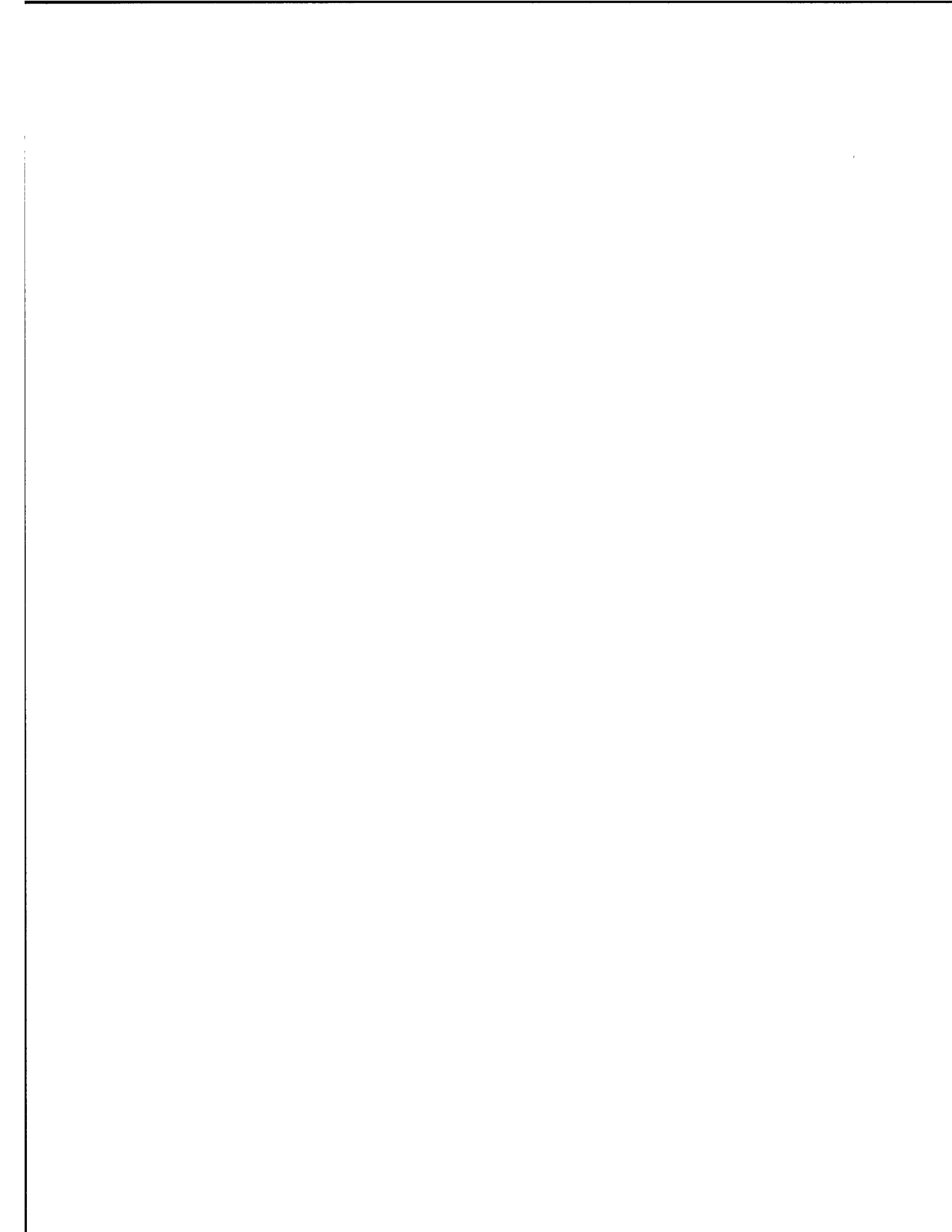


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PROJECT NO. 27706

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REPORTS OF THE ELECTRIC §
RELIABILITY COUNCIL OF TEXAS §

PUBLIC UTILITY COMMISSION
OF TEXAS

ERCOT'S REPORT FOR THE FIRST QUARTER OF 2016

COMES NOW, Electric Reliability Council of Texas, Inc. (ERCOT) and files its Report for the First Quarter of 2016 pursuant to 16 Texas Administrative Code (TAC) § 25.362(i)(3). Attachments marked with an asterisk (*) contain information which is proprietary and confidential and shall be provided in accordance with Commission policy set forth in 16 TAC §§ 22.71 and 25.362. The following documents comprise this report:

