



Control Number: 27706



Item Number: 9

Addendum StartPage: 0

PUCT PROJECT NO. 27706

REPORTS OF THE ELECTRIC  
RELIABILITY COUNCIL OF TEXAS

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PUBLIC UTILITY COMMISSION  
OF TEXAS

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**ERCOT'S REPORT FOR THE SECOND QUARTER OF 2003**

COMES NOW, the Electric Reliability Council of Texas, Inc. (ERCOT) and files its *Report for the Second Quarter of 2003* for the quarter ending June 30, 2003, pursuant to P.U.C. SUBST. R. §25.362(h)(2). Pursuant to P.U.C. SUBST. R. §25.362(h)(2)(A), ERCOT's report of budget variances for the second quarter of 2003 is attached hereto as Attachment A. Pursuant to P.U.C. SUBST. R. §§25.362(h)(2)(B) and 25.88, ERCOT is concurrently filing its *Performance Measures Report for the Second Quarter of 2003* in P.U.C. Docket No. 24462. Pursuant to P.U.C. SUBST. R. §25.311(e)(1), ERCOT is also concurrently filing its *Status Report on Competitive Metering for the Second Quarter of 2003* in P.U.C. Docket No. 28109.

Respectfully Submitted,

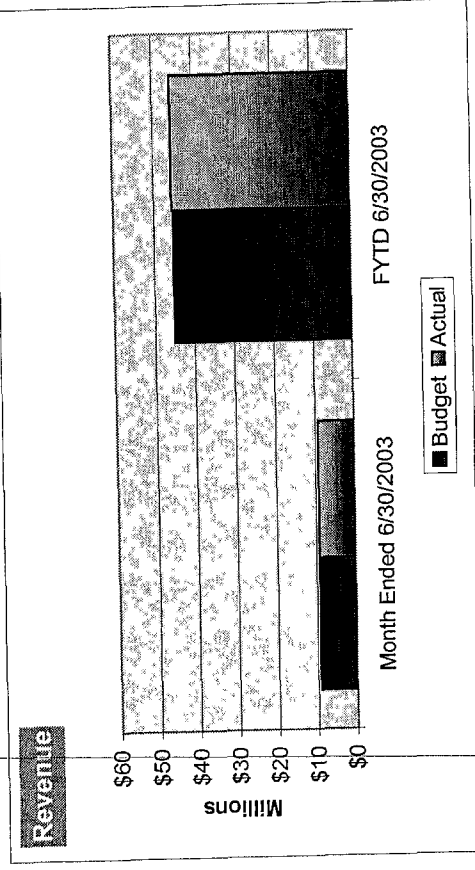
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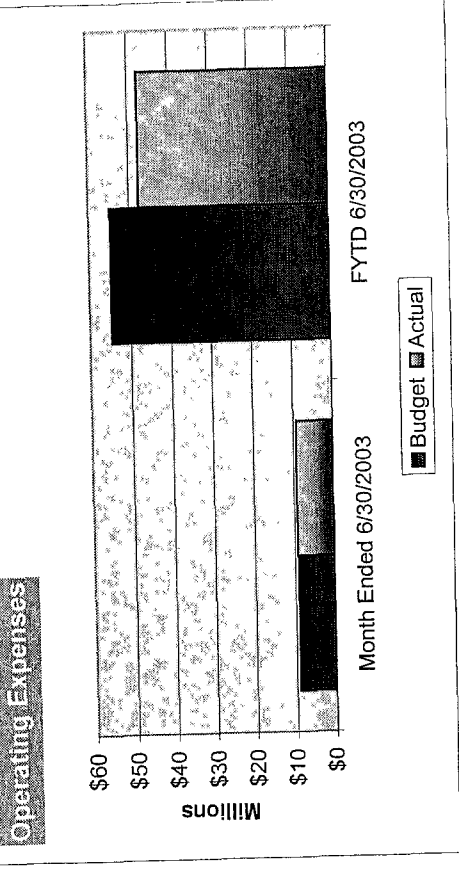
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# ERCOT financial snapshot

