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REPORTS OF THE ELECTRIC
RELIABILITY COUNCIL OF TEXAS

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OF TEXAS

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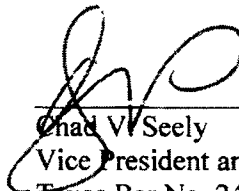
ERCOT'S REPORT FOR THE SECOND QUARTER OF 2017

COMES NOW, Electric Reliability Council of Texas, Inc. (ERCOT) and files its Report for the Second 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 June 30, 2017	A1*
	Audit Cover Letter: Audit of Compliance with Protocol Section 17.3 Market Data Collection and Use	A2
	Audit: Audit of Compliance with Protocol Section 17.3 Market Data Collection and Use	A3*
	Audit Cover Letter: Audit of Information Requests through ERCOT.com	A4
	Audit: Audit of Information Requests through ERCOT.com	A5*
	Audit Cover Letter: Operations Training Program Processes	A6
§§25.362(i)(3)(B) and 25.88	Audit: Operations Training Program Processes	A7*
	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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ERCOT
7620 Metro Center Drive
Austin, Texas 78744

ATTORNEYS FOR ELECTRIC
RELIABILITY COUNCIL OF TEXAS, INC.



TO: Stephen Daniels, Vice President – Application Services and IT Operations
John Messer, Manager – Enterprise Information Services

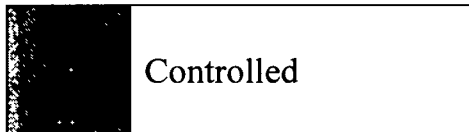
FROM: Chris Langan, Senior Internal Auditor – Internal Audit Department

DATE: April 11, 2017

SUBJECT: Audit of Compliance with Protocol Section 17.3 – Market Data Collection and Use

Attached is the final audit report from Internal Audit’s Audit of Compliance with Protocol Section 17.3 – Market Data Collection and Use.

The report rating for this audit is as follows:



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

CC:

Bill Magness	Scott Bolling
Jerry Dreyer	Angela Michelsen
Chad Seely	Elizabeth Garza
Bryan Hanley	Kenneth W. Anderson (PUCT)
Kristi Hobbs	Brian Lloyd (PUCT)
Matt Mereness	Brandy Marty Marquez (PUCT)
Penny Rychetsky	Donna Nelson (PUCT)
Steve Dahl	Craven Crowell (Chair, ERCOT Board of Directors)
Dave Pagliai	Finance and Audit Committee
Matt Stout	Baker Tilly, LLP
Steve White	ICMP

Internal Audit Department



TO: Ted Hailu, Director – Client Services
Shelly Botkin, Director – Corporate Communications and Government Relations

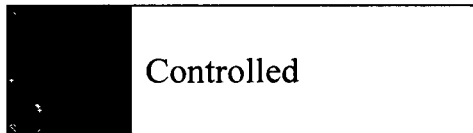
FROM: April Vega, Senior Internal Auditor – Internal Audit Department

DATE: April 19, 2017

SUBJECT: Audit of Information Requests through ERCOT.com

Attached is the final audit report from Internal Audit’s Audit of Information Requests through ERCOT.com.

The report rating for this audit is as follows:



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

CC:

Bill Magness	Tracy Richter
Theresa Gage	Kenneth W. Anderson (PUCT)
Chad Seely	Brian Lloyd (PUCT)
Kristi Hobbs	Brandy Marty Marquez (PUCT)
Matt Mereness	Donna Nelson (PUCT)
Penny Rychetsky	Craven Crowell (Chair, ERCOT Board of Directors)
Matt Stout	Finance and Audit Committee
David Gonzales	Baker Tilly, LLP
Amy Lofton	ICMP
Mia Perez	



TO: Mark Spinner, Manager – Operations Training
FROM: Michelle Myers, Senior IT Auditor – Internal Audit Department
DATE: May 2, 2017
SUBJECT: Audit of Operations Training Program Processes

Attached is the audit report from the Audit of Operations Training Program Processes.