SUBST. R. Section	Document Description	Attachments
§25.362(i)(3)(A)	Any internal Audit Reports that were produced during the reporting quarter.	
	2016 Approved Audit Plan March 31, 2016	A1*
	Audit Cover Letter: Physical Security Officer Program	A2
	Audit: Physical Security Officer Program	A3*
	Annual Report to Management on 2015 Internal Audit Department Activities – February 1, 2016	A4*
§§25.362(i)(3)(B) and 25.88	A report on performance measures, as prescribed by the commission.	Not attached – this Report is filed in Project No. 36141
§25.362(i)(3)(C)	By Account item as established in the fee-filing package prescribed by the commission under 22.252 of this title (relating to Procedures for Approval of ERCOT Fees and Rates) a report of: (i) ERCOT fees and other rates, funds allocated, funds encumbered, and funds expended; (ii) An explanation for expenditures deviating from the original funding allocation for the particular account item; (iii) For the report covering the fourth quarter of ERCOT's fiscal year, a detailed explanation of how unexpended funds will be expended in the subsequent year.	B B1

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Respectfully submitted,



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Vice President and General Counsel

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ERCOT

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ATTORNEYS FOR ELECTRIC
RELIABILITY COUNCIL OF TEXAS, INC.



TO: Gene Goetz, Manager – Physical Security
FROM: Michael Ratemo, Senior IT Auditor – Internal Audit Department
DATE: March 31, 2016
SUBJECT: Audit of Physical Security Officer Program

Attached is the final audit report from Internal Audit’s review of ERCOT’s Physical Security Officer Program

The report rating for this audit is as follows:

	Minor Improvements Needed
--	---------------------------------

Additional details regarding this audit are contained in the attached audit report.

cc: Bill Magness
Trip Doggett
Jeyant Tamby
Betty Day
Jerry Dreyer
Theresa Gage
Cheryl Mele
Kenan Ogelman
Mike Petterson
Woody Rickerson
Chad Seely
Diane Williams
Ann Delenela
Susie Westbrook
Jeremiah Smith
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Kristi Hobbs
Allison Atherton
Matt Mereness
Matt Stout
Oscar Macakiage
Kenneth W. Anderson (PUCT)
Brian Lloyd (PUCT)
Brandy Marty Marquez (PUCT)
Donna Nelson (PUCT)
Craven Crowell (Chair, ERCOT Board of Directors)
Judy Walsh (Vice-Chair, Board of Directors)
Finance and Audit Committee
Baker Tilly, LLP

Attachment B

		Year to Date						Year End		
		2015			2016			2016		
		Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
Line	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
1	System Administration Revenue	36.9	44.2	(7.3)	42.0	42.0	162.0	193.9	(31.9)	(19.6)
2	Department Net Expenditures									
3	Information Technology	13.5	15.1	(1.6)	13.4	13.4	55.4	61.5	(6.1)	(11.0)
4	Operations	13.5	15.0	(1.5)	13.3	13.3	55.7	58.5	(2.8)	(5.0)
5	Finance & Treasury	3.3	3.6	(0.3)	3.3	3.3	13.3	14.8	(1.5)	(10.1)
6	External Affairs & Corporate Communications	1.6	1.7	(0.1)	1.7	1.7	6.5	6.8	(0.3)	(4.7)
7	Human Resources	1.1	1.3	(0.2)	0.9	0.9	4.2	5.3	(1.1)	(26.1)
8	General Counsel	0.8	1.1	(0.3)	0.8	0.8	3.3	4.5	(1.2)	(36.4)
9	Corporate Administration	0.7	0.7	0.0	0.9	0.9	2.8	2.8	0.0	0.0
10	Total Department Net Expenditures	34.5	38.5	(4.0)	34.2	34.2	141.2	154.1	(12.9)	(9.0)
11	Net Revenues After Department Expenditures	2.5	5.7	(3.2)	7.8	7.8	20.8	39.8	(19.0)	(47.8)
12										
13	Less: Project Expenditures									
14	Current Budget Year Project Expenditures	4.7	4.5	0.2	4.3	4.3	21.7	37.1	(15.4)	(70.5)
15	2016 Budget Expended in 2015	-	5.4	(5.4)	-	-	5.4	5.4	0.0	0.0
16	Total Project Expenditures	4.7	9.9	(5.2)	4.3	4.3	27.1	42.5	(15.4)	(56.3)
17										
18	Net Available for Debt & Working Capital	(2.2)	(4.2)	(2.0)	3.5	3.5	(0.9)	(2.7)	1.8	(20.0)

Note: Schedule may not foot due to rounding.