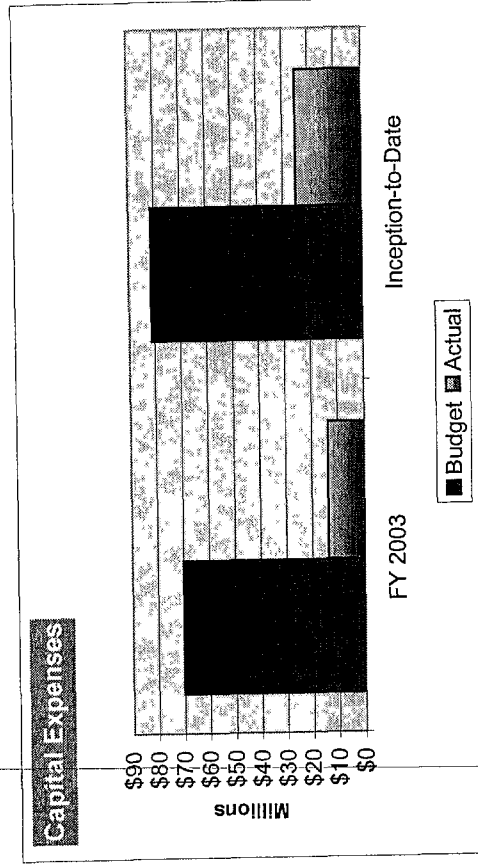
June 30, 2003



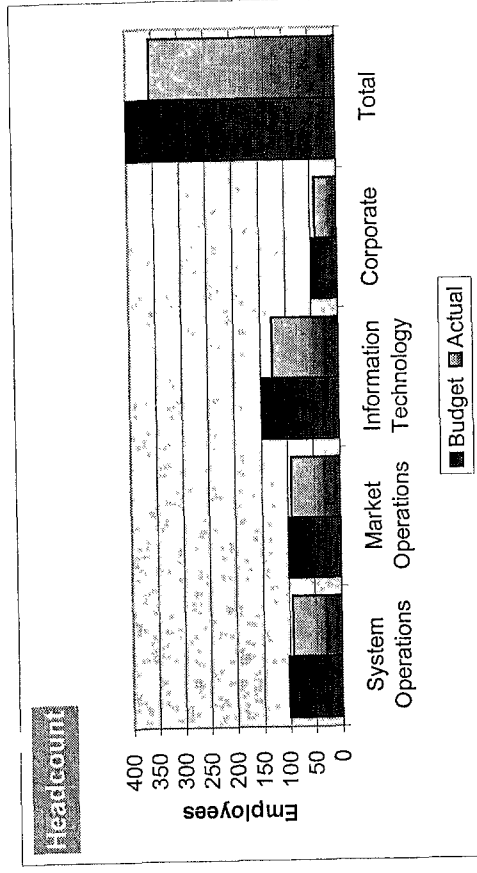
Year-to-date revenue of \$45.5 million is \$312,000 (0.7 percent) above budget primarily because load on the ERCOT system has been 845,000 MWH (0.6 percent) above budget.



Year-to-date operating and maintenance expenses are \$7.1 million (13.0 percent) below budget primarily due to staffing vacancies and timing differences in consultant and contractor fees, software and hardware licensing and maintenance support costs, and board approved contingency funds. See the budget-to-actual schedule for more details.

