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REPORTS OF THE ELECTRIC §
RELIABILITY COUNCIL OF TEXAS §

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OF TEXAS
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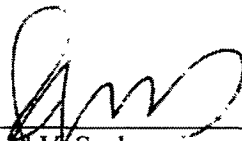
ERCOT'S REPORT FOR THE FIRST QUARTER OF 2017

COMES NOW, Electric Reliability Council of Texas, Inc. (ERCOT) and files its Report for the First Quarter of 2017 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:

16 TAC Section	Document Description	Attachments
§25.362(i)(3)(A)	Any internal Audit Reports that were produced during the reporting quarter.	
	Approved 2017 Audit Plan Updated March 31, 2017	A1*
	Audit Cover Letter: ERCOT's Business Continuity Plan	A2
	Audit: ERCOT's Business Continuity Plan	A3*
§§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: <ul style="list-style-type: none"> (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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ATTORNEYS FOR ELECTRIC
RELIABILITY COUNCIL OF TEXAS, INC.



TO: Kristi Hobbs, Director – Enterprise Risk Management and Strategic Analysis
FROM: Michael Ratemo, Senior IT Auditor – Internal Audit Department
DATE: March 29, 2017
SUBJECT: Annual Review of ERCOT’s Business Continuity Plan (including Disaster Recovery Plan)

Attached is the final audit report from Internal Audit’s review of ERCOT’s Business Continuity Plan (including Disaster Recovery Plan).

The report rating for this audit is as follows:

	Minor Improvements Needed
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Additional details regarding this engagement are contained in the attached audit report.

CC:

Bill Magness
Jerry Dreyer
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Betty Day
Theresa Gage
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Mandy Bauld
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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
ICMP

Attachment B

		Year to Date (March 31)						Year End (December 31)						
		2016		2017		Variance		2016		2017		Variance		
		Actual	Budget	Actual	Budget	\$	%	Actual	Budget	Forecast	\$	%		
Electric Reliability Council of Texas, Inc. 2017 Financial Summary As of April 20, 2017 (\$ in Millions)														
1	System Administration Revenue	\$ 42.0	\$ 45.1	\$ 42.1	\$ (3.1)	(6.9)	\$ 195.9	\$ 197.5	\$ 196.9	\$ (0.6)	(0.3)			
2	Department Net Expenditures													
3	Information Technology	13.4	16.0	16.4	(0.4)	(2.5)	59.6	63.7	64.6	(0.9)	(1.4)			
4	Operations	13.3	15.5	14.5	1.0	6.5	54.4	60.2	61.0	(0.8)	(1.3)			
5	Finance & Treasury	3.3	4.1	3.0	1.1	26.8	12.2	15.9	13.2	2.7	17.0			
6	External Affairs & Corporate Communications	1.7	1.6	1.6	-	-	6.2	6.4	6.0	0.4	6.3			
7	Human Resources	0.9	1.3	0.9	0.4	30.8	4.6	5.3	5.5	(0.2)	(3.8)			
8	General Counsel	0.9	1.2	1.0	0.2	16.7	3.1	5.0	4.4	0.6	12.0			
9	Corporate Administration	0.8	0.6	0.5	0.1	16.7	2.6	2.5	2.1	0.4	16.0			
10	Total Department Net Expenditures	34.2	40.2	37.9	2.4	6.0	142.7	159.0	156.8	2.2	1.4			
11	Net Revenues After Department Expenditures	7.8	4.9	4.2	(0.7)	(14.3)	53.2	38.5	40.1	1.6	4.2			
12														
13	Less: Project Expenditures	4.3	14.6	9.1	5.5	37.7	31.8	40.5	40.5	-	-			
14														
15	Net Available for Debt & Working Capital	\$ 3.5	\$ (9.7)	\$ (4.9)	\$ 4.8	49.5	\$ 21.4	\$ (2.0)	\$ (0.4)	\$ 1.6	80.0			

