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PUBLIC UTILITY COMMIS
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PROJECT NO. 27706

REPORTS OF THE ELECTRIC RELIABILITY COUNCIL OF TEXAS	§ §	PUBLIC UTILITY COMMISSION OF TEXAS

ERCOT'S REPORT FOR THE THIRD QUARTER OF 2016

COMES NOW, Electric Reliability Council of Texas, Inc. (ERCOT) and files its Report for the Third 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 Update September 30, 2016	A1*
	Audit Cover Letter: 2016 Audit of Compliance with Must Shall and Will Requirements in the Protocols	A2
	Audit: 2016 Audit of Compliance with Must Shall and Will Requirements in the Protocols	A3*
	Audit Cover Letter: Audit of the Cash and Investments Process	A4
	Audit: Audit of the Cash and Investments Process	A5*
	Audit Cover Letter: Consulting and Advisory Services - Alert Enterprise Processes	A6
	Audit: Consulting and Advisory Services - Alert Enterprise Processes	A7*
§§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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ERCOT
7620 Metro Center Drive
Austin, Texas 78744

ATTORNEYS FOR ELECTRIC
RELIABILITY COUNCIL OF TEXAS, INC.

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TO: The ERCOT Leadership Team

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

DATE: August 11, 2016

SUBJECT: Audit of Compliance with "Must," "Shall," and "Will" Requirements in the Protocols

Attached is the audit report from Internal Audit's review of ERCOT's compliance with "Must," "Shall," and "Will" requirements in the Protocols.

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:

Allison Atherton	Calvin Opheim
Mandy Bauld	Mark Patterson
Bill Blevins	Bobby Reed
Shelly Botkin	Austin Rosel
Ann Delenela	Sandip Sharma
Ted Hailu	Vanessa Spells
Bryan Hanley	Resmi Surendran
Kristi Hobbs	Jay Teixeira
Warren Lasher	Chad Thompson
Matt Mereness	Joe Weatherly
Joel Mickey	Oscar Macakiage
Mark Ruane	Matt Stout
Leslie Wiley	Kenneth W. Anderson (PUCT)
Dan Woodfin	Donna L. Nelson (PUCT)
Carrie Bivens	Brandy Marty Marquez (PUCT)
Ohlen Dinopol	Brian Lloyd (PUCT)
Colleen Frosch	Craven Crowell (Chair, ERCOT Board of Directors)
Jimmy Hartmann	Judy Walsh (Vice Chair, ERCOT Board of Directors)
David Maggio	ERCOT Finance and Audit Committee
David Michelsen	Baker Tilly

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TO: Mike Petterson, Vice President and Chief Financial Officer
Leslie Wiley, Treasurer

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

DATE: September 7, 2016

SUBJECT: Audit of the Cash and Investments Process

Attached is the final audit report from our recent Audit of the Cash and Investments Process.

The report rating for this audit is as follows:

Controlled

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

CC:
Bill Magness
Cheryl Mele
Theresa Gage
Chad Seely
Matt Mereness
Matt Stout
Allison Atherton
Matt Folks
Amy Gore
Oscar Macakiage
Keith Payton

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

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TO: Matt Stout, Manager – Compliance Controls and Monitoring

FROM: Michelle Myers, Senior IT Auditor – Internal Audit Department

DATE: September 12, 2016

SUBJECT: Consulting and Advisory Services Engagement for AlertEnterprise Processes

Attached is the final report from Internal Audit's Consulting and Advisory Services Engagement for AlertEnterprise Processes.