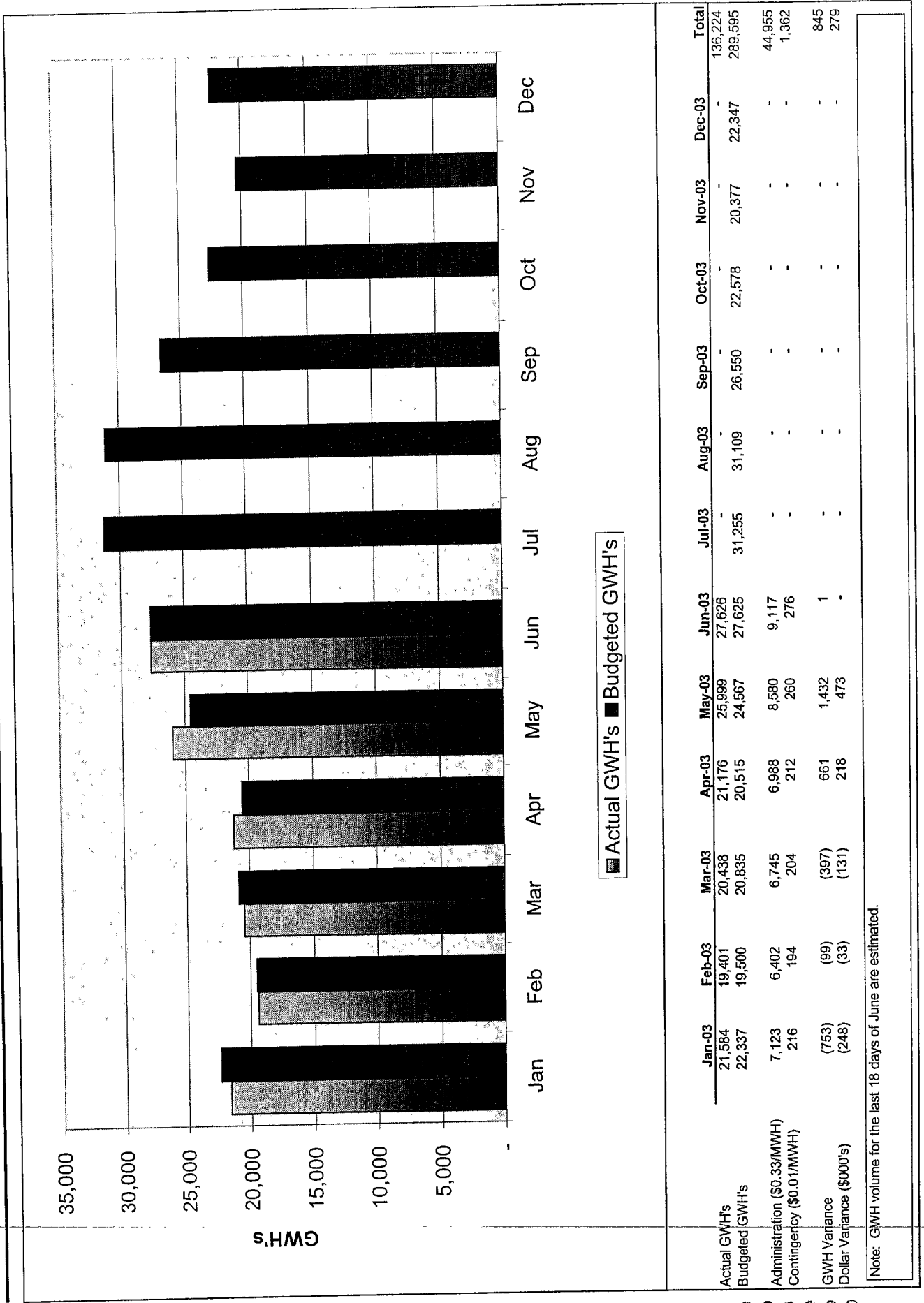


Year-to-date capital expenditures for active projects totaled approximately \$13.7 million, 20 percent of the \$70 million total capital budget for the year. Inception-to-date spending on the projects is \$25 million or 31 percent of total project budgets. See the capital project budget-to-actual schedule for additional detail.



