



Control Number: 27706



Item Number: 441

Addendum StartPage: 0



PROJECT NO. 27706

**REPORTS OF THE ELECTRIC
RELIABILITY COUNCIL OF TEXAS**

§
§

**PUBLIC UTILITY COMMISSION
OF TEXAS**

ERCOT'S REPORT FOR THE FIRST QUARTER OF 2020

Electric Reliability Council of Texas, Inc. (ERCOT) files its Report for the First Quarter of 2020 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 2019 Audit Plan Updated March 31, 2020	A1*
	Audit Cover Letter: Consulting Engagement – CIP 005-6 and CIP 013-1	A2
	Audit: Consulting Engagement – CIP 005-6 and CIP 013-1	A3*
	Audit Cover Letter: Settlements Processes	A4
	Audit: Settlements Processes	A5*
	Audit Cover Letter: Information Governance Program	A6
	Audit: Information Governance Program	A7*
	Audit Cover Letter: 2019 Annual Report on Fraud Monitoring Activities and Ethics Compliance	A8
	Audit: 2019 Annual Report on Fraud Monitoring Activities and Ethics Compliance	A9*
§§25.362(i)(3)(B) and 25.88	A report on performance measures, as prescribed by the commission.	Not attached 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
------------------	--	-------------

Respectfully submitted,

/s/ Gibson Hull

Chad V. Seely
 Vice President and General Counsel
 Texas Bar No. 24037466
 (512) 225-7035 (Phone)
 (512) 225-7079 (Fax)
chad.seely@ercot.com

Juliana Morehead
 Assistant General Counsel
 Texas Bar No. 24046474
 (512) 225-7184 (Phone)
 (512) 225-7079 (Fax)
juliana.morehead@ercot.com

Gibson Hull
 Associate Corporate Counsel
 Texas Bar No. 24106844
 (512) 225-7179 (Phone)
 (512) 2257079 (Fax)
gibson.hull@ercot.com

ERCOT
 7620 Metro Center Drive
 Austin, Texas 78744

ATTORNEYS FOR ELECTRIC
 RELIABILITY COUNCIL OF TEXAS, INC.



TO: Christine Hasha, Senior Manager – CIP and Corporate Compliance

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

DATE: March 17, 2020

SUBJECT: Consulting and Advisory Services Engagement – CIP 005-6 Vendor Remote
Access Processes and CIP 013-1 Supply Chain Risk Management

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

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
Theresa Gage
Chad Seely
Jeyant Tamby
Betty Day
Kristi Hobbs
Matt Mereness
Penny Rychetsky
Craven Crowell (Chair, ERCOT Board of Directors)
Finance and Audit Committee



TO: Ohlen Dinopol, Manager – Settlements Operations

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

DATE: January 13, 2020

SUBJECT: Audit of Settlements Processes

Attached is Internal Audit's final report from the Audit of Settlements Processes. Additional details regarding this engagement are contained in the attached audit report.

The report rating for this audit is as follows:

	Controlled
--	------------

cc:

Bill Magness
Theresa Gage
Kenan Ogelman
Chad Seely
Jeyant Tamby
Kristi Hobbs
Mark Ruane
Penny Rychetsky
Christine Hasha

Mark Bengtson
Ponda Bethke
Connie Harris
Zachary Pendland
Teresa Simien
Craven Crowell (Chair, ERCOT Board of Directors)
Finance and Audit Committee
Baker Tilly, LLP



TO: Chad Seely, Vice President and General Counsel

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

DATE: March 10, 2020

SUBJECT: Audit of Information Governance Program

Attached is Internal Audit's final report from the Audit of Information Governance Program.

