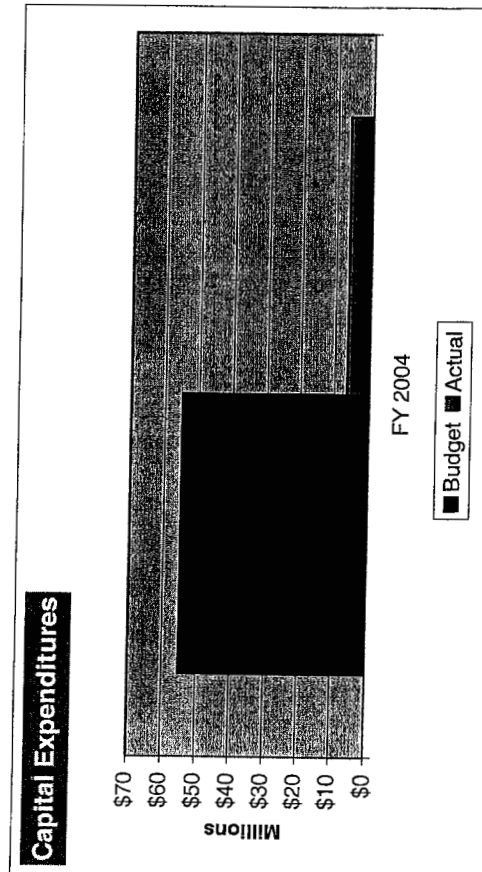
March 31, 2004



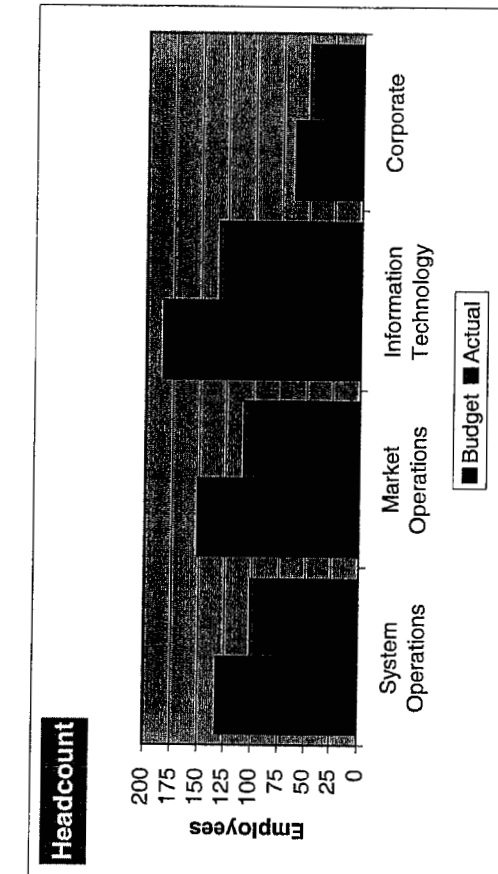
Year-to-date revenue of \$28.2 million is \$0.1 million (0.4 percent) below budget primarily because load on the ERCOT system has been 587,000 MWH (0.9 percent) below budget.



Year-to-date operating and maintenance expenses are \$5.1 million (16.1 percent) below budget primarily due to timing differences in consultant and contractor fees, labor, and software and hardware licensing and maintenance support costs. See the budget-to-actual schedule for more details.