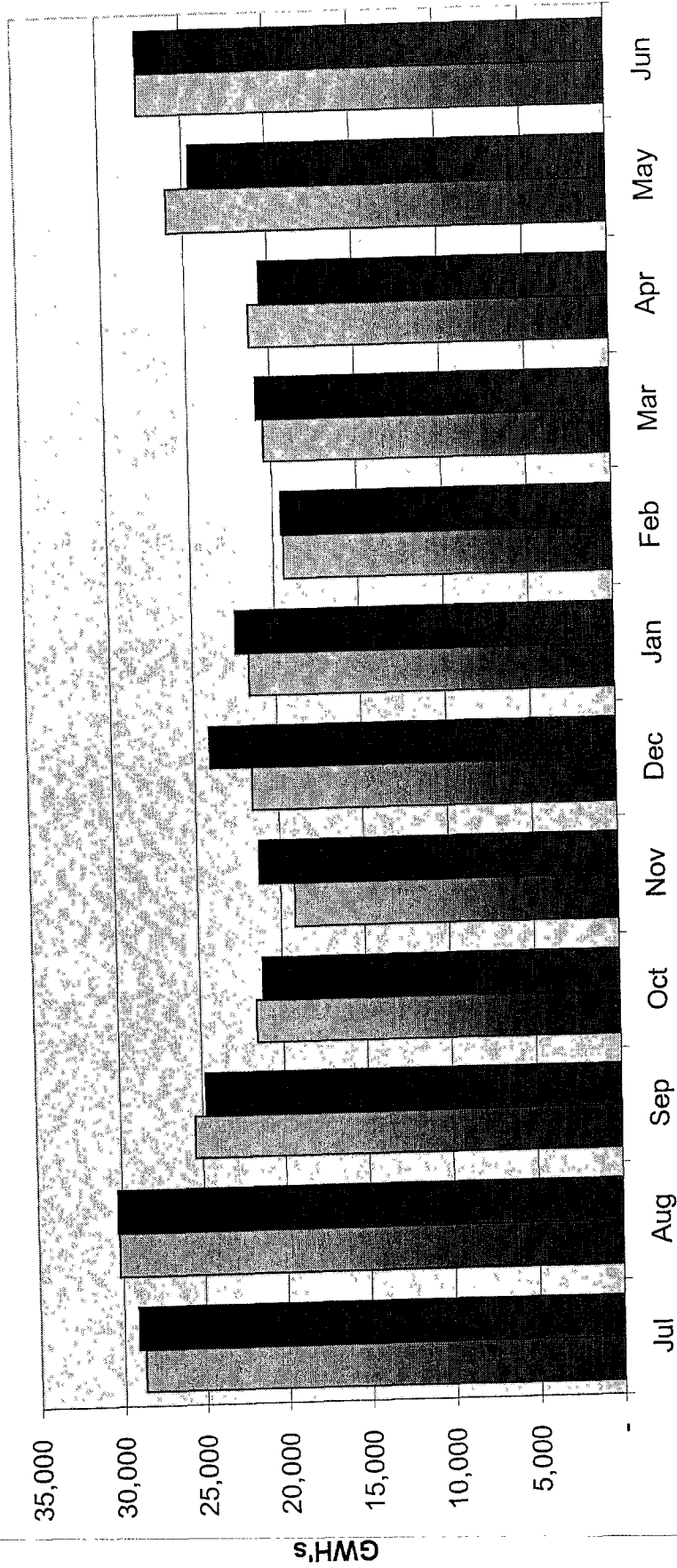
ERCOT had 355 active employees at June 30, 2003 versus the 400 staff level included in the 2003 budget. Vacancies exist in each of the four functional areas of the company. ERCOT has experienced a net increase of 59 staff members since the start of 2003.

**ERCOT**  
**Summary Revenue Variance Analysis**  
**Fiscal Year 2003 for the Six Months Ended June 30, 2003**



000003

**ERCOT**  
**Summary Revenue Variance Analysis**  
**For the Twelve Months Ended June 30, 2003**



Actual GWH's ■ Budgeted GWH's

	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Total
Actual GWH's	28,737	30,210	25,430	21,559	19,146	21,550	21,584	19,401	20,438	21,176	25,999	27,626	282,856
Budgeted GWH's	29,102	30,260	24,773	21,164	21,220	24,077	22,337	19,500	20,835	20,515	24,567	27,625	285,975
GWH Variance	(365)	(50)	657	395	(2,074)	(2,527)	(753)	(99)	(397)	661	1,432	1	(3,119)
Dollar Variance (\$000's)	(80)	(11)	145	87	(456)	(556)	(248)	(33)	(131)	218	473	-	(592)

Note: GWH volume for the last 18 days of June are estimated.