Electric Reliability Council of Texas, Inc.
 Project Expenditures - Technical Foundation Demand vs. Year End (YE) Forecast
 As of March 31, 2016
 (\$ in Millions)

Project Name [Projects listed are at or above \$0.7 Million Estimate at Completion (EAC) Budget threshold]	Current Phase	Order Based on PPL Priority: Jan. 1, 2016	Order Based on PPL Priority: Current	Year to Date		Year End		Variance
				Project Actual	% Spend to Year End Forecast	Project Budget	Project Forecast	
Technical Foundation								
Energy Management System (EMS) Upgrade	Execution	1	1	\$ 1.1	40.7	\$ 4.0	\$ 2.7	\$ 1.3
Network Model Management System (NMMS) Upgrade	Execution	2	2	0.5	31.3	1.6	1.6	-
Production Virtualization Expansion	On Hold	3	3	-	-	2.6	2.6	-
Projects Below \$0.7 Million EAC Budget Threshold by Phase								
Complete				-	n/a	-	-	n/a
Closing				0.1	100.0	0.1	0.1	-
Stabilization				-	n/a	-	-	n/a
Execution				0.2	100.0	0.3	0.2	0.1
Planning				-	n/a	-	-	n/a
Initiation				-	n/a	-	-	n/a
On Hold				-	-	0.5	0.3	0.2
Not Yet Initiated				-	-	2.5	2.5	-
Other Project Spend								
Variance of Completed Projects								
Variance of In-flight & Not Yet Initiated Projects						(1.6)	-	(1.6)
				Subtotal	19.0	\$ 10.0	\$ 10.0	\$ -
Data Center 4.0 Optimization (DC4) Program	Planning			0.4	2.4	16.4	16.4	-
2016 Budget Expended in 2015						3.6	-	3.6
Total - Technical Foundation				\$ 2.3	8.7	\$ 30.0	\$ 26.4	\$ 3.6
								12.0

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Financial Position

As of March 31, 2016 and 2015

(Dollars in Thousands)

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 307,178	\$ 330,104
Accounts receivable	1,667	2,260
Unbilled revenue	2,519	1,938
Restricted cash	306,953	309,066
Prepaid expenses and other current assets	17,056	15,828
Total current assets	635,373	659,196
Property and equipment, net	95,229	104,940
Systems under development	22,138	24,448
Total assets	\$ 752,740	\$ 788,584
Liabilities and Unrestricted Net Assets		
Current liabilities:		
Accounts payable	2,406	2,143
Accrued liabilities	8,954	8,644
Deferred revenue	3,700	3,893
Market settlement liabilities	354,622	371,555
Security deposits	306,953	309,066
Notes payable, current portion	4,000	4,000
Total current liabilities	680,635	699,301
Notes payable:		
Principal	62,000	66,000
Less unamortized debt issuance cost	223	236
Notes payable less unamortized debt issuance cost	61,777	65,764
Regulatory liabilities	-	17,069
Other long term liabilities	357	338
Total liabilities	742,769	782,472
Unrestricted net assets	9,971	6,112
Total liabilities and unrestricted net assets	\$ 752,740	\$ 788,584

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
Statements of Activities and Net Assets
For the Three Months Ended March 31, 2016 and 2015
(Dollars in Thousands)

	2016	2015
Operating revenues		
System administration fees	\$ 42,003	\$ 36,931
Reliability organization pass-through	3,494	3,676
Other services revenue	1,430	1,411
Total operating revenues	46,927	42,018
Operating expenses		
Salaries and related benefits	24,111	24,821
Facility and equipment costs	2,538	2,464
Outside services	2,381	2,327
Hardware and software maintenance and licensing	5,027	4,382
Reliability organization assessment	3,494	3,676
Depreciation	5,149	22,637
Amortization of regulatory asset	-	(16,457)
Other	1,497	1,476
Total operating expenses	44,197	45,326
Income (loss) from operations	2,730	(3,308)
Other income (expense)		
Interest income	100	6
Interest expense	(477)	(544)
Change in valuation of interest rate swap	-	-
Non-operating income	1	337
Change in unrestricted net assets	2,354	(3,509)
Unrestricted net assets, beginning of year	7,617	9,621
Unrestricted net assets, end of period	\$ 9,971	\$ 6,112