The report rating for this engagement is as follows:

	Consulting Engagement = No Opinion Rendered

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

CC:

Bill Magness	Kenneth W. Anderson (PUCT)
Cheryl Mele	Brian Lloyd (PUCT)
Betty Day	Brandy Marty Marquez (PUCT)
Theresa Gage	Donna Nelson (PUCT)
Chad Seely	Craven Crowell (Chair, ERCOT Board of Directors)
Kristi Hobbs	Judy Walsh (Vice-Chair, Board of Directors)
Matt Mereness	Finance and Audit Committee
Allison Atherton	Baker Tilly, LLP
Oscar Macakiage	

Electric Reliability Council of Texas, Inc.
2016 Financial Summary
As of September 30, 2016
($ in Millions)

Line		Year to Date (September 30) 2015 Actual	2016 Budget	2016 Actual	Variance $	Variance %	Year End (December 31) 2015 Actual	2016 Budget	2016 Forecast	Variance $	Variance %
1	**System Administration Revenue**	$ 126.0	$ 149.9	$ 150.6	$ 0.7	0.5	$ 162.0	$ 193.9	$ 195.5	$ 1.6	0.8
2	**Department Net Expenditures**										
3	Information Technology	40.9	45.6	43.9	1.7	3.7	55.4	61.8	59.3	2.5	4.0
4	Operations	41.5	44.2	40.6	3.6	8.1	55.7	58.5	55.5	3.0	5.1
5	Finance & Treasury	10 0	11.1	9.3	1.7	15.3	13.3	14.8	12.8	2.0	13.5
6	External Affairs & Corporate Communications	4.8	5.0	4 7	0.2	4.0	6.5	6.5	6.3	0.2	3.1
7	Human Resources	3.1	4.1	3.2	0.9	22.0	4.2	5.3	4.4	0.9	17.0
8	General Counsel	2.4	3.3	2.7	0.6	18.2	3.3	4.5	3.5	1.0	22.2
9	Corporate Administration	1.9	2.0	2.0	-	-	2.8	2.8	2.8	-	-
10	**Total Department Net Expenditures**	**104.5**	**115.2**	**106.5**	**8.7**	**7.6**	**141.2**	**154.1**	**144.6**	**9.6**	**6.2**
11	**Net Revenues After Department Expenditures**	**21.5**	**34.7**	**44.1**	**9.4**	**27.1**	**20.8**	**39.8**	**50.9**	**11.2**	**28.1**
12											
13	**Less: Project Expenditures**										
14	Current Budget Year Project Expenditures	17.9	24.2	18.3	5.9	24.4	21.7	37.1	34.5	2.6	7.0
15	2016 Budget Expended in 2015	1.0	5.4	-	5 4	100.0	5.4	5.4	-	5.4	100.0
16	**Total Project Expenditures**	**18.9**	**29.6**	**18.3**	**11.3**	**38.2**	**27.1**	**42.5**	**34.5**	**8.0**	**18.8**
17											
18	**Net Available for Debt & Working Capital**	**$ 2.6**	**$ 5.1**	**$ 25.8**	**$ 20.7**	**(405.9)**	**$ (6.3)**	**$ (2.7)**	**$ 16.4**	**$ 19.2**	**711.1**

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 October 26, 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 to Date Project Actual	Year to Date: % Spend to Year End Forecast	Year End: Project Budget	Year End: Project Forecast	Year End: Variance $	Year End: Variance %
Technical Foundation									
Energy Management System (EMS) Upgrade	Stabilization	1	1	$ 3.1	93.9	$ 4.0	$ 3.3	$ 0.7	17.5
Network Model Management System (NMMS) Upgrade	Execution	2	2	2.2	73.3	3.0	3.0	-	-
Projects Below $0.7 Million EAC Budget Threshold by Phase									
	Complete			0.3	100.0	0.3	0.3		-
	Closing			-	n/a	-	-		n/a
	Stabilization			-	n/a	-	-		n/a
	Execution				n/a	-	-		n/a
	Planning				-	0.3	0.3	-	-
	Initiation				-	0.2	0.2	-	-
	On Hold				n/a	0.3	-	0.3	100.0
	Not Yet Initiated				-	0.7	0.7	-	-
Other Project Spend									
Variance of Completed Projects						-	-	-	n/a
Variance of In-flight & Not Yet Initiated Projects						1.2	-	1.2	100.0
			Subtotal	**$ 5.6**	**71.8**	**$ 10.0**	**$ 7.8**	**$ 2.2**	**22.0**
Data Center 4.0 Optimization (DC4) Program	Planning			6.3	38.7	16.4	16.3	0.1	0.6
2016 Budget Expended in 2015						3.6	-	3.6	100.0
			Total - Technical Foundation	**$ 11.9**	**49.4**	**$ 30.0**	**$ 24.1**	**$ 5.9**	**19.7**