# Preliminary - Unaudited

ERCOT		Fiscal Year as of June 30, 2003				Annual Budget - 2003	
Statement of Operations		Budget		Actual	\$ Var	% Var	
For the Six Months Ended June 30, 2003		Notes		Fav / (Unfav)			
				Budget	Actual	% Var	% of Budget
<b>ERCOT Revenue by Type</b>							
ERCOT System Administration Fee		(a)	44,675,032	44,953,946	278,914	0.6%	44,953,946
Non-ERCOT LSE Fees			327,606	335,472	7,866	2.4%	335,472
Membership Fees			120,000	119,000	(1,000)	-0.8%	119,000
Other Revenue			50,002	75,946	25,944	51.9%	75,946
Total - ERCOT Revenue by Type		(b)	45,172,640	45,484,364	311,724	0.7%	45,484,364
<b>ERCOT Operating Expenses by Expense Type</b>							
Labor & Benefits		(c)	20,434,075	18,002,854	2,431,221	11.9%	18,002,854
Contra-Labor to Capital Projects		(c)	(1,320,004)	(591,650)	(728,354)	55.2%	(591,650)
Tools, Equipment, Materials & Supplies		(d)	553,956	470,068	83,888	15.1%	470,068
Hardware & Software Expenses		(e)	3,337,818	2,518,544	819,274	24.5%	2,518,544
Consultants & Contractors		(f)	6,625,061	4,653,014	1,972,047	29.8%	4,653,014
Utilities, Maintenance & Facilities		(g)	1,914,718	1,880,155	34,563	1.8%	1,880,155
Wide Area Network Services (Net)		(h)	181,500	294,821	(113,321)	-62.4%	294,821
Training, Travel & Other Employee Expenses		(i)	822,750	476,511	346,239	42.1%	476,511
Insurance		(j)	706,002	576,076	129,926	18.4%	576,076
Depreciation & Amortization		(k)	17,971,656	17,241,000	730,656	4.1%	17,241,000
Other		(l)	3,516,706	2,123,788	1,392,918	39.6%	2,123,788
Total - ERCOT Operating Expenses by Expense Type			54,744,237	47,645,181	7,099,056	13.0%	47,645,181
<b>Excess (Deficiency) of Revenues over Expenses</b>							
				(9,571,597)	(2,160,817)	77.4%	(2,160,817)
<b>Other income (expense)</b>							
Interest income		(m)	300,000	319,151	19,151	6.4%	319,151
Interest expense			(4,764,168)	(4,388,654)	375,514	7.9%	(4,388,654)
<b>Change in Unrestricted Assets</b>			(14,035,764)	(6,230,320)	7,805,444	55.6%	(6,230,320)

Notes addressing variances are on the following page.