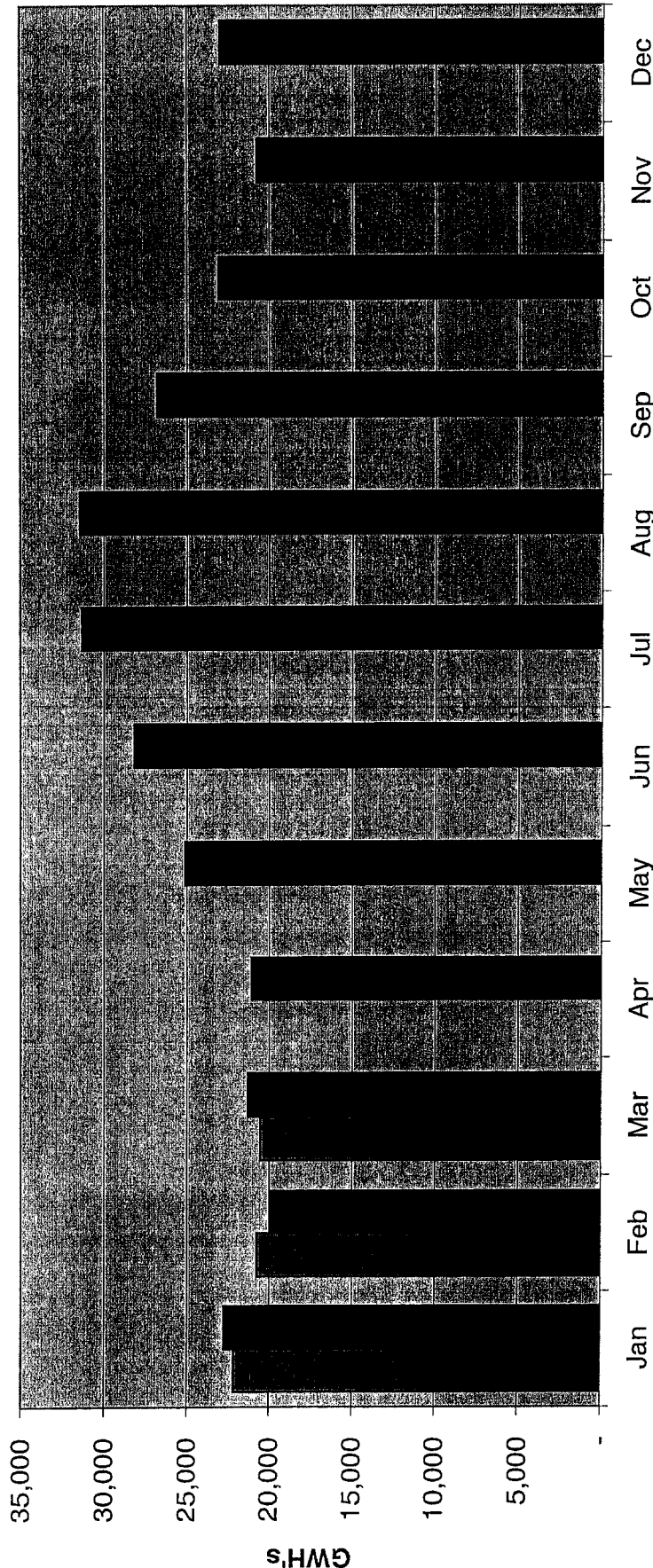
Year-to-date capital expenditures for active projects totaled approximately \$6.4 million, or 12 percent of the \$55 million total capital budget for the year. See the capital budget-to-actual schedule for more details.



ERCOT had 392 active employees at March 31, 2004 versus the 530 staff level included in the 2004 budget. Vacancies exist in each of the four functional areas of the company. ERCOT has experienced a net increase of 12 staff members during 2004.