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 April 20, 2017
 (\$ 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, 2017	Order Based on PPL Priority: Current	Year to Date		Year End		Variance	
				Year to Date Project Actual	% Spend to Year End Forecast	Project Budget	Project Forecast		\$
Technical Foundation									
Network Model Management System (NMMS) Upgrade	Execution	1	1	\$ 0.4	21.1	\$ 1.9	\$ 1.9	\$ -	-
Identity and Access Management Evaluation & Execution	Initiation	-	2	0.2	8.3	2.4	2.4	-	-
Replace Paperfree	Not Yet Initiated	3	3	-	-	0.5	0.5	-	-
Corporate Wireless	Not Yet Initiated	-	4	-	-	1.3	1.3	-	-
Projects Below \$0.7 Million EAC Budget Threshold by Phase									
	Complete	-	-	-	n/a	-	-	-	n/a
	Closing	-	0.1	0.1	100.0	0.1	0.1	-	-
	Stabilization	-	-	-	n/a	-	-	-	n/a
	Execution	0.3	0.8	0.3	37.5	0.8	0.8	-	-
	Planning	0.1	0.7	0.1	14.3	0.8	0.7	0.1	12.5
	Initiation	-	-	-	-	0.2	0.2	-	-
	On Hold	-	-	-	n/a	-	-	-	n/a
	Not Yet Initiated	-	-	-	-	0.5	0.5	-	-
Other Project Spend									
Variance of Completed Projects									n/a
Variance of In-flight & Not Yet Initiated Projects						1.5	-	1.5	100.0
Subtotal				\$ 1.1	13.1	\$ 10.0	\$ 8.4	\$ 1.6	16.0
Data Center 4.0 Optimization (DC4) Program	Planning			3.6	18.0	20.0	20.0	-	-
Total - Technical Foundation				\$ 4.7	16.5	\$ 30.0	\$ 28.4	\$ 1.6	5.3

Electric Reliability Council of Texas, Inc.
 Project Expenditures - Capital Enhancements Demand vs. Year End (YE) Forecast
 As of April 20, 2017
 (\$ 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, 2017	Order Based on PPL Priority: Current	Year to Date Project Actual	% Spend to Year End Forecast	Year to Date		Year End		Variance
						Year to Date Project Actual	% Spend to Year End Forecast	Project Budget	Project Forecast	
Regulatory										
Physical Security Project #2	Execution	1	1	\$ 0.5	55.6	\$ 0.9	\$ 0.9	\$ -	-	-
Records Management and eDiscovery	Execution	-	2	0.1	25.0	0.4	0.4	-	-	-
Business Strategy										
Resource Asset Registration Form (RARF) Replacement	Planning	1	1	-	-	1.0	1.0	-	-	-
2015 Credit Monitoring and Management (CMM) NPRRs	Execution	2	2	0.3	18.8	1.6	1.6	-	-	-
Congestion Revenue Rights (CRR) UI Framework Upgrade	Execution	4	3	0.9	60.0	1.5	1.5	-	-	-
Enterprise Content Alignment Program (ECAP)	Execution	5	4	0.2	50.0	0.4	0.4	-	-	-
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation	Planning	6	5	-	-	1.1	1.1	-	-	-
Reactive Power Coordination Assessment & Proof of Concept (PoC)	Initiation	-	6	-	-	1.1	1.1	-	-	-
Multi Station Breaker to Breaker One Lines (Planning)	Execution	7	7	0.1	10.0	1.0	1.0	-	-	-
Training Facility - Scope and Design	Initiation	-	8	-	-	0.9	0.9	-	-	-
Efficiencies / Enhancements										
IT Change and Configuration Management Phase 2	Planning	1	1	0.3	15.8	1.9	1.9	-	-	-
SAS Technical Architecture Redesign	Execution	2	2	0.7	46.7	1.5	1.5	-	-	-
Projects Below \$0.7 Million EAC Budget Threshold by Phase										
Complete				0.1	100.0	0.1	0.1	-	-	-
Closing				0.1	50.0	0.3	0.2	0.1	33.3	-
Stabilization				0.1	100.0	0.1	0.1	-	-	-
Execution				0.7	35.0	2.1	2.0	0.1	4.8	-
Planning				0.1	10.0	1.0	1.0	-	-	-
Initiation				-	-	0.1	0.1	-	-	-
On Hold				-	n/a	-	-	-	n/a	-
Not Yet Initiated				-	-	1.4	1.4	-	-	-
Other Project Spend										
Capital Efficiencies & Enhancements	Execution			0.2	33.3	0.6	0.6	-	-	-
Variance of Completed Projects						(8.5)	(6.7)	(1.8)	21.2	n/a
Variance of In-flight & Not Yet Initiated Projects										
Total - Capital Enhancements				\$ 4.4	36.4	\$ 10.5	\$ 12.1	\$ (1.6)	(15.2)	

