



Item 4.1: CEO Update

REVISED December 10, 2014

H.B. "Trip" Doggett

President & Chief Executive Officer

Board of Directors Meeting

ERCOT Public

December 9, 2014

CEO Update: Variance to Budget (\$ in Millions)

Net Revenues After Base Operating Expenses as of October 31, 2014

Net Revenues Year to Date: \$0.4 M Unfavorable

Major Revenue Variances

\$0.8 M under budget system administration fees due to milder-than-expected temperatures

Major Expense Variances

\$1.1 M under budget hardware/software maintenance due to contract renewals negotiated at lower rates

\$0.9 M under budget hardware/software vendor support services due to more work on projects

\$1.5 M over budget external staffing due to backfilling permanent positions

Net Revenues Year End: \$0.3 M Favorable

Major Revenue Variances

\$1.2 M under budget system administration fees due to milder-than-expected temperatures

Major Expense Variances

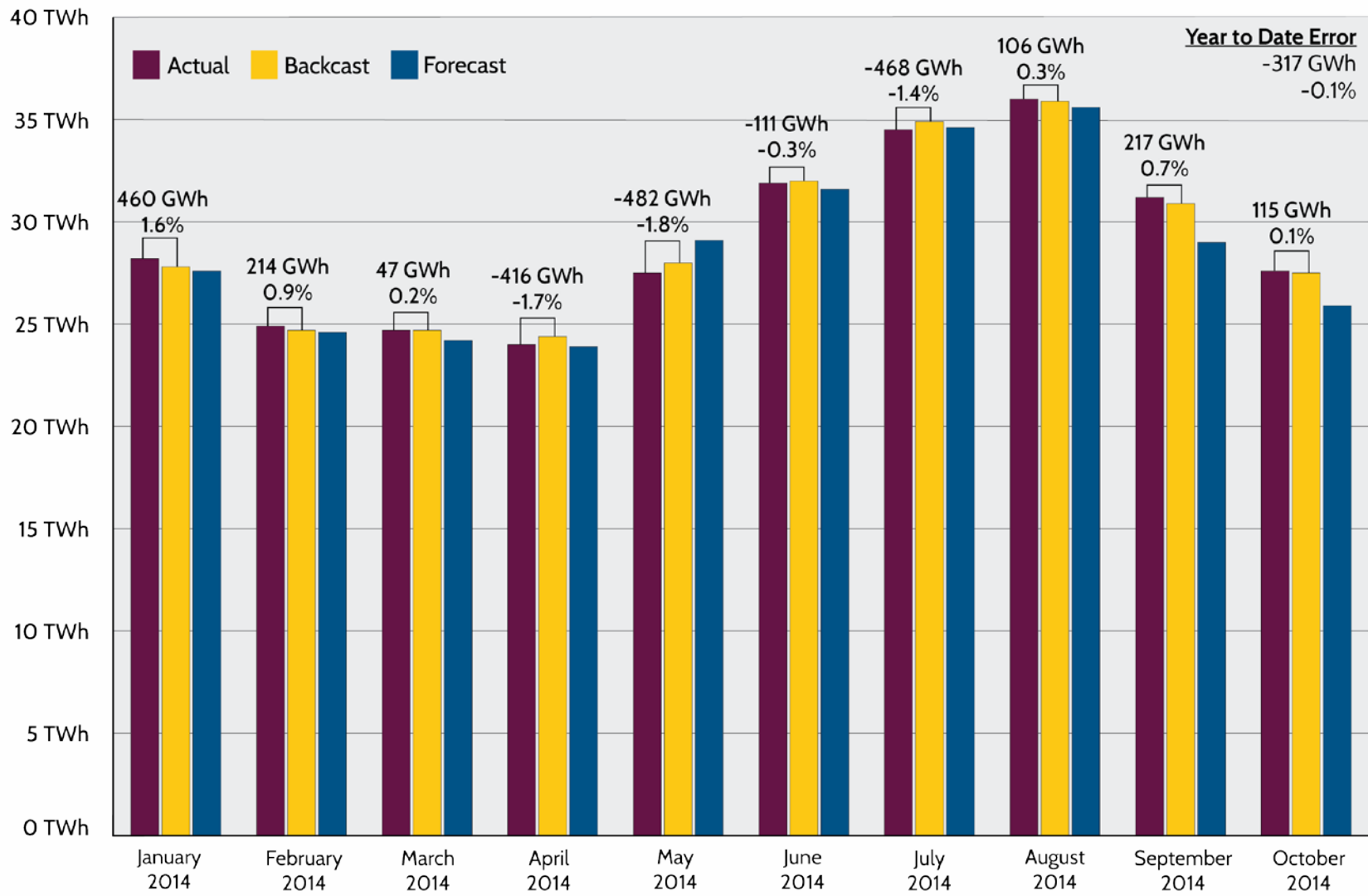
\$1.4 M under budget hardware/software maintenance due to contract renewals negotiated at lower rates