000004

**ERCOT**  
**Summary Revenue Variance Analysis**  
**Fiscal Year 2003 for the Three Month Ended March 31, 2004**

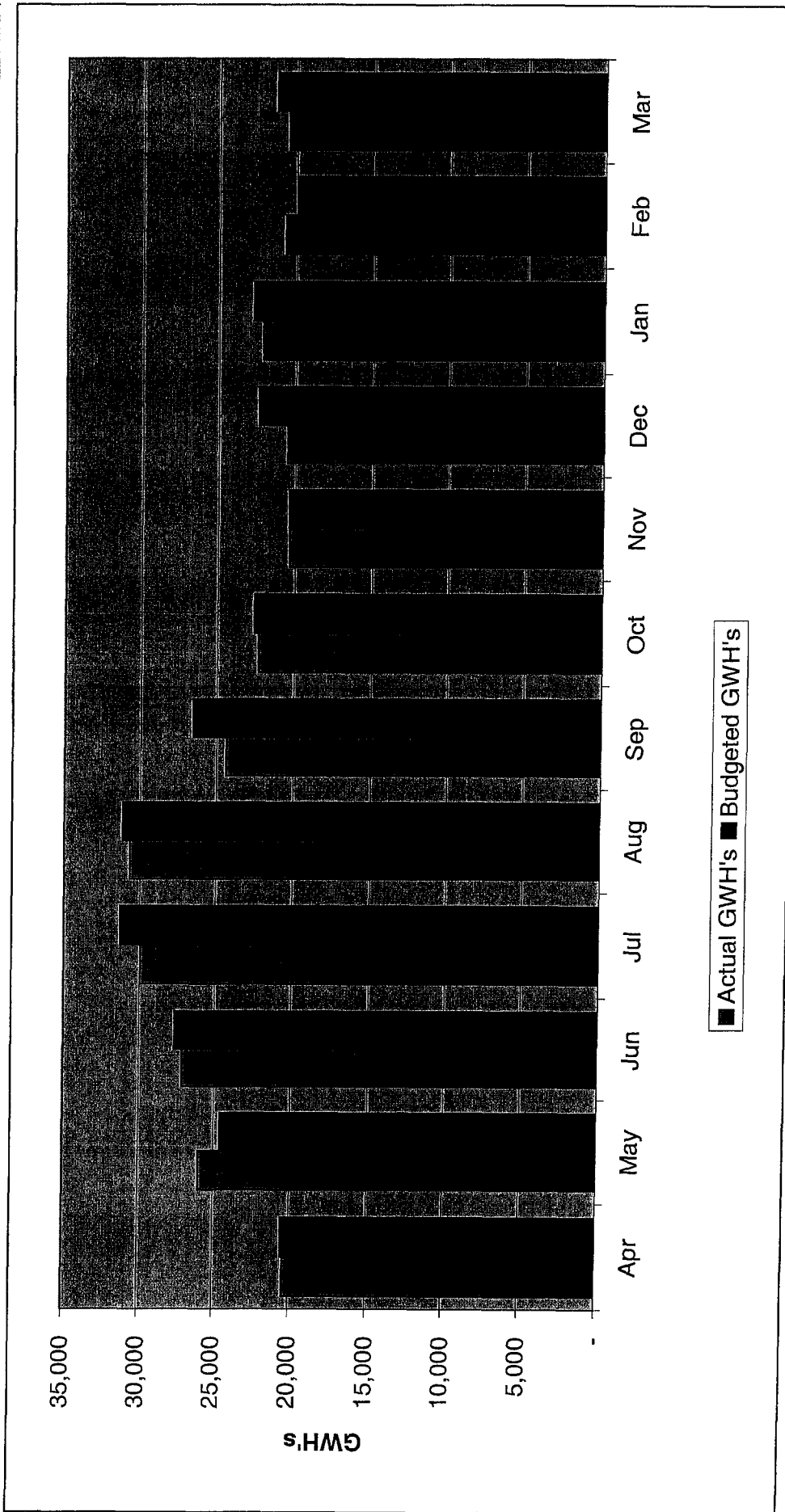


Actual GWH's Budgeted GWH's

	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total
Actual GWH's	22,101	20,720	20,508	-	-	-	-	-	-	-	-	-	63,329
Budgeted GWH's	22,706	19,958	21,252	21,048	25,107	28,144	31,323	31,439	26,785	22,992	20,731	22,909	294,394
Administration (\$0.46/MWH)	9,724	9,117	9,024	-	-	-	-	-	-	-	-	-	27,865
GWH Variance	(605)	762	(744)	-	-	-	-	-	-	-	-	-	(587)
Dollar Variance (\$000's)	(206)	335	(327)	-	-	-	-	-	-	-	-	-	(198)

Note: GWH volume for the last 20 days of March are estimated.