Electric Reliability Council of Texas, Inc.
Project Expenditures - Capital Enhancements Demand vs. Year End (YE) Forecast
As of October 26, 2016
($ In Millions)

				Year to Date		Year End		Variance	
Project Name [Projects listed are at or above $0.7 Million Estimate at Completion (EAC) Budget threshold]	**Current Phase**	**Order Based on PPL Priority: Jan. 1, 2016**	**Order Based on PPL Priority: Current**	**Year to Date Project Actual**	**% Spend to Year End Forecast**	**Project Budget**	**Project Forecast**	**$**	**%**
Regulatory									
Physical Security Project #2	Execution	1	1	$ 0.9	60.0	$ 1.5	$ 1.5	$ -	-
Configuration Management System (CMS) Requirements for CIP v5 Readiness	Complete	2	2	0.4	100.0	0 5	0 4	0.1	20 0
CIP v5 Readiness Project	Complete	3	3	0 2	100 0	0 2	0.2	-	-
Business Strategy									
Market Participant Online Data Entry Phase 1	On Hold	1	1	-	n/a	-	-	-	n/a
2015 Credit Monitoring and Management (CMM) NPRRs	Planning	2	2	0.4	57 1	0 7	0.7	-	-
2015 Outage Scheduler Enhancements	Stabilization	4	4	0.8	100.0	0.8	0.8	-	-
Short Circuit Ratio Functionality	Closing	5	5	0.4	100.0	0 7	0 4	0.3	42 9
ERCOT Flight Certification Website	Planning	-	6	0 2	66 7	0 3	0.3	-	-
Congestion Revenue Rights (CRR) UI Framework Upgrade	Planning	6	7	0 3	50 0	0 6	0.6	-	-
Enterprise Content Alignment Program (ECAP)	Execution	7	7	0 2	33.3	0.8	0 6	0.2	25 0
Phasor Measurement Unit (PMU) Tool Evaluation and Implementation	Planning	-	8	-	-	0.1	0 1	-	-
Multi Station Breaker to Breaker One Lines (Planning)	Initiation	-	9	-	n/a	-	-	-	n/a
Projects Below $0.7 Million EAC Budget Threshold by Phase									
	Complete			0.5	100.0	0.5	0 5	-	-
	Closing			0.1	100.0	0.1	0 1	-	-
	Stabilization			0 2	100.0	0.5	0 2	0 3	60.0
	Execution			1.1	64.7	1.9	1 7	0.2	10.5
	Planning			0.3	25.0	1.2	1.2	-	-
	Initiation			-	-	0 1	0 1	-	-
	On Hold			-	n/a	0.1	-	0.1	100 0
	Not Yet Initiated			-	-	0 4	0.4	-	-
Other Project Spend									
Capital Efficiencies & Enhancements	Execution			0 4	66.7	0.6	0 6	-	-
Variance of Completed Projects						-	-	-	n/a
Variance of In-flight & Not Yet Initiated Projects						(0.9)		(0.9)	100 0
			Subtotal	**$ 6.4**	**61.5**	**$ 10.7**	**$ 10.4**	**$ 0.3**	**2.8**
2016 Budget Expended in 2015						1.8	-	1 8	100.0
			Total - Capital Enhancements	**$ 6.4**	**61.5**	**$ 12.5**	**$ 10.4**	**$ 2.1**	**16.8**

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
Statements of Financial Position
As of September 30, 2016 and 2015
(Dollars in Thousands)