000005

**ERCOT**

**Statement of Operations**

**For the Six Months Ended June 30, 2003**

**REVENUE & OPERATING EXPENSE VARIANCE NOTES:**

- (a) **ERCOT system administration fee** - Favorable variance results from load that was 845,000 MWH (0.6 percent) more than expected.
- (b) **Other revenue** - Variance is primarily the result of generation interconnection studies partially offset by reversal of \$75,000 communication readiness billing to a market participant. The entity did not test under TX Set 1.4, but was charged as if they had.
- (c) **Labor** - The 2003 budget was based on 400 employees; however, as of June 30, 2003, ERCOT had 355 employees on staff. ERCOT is moving to fill vacancies as quickly as prudently possible. During the first six months of 2003, ERCOT had a net increase of 59 staff members. Reflecting slower-than-expected capital spending and hiring activity, internal labor charged to capital projects is below budget expectation.
- (d) **Tools, equipment, materials & supplies** - The favorable variance relates primarily to timing differences in office supply budgets across the organization.
- (e) **Hardware & software** - Variance stems from timing differences.
- (f) **Consultants & contractors** - Favorable variance primarily reflects timing differences in the use of consultants and contractors. The variances are across the organization except for Market Services and include items such as outside legal fees, commercial application consulting, planning study consulting, and consulting support of the PUC's market oversight responsibility.
- (g) **Utilities, maintenance & facilities** - Favorable variance stems from timing differences relating to the lease of fiber optic communication capacity between Austin and Taylor, telephone service and conference calls, and security service costs at ERCOT facilities.
- (h) **Wide area network services** - The 2003 budget assumed ERCOT would bear \$363,000 (after reimbursement from market participants using the network) of the costs of administering the wide-area network system. ERCOT was over this amount as of June 30, 2003, and it appears ERCOT's non-reimbursed cost of operating the wide-area network may be approximately \$588,000 in 2003 - an unfavorable variance of \$225,000 for the year.
- (i) **Training, travel and other employee expenses** - Operational and development project responsibilities have necessitated the deferral of certain non-critical training development activity during the year.
- (j) **Insurance** - It is expected ERCOT will experience insurance premium increases as policies are renewed during 2003. The favorable variance is a timing difference.
- (k) **Depreciation & Amortization** - Depreciation expense will increase throughout the year as projects are completed and added to ERCOT's depreciable assets.
- (l) **Other** - The favorable variance relates primarily to Board approved contingency funds of approximately \$1.4 million through June 30, 2003 (\$3.3 million was budgeted for the year). A favorable variance has also been recorded for NERC dues.
- (m) **Interest & fees** - Favorable variance is a timing difference relating to short-term borrowing costs associated with ERCOT's 2003 capital spending program.

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

Summary of \$3.3 Million Contingency Fund

As of June 30, 2003

MWH Volume - YTD	136,224,000
Board Approved Contingency Funding Rate Per MWH	\$ 0.01
Accumulated Contingency Funds - YTD	\$ 1,362,240
Uses of Accumulated Contingency Funds - YTD	\$ -

**Notes:**

- (a) Issues Possibly Necessitating Future Use of Contingency Funds  
*Independent board member recruiting and compensation costs*  
*Default Qualified Scheduling Entity costs*  
*Insurance premium increases*  
*Facility costs for growing ERCOT staff*  
*Non-reimbursed wide-area network administration costs*

000007



## Preliminary - Unaudited

ERCOT  
Capital Projects - Summary Budget to Actual Comparison  
For the Second Quarter Ended June 30, 2003