ERCOT  
Summary Revenue Variance Analysis  
For the Twelve Months Ended March 31, 2004



	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Total
Actual GWH's	20,380	25,999	27,102	29,956	30,662	24,356	22,280	20,333	20,508	22,101	20,720	20,508	284,905
Budgeted GWH's	20,515	24,567	27,625	31,255	31,109	26,550	22,578	20,377	22,347	22,706	19,958	21,252	290,839
GWH Variance	(135)	1,432	(523)	(1,299)	(447)	(2,194)	(298)	(44)	(1,839)	(605)	762	(744)	(5,934)
Dollar Variance (\$000's)	(45)	473	(173)	(429)	(148)	(724)	(98)	(15)	(607)	(206)	335	(327)	(1,964)

Note: GWH volume for the last 20 days of March are estimated.

# Preliminary - Unaudited

## ERCOT

Statement of Operations  
For the Three Month Ended March 31, 2004

Notes	Fiscal Year as of March 31, 2004			Annual Budget - 2004		
	Budget	Actual	\$ Var Fav / (Unfav)	Budget	Actual	% of Budget
<b>ERCOT Revenue by Type</b>						
ERCOT System Administration Fee	28,063,000	27,864,605	(198,395)	129,533,000	27,864,605	21.5%
Non-ERCOT LSE Fees	188,845	168,827	(20,018)	755,379	168,827	22.3%
Membership Fees	60,000	62,874	2,874	240,000	62,874	26.2%
Other Revenue	25,000	132,076	107,076	100,000	132,076	132.1%
Total - ERCOT Revenue by Type	28,336,845	28,228,382	(108,463)	130,628,379	28,228,382	21.6%
<b>ERCOT Operating Expenses by Expense Type</b>						
Labor & Benefits	12,702,047	11,312,241	1,389,806	50,808,186	11,312,241	22.3%
Contra-Labor to Capital Projects	(1,707,962)	(1,337,967)	(369,995)	(6,831,847)	(1,337,967)	19.6%
Tools, Equipment, Materials & Supplies	411,843	379,792	32,051	1,647,370	379,792	23.1%
Hardware & Software Expenses	2,046,811	1,191,565	855,246	8,187,242	1,191,565	14.6%
Consultants & Contractors	4,352,923	2,281,699	2,071,224	17,411,693	2,281,699	13.1%
Utilities, Maintenance & Facilities	1,242,471	1,047,235	195,236	4,969,882	1,047,235	21.1%
Wide Area Network Services (Net)	183,729	194,553	(10,824)	734,916	194,553	26.5%
Training, Travel & Other Employee Expenses	703,240	302,255	400,985	2,812,958	302,255	10.7%
Insurance	437,500	378,079	59,421	1,750,000	378,079	21.6%
Depreciation & Amortization	10,476,740	10,513,718	(36,978)	41,906,960	10,513,718	25.1%
Other	1,042,405	488,254	554,151	4,169,619	488,254	11.7%
Total - ERCOT Operating Expenses by Expense Type	31,891,745	26,751,424	5,140,321	127,566,979	26,751,424	21.0%
<b>Excess (Deficiency) of Revenues over Expenses</b>	(3,554,900)	1,476,958	5,031,858	3,061,400	1,476,958	48.2%
<b>Other income (expense)</b>						
Interest income	125,000	70,479	(54,521)	500,000	70,479	14.1%
Interest expense	(2,452,291)	(1,898,349)	553,942	(9,809,162)	(1,898,349)	19.4%
<b>Change in Unrestricted Assets</b>	(5,882,191)	(350,912)	5,531,279	(6,247,762)	(350,912)	5.6%

Notes addressing variances are on the following page.