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
Statements of Cash Flows
For the Three Months Ended March 31, 2016 and 2015
(Dollars in Thousands)

	2016	2015
Operating activities:		
Change in unrestricted net assets	\$ 2,354	\$ (3,509)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	5,149	22,637
Amortization of regulatory liabilities	-	(16,457)
Amortization of debt issuance costs	4	8
Net gain on capital assets	-	(310)
Changes in operating assets and liabilities:		
Accounts receivable	592	964
Unbilled revenue	(140)	372
Prepaid expenses and other assets	(24)	468
Other long-term liabilities	5	(91)
Accounts payable	(1,107)	(1,325)
Accrued liabilities	680	581
Deferred revenue	(166)	(285)
Net cash provided by operating activities	<u>7,347</u>	<u>3,053</u>
investing activities:		
Capital expenditures for property and equipment and systems under development	(4,451)	(5,486)
Proceeds from sale of property and equipment	-	-
Net cash (used in) investing activities	<u>(4,451)</u>	<u>(5,486)</u>
Financing activities:		
Repayment of notes payable	(1,000)	(1,000)
Payment of debt issuance costs	(6)	-
Decrease in restricted cash	56,596	99,946
(Decrease) increase in market settlement liabilities	(2,065)	18,736
(Decrease) in security deposits	(56,596)	(99,946)
Net cash (used in) provided by financing activities	<u>(3,071)</u>	<u>17,736</u>
Net (decrease) increase in cash and cash equivalents	(175)	15,303
Cash and cash equivalents, beginning of year	307,353	314,801
Cash and cash equivalents, end of period	<u>\$ 307,178</u>	<u>\$ 330,104</u>

Electric Reliability Council of Texas, Inc. 2016 Financial Summary Variance Explanations As of March 31, 2016		Year to Date	Year End
Line			
1	System Administration Fee Revenue	-\$2.2 M - Primarily due to milder-than-expected weather	-\$0.7 M - Based on actuals and 4/17/16 load forecast
3	Information Technology	<p>+\$0.4 M - Common infrastructure purchases</p> <p>+\$0.2 M - HW/SW vendor support services due to more work on projects</p> <p>Timing Differences</p> <p>+\$0.4 M - Computer hardware purchases</p> <p>+\$0.4 M - Employee benefit costs</p> <p>+\$0.1 M - HW/SW vendor support services</p> <p>+\$0.2 M - Miscellaneous spending</p>	<p>+\$0.4 M - Common infrastructure purchases</p> <p>+\$0.2 M - HW/SW vendor support services due to more work on projects</p> <p>+\$0.2 M - Savings for budgeted HW/SW support and maintenance renewals</p> <p>+\$0.1 M - Savings for staffing management</p> <p>+\$0.1 M - Minor capital</p>
4	Operations	<p>+\$0.2 M - Savings for staffing management</p> <p>Timing Differences</p> <p>+\$0.5 M - Employee benefit costs</p> <p>+\$0.5 M - External studies/consulting services</p> <p>+\$0.4 M - Minor capital</p> <p>+\$0.1 M - Employee expenses</p> <p>+\$0.2 M - Lower interest expense due to project funding</p> <p>+\$0.1 M - Property tax</p>	<p>+\$0.9 M - Savings for staffing management</p> <p>+\$0.1 M - Minor capital</p> <p>-\$0.3 M - Outside services</p> <p>+\$0.7 M - Lower interest expense due to project funding and no revolver usage</p> <p>+\$0.3 M - Property tax</p> <p>-\$0.3 M - Minor capital</p>
6	External Affairs & Corporate Communications	\$0.0 M	\$0.0 M
7	Human Resources	<p>Timing Differences</p> <p>+\$0.1 M - Data subscription</p> <p>+\$0.1 M - Employee reward & recognition</p> <p>+\$0.1 M - New hire relocation costs</p> <p>+\$0.1 M - Immigration services</p>	\$0.0 M
8	General Counsel	<p>+\$0.1 M - Savings for staffing management</p> <p>+\$0.1 M - Outside legal services have not been required</p> <p>Timing Differences</p> <p>+\$0.1 M - Employee benefit costs</p>	<p>+\$0.3 M - Savings for staffing management</p> <p>+\$0.3 M - Outside legal services may not be required</p>
9	Corporate Administration	-\$0.2 M - Miscellaneous spending	-\$0.2 M - Miscellaneous spending
14	Less:	+\$0.2 M	\$0.0 M
	Current Budget Year Project Expenditures		