The report rating for this audit is as follows:

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

CC:

Bill Magness	Colleen Frosch
Cheryl Mele	Kenneth W. Anderson (PUCT)
Betty Day	Brian Lloyd (PUCT)
Theresa Gage	Brandy Marty Marquez (PUCT)
Woody Rickerson	Donna Nelson (PUCT)
Chad Seely	Craven Crowell (Chair, ERCOT Board of Directors)
Bill Blevins	Finance and Audit Committee
Kristi Hobbs	Baker Tilly, LLP
Matt Mereness	ICMP
Penny Rychetsky	
Matt Stout	

Electric Reliability Council of Texas, Inc. 2017 Financial Summary As of July 26, 2017 (\$ in Millions)											
Line	Year to Date (June 30)					Year End (December 31)					
	2016	2017				2016	2017				
	Actual	Budget	Actual	Variance		Actual	Budget	Forecast	Variance		
			\$	%		\$	\$	\$	\$	%	
1	System Administration Revenue	\$ 90.5	\$ 94.8	\$ 92.7	\$ (2.1)	(2.2)	\$ 195.9	\$ 197.5	\$ 196.8	\$ (0.8)	(0.4)
2	Department Net Expenditures										
3	Information Technology	27.6	31.9	32.0	(0.1)	(0.3)	59.6	63.7	64.1	(0.4)	(0.6)
4	Operations	27.0	30.5	28.6	1.9	6.2	54.4	60.2	59.1	1.1	1.8
5	Finance & Treasury	6.3	8.0	5.8	2.2	27.5	12.2	15.9	13.2	2.7	17.0
6	External Affairs & Corporate Communications	3.2	3.1	2.9	0.2	6.5	6.2	6.4	6.2	0.3	4.7
7	Human Resources	2.1	2.7	2.1	0.6	22.2	4.6	5.3	4.7	0.6	11.3
8	General Counsel	1.7	2.5	2.0	0.5	20.0	3.1	5.0	4.4	0.6	12.0
9	Corporate Administration	1.3	1.2	0.9	0.2	16.7	2.6	2.5	2.1	0.4	16.0
10	Total Department Net Expenditures	69.4	79.9	74.3	5.6	7.0	142.7	159.0	153.8	5.3	3.3
11	Net Revenues After Department Expenditures	21.1	14.9	18.3	3.4	22.8	53.2	38.5	43.0	4.5	11.7
12											
13	Less: Project Expenditures	8.2	26.9	22.4	4.4	16.5	31.8	40.5	40.5	-	-
14											
15	Net Available for Debt & Working Capital	\$ 12.9	\$ (12.0)	\$ (4.1)	\$ 7.8	65.4	\$ 21.4	\$ (2.0)	\$ 2.5	\$ 4.5	225.0

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 July 26, 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					
				Year to Date Project Actual	% Spend to Year End Forecast	Project Budget	Project Forecast	Variance			
								\$	%		
Technical Foundation											
Network Model Management System (NMMS) Upgrade	Stabilization	1	1	\$ 1.2	80.0	\$ 2.1	\$ 1.5	\$ 0.6	28.6		
Identity and Access Management Evaluation & Execution	Planning	-	2	1.1	40.7	2.7	2.7	-	-		
EDI Translator and Mapping Replacement Assessment	Not Yet Initiated	3	3	-	-	0.5	0.5	-	-		
Corporate Wireless	Planning	-	4	-	-	1.3	1.3	-	-		
Projects Below \$0.7 Million EAC Budget Threshold by Phase											
	Complete			0.1	100.0	0.1	0.1	-	-		
	Closing			-	n/a	-	-	-	n/a		
	Stabilization			0.4	100.0	0.4	0.4	-	-		
	Execution			0.5	71.4	0.7	0.7	-	-		
	Planning			0.1	8.3	1.3	1.2	0.1	7.7		
	Initiation			-	n/a	-	-	-	n/a		
	On Hold			-	n/a	-	-	-	n/a		
	Not Yet Initiated			-	-	0.2	0.2	-	-		
Other Project Spend											
Variance of Completed Projects						-	-	-	n/a		
Variance of In-flight & Not Yet Initiated Projects						0.7	-	0.7	100.0		
				Subtotal		\$ 3.4	39.5	\$ 10.0	\$ 8.6	\$ 1.4	14.0
Data Center 4.0 Optimization (DC4) Program	Planning			11.6		20.0	20.0	-	-		
				Total - Technical Foundation		\$ 15.0	52.4	\$ 30.0	\$ 28.6	\$ 1.4	4.7

Electric Reliability Council of Texas, Inc.