0000007



**ERCOT**

**Statement of Operations**

**For the Three Month Ended March 31, 2004**

**REVENUE & OPERATING EXPENSE VARIANCE NOTES:**

- (a) **ERCOT system administration fee** - Unfavorable variance results from load that was 857,000 MWH (0.9 percent) less than expected.
- (b) **Other revenue** - Variance is primarily the result of generation interconnection studies.
- (c) **Labor** - The 2004 budget assumed 433 ERCOT staff members by the end of the first quarter of 2004; however, ERCOT had only 392 employees on staff at that time. During the three months ending March 31, 2004, ERCOT has had a net increase of 12 staff members.
- (d) **Tools, equipment, materials & supplies** - The favorable variance relates primarily to timing differences in the acquisition of office supplies.
- (e) **Hardware & software** - Variance stems from timing differences and negotiated maintenance and support rates below budgeted amounts.
- (f) **Consultants & contractors** - Favorable variance primarily reflects lower-than-expected use of consultants and contractors across the organization primarily relating to market redesign efforts, SAS 70 audit preparation, and outside legal counsel.
- (g) **Utilities, maintenance & facilities** - Favorable variance reflects lower-than-budgeted expenses for building maintenance, local telephone, internet services, office rental, and custodial services. The variance is believed to be a timing difference that should reverse as the year progresses.
- (h) **Wide area network services** - The 2004 budget assumed ERCOT would bear \$735,000 (after reimbursement from market participants using the network) of the costs of administering the wide-area network system. As of March 31, 2004, the non-reimbursed cost of operating the wide-area network (approximately equal to the fixed costs of operating the network) is \$195,000 - an annualized \$780,000 or \$45,000 over budget.
- (i) **Training, travel and other employee expenses** - Operational and development project responsibilities have necessitated the deferral of certain non-critical training and development activity during the year.
- (j) **Insurance** - Favorable variance stems from timing differences.
- (k) **Other** - Favorable variance results from timing differences for payment of NERC dues and relocation benefit payments.
- (l) **Interest & fees** - Favorable variance due to lower than anticipated borrowing levels and timing differences relating to short-term borrowing costs associated with ERCOT's capital spending program.

000008

Preliminary - Unaudited

ERCOT  
Capital Projects - Summary Budget to Actual Comparison  
For the Third Month Ended March 31, 2004