Capital Project Description	Project #	Fiscal Year 2003 Budget & Year-to-Date Expenses			Total Approved Budget & Inception-to-Date Expenses		
		Budget	Actual	\$ Var Fav / (Unfav)	Budget	Actual	% Var
Disaster Recovery Project (closed)	00005	4,054,374	4,322,380	(268,006)	12,191,000	12,459,006	-6.6%
Disaster Recovery Project II	30116	-	239,499	(239,499)	-	239,499	-
Weather Redundancy Path (closed)	20057	39,960	5,190	34,770	39,960	5,190	87.0%
Outage Scheduler Phase 2	20059	65,000	35,337	29,663	65,000	35,337	45.6%
Texas Set 1.5	20060	3,047,598	1,577,098	1,470,500	4,942,222	3,471,722	29.8%
BULS Blocked Deployment	20069	2,287,301	1,508,163	779,137	2,400,000	1,620,863	32.5%
PTB Synchronization Project (closed)	20078	297,123	418,119	(120,996)	750,000	870,996	-16.1%
QSE MOS Web Enhancements (closed)	20094	50,000	-	50,000	50,000	-	100.0%
PRR 327 Confidentiality	20104	30,000	3,600	26,400	30,000	3,600	88.0%
Hardening Initiatives	20111	55,007	117,014	(62,007)	668,000	730,007	-9.3%
Internal Map Testing and Verification (closed)	20117	45,000	25,648	19,352	45,000	25,648	43.0%
PUCT 24462 (closed)	20124	670,000	22,680	647,320	670,000	22,680	96.6%
Dashboard	20125	182,000	-	182,000	182,000	-	100.0%
810 Performance Enhancement	20139	48,000	19,493	28,507	48,000	19,493	59.4%
Implement LaaRs (closed)	20142	52,953	727	52,226	115,000	62,774	45.4%
Redev of Dispute and Service Rqsts (closed)	20143	19,900	1,274	18,626	19,900	1,274	93.6%
Build Out Plan of Austin Facility	20145	25,000	-	25,000	25,000	-	100.0%
Analyze System Capacity for QSE's	20147	-	6,120	(6,120)	-	6,120	-
GISB EDM 1.4 & HTTPS	20156	120,000	68,120	51,880	120,000	68,120	43.2%
Move-in / Move-out	30002	775,000	108,225	666,775	775,000	108,225	86.0%
OSI PI Implementation (closed)	30006	422,000	418,627	3,373	422,000	418,627	0.8%
Load Research Sampling	30014	4,750,000	10,559	4,739,441	4,750,000	10,559	99.8%
MOI Printing Functions	30043	10,000	2,016	7,984	10,000	2,016	79.8%
Fix Alarm System	30045	89,000	6,023	82,977	89,000	6,023	93.2%
Database Management	30051	1,967,500	217,647	1,749,853	1,967,500	217,647	88.9%
Portal Redevopment	30052	1,260,000	901,224	358,776	1,260,000	901,224	28.5%
PRR 387 BE Mismatch Schedules	30053	-	12,790	(12,790)	-	12,790	-
ETS Phase 2	30054	1,700,000	133,628	1,566,372	1,700,000	133,628	92.1%
Outage Sensitive Factor (OSF)	30056	32,000	-	32,000	32,000	-	100.0%
Seibel 7.0 Upgrade/Replacement	30058	1,625,000	245	1,624,755	1,625,000	245	100.0%
Enterprise Cyber & Physical Security	30061	3,191,500	919,564	2,271,936	3,191,500	919,564	71.2%
Lawson Upgrade Replacement	30063	190,000	185,244	4,756	190,000	185,244	2.5%
PKG 2 Commercial Development Systems	30064	1,455,000	17,819	1,437,181	1,455,000	17,819	98.8%
Taylor Office Complex	30099	95,000	-	95,000	95,000	-	100.0%
NICE Playback System	30102	350,000	-	350,000	350,000	-	100.0%
Lodestar Data Loading Improvements	30125	100,000	3,016	96,984	100,000	3,016	97.0%
Combined Cycle Units Settlement Agg	30126	100,000	29,080	70,920	100,000	29,080	70.9%
PRR 350 Smoothing Algorithm (closed)	30127	80,000	4,362	75,638	80,000	4,362	94.5%
GISB Changes to ETS	30136	193,000	163,568	29,432	193,000	163,568	15.2%
SCR 727 (closed)	30139	75,000	63,372	11,628	75,000	63,372	15.5%
Document Managing Imaging System	30142	480,000	165,786	314,214	480,000	165,786	65.5%
Portfolio / Project Management System	30143	390,000	56,159	333,841	390,000	56,159	85.6%
Oracle 9iAS Upgrade (closed)	30145	400,000	75,679	324,321	400,000	75,679	81.1%
EMMS System Release 3.0 (30050 & 30144 rolled in)	30148	4,594,000	187,948	4,406,052	4,594,000	187,948	95.9%

**ERCOT**  
**Capital Projects - Summary Budget to Actual Comparison**  
**For the Second Quarter Ended June 30, 2003**

Capital Project Description	Project #	Fiscal Year 2003 Budget & Year-to-Date Expenses			Total Approved Budget & Inception-to-Date Expenses		
		Budget	Actual	\$ Var	Budget	Actual	% Var
Data Warehouse	30149	-	226,205	(226,205)	-	226,205	-
Tracking of Digital	30150	-	-	-	-	-	-
New HR System	30151	-	2,045	(2,045)	13,000	2,045	100.0%
Austin Legal Department Facility Change	30157	13,000	-	13,000	5,000,000	1,427,841	71.4%
2003 Minor Capital Purchases	00999	5,000,000	1,427,841	3,572,159	51,698,182	24,980,999	51.7%
<b>Allocated 2003 Capital Budget</b>		<b>40,426,317</b>	<b>13,709,133</b>	<b>26,717,183</b>			
<b>Total 2003 Capital Budget (a)</b>		<b>70,000,000</b>	<b>13,709,133</b>	<b>56,290,867</b>	<b>81,271,865</b>	<b>24,980,999</b>	<b>69.3%</b>
<b>2003 Capital Funds Available for Allocation</b>		<b>29,573,683</b>					