The report rating for this audit is as follows:

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

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

cc:

- Bill Magness
- Jeyant Tamby
- Theresa Gage
- Kristi Hobbs
- Matt Mereness
- Penny Rychetsky
- Christine Hasha
- Chris Barden
- Jen Greer
- Craven Crowell (Chair, ERCOT Board of Directors)
- Finance and Audit Committee
- Baker Tilly, LLP



TO: Chad Seely, Vice President and General Counsel
Mara Spak, Vice President - Human Resources
Sean Taylor, Vice President and Chief Financial Officer

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

DATE: March 25, 2020

SUBJECT: 2019 Annual Report on Fraud Monitoring Activities and Ethics Compliance

Attached is Internal Audit's Annual Report on Fraud Monitoring Activities and Ethics Compliance.

The report ratings for this audit are as follows:

Fraud Monitoring Activities

	Controlled
--	------------

Ethics Compliance

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

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

cc:

Bill Magness
Jeyant Tamby
Betty Day
Theresa Gage
Kenan Ogelman
Kristi Hobbs
Matt Mereness
Mark Ruane
Brandt Rydell
Penny Rychetsky
Leslie Wiley
Christine Hasha
Dawn Herms

Vickie Leady
Jimmy Ramirez
Vanessa Spells
Doris Berninger
Gina Gillmore
Keith Payton
Erica Rose
Margaret Sachnik
Jason Terrell
Craven Crowell (Chair, ERCOT Board of Directors)
Finance and Audit Committee
Baker Tilly, LLP

Attachment B

Electric Reliability Council of Texas, Inc. 2020 Financial Summary As of April 21, 2020 (\$ in Millions)										
Line	Year to Date (March 31)					Year End (December 31)				
	2019 Actual	2020				2019 Actual	2020			Variance \$ %
		Budget	Actual	\$	%		Budget	Forecast	\$	%
1 System Administration Revenue	\$ 46.7	\$ 49.3	\$ 47.4	\$ (1.9)	(3.9)	\$ 214.0	\$ 222.6	\$ 218.2	\$ (4.5)	(2.0)
2 Department Net Expenditures										
3 Chief Information Office	18.9	19.9	19.0	0.9	4.4	75.0	78.5	79.2	(0.7)	(0.9)
4 Chief Administrative Office	9.1	10.5	10.7	(0.1)	(1.3)	40.3	43.1	44.0	(0.9)	(2.1)
5 Grid Planning & Operations	7.0	7.6	7.5	0.1	1.3	30.4	33.8	34.6	(0.9)	(2.6)
6 Commercial Operations	4.8	4.0	4.3	(0.3)	(6.9)	15.2	16.0	16.9	(0.9)	(5.8)
7 External Affairs & Corporate Communications	1.6	1.8	1.7	0.1	5.7	6.3	7.1	7.0	0.1	1.4
8 General Counsel	1.1	1.5	1.4	0.1	7.7	5.0	5.9	5.9	0.0	0.6
9 Chief Executive Office	0.9	0.7	0.6	0.1	19.1	3.0	2.8	2.3	0.5	18.3
10 Project Funded Labor	(1.9)	(3.0)	(2.5)	(0.5)	(16.5)	(8.0)	(11.8)	(11.5)	(0.3)	(2.6)
11 Total Department Net Expenditures	41.5	43.0	42.6	0.4	1.0	167.2	175.2	178.3	(3.1)	(1.8)
12 Net Revenues After Department Expenditures	5.2	6.4	4.8	(1.5)	(23.8)	46.8	47.4	39.9	(7.6)	(15.9)
13										
14 Less: Project Expenditures	5.1	8.0	7.0	1.0	12.3	20.8	32.0	30.0	2.0	6.3
15 Less: Interest Expense	0.3	0.4	0.4	(0.0)	(4.2)	1.7	1.7	1.8	(0.1)	(8.8)
16 Add: Interest Income	5.2	5.0	3.5	(1.5)	(30.7)	20.4	20.0	3.5	(16.5)	(82.7)
17										
18 Net Available	\$ 5.0	\$ 2.9	\$ 0.9	\$ (2.1)	(70.8)	\$ 44.6	\$ 33.7	\$ 11.5	\$ (22.2)	(65.9)
Note: Schedule may not foot due to rounding										

Electric Reliability Council of Texas, Inc.
Project Expenditures Summary
(\$ in Millions)