Capital Project Description	Status	Project #	Fiscal Year 2004 Budget & Year-to-Date Expenses				Total Approved Budget & Inception-to-Date Expenses			
			Budget	Actual	\$ Var (Unfav)	% Var	Budget	Actual	\$ Var (Unfav)	% Var
Direct Load Control	open	20123	10,000	4,589	5,411	54%	12,000	6,306	5,694	47.5%
Dashboard	open	20125	182,000	0	182,000	100%	182,000	0	182,000	100.0%
Web Postings for Market Transparency	open	20126	85,000	14,760	70,241	83%	108,500	34,509	73,992	68.2%
Move-In / Move-Out (MIMO)	open	30002	3,400,000	747,832	2,652,168	78%	5,030,000	1,801,877	3,228,123	64.2%
NAESB 1.6 Upgrade	open	30007	75,000	46,137	28,863	38%	259,000	188,300	70,700	27.3%
Load Research Sampling	open	30014	740,000	106,767	633,233	86%	1,154,000	373,572	780,428	67.6%
Dynamic Ratings Pilot Program	open	30016	65,000	15,167	49,833	77%	78,000	15,167	62,833	80.6%
Automate EPS Meter Data Transmittal	open	30026	195,000	7,204	187,796	96%	201,000	7,204	193,796	96.4%
EDI Pipeline & Transaction Systems	open	30047	100,000	29,651	70,350	70%	899,000	807,760	91,240	10.1%
Database Management	open	30051	150,000	122,749	27,251	18%	2,053,000	1,817,850	235,150	11.5%
Portal Redevelopment (includes PH II)	open	30052	950,000	437,507	512,493	54%	2,658,000	1,940,303	717,697	27.0%
Seibel 7.0 Upgrade/Replacement	open	30058	284,000	55,599	228,401	80%	403,000	159,420	243,580	60.4%
Enterprise Physical Security Remaining	open	30061	350,000	126,722	223,278	64%	3,741,000	320,599	3,420,401	91.4%
Outage Scheduler	open	30075	50,000	15,977	34,023	68%	50,000	16,397	33,603	67.2%
Commercial Systems Upgrade	open	30082	750,000	806,952	(56,952)	-8%	2,264,000	2,103,615	160,385	7.1%
New Taylor Office Complex	open	30099	13,182,000	66,721	13,115,279	99%	13,900,000	784,750	13,115,250	94.4%
NICE Playback System	open	30102	50,000	512	49,488	99%	84,000	33,483	50,517	60.1%
Lodestar Data Loading Improvements	open	30125	100,000	21,103	78,898	79%	224,000	133,532	90,469	40.4%
Settlement Estimation Transparency	open	30135	100,000	25,723	74,277	74%	114,000	26,625	87,375	76.6%
Document Managing Imaging System	open	30142	400,000	28,207	371,793	93%	716,000	329,837	386,163	53.9%
Portfolio / Project Management System	open	30143	165,000	127,460	37,540	23%	498,000	420,251	77,749	15.6%
EMMS System Release 3.0	open	30148	2,400,000	700,193	1,699,807	71%	6,571,000	4,686,729	1,884,271	28.7%
Data Warehouse	open	30149	790,000	353,247	436,753	55%	3,523,000	2,825,347	697,653	19.8%
New HR System	open	30151	670,000	40,369	629,631	94%	819,000	176,797	642,203	78.4%
QSE/MOS MP Test System	open	30156	400,000	11,393	388,607	97%	816,000	418,723	397,277	48.7%
PRR 397-McCamey Area Congestion	open	30158	300,000	92,929	207,071	69%	369,000	117,043	251,957	68.3%
OOMC Payments (PRR-371)	open	30159	100,000	32,571	67,429	67%	238,000	142,234	95,766	40.2%
MOSToLodestar Re-write testing	open	30174	45,000	9,996	35,004	78%	63,000	27,291	35,709	56.7%
Austin MET 1st Floor Finish Out	open	30177	595,000	302,493	292,507	49%	808,000	368,310	439,690	54.4%
Network Systems Management Software	open	30181	75,000	36,636	38,364	51%	213,000	156,478	56,522	26.5%
Employee and Node Access System Upgrade	open	30182	80,000	129	79,871	100%	93,000	12,321	80,679	86.8%
EMMS Release 4.0	open	30183	4,000,000	235,458	3,764,542	94%	4,100,000	273,112	3,826,888	93.3%
IT Computing Servers and Data Storage Capacity	open	30184	4,150,000	718,720	3,431,280	83%	22,296,000	18,864,191	3,431,809	15.4%
SCR 727 Phase II (Ph II from 30149)	open	30186	500,000	131,255	368,745	74%	883,000	432,016	450,984	51.1%
Ancillary Services & ERCOT Wide Totals	open	30192	205,000	4,139	200,862	98%	205,000	4,139	200,862	98.0%
HTTP HTTPS for Market Certification	open	40020	90,000	0	90,000	100%	90,000	0	90,000	100.0%
Enterprise Data Warehouse Ph II	open	40042	3,600,000	302,444	3,297,556	92%	3,600,000	302,444	3,297,556	91.6%
Settlements Reengineering	open	40043	210,000	840	209,160	100%	211,000	840	210,160	99.6%
2004 Minor Capital Purchases	open	99904	2,000,000	377,851	1,622,149	81%	2,129,000	377,851	1,751,149	82.3%
Texas Nodal Design - Not Capital Yet	open	30160	-	151,111	(151,111)	-	0	518,845	(518,845)	-
<b>Subtotal</b>			41,593,000	6,309,110	35,283,890	85%	81,655,500	41,026,066	40,629,434	49.8%

000009

# Preliminary - Unaudited

## ERCOT Capital Projects - Summary Budget to Actual Comparison For the Third Month Ended March 31, 2004

Capital Project Description	Status	Project #	Fiscal Year 2004 Budget & Year-to-Date Expenses			Total Approved Budget & Inception-to-Date Expenses				
			Budget	Actual	\$ Var	% Var	Budget	Actual	\$ Var	% Var
Lodestar Upgrade/Replace	closed	30083	-	661	(661)	-	44,000	43,447	553	1.3%
TCC Computer Room / Annex HVAC	closed	30172	-	1,422	(1,422)	-	91,000	91,105	(105)	-0.1%
Taylor Blue Building Remodel	closed	30173	75,000	30,416	44,584	59%	259,000	183,928	75,072	29.0%
Taylor Plaza Buildout	closed	30178	-	2,219	(2,219)	-	113,000	112,895	105	0.1%
TCC Data Center Power Distribution Unit Upgrade	closed	30179	-	5,140	(5,140)	-	115,000	114,899	101	0.1%
2004 Zone CSC Zone	closed	30185	3,000	2,207	793	26%	65,000	61,777	3,223	5.0%
Taylor Plaza Card Shop Buildout	closed	30187	2,000	1,053	947	47%	29,000	26,263	2,737	9.4%
Subtotal			80,000	43,118	36,882	46.1%	716,000	634,314	81,686	11.4%

