



MEMORANDUM

To: Human Resources and Governance (HR&G) Committee
From: Diane Williams, Vice-President of Human Resources
Vickie Leady, Asst. General Counsel and Asst. Corporate Secretary
Date: August 3, 2015
Subject: Item 6 – Review of 401(k) Savings Plan Audit Report

HR&G Committee Charter Requirement to Review the 401(k) Savings Plan Audit Report

Section 1.a.(7) of the Duties and Responsibilities of the HR&G Committee Charter requires that the Committee review the 401(k) Savings Plan audit report annually without the need for recommendation to the Board of Directors (Board). It further provides and clarifies that “[r]ecommendation for acceptance of the 401(k) Savings Plan audit report will be made by the Finance and Audit (F&A) Committee.”

F&A Committee Consideration of Recommendation of Acceptance of the 401(k) Savings Plan Audit Report

The proposed final audit report for the ERCOT 401(k) Savings Plan, as of December 31, 2014, as prepared by Maxwell, Locke & Ritter, LLP, is expected to be presented to the F&A Committee at its August 10, 2015 Committee meeting. The proposed report reflects no findings indicating material issues with the administration of the 401(k) Savings Plan.

For timely Form 5500 filing, at its August 10, 2015 meeting, the F&A Committee is expected to consider recommending acceptance of the 401(k) Savings Plan audit report to the Board. The Board is expected to hear the F&A Committee’s recommendation on this matter as part of the F&A Committee Report at the August 11, 2015 Board meeting.

The Board decision template for this matter is attached for your convenience.



Date: August 4, 2015
To: Board of Directors
From: Michael Petterson, ERCOT Vice President and Chief Financial Officer
Subject: Acceptance of 2014 ERCOT 401(k) Savings Plan Audit Report

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: August 11, 2015

Item No.: 8.1

Issue:

Acceptance of the audited financial statements of Electric Reliability Council of Texas, Inc.'s (ERCOT's) 401(k) Savings Plan (401(k) Plan), as of December 31, 2014.

Background/History:

Internal Revenue Service (IRS) rules and regulations require an annual financial statement audit of the benefit plans such as ERCOT's 401(k) Plan.

In May 2013, ERCOT engaged the firm of Maxwell, Locke & Ritter LLP, to complete audits of the 401(k) Plan financial statements for 2012, 2013 and 2014, subject to the annual approval of the Finance and Audit (F&A) Committee and Board. In August 2014, the F&A Committee and Board approved, and ERCOT engaged, Maxwell, Locke & Ritter LLP to provide 401(k) Plan audit services for the calendar year ending December 31, 2014.

It is expected that on August 10, 2015, representatives of Maxwell, Locke & Ritter LLP will meet with the F&A Committee of the Board to discuss the proposed final audit report for the ERCOT 401(k) Plan, as of December 31, 2014.

The F&A Committee is expected to recommend that the Board accept the 2014 audited financial statements for the ERCOT 401(k) Plan, as of December 31, 2014, as prepared by Maxwell, Locke & Ritter LLP, during its meeting.

A draft of the final audit report for the ERCOT 401(k) Plan, as of December 31, 2014, prepared by Maxwell, Locke & Ritter LLP, and submitted for the Board's acceptance is attached hereto as Exhibit A.

Key Factors Influencing Issue:

- The IRS reporting requirements and filing requirements for the annual IRS Form 5500 for ERCOT's 401(k) Plan. The 401(k) Plan's books and records must be audited by an independent auditor, and a copy of the audit report supplied with Form 5500. The 2014 filing is due no later than October 15, 2015.
- The draft report attached hereto reflects no findings indicating material issues with the administration of the 401(k) Plan, and the expectation that the F&A Committee will recommend approval of same.
- The expectation that Maxwell, Locke & Ritter LLP, will issue a final opinion consistent with the draft version attached hereto as Exhibit A.



Conclusion/Recommendation:

The F&A Committee is expected to review the final audited statements for ERCOT's 401(k) Plan prepared by Maxwell, Locke & Ritter LLP, as of December 31, 2014, at its meeting on August 10, 2015, and is expected to recommended that the Board accept the audited financial statements of ERCOT's 401(k) Plan, as of December 31, 2014, as presented in draft form by Maxwell, Locke & Ritter LLP, attached hereto as Exhibit A.



ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, Electric Reliability Council of Texas, Inc. (ERCOT) provided a 401(k) Savings Plan [the 401(k) Plan] as a benefit for its eligible employees during the fiscal year 2014;

WHEREAS, the Internal Revenue Service rules and regulations also require an annual financial statement audit of benefits plans such as the 401(k) Plan;

WHEREAS, in May 2013, the ERCOT Board of Directors (Board) selected Maxwell, Locke & Ritter LLP to provide 401(k) Plan audit services for the calendar years 2012, 2013 and 2014, subject to the annual approval of the Finance and Audit (F&A) Committee and Board; and

WHEREAS, in August 2014, the F&A Committee and Board approved, and ERCOT engaged, Maxwell, Locke & Ritter LLP to provide 401(k) Plan audit services for the calendar year ending December 31, 2014; and