		Year to Date As of March 31, 2020		Year to Date As of April 21, 2020		Life to Date As of March 31, 2020		Estimate at Completion (EAC) As of April 21, 2020									
		Actual	% of YE Forecast	YE Forecast	% of All Included Projects	Actual	% of EAC Forecast	EAC Forecast	% of All Included Projects	Budget	Variance						
Line	Project																
Projects with EAC Budget Over \$2.5 M																	
1	Real Time Co-optimization (RTC)	\$	0.0	0%	\$	1.0	3%	\$	0.0	0%	\$	40.0	32%	\$	40.0	0.0	
2	Identity and Access Management (IAM)		0.1	91%		0.1	0%		8.0	98%		8.1	6%		8.1	0.0	
3	Credit Monitoring and Management (CMM) NPRRs		0.2	16%		1.2	4%		5.6	69%		8.1	6%		7.8	(0.3)	
4	Grid Geospatial (Grid Geo) Program		0.5	20%		2.4	8%		5.2	71%		7.2	6%		7.1	(0.1)	
5	Market Management System (MMS) / Outage Scheduler (OS) Technology Refresh		0.9	21%		4.5	15%		1.5	24%		6.4	5%		6.4	0.0	
6	Resource Asset Registration Form (RARF) Replacement (RIOO)		0.6	14%		4.6	15%		3.7	62%		5.9	5%		5.9	0.0	
7	Enterprise Content Alignment Program (ECAP)		0.3	20%		1.4	5%		3.9	64%		6.2	5%		5.0	(1.2)	
8	Reactive Power Coordination (RPC)		0.0	2%		1.7	6%		0.1	1%		4.6	4%		4.6	0.0	
9	Retail Portfolio Refresh Program		0.4	22%		1.9	6%		2.4	52%		4.5	4%		4.5	(0.0)	
10	Energy Management System (EMS) Upgrade 2024		0.4	10%		3.4	11%		0.4	9%		4.1	3%		4.1	0.0	
11	Delivery Tool Chain Modernization		0.5	18%		2.6	9%		0.5	14%		3.4	3%		3.4	0.0	
12	Security Constrained Unit Commitment (SCUC)		0.0	0%		0.2	1%		0.0	1%		3.2	3%		3.2	0.0	
13	Privileged Account Management (PAM)		0.0	0%		0.7	2%		0.8	33%		2.6	2%		2.6	0.0	
14	Total Projects with EAC Budget Over \$2.5 M		3.9	15%		25.7	86%		32.0	31%		104.2	83%		102.7	(1.5)	
15	Other Projects		3.2	73%		4.3	14%		7.3	35%		21.1	17%		22.4	1.3	
16	Total Project Expenditures	\$	7.0	23%	\$	30.0	100%		\$	39.3	31%	\$	125.3	100%	\$	125.1	(0.2)

Note: Schedule may not foot due to rounding.

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**Statements of Financial Position****As of March 31, 2020 and 2019**

(Dollars in Thousands)

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,071,385	\$ 826,705
Accounts receivable	3,948	3,691
Unbilled revenue	2,528	3,793
Restricted cash and cash equivalents	446,948	391,822
Short-term investments	102,572	100,287
Prepaid expenses and other current assets	29,397	28,036
Total current assets	1,656,778	1,354,334
Long-term investments	253	-
Property and equipment, net	111,111	108,595
Systems under development	20,991	32,546
Other Long Term Assets	896	-
Total assets	\$ 1,790,029	\$ 1,495,475
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 6,859	\$ 8,155
Accrued liabilities	9,952	9,489
Deferred revenue	5,057	4,940
Market settlement liabilities	724,146	556,337
Security deposits	446,948	391,822
Notes payable, current portion	4,000	4,000
Total current liabilities	1,196,962	974,743
Long-term liabilities:		
Notes payable, less current portion:		
Principal	46,000	50,000
Less unamortized debt issuance costs	186	182
Notes payable less current portion and unamortized debt issuance costs	45,814	49,818
Long-term CRR liabilities	421,508	377,359
Other long-term liabilities	913	350
Total long-term liabilities	468,235	427,527
Total liabilities	1,665,197	1,402,270
Net assets without donor restrictions	124,832	93,205
Total liabilities and net assets	\$ 1,790,029	\$ 1,495,475