Grand Total Allocated 2004 Capital Budget 1,672,000 635,228 1,036,772 61.4%

Total 2004 Capital Budget (a)

88.5%

2004 Capital Funds Available for Allocation (b)

13,327,000

### Notes:

(a) Total 2004 Capital budget includes the following items:

Systems projects	40,000,000
Facilities projects	13,000,000
Minor capital purchases	2,000,000
Total	55,000,000

(b) Allocation to projects identified by the market and ranked as priority items on the project priority list.

000010

Preliminary - Unaudited

---

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

**Statement of Financial Position**

**As of March 31, 2004**

(Dollars in Thousands)

---

**Assets**

Current assets:

Cash and cash equivalents	\$ 38,115
Accounts receivable	4,624
Unbilled revenue	7,244
Restricted cash	24,955 (a)
Prepaid expenses and other current assets	2,502
Total current assets	<u>77,440</u>

Property and equipment, net	122,780
Systems under development	40,586
Debt issuance cost	1,417
Total assets	<u><u>\$ 242,223</u></u>

**Liabilities and Unrestricted Net Assets**

Current liabilities:

Accounts payable	\$ 12,179
Accrued liabilities	1,681
Market settlement liabilities	44,854 (b)
Security deposits	24,955 (a)
Senior notes payable, current portion	13,637
2004 revolver, current portion	14,000
Total current liabilities	<u>111,306</u>

Notes payable	136,363
---------------	---------

Unrestricted net assets	(5,446)
Total liabilities and unrestricted net assets	<u><u>\$ 242,223</u></u>

**Notes:**

(a) Restricted cash is comprised of QSE and TCR security deposits and funds held pending bankruptcy court settlement; these deposits are reflected in liabilities.

(b) Net TCR auction revenue receipts and advance QSE settlement receipts.

Preliminary - Unaudited

---

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

**Statement of Activities**

**For the Three Month Ended March 31, 2004**

(Dollars in Thousands)

---

Operating revenues:	
Transaction fees	\$ 27,865
Membership Fees and other	669
Total operating revenue	<u>28,534</u>
Operating expenses	
Salaries and related benefits	9,985
Depreciation and amortization	10,551
Facility and equipment costs	1,980
Consulting and legal services	2,282
Administrative and other	1,105
Hardware and software maintenance and licensing	1,192
Total operating expenses	<u>27,095</u>
Income from Operations	<u>1,439</u>
Other income (expense)	
Interest income	71
Interest expense	<u>(1,861)</u>
Change in unrestricted net assets	<u>(351)</u>
Unrestricted net assets, beginning of year	(5,095)
Unrestricted assets, March 31, 2004	<u><u>\$ (5,446)</u></u>

Preliminary - Unaudited

---

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**

**Statement of Cash Flows**

**For the Three Month Ended March 31, 2004**

(Dollars in Thousands)

---

**Cash flows from operating activities:**

Change in unrestricted net assets	\$ (351)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:	
Depreciation	10,551
Changes in operating assets and liabilities:	
Restricted cash	21,821
Accounts receivable	(955)
Unbilled revenue	(1,017)
Other assets	744
Accounts payable	1,321
Accrued liabilities	2,871
Market settlement liabilities	10,049
Security deposits	(21,821)
Net cash provided by operating activities	<u>23,213</u>

**Cash flows from investing activities:**

Capital expenditures for property and equipment and systems under development	(27,175)
Net cash used in investing activities	<u>(27,175)</u>