Project Expenditures - Capital Enhancements Demand vs. Year End (YE) Forecast

As of July 26, 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				
				Year to Date Project Actual	% Spend to Year End Forecast	Project Budget	Project Forecast	Variance		
								\$	%	
Regulatory										
Physical Security Project #2	Execution	1	1	\$ 0.6	66.7	\$ 0.9	\$ 0.9	\$ -	-	
Records Management and eDiscovery	Execution	-	2	0.2	50.0	0.4	0.4	-	-	
Business Strategy										
Resource Asset Registration Form (RARF) Replacement	Planning	1	1	-	-	0.4	0.4	-	-	
2015 Credit Monitoring and Management (CMM) NPRRs	Execution	2	2	0.6	37.5	1.6	1.6	-	-	
Congestion Revenue Rights (CRR) UI Framework Upgrade	Execution	4	3	1.1	73.3	1.5	1.5	-	-	
Enterprise Content Alignment Program (ECAP)	Execution	5	4	0.2	33.3	0.6	0.6	-	-	
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation	Planning	6	5	-	-	1.1	1.1	-	-	
Reactive Power Coordination Assessment & Proof of Concept (PoC)	Planning	-	6	-	-	1.1	1.1	-	-	
Multi Station Breaker to Breaker One Lines (Planning)	Execution	7	7	0.2	20.0	1.0	1.0	-	-	
Secondary Wind Forecasting Service	Initiation	-	8	-	-	0.7	0.7	-	-	
Training Facility - Scope and Design	Planning	-	9	0.1	11.1	0.9	0.9	-	-	
Efficiencies / Enhancements										
IT Change and Configuration Management Phase 2	Planning	1	1	0.7	28.0	2.2	2.5	(0.3)	(13.6)	
SAS Technical Architecture Redesign	Execution	2	2	0.9	60.0	1.5	1.5	-	-	
Projects Below \$0.7 Million EAC Budget Threshold by Phase										
	Complete			0.4	100.0	0.8	0.4	0.4	50.0	
	Closing			-	n/a	-	-	-	n/a	
	Stabilization			0.6	100.0	0.8	0.6	0.2	25.0	
	Execution			1.2	70.6	1.8	1.7	0.1	5.6	
	Planning			0.1	14.3	0.8	0.7	0.1	12.5	
	Initiation			-	-	0.5	0.5	-	-	
	On Hold			-	n/a	-	-	-	n/a	
	Not Yet Initiated			-	-	0.7	0.7	-	-	
Other Project Spend										
Capital Efficiencies & Enhancements	Execution			0.5		0.6	0.7	(0.1)	(16.7)	
Variance of Completed Projects						(0.4)	-	(0.4)	100.0	
Variance of In-flight & Not Yet Initiated Projects						(9.0)	(7.6)	(1.4)	15.6	
Total - Capital Enhancements				\$ 7.4	62.2	\$ 10.5	\$ 11.9	\$ (1.4)	(13.3)	

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**Statements of Financial Position****As of June 30, 2017 and 2016**(Dollars in Thousands)