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**Statements of Activities and Net Assets****For the Three Months Ended March 31, 2020 and 2019**

(Dollars in Thousands)

	2020	2019
Operating revenues		
System administration fees	\$ 47,405	\$ 46,721
Other services revenue	2,160	2,372
Total operating revenues	49,565	49,093
Operating expenses		
Salaries and related benefits	30,508	29,408
Facility and equipment costs	2,393	2,431
Outside services	3,791	3,794
Hardware and software maintenance and licensing	6,592	6,692
Depreciation	7,676	7,141
Other	1,845	1,630
Total operating expenses	52,805	51,096
Loss from operations	(3,240)	(2,003)
Other income (expense)		
Investment return, net	3,466	5,235
Interest expense	(437)	(344)
Non-operating income	3	-
Change in net assets without donor restrictions	(208)	2,888
Net assets without donor restrictions, beginning of year	125,040	90,317
Net assets without donor restrictions, end of period	\$ 124,832	\$ 93,205

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.**Statements of Cash Flows****For the Three Months Ended March 31, 2020 and 2019**

(Dollars in Thousands)

	2020	2019
Operating activities:		
Change in net assets without donor restrictions	\$ (208)	\$ 2,888
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation	7,676	7,141
Amortization of debt issuance costs	4	4
Amortization of bond discount	(97)	(323)
Net loss on capital assets	1	-
Changes in operating assets and liabilities:		
Accounts receivable	1,908	2,180
Unbilled revenue	(11)	(657)
Prepaid expenses and other assets	198	(244)
Other long-term assets	(896)	-
Other long-term liabilities	554	(76)
Accounts payable	5,002	6,043
Accrued liabilities	(1,257)	(1,576)
Deferred revenue	(636)	(726)
Security deposits	(56,861)	(66,702)
Market settlement liabilities	32,232	(44,491)
Long-term CRR liabilities	62,163	73,960
Net cash provided by (used in) operating activities	49,772	(22,579)
Investing activities:		
Purchase of Investments	(66,107)	(18,855)
Proceeds from Investments	65,476	18,834
Capital expenditures for property and equipment and systems under development	(6,647)	(7,743)
Net cash (used in) investing activities	(7,278)	(7,764)
Financing activities:		
Repayment of notes payable	(1,000)	(1,000)
Payment of debt issuance costs	(20)	-
Net cash (used in) financing activities	(1,020)	(1,000)
Net increase (decrease) in cash, cash equivalents, and restricted cash and cash equivalents	41,474	(31,343)
Cash, cash equivalents, and restricted cash and cash equivalents, beginning of year	1,476,859	1,249,870
Cash, cash equivalents, and restricted cash and cash equivalents, end of period	\$ 1,518,333	\$ 1,218,527