\$1.0 M under budget hardware/software vendor support services due to more work on projects

\$1.0 M under budget market design contingency will not be utilized

\$1.8 M over budget external staffing due to backfilling permanent positions

Load Forecast Performance Summary (REVISED 12/10/14)



Generator Weatherization

- **On September 10, 2014 ERCOT and Texas RE hosted a generator weatherization workshop**
- **A forum was developed with the International Generator Technical Community focusing on generator weatherization best practices and lessons learned**
- **ERCOT completed winter fuel surveys to understand generator capabilities during gas curtailments**
- **ERCOT requested updated weatherization plans for winter for site visits**
- **Fifty-four site visits for weatherization spot checks are planned for the winter 2014-2015. FERC NERC & Texas RE participated in selected site visits. The criteria for selection is as follows**
 - Generators that experienced cold weather equipment failures during previous winter will be visited to verify corrective actions are completed
 - New resources that are commissioned for commercial operations by December 1, 2014
 - Randomly-selected generators

Current Topics

Impact of Environmental Regulations

- ERCOT on Nov. 17 released its “Analysis of the Impacts of the Clean Power Plan”, which reviews the potential effects from the EPA’s proposal to reduce CO2 emissions in Texas on grid reliability, generation resources and electricity costs
- ERCOT will issue the comprehensive report of this environmental regulatory impact study on December 16, 2014

Winter 2014-15 SARA

- Under a broad range of planning scenarios, ERCOT expects to have sufficient electric supplies this winter
- The Lower Rio Grande Valley region continues to be a concern
 - Transmission improvements are under way in the region
 - The Frontera plant plans to begin sending some power to Mexico in January 2015; ERCOT and Frontera owners have submitted to U.S. Department of Energy conditions to protect ERCOT reliability when these exports begin

Current Topics (Continued)

December 2014 CDR

- ERCOT released its newly updated Capacity, Demand and Reserves report on December 1
- Planning reserve margins are expected to exceed 15% through 2018
- Impacts of environmental regulations, as well as new generation additions, could affect future forecasts

Recent Records

- New wind generation record – Nov. 2, 10,301 MW @ HE 19:00 (9,326 MW Non-Coastal; 975 MW Coastal); 33.41% of load
- November peak demand (preliminary) – 50,677 MW on Nov. 17 (previous record 46,954 MW on Nov. 25, 2013)

Permian Basin Load Growth

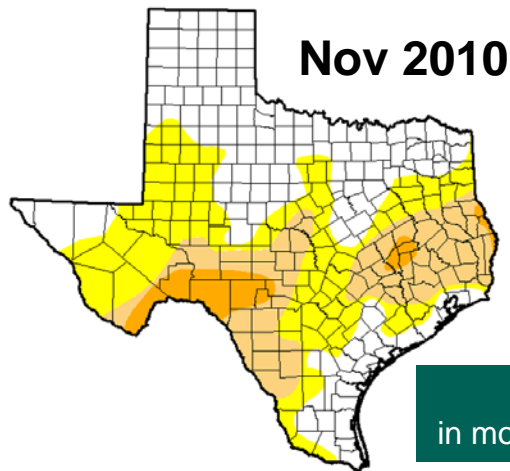
- ERCOT has begun a new study, together with transmission & distribution providers and oil & gas producers to evaluate the current and anticipated future load growth in more detail
- When the study is complete (approx. Q3 2015), the Regional Planning Group will develop a plan to serve future growth in this region of West Texas