	<u>2017</u>	<u>2016</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 391,959	\$ 330,706
Accounts receivable	2,812	2,507
Unbilled revenue	3,719	3,604
Restricted cash	469,331	402,742
Prepaid expenses and other current assets	30,326	18,661
Total current assets	<u>898,147</u>	<u>758,220</u>
Property and equipment, net	103,926	92,924
Systems under development	27,127	22,671
Total assets	<u>\$ 1,029,200</u>	<u>\$ 873,815</u>
Liabilities and Unrestricted Net Assets		
Current liabilities:		
Accounts payable	\$ 2,599	\$ 2,547
Accrued liabilities	10,414	9,520
Deferred revenue	3,734	3,637
Market settlement liabilities	442,413	372,731
Security deposits	469,331	402,742
Notes payable, current portion	4,000	4,000
Total current liabilities	<u>932,491</u>	<u>795,177</u>
Notes payable, less current portion:		
Principal	57,000	61,000
Less unamortized debt issuance cost	206	219
Notes payable less current portion and unamortized debt issuance costs	<u>56,794</u>	<u>60,781</u>
Other long term liabilities	381	346
Total liabilities	<u>989,666</u>	<u>856,304</u>
Unrestricted net assets	39,534	17,511
Total liabilities and unrestricted net assets	<u>\$ 1,029,200</u>	<u>\$ 873,815</u>

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**Statements of Activities and Net Assets****For the Six Months Ended June 30, 2017 and 2016**(Dollars in Thousands)

	<u>2017</u>	<u>2016</u>
Operating revenues		
System administration fees	\$ 92,740	\$ 90,516
Reliability organization pass-through	7,172	6,988
Other services revenue	3,161	2,505
Total operating revenues	<u>103,073</u>	<u>100,009</u>
Operating expenses		
Salaries and related benefits	51,837	48,191
Facility and equipment costs	4,848	4,879
Outside services	5,454	5,003
Hardware and software maintenance and licensing	14,036	10,652
Reliability organization assessment	7,172	6,988
Depreciation	13,464	10,445
Other	3,398	3,238
Total operating expenses	<u>100,209</u>	<u>89,396</u>
Income (loss) from operations	2,864	10,613
Other income (expense)		
Interest income	890	228
Interest expense	(961)	(948)
Non-operating income	3	1
Change in unrestricted net assets	<u>2,796</u>	<u>9,894</u>
Unrestricted net assets, beginning of year	36,738	7,617
Unrestricted net assets, end of period	<u>\$ 39,534</u>	<u>\$ 17,511</u>

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**Statements of Cash Flows****For the Six Months Ended June 30, 2017 and 2016**(Dollars in Thousands)

	<u>2017</u>	<u>2016</u>
Operating activities:		
Change in unrestricted net assets	\$ 2,796	\$ 9,894
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	13,464	10,445
Amortization of debt issuance costs	9	8
Net gain on capital assets	-	-
Changes in operating assets and liabilities:		
Accounts receivable	1,588	(248)
Unbilled revenue	(556)	(1,225)
Prepaid expenses and other assets	(8,691)	(1,620)
Other long-term liabilities	6	(6)
Accounts payable	(40)	(342)
Accrued liabilities	(851)	1,346
Deferred revenue	(469)	(229)
Net cash provided by operating activities	<u>7,256</u>	<u>18,023</u>
Investing activities:		
Capital expenditures for property and equipment and systems under development	(19,930)	(8,709)
Proceeds from sale of property and equipment	-	1
Net cash (used in) investing activities	<u>(19,930)</u>	<u>(8,708)</u>
Financing activities:		
Repayment of notes payable	(2,000)	(2,000)
Payment of debt issuance costs	(2)	(6)
Decrease in restricted cash	(82,146)	(39,193)
Increase (decrease) in market settlement liabilities	99,544	16,044
(Decrease) in security deposits	82,146	39,193
Net cash (used in) provided by financing activities	<u>97,542</u>	<u>14,038</u>
Net increase in cash and cash equivalents	84,868	23,353
Cash and cash equivalents, beginning of year	307,091	307,353
Cash and cash equivalents, end of period	<u>\$ 391,959</u>	<u>\$ 330,706</u>