		2016		2015
Assets				
Current assets:				
Cash and cash equivalents	$	317,589	$	331,174
Accounts receivable		2,183		1,316
Unbilled revenue		2,969		4,044
Restricted cash		358,981		394,733
Prepaid expenses and other current assets		18,380		19,025
Total current assets		700,102		750,292
Property and equipment, net		91,708		84,931
Systems under development		27,657		30,738
Total assets	$	819,467	$	865,961
Liabilities and Unrestricted Net Assets				
Current liabilities:				
Accounts payable	$	2,333	$	1,989
Accrued liabilities		11,946		9,959
Deferred revenue		3,565		3,747
Market settlement liabilities		343,428		373,257
Security deposits		358,981		394,733
Notes payable, current portion		4,000		4,000
Total current liabilities		724,253		787,685
Notes payable:				
Principal		60,000		64,000
Less unamortized debt issuance cost		218		220
Notes payable less unamortized debt issuance cost		59,782		63,780
Other long term liabilities		351		347
Total liabilities		784,386		851,812
Unrestricted net assets		35,081		14,149
Total liabilities and unrestricted net assets	$	819,467	$	865,961

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
Statements of Activities and Net Assets
For the Nine Months Ended September 30, 2016 and 2015
(Dollars in Thousands)

	2016	2015
Operating revenues		
System administration fees	$ 150,606	$ 125,992
Nodal implementation surcharge	-	-
Reliability organization pass-through	10,483	11,028
Other services revenue	3,544	3,400
Total operating revenues	164,633	140,420
Operating expenses		
Salaries and related benefits	72,688	73,420
Facility and equipment costs	8,179	7,878
Outside services	8,155	7,514
Hardware and software maintenance and licensing	16,157	14,059
Reliability organization assessment	10,483	11,028
Depreciation	15,523	49,258
Amortization of regulatory asset	-	(33,526)
Other	5,074	5,041
Total operating expenses	136,259	134,672
Income (loss) from operations	28,374	5,748
Other income (expense)		
Interest income	386	21
Interest expense	(1,425)	(1,598)
Change in valuation of interest rate swap	-	-
Non-operating income	129	357
Change in unrestricted net assets	27,464	4,528
Unrestricted net assets, beginning of year	7,617	9,621
Unrestricted net assets, end of period	$ 35,081	$ 14,149

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
Statements of Cash Flows
For the Nine Months Ended September 30, 2016 and 2015
(Dollars in Thousands)

	2016	2015
Operating activities:		
Change in unrestricted net assets	$ 27,464	$ 4,528
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	15,523	49,258
Amortization of regulatory liabilities	-	(33,526)
Amortization of debt issuance costs	12	24
Change in valuation of interest rate swap	-	-
Net gain on capital assets	(113)	(310)
Changes in operating assets and liabilities:		
Accounts receivable	76	1,908
Unbilled revenue	(590)	(1,734)
Prepaid expenses and other assets	(1,348)	(2,729)
Other long-term liabilities	(1)	(82)
Accounts payable	(1,512)	(1,187)
Accrued liabilities	1,942	1,705
Deferred revenue	(301)	(431)
Net cash provided by operating activities	41,152	17,424
Investing activities:		
Capital expenditures for property and equipment and systems under development	(14,649)	(18,489)
Proceeds from sale of property and equipment	1	-
Net cash (used in) investing activities	(14,648)	(18,489)
Financing activities:		
Repayment of notes payable	(3,000)	(3,000)
Payment of debt issuance costs	(9)	-
Decrease in restricted cash	4,568	14,279
(Decrease) increase in market settlement liabilities	(13,259)	20,438
(Decrease) in security deposits	(4,568)	(14,279)
Net cash (used in) provided by financing activities	(16,268)	17,438
Net increase in cash and cash equivalents	10,236	16,373
Cash and cash equivalents, beginning of year	307,353	314,801
Cash and cash equivalents, end of period	$ 317,589	$ 331,174

Electric Reliability Council of Texas, Inc.
2016 Financial Summary Variance Explanations
As of September 30, 2016