Electric Reliability Council of Texas, Inc. 2020 Financial Summary Variance Explanations As of April 21, 2020		
Line	Year to Date (March 31)	Year End (December 31)
1 System Administration Revenue	-\$1.1 M - Weather -\$0.8 M - Weaker economy	-\$4.5 M - Based on current actuals and load forecast for remainder of year
3 Chief Information Office	-\$0.3 M - Common infrastructure purchases -\$0.2 M - Lower-than-budgeted vacancy [Resource Management-Staffing Management] -\$0.1 M - Data service subscriptions +\$0.5 M - Contingent labor [Resource Management-Staffing Management] +\$0.2 M - Minor capital purchases +\$0.1 M - Employee training and business travel +\$0.1 M - Consulting services <u>Timing Differences</u> +\$0.2 M - HW/SW support and maintenance renewals +\$0.1 M - Contingent labor +\$0.1 M - Consulting services +\$0.1 M - Minor capital purchases +\$0.1 M - HW/SW vendor support services	-\$0.8 M - Common infrastructure purchases -\$0.8 M - Lower-than-budgeted vacancy [Resource Management-Staffing Management] -\$0.1 M - Data service subscriptions +\$0.5 M - Contingent labor [Resource Management-Staffing Management] +\$0.2 M - Minor capital purchases +\$0.2 M - Employee training and business travel +\$0.1 M - Consulting services
4 Chief Administrative Office	-\$0.2 M - Hardware maintenance and software -\$0.2 M - Lower-than-budgeted vacancy [Resource Management-Staffing Management] +\$0.1 M - Contingent labor [Resource Management-Staffing Management] +\$0.1 M - Electricity and building maintenance <u>Timing Differences</u> -\$0.3 M - Protocol services +\$0.2 M - Property tax +\$0.1 M - Minor capital purchases +\$0.1 M - Employee training and business travel	-\$0.5 M - Cyber monitoring service -\$0.5 M - Hardware maintenance and software -\$0.2 M - Lower-than-budgeted vacancy [Resource Management-Staffing Management] +\$0.2 M - Contingent labor [Resource Management-Staffing Management] +\$0.1 M - Electricity and building maintenance

Electric Reliability Council of Texas, Inc. 2020 Financial Summary Variance Explanations As of April 21, 2020		
Line	Year to Date (March 31)	Year End (December 31)
5 Grid Planning & Operations	-\$0.3 M - Lower-than-budgeted vacancy [Resource Management-Staffing Management] -\$0.2 M - Black Start training revenue +\$0.1 M - Black Start training expense +\$0.1 M - Employee training and business travel +\$0.1 M - Contingent labor [Resource Management-Staffing Management] +\$0.1 M - Research studies <u>Timing Differences</u> +\$0.1 M - Consulting services +\$0.1 M - Interconnection revenue	-\$0.9 M - Lower-than-budgeted vacancy [Resource Management-Staffing Management] -\$0.3 M - Black Start training revenue -\$0.2 M - Consulting services -\$0.1 M - Training subscriptions +\$0.2 M - Black Start training expense +\$0.1 M - Employee training and business travel +\$0.1 M - Contingent labor [Resource Management-Staffing Management] +\$0.1 M - Research studies +\$0.1 M - Other miscellaneous
6 Commercial Operations	-\$0.3 M - Lower-than-budgeted vacancy [Resource Management-Staffing Management]	-\$0.8 M - Lower-than-budgeted vacancy [Resource Management-Staffing Management] -\$0.2 M - Contingent labor [Resource Management-Staffing Management] +\$0.1 M - Employee training and business travel
7 External Affairs & Corporate Communications	+\$0.1 M - Higher-than-budgeted vacancy [Resource Management-Staffing Management]	+\$0.2 M - Higher-than-budgeted vacancy [Resource Management-Staffing Management] -\$0.1 M - Contingent labor [Resource Management-Staffing Management]
8 General Counsel	-\$0.1 M - Board member recruiting expense <u>Timing Differences</u> +\$0.2 M - Outside legal services	+\$0.1 M - Higher-than-budgeted vacancy [Resource Management-Staffing Management] -\$0.1 M - Board member recruiting expense
9 Chief Executive Office	+\$0.1 M - Higher-than-budgeted vacancy [Resource Management-Staffing Management]	+\$0.5 M - Higher-than-budgeted vacancy [Resource Management-Staffing Management]
10 Project Funded Labor	-\$0.3 M - Multiple projects [Resource Management-Project Work] <u>Timing Differences</u> -\$0.2 M - Multiple projects [Resource Management-Project Work]	-\$0.3 M - Multiple projects [Resource Management-Project Work]
14 Project Expenditures	+\$1.0 M - Multiple projects	+\$2.0 M - Multiple projects
15 Interest Expense	No material variance	-\$0.1 M - Lower capitalized interest
16 Interest Income	-\$1.5 M - Lower interest rate offset by higher investment balance	-\$16.5 M - Lower interest rate offset by higher investment balance