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Financial Position

As of March 31, 2017 and 2016

(Dollars in Thousands)

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 334,683	\$ 307,178
Accounts receivable	1,985	1,667
Unbilled revenue	2,486	2,519
Restricted cash	361,116	306,953
Prepaid expenses and other current assets	26,014	17,056
Total current assets	726,284	635,373
Property and equipment, net	106,943	95,229
Systems under development	19,669	22,138
Total assets	\$ 852,896	\$ 752,740

Liabilities and Unrestricted Net Assets

Current liabilities:		
Accounts payable	\$ 3,310	\$ 2,406
Accrued liabilities	10,414	8,954
Deferred revenue	3,808	3,700
Market settlement liabilities	378,184	354,622
Security deposits	361,116	306,953
Notes payable, current portion	4,000	4,000
Total current liabilities	760,832	680,635
Notes payable:		
Principal	58,000	62,000
Less unamortized debt issuance cost	211	223
Notes payable less unamortized debt issuance cost	57,789	61,777
Other long term liabilities	378	357
Total liabilities	818,999	742,769
Unrestricted net assets	33,897	9,971
Total liabilities and unrestricted net assets	\$ 852,896	\$ 752,740

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Activities and Net Assets

For the Three Months Ended March 31, 2017 and 2016

(Dollars in Thousands)

	2017	2016
Operating revenues		
System administration fees	\$ 42,073	\$ 42,003
Reliability organization pass-through	3,586	3,494
Other services revenue	1,739	1,430
Total operating revenues	47,398	46,927
Operating expenses		
Salaries and related benefits	26,888	24,111
Facility and equipment costs	2,608	2,411
Outside services	2,412	2,327
Hardware and software maintenance and licensing	6,535	5,208
Reliability organization assessment	3,586	3,494
Depreciation	6,548	5,149
Other	1,527	1,497
Total operating expenses	50,104	44,197
Income (loss) from operations	(2,706)	2,730
Other income (expense)		
Interest income	341	100
Interest expense	(479)	(477)
Non-operating income	3	1
Change in unrestricted net assets	(2,841)	2,354
Unrestricted net assets, beginning of year	36,738	7,617
Unrestricted net assets, end of period	\$ 33,897	\$ 9,971

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.

Statements of Cash Flows

For the Three Months Ended March 31, 2017 and 2016

(Dollars in Thousands)

	2017	2016
Operating activities:		
Change in unrestricted net assets	\$ (2,841)	\$ 2,354
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	6,548	5,149
Amortization of debt issuance costs	5	4
Net gain on capital assets	-	-
Changes in operating assets and liabilities:		
Accounts receivable	2,415	592
Unbilled revenue	677	(140)
Prepaid expenses and other assets	(4,379)	(15)
Other long-term liabilities	3	5
Accounts payable	141	(1,116)
Accrued liabilities	(1,773)	680
Deferred revenue	(395)	(166)
Net cash provided by operating activities	401	7,347
Investing activities:		
Capital expenditures for property and equipment and systems under development	(7,121)	(4,451)
Proceeds from sale of property and equipment	-	-
Net cash (used in) investing activities	(7,121)	(4,451)
Financing activities:		
Repayment of notes payable	(1,000)	(1,000)
Payment of debt issuance costs	(3)	(6)
Decrease in restricted cash	26,069	56,596
Increase (decrease) in market settlement liabilities	35,315	(2,065)
(Decrease) in security deposits	(26,069)	(56,596)
Net cash (used in) provided by financing activities	34,312	(3,071)
Net increase in cash and cash equivalents	27,592	(175)
Cash and cash equivalents, beginning of year	307,091	307,553
Cash and cash equivalents, end of period	\$ 334,683	\$ 307,178