**Notes:**

(a) Total 2003 Capital budget includes the following items:

Systems projects	57,000,000
Facilities projects	8,000,000
Minor capital purchases	5,000,000
<b>Total</b>	<b>70,000,000</b>

(b) Inception-to-date budget total of \$81.3 million is the sum of the 2003 \$70 million capital project budget plus actual expenditures on active projects during 2002.

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

## **Statement of Financial Position**

**As of June 30, 2003**

(Dollars in Thousands)

### **Assets**

#### Current assets:

Cash and cash equivalents	\$ 56,802
Restricted cash	38,880 (a)
Accounts receivable	6,413
Unbilled revenue	5,654
Prepaid expenses and other current assets	3,940
Total current assets	<u>111,689</u>

Computer equipment and software, net	86,143
Furniture, Fixtures and Equipment, net	2,868
Building and leasehold improvements, net	43,196
Land and improvements	246
Vehicles, net	66
Construction in progress	636
Systems under development	10,146
Debt Issue Costs	1,558
Total assets	<u><u>\$ 256,548</u></u>

### **Liabilities and Unrestricted Net Assets**

#### Current liabilities:

Accounts payable, accrued liabilities and deferred credits	\$ 8,569
Market settlement liabilities	54,518 (b)
Security deposits	38,880 (a)
Capital lease obligation, current portion	-
Total current liabilities	<u>101,967</u>

#### Noncurrent liabilities:

Senior Notes payable	150,000
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Unrestricted net assets	4,581
Total liabilities and unrestricted net assets	<u><u>\$ 256,548</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

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

**Statement of Activities**

**For the Six Months Ended June 30, 2003**

(Dollars in Thousands)

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Operating revenues:

Transaction fees	\$ 44,954
Non-ERCOT LSE Fee	335
Membership Fees and other	195
Total operating revenue	<u>45,484</u>

Operating expenses

Salaries and related benefits	17,411
Depreciation and amortization	17,241
Consulting and legal services	4,653
Facility and equipment costs	2,350
WAN Services Administration (Net)	295
Hardware and software maintenance and licensing	2,518
Administrative and other	2,124
Insurance	576
Training, travel and professional dues	476
Total operating expenses	<u>47,644</u>

Income from Operations

(2,160)

Other income (expense)

Interest income	319
Interest expense	<u>(4,389)</u>

Change in unrestricted net assets

(6,230)

Unrestricted net assets, beginning of year

10,811

Unrestricted assets, June 30, 2003

\$ 4,581

**ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.****Statement of Cash Flows****For the Six Months Ended June 30, 2003**

(Dollars in Thousands)

**Cash flows from operating activities:**

Change in unrestricted net assets	\$ (6,230)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:	
Depreciation	17,241
Changes in operating assets and liabilities:	
Accounts receivable	(5,457)
Other assets	(517)
Accounts payable and accrued liabilities	(3,223)
Market settlement liabilities	28,517
Security deposits	(31,087)
Net cash provided by operating activities	<u>(756)</u>

**Cash flows from investing activities:**

Capital expenditures for property and equipment	(1,428)
Capital expenditures for hardware, software, and systems under development	(11,968)
Net cash used in investing activities	<u>(13,396)</u>

**Cash flows from financing activities:**

Proceeds from issuance of notes payable	-
Repayment of notes payable	-
Debt Issue Costs	-
Net cash provided by financing activities	<u>-</u>

Net increase in cash and cash equivalents	(14,152)
Cash and cash equivalents, beginning of year	109,834
Cash and cash equivalents, June 30, 2003	<u>\$ 95,682</u>