Electric Reliability Council of Texas, Inc. 2017 Financial Summary Variance Explanations As of July 26, 2017		
Line	Year to Date (June 30)	Year End (December 31)
1	System Administration Fee Revenue -\$2.1 M - Mild weather	-\$0.8 M - Based on current actuals and low forecast for remainder of year
3	Information Technology -\$0.7 M - Contracted staff augmentation (Resource Management) -\$0.3 M - Contracted staff backfill (Resource Management) -\$0.3 M - Lower-than-budgeted vacancy (Resource Management) +\$0.5 M - Common infrastructure purchases (Computer Hardware) +\$0.2 M - HW/SW support and maintenance renewals +\$0.2 M - Minor capital purchases (Equipment Purchases) +\$0.2 M - Building systems maintenance +\$0.1 M - Other miscellaneous variances <u>Timing Differences</u> +\$0.4 M - Non-capital equipment purchases -\$0.4 M - HW/SW support and maintenance renewals	-\$1.4 M - Contracted staff augmentation (Resource Management) -\$0.7 M - Contracted staff backfill (Resource Management) -\$0.3 M - Lower-than-budgeted vacancy (Resource Management) -\$0.2 M - Higher allocated employee health costs -\$0.1 M - Lower amount of project funded labor (Resource Management) +\$0.7 M - Common infrastructure purchases (Computer Hardware) +\$0.4 M - HW/SW vendor support services (Resource Management) +\$0.4 M - HW/SW support and maintenance renewals +\$0.3 M - Minor capital purchases (Equipment Purchases) +\$0.2 M - Building systems maintenance +\$0.3 M - Other miscellaneous variances
4	Operations +\$0.5 M - Higher amount of project funded labor (Resource Management) +\$0.4 M - Interconnection revenue <u>Timing Differences</u> +\$0.6 M - External studies/consulting services +\$0.5 M - Minor capital purchases (Equipment Purchases) -\$0.1 M - Other miscellaneous variances	+\$0.6 M - Higher amount of project funded labor (Resource Management) +\$0.4 M - Interconnection revenue +\$0.3 M - Higher-than-budgeted vacancy (Resource Management) -\$0.2 M - Higher allocated employee health costs
5	Finance & Treasury +\$0.9 M - Lower interest expense due to project funding and no revolver usage +\$0.9 M - Interest income +\$0.3 M - Property tax -\$0.3 M - Lower-than-budgeted vacancy (Resource Management) <u>Timing Differences</u> +\$0.3 M - Fewer facilities improvements (Equipment Purchases) +\$0.1 M - Corporate insurance	+\$1.6 M - Lower interest expense due to project funding and minimal revolver usage +\$1.5 M - Interest income +\$0.3 M - Property tax -\$0.5 M - Lower-than-budgeted vacancy (Resource Management) -\$0.2 M - Corporate insurance
6	External Affairs & Corporate Communications +\$0.2 M - Higher-than-budgeted vacancy (Resource Management)	+\$0.4 M - Higher-than-budgeted vacancy (Resource Management) -\$0.1 M - Lower-than-budgeted project funded labor (Resource Management)
7	Human Resources +\$0.1 M - New hire relocation +\$0.1 M - Immigration services +\$0.1 M - Healthcare insurance brokerage services <u>Timing Differences</u> +\$0.1 M - Employee reward & recognition program +\$0.1 M - Online training subscription +\$0.1 M - Other miscellaneous variances	+\$0.3 M - New hire relocation +\$0.2 M - Immigration services +\$0.1 M - Healthcare insurance brokerage services
8	General Counsel +\$0.3 M - Higher-than-budgeted vacancy (Resource Management) +\$0.1 M - Regulatory studies not required yet <u>Timing Differences</u> +\$0.1 M - Outside legal services	+\$0.5 M - Higher-than-budgeted vacancy (Resource Management) +\$0.2 M - Regulatory studies may not be required -\$0.1 M - Outside legal services
9	Corporate Administration +\$0.2 M - Higher-than-budgeted vacancy (Resource Management)	+\$0.4 M - Higher-than-budgeted vacancy (Resource Management)
11	Project Expenditures +\$4.4 M - Multiple projects	No variance