**Cash flows from financing activities:**

Proceeds from issuance of short-term notes payable	14,000
Repayment of short-term notes payable	-
Proceeds from issuance of long-term notes payable	-
Repayment of long-term notes payable	-
Payment of capital lease obligation	-
Debt issuance cost	9
Net cash provided by financing activities	<u>14,009</u>

Net increase in cash and cash equivalents	10,047
Cash and cash equivalents, beginning of year	28,068
Cash and cash equivalents, March 31, 2004	<u>\$ 38,115</u>



TO: Heather Tindall


FROM: Ed Ettorre x7213  
Internal Audit Manager

CC: Maxine Buckles  
Cheryl Moseley  
Tom Noel  
Margaret Pemberton  
Michael Petterson  
Dottie Roarke  
Mark Walker  
Cheryl Yager  
Finance and Audit Committee  
Shannon Baerwald (PricewaterhouseCoopers, LLP)

Date: 3/2/2004

SUBJECT: Audit of ERCOT's Merchandise Sales Function

Attached is a copy of the final audit report from our recent audit of ERCOT's Merchandise Sales Function. We have concluded that significant improvements are necessary as there were several controls that were found to be either non-existent or ineffective during our review from a typical merchandising function. The report rating for this audit is as follows.

 Significant Improvements Needed
---

Management's responses indicated that they have already addressed several of the issues included in this report and that they would be implementing additional actions to resolve these remaining issues during this year. Once implemented, those actions should satisfactorily address the remaining issues identified in the report.

Finally, while we have concluded that significant improvements are needed in this area, the overall financial risks and exposures presented by this function is immaterial to ERCOT's overall operation as described in the first opportunity for improvement included this report.



ATTACHMENT C

TO: Steve Grendel

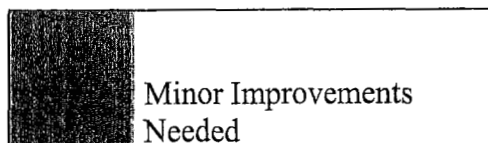
FROM: Ed Ettorre x7213  
Internal Audit Manager

CC: Maxine Buckles  
Charles Diaz  
Cheryl Moseley  
Tom Noel  
Margaret Pemberton  
Michael Petterson  
Ken Shoquist  
Finance and Audit Committee  
Shannon Baerwald (PricewaterhouseCoopers, LLP)

Date: 2/23/2004

SUBJECT: Taylor Expansion Project Review

Attached is a copy of the final audit report from our review of the Taylor Expansion Project. We have concluded that controls over controls over the Taylor Expansion Project appear reasonable; however, we did note a number of minor documentation issues related to this project which had not been finalized to date. The report rating for this audit is as follows.



Management's responses indicated that they will be addressing the issues included in this report. Therefore, we are not making any formal recommendations at this point in time but will be auditing the project as it moves forward.

000015





TO: Cheryl Yager

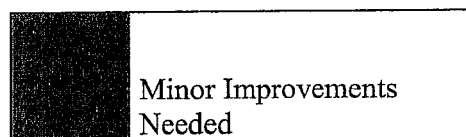
FROM: Ed Ettorre x7213  
Internal Audit Manager

CC: Maxine Buckles  
Robert Connell  
Jim Dubensky  
Kevin Judice  
Cheryl Moseley  
Tom Noel  
Michael Petterson  
Ken Shoquist  
Finance and Audit Committee  
Shannon Baerwald (PricewaterhouseCoopers, LLP)

Date: 1/22/2004

SUBJECT: Lawson Purchasing and Procurement Pre-Implementation Review

Attached is a copy of the final audit report from our pre-implementation review of Lawson's Purchasing and Procurement System. We have concluded that controls over Lawson's Purchasing and Procurement System are adequate; however, some minor improvements are necessary to ensure its continued and successful use throughout the rest of the Company. The report rating for this audit is as follows.



Management's responses indicated that they have already addressed many of the issues included in this report and that they would be implementing additional actions to resolve these remaining issues prior to the end of the first quarter of 2004. Once implemented, those actions should satisfactorily address the remaining issues identified in the report.