WHEREAS, Maxwell, Locke & Ritter LLP has issued an opinion acceptable to this Board in connection with its audit of ERCOT’s 2014 financial statement for the 401(k) Plan;

WHEREAS, after due consideration of the alternatives, the F&A Committee has considered and recommended that the Board accept the audited financial statements of ERCOT’s 401(k) Plan, as of December 31, 2014, as presented by Maxwell, Locke & Ritter LLP, at its meeting of August 10, 2015; and

WHEREAS, the Board deems it desirable and in the best interest of ERCOT to accept the F&A Committee’s recommendation to accept the audited financial statements of ERCOT’s 401(k) Plan, as of December 31, 2014, as presented by Maxwell, Locke & Ritter LLP;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby accepts the audited financial statements for ERCOT’s 401(k) Plan, as of December 31, 2014, as presented by Maxwell, Locke & Ritter LLP.

CORPORATE SECRETARY’S CERTIFICATE

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its August 11, 2015 meeting, the ERCOT Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of August, 2015.

Vickie G. Leady
Assistant Corporate Secretary

EXHIBIT A

**ELECTRIC RELIABILITY
COUNCIL OF TEXAS
401(k) SAVINGS PLAN**

**Financial Statements and
Supplemental Schedule
as of and for the Year Ended
December 31, 2014 and
Independent Auditors' Report**

DRAFT

INDEPENDENT AUDITORS' REPORT

To the Benefits Committee and Participants of
Electric Reliability Council of Texas 401(k) Savings Plan:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Electric Reliability Council of Texas 401(k) Savings Plan (the "Plan"), which comprise the statements of net assets available for benefits as of December 31, 2014 and 2013, and the related statement of changes in net assets available for benefits for the year ended December 31, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As permitted by 29 CFR 2520.103-8 of the Department of Labor's ("DOL") Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 ("ERISA"), the Plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 4, which was certified by Fidelity Management Trust Company, the trustee of the Plan, except for comparing such information with the related information included in the financial statements. We have been informed by the Plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The Plan administrator has obtained a certification from the trustee as of December 31, 2014 and 2013, and for the year ended December 31, 2014, that the information provided to the Plan administrator by the trustee is complete and accurate.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matter

The supplemental schedule, Schedule of Assets Held at End of Year, as of December 31, 2014 is required by the DOL's Rules and Regulations for Reporting and Disclosure under ERISA and is presented for the purpose of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on this supplemental schedule.

Report on Form and Content in Compliance With DOL Rules and Regulations

The form and content of the information included in the financial statements and supplemental schedule, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA.

Austin, Texas
July XX, 2015

ELECTRIC RELIABILITY COUNCIL OF TEXAS 401(k) SAVINGS PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS:		
Investment funds	\$ 158,964,509	\$ 143,503,760
Notes receivable from participants	<u>3,319,270</u>	<u>2,847,669</u>
Net assets reflecting investments at fair value	162,283,779	146,351,429
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	<u>(162,788)</u>	<u>(92,400)</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u><u>\$ 162,120,991</u></u>	<u><u>\$ 146,259,029</u></u>

See notes to financial statements.

ELECTRIC RELIABILITY COUNCIL OF TEXAS 401(k) SAVINGS PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS YEAR ENDED DECEMBER 31, 2014

ADDITIONS TO NET ASSETS ATTRIBUTED TO:

Contributions:

Employer, net of forfeitures	\$ 9,507,281
Participant	5,985,260
Rollover	1,518,892

Total contributions 17,011,433

Investment gain:

Net appreciation in fair value of investments	629,022
Interest and dividend income	6,739,736

Total investment gain, net 7,368,758

Interest income on notes receivable from participants 127,470

Other income 54,938

Total additions 24,562,599

DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO:

Benefits paid to participants	8,686,270
Administrative expenses, net	14,367

Total deductions 8,700,637

NET INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS 15,861,962

NET ASSETS AVAILABLE FOR BENEFITS:

Beginning of year 146,259,029

End of year \$ 162,120,991

See notes to financial statements.

ELECTRIC RELIABILITY COUNCIL OF TEXAS 401(k) SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2014

1. DESCRIPTION OF PLAN

The following brief description of Electric Reliability Council of Texas 401(k) Savings Plan (the "Plan") is provided for general information purposes only. Participants should refer to the Plan agreement for complete information.

General - The Plan is a defined contribution plan covering substantially all employees of Electric Reliability Council of Texas ("ERCOT"). It is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The trustee of the Plan is Fidelity Management Trust Company (the "Trustee"). ERCOT acts as the administrator of the Plan.

Eligibility - Employees are eligible to participate in the Plan on the first day of the month following their date of employment. Leased employees and residents of Puerto Rico are not eligible to participate in the Plan.

Contributions - Eligible employees have the option to contribute either pre-tax or Roth 401(k) contributions. A participant's contribution may not exceed 99% of his or her eligible compensation, not to exceed the annual limit established by the Internal Revenue Code ("IRC"). Newly eligible employees are automatically enrolled in the Plan with a pre-tax deferral percentage of 3%, thirty days following their employment dates, unless the employee elects otherwise. A participant's pre-tax and Roth 401(k) contributions will be separately accounted for, as will the gains and losses attributable to each. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. Participants may also rollover amounts representing distributions from other qualified defined benefit or contribution plans.