Line		Year to Date (September 30)	Year End (December 31)
1	System Administration Fee Revenue	+$0.7 M - Primarily due to warmer-than-expected weather	+$1.6 M - Based on actuals and 10/17/16 load forecast
3	Information Technology	+$0.8 M - HW/SW vendor support services due to work on projects (Resource Management) +$0.7 M - Common infrastructure purchases +$0.5 M - Savings for staffing management (Resource Management) +$0.3 M - Minor capital purchases +$0.3 M - Wide Area Network (WAN) revenues +$0.3 M - Lower employee health costs -$0.4 M - Lower project funded labor (Resource Management) -$0.4 M - Outside services-staff backfill (Resource Management) -$0.3 M - Other hardware and software services -$0.1 M - Outside services-other	+$1.1 M - HW/SW vendor support services due to more project work (Resource Management) +$1.0 M - Common infrastructure purchases +$0.6 M - Savings for staffing management (Resource Management) +$0.5 M - Minor capital purchases +$0.3 M - Wide Area Network (WAN) revenues +$0.3 M - Lower employee health costs -$0.6 M - Outside services-staff backfill (Resource Management) -$0.3 M - Outsider services-other -$0.2 M - Other hardware and software services -$0.2 M - Lower project funded labor (Resource Management)
4	Operations	+$1.4 M - Savings for staffing management (Resource Management) +$0.4 M - Higher amount of project funded labor (Resource Management) +$0.3 M - Lower employee health costs +$0.1 M - Equipment purchases <u>Timing Differences</u> +$0.9 M - External studies/consulting services +$0.5 M - Hardware, software and equipment purchases	+$1.9 M - Savings for staffing management (Resource Management) +$0.5 M - Higher amount of project funded labor (Resource Management) +$0.3 M - Lower employee health costs +$0.3 M - External studies/consulting services +$0.1 M - Equipment purchases -$0.1 M - Unbudgeted data subscriptions
5	Finance & Treasury	+$0.6 M - Lower interest expense due to project funding +$0.5 M - Property tax +$0.4 M - Interest income +$0.2 M - Fewer facilities improvements and equipment purchases -$0.1 M - Insurance <u>Timing Differences</u> +$0.1 M - Fewer facilities improvements and equipment purchases	+$0.9 M - Lower interest expense due to project funding and no revolver usage +$0.5 M - Property tax +$0.5 M - Interest income +$0.2 M - Fewer facilities improvements and equipment purchases -$0.1 M - Insurance
6	External Affairs & Corporate Communications	+$0.2 M - Public Service Announcements (PSAs) not required +$0.1 M - Lower employee health costs -$0.1 M - External studies/consulting services	+$0.2 M - Public Service Announcements (PSAs) not required +$0.1 M - Lower employee health costs -$0.1 M - External studies/consulting services
7	Human Resources	+$0.3 M - New hire relocation costs +$0.2 M - Employee reward and recognition program and related benefits/taxes +$0.2 M - Immigration services +$0.1 M - Data subscription for online training +$0.1 M - Studies, training and other services	+$0.3 M - New hire relocation costs +$0.2 M - Employee reward and recognition program and related benefits/taxes +$0.2 M - Immigration services +$0.1 M - Data subscription for online training +$0.1 M - Studies, training and other services
8	General Counsel	+$0.3 M - Savings for staffing management (Resource Management) +$0.2 M - Regulatory studies not required yet +$0.1 M - Lower employee health costs	+$0.7 M - Savings for staffing management (Resource Management) +$0.2 M - Regulatory studies may not be required +$0.1 M - Lower employee health costs
9	Corporate Administration	+$0.1 M - Savings for staffing management (Resource Management) -$0.1 M - Unbudgeted executive recruiting services	+$0.1 M - Savings for staffing management (Resource Management) -$0.1 M - Unbudgeted executive recruiting services
14	Less: Current Budget Year Project Expenditures	+$5.9 M - See Project Expenditures summaries in following pages	+$2.6 M - See Project Expenditures summaries in following pages