Attachment B1

Electric Reliability Council of Texas, Inc. 2017 Financial Summary Variance Explanations As of April 20, 2017		
Line	Year to Date (March 31)	Year End (December 31)
1	System Administration Fee	
3	Revenue Information Technology	
	-\$3.1 M - Mild weather	-\$0.6 M - Based on current actuals and budget forecast for remainder of year
	-\$0.4 M - Contracted staff backfill (Resource Management)	-\$1.2 M - Contracted staff backfill (Resource Management)
	-\$0.3 M - Higher allocated employee health costs	-\$0.5 M - Higher allocated employee health costs
	-\$0.2 M - Lower-than-budgeted vacancy (Resource Management)	-\$0.3 M - Lower-than-budgeted vacancy (Resource Management)
	+\$0.3 M - Common infrastructure purchases (Computer Hardware)	+\$0.7 M - Common infrastructure purchases (Computer Hardware)
	+\$0.1 M - Minor capital purchases (Equipment Purchases)	+\$0.4 M - Minor capital purchases (Equipment Purchases)
	Timing Differences	
	+\$0.2 M - Non-capital equipment purchases	
	+\$0.1 M - WAN revenue	
	-\$0.2 M - HW/SW vendor support services	
4	Operations	
	-\$0.3 M - Higher allocated employee health costs	-\$0.5 M - Higher allocated employee health costs
	-\$0.1 M - Lower-than-budgeted vacancy (Resource Management)	-\$0.2 M - Lower-than-budgeted vacancy (Resource Management)
	Timing Differences	
	+\$0.6 M - External studies/consulting services	
	+\$0.4 M - Minor capital purchases (Equipment Purchases)	
	+\$0.2 M - Operator Training Seminar (OTS) training costs	
	+\$0.2 M - Higher amount of project funded labor (Resource Management)	
5	Finance & Treasury	
	+\$0.4 M - Lower interest expense due to project funding and no revolver usage	-\$1.6 M - Lower interest expense due to project funding and minimal revolver usage
	+\$0.3 M - Interest income	-\$1.3 M - Interest income
	-\$0.2 M - Fewer facilities improvements (Equipment Purchases)	-\$0.2 M - Fewer facilities improvements (Equipment Purchases)
	+\$0.2 M - Property tax	+\$0.2 M - Property tax
	-\$0.1 M - Lower-than-budgeted vacancy (Resource Management)	-\$0.3 M - Lower-than-budgeted vacancy (Resource Management)
	Timing Differences	
	+\$0.1 M - Corporate insurance	-\$0.3 M - Corporate insurance
6	External Affairs & Corporate Communications	
	No material variance	+\$0.3 M - Higher-than-budgeted vacancy (Resource Management)
		+\$0.1 M - Budgeted external resource converted to permanent employee
7	Human Resources	
	Timing Differences	
	+\$0.1 M - Employee reward & recognition program	-\$0.2 M - Lower-than-budgeted vacancy (Resource Management)
	+\$0.1 M - Online training subscription	
	+\$0.1 M - Immigration services	
	+\$0.1 M - Other miscellaneous variances	
8	General Counsel	
	+\$0.1 M - Higher-than-budgeted vacancy (Resource Management)	+\$0.5 M - Higher-than-budgeted vacancy (Resource Management)
	+\$0.1 M - Regulatory studies not required yet	+\$0.2 M - Regulatory studies may not be required
		-\$0.1 M - Outside legal services
9	Corporate Administration	
	+\$0.1 M - Higher-than-budgeted vacancy (Resource Management)	+\$0.4 M - Higher-than-budgeted vacancy (Resource Management)
13	Project Expenditures	
	+\$5.5 M - Multiple projects	No variance