R6 Release Deployment

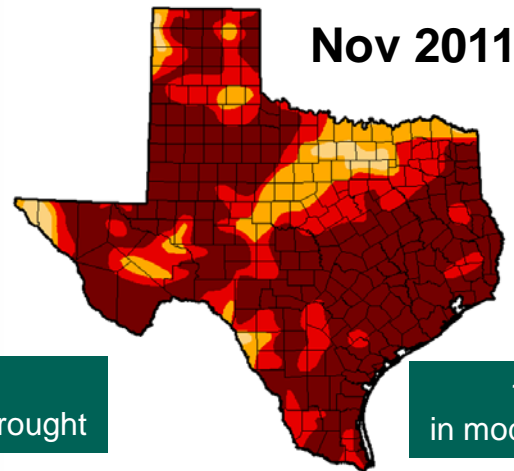
Planned R6 deployments to production

- Release dates: December 8-12, 2014
- 65 changes across major application areas
- Four NPRRs
 - NPRR 491: Updated Distribution Generation and Demand Response Information for ERCOT
 - NPRR 467: Balancing Account Resettlement Due to DAM Resettlement / Settlement System Upgrade
 - NPRR 580: Establishment of a Rolling CRR Balancing Account Fund / Settlement System Upgrade
 - NPRR 619: Minimum Quantity for DAM PTP Obligation Bids
- Major system projects
 - Settlement Rewrite: Settlements & Billing
 - Collage Replacement: Collage, ERCOT.com
 - EPS Metering Database Redesign
 - SharePoint 2013 upgrade & redundancy (Completed 11/2014)
 - Site failover for CORE & NON-CORE systems to Taylor (Completed 11/2014)
- Improvements to key areas included
 - Market Management Systems, Energy Management Systems
 - EPS Metering, Settlements & Billing, NDCRC, Collage, ERCOT.com
 - Enterprise Information Services, Market Information Systems

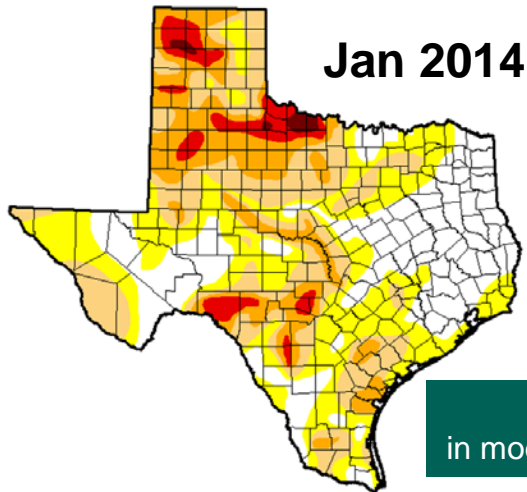
Historical versus Current Drought Conditions



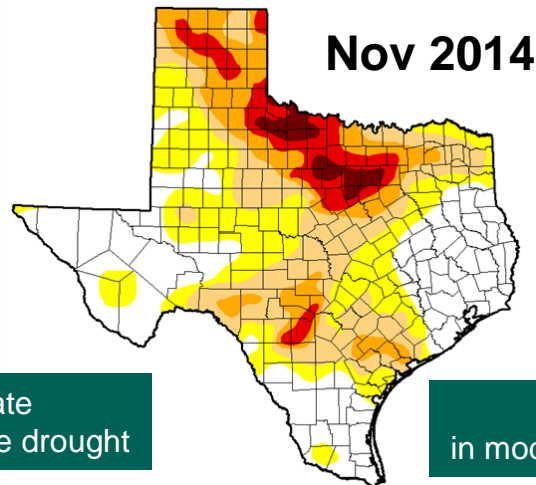
25% of the state
in moderate or worse drought



100% of the state
in moderate or worse drought



44% of the state
in moderate or worse drought



43% of the state
in moderate or worse drought

- The overall drought continues following the autumn season, with some improvements over portions of the state; Largest improvement over South Texas
- Largest area of concern remains from the vicinity of Dallas County and especially Tarrant County to points west-northwest
- Lake Travis is at 33% of capacity. Lake Buchanan at 34%

SSAE 16 Audit Achievements



The Internal Control Management Program (ICMP) leads the SSAE 16 effort. Allison Atherton and Oscar Macakiage are the key coordinators.

SSAE 16 audit ERCOT staff participants include:

- Change & Configuration Management
- Load Forecasting & Analysis
- Settlements and Billing
- Congestion Revenue Rights
- Market Credit
- Day-Ahead Market
- Facilities
- Treasury
- Human Resources
- Legal
- IT Operations & Infrastructure
- Market Analysis
- Meter Data Acquisition & Analysis
- Model Coordination
- Retail Operations
- Employee Access
- Physical & Cyber Security
- Data Integrity
- Market Support Services

- This is an outstanding result to cap an effort that involves approximately 75 ERCOT employees every year in audit preparation, provision of evidence, participation in interviews with auditors, and reporting.
- ERCOT is presenting to the Board an SSAE 16 audit report for 2014 with an unqualified auditor's opinion and zero testing exceptions.
- Audit performance is important to ERCOT, Inc. and to the entire ERCOT market.