ERCOT makes a matching contribution of 75% of each participant's contribution not to exceed 6% of defined compensation. Additionally, ERCOT makes a fixed non-elective employer contribution of 10% of each participant's eligible compensation, as defined. ERCOT may also make annual discretionary contributions to the Plan. For the year ended December 31, 2014, ERCOT made matching and fixed non-elective contributions in the amount of \$9,507,281, excluding forfeitures, and did not make a discretionary contribution to the Plan.

Participants direct the investment of contributions into various investment options offered by the Plan.

Participant Accounts - Each participant's account is credited with the participant's contributions, ERCOT's contributions and an allocation of Plan earnings, and may be charged with Plan expenses if applicable. Allocations are based on participant earnings, account balances or specific participant transactions, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account balance.

Notes Receivable from Participants - Participants may borrow from their accounts a minimum of \$1,000 and up to a maximum of \$50,000 less the highest outstanding notes receivable balance over the prior twelve months or 50% of their vested account balance, whichever is less. Participant notes receivable are secured by the balance in the participant's account and bear interest at a reasonable interest rate as determined by ERCOT. Participants may have up to two notes receivable outstanding at a time. Notes receivable repayments are automatically deducted through after-tax payroll deductions over a period generally not to exceed five years.

Vesting - Participants are immediately vested in their voluntary contributions plus actual earnings thereon. Vesting in ERCOT's matching contributions is based on years of continuous service over five years, which increases in 20% increments starting after one year of continuous service. The fixed non-elective employer contributions are 100% vested after three years of service. Participants may also become fully vested upon attainment of retirement age or upon termination of employment due to disability or death.

Payment of Benefits - Upon death, disability, retirement, or termination of employment, a participant may elect to purchase a guaranteed annuity through a group annuity contract or to receive the vested benefits in a lump sum. The Plan administrator may distribute terminated participants' account balances that are less than \$1,000 in a lump sum without the participants' consent. The Plan administrator may transfer terminated participants' account balances that are at least \$1,000 but less than \$5,000 into an individual retirement account without the participants' consent. In-service distributions of rollover balances may be made with no restrictions. In-service distributions for reasons of hardship or the attainment of age 59.5 are also permitted from a participant's employee deferral account, although hardship distributions will result in a six-month suspension during which no contributions may be made to the participant's account.

Forfeitures - Forfeitures by participants of unvested ERCOT contributions are used to reduce employer contributions. Forfeitures totaling \$456,835 were utilized to reduce ERCOT's contributions for the year ended December 31, 2014. At December 31, 2014 and 2013, forfeitures available for use by ERCOT were \$50,482 and \$44,156, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The Plan's financial statements are reported on the accrual basis of accounting.

Investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The Plan invests in investment contracts through a common collective trust fund. The statements of net assets available for benefits present the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The statement of changes in net assets available for benefits is prepared using the contract value basis for fully benefit-responsive investment contracts.

Accounting Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Investment Valuation and Income Recognition - Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan’s gains and losses on investments bought and sold as well as held during the Plan year.

Notes Receivable from Participants - Notes receivable from participants are measured at the unpaid principal balance plus any accrued but unpaid interest. No allowance for credit losses has been recorded at December 31, 2014 or 2013. Delinquent notes receivable from participants are reclassified as distributions based upon the terms of the Plan document.

Benefits Paid to Participants - Benefits are recorded when paid.

Expenses - Certain expenses of maintaining the Plan are paid directly by ERCOT and are excluded from the financial statements. Recordkeeping fees and fees related to the administration of notes receivable from participants are charged directly to the participant’s account and are included in administrative expenses. Investment related expenses are included in net appreciation in fair value of investments.

ERCOT participates in a revenue sharing agreement with the Trustee and the related Plan earnings are deposited in an unallocated funds account. Unallocated funds may be used to pay administrative expenses on a quarterly basis or ERCOT may elect to re-allocate the remaining funds to the Plan’s participants on an annual basis. During the year ended December 31, 2014, ERCOT used \$57,787 from the unallocated funds account to pay certain recordkeeping fees incurred by the Plan. The balance in the unallocated funds account totaled \$54,939 and \$47,633 at December 31, 2014 and 2013, respectively.

Risks and Uncertainties - Financial instruments which potentially subject the Plan to concentrations of credit risk consist primarily of investment securities in which the Plan invests. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants’ account balances and the amounts reported in the statements of net assets available for benefits.

Plan Termination - Although it has not expressed any intent to do so, ERCOT has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their accounts and distributions will be made as soon as administratively practicable after the Plan terminates.

Reclassifications - Certain amounts in the prior year have been reclassified to conform to the presentation adopted in the current year. There was no impact on net assets available for benefits as of December 31, 2013.

Subsequent Events - ERCOT has evaluated subsequent events through July xx, 2015, the date the financial statements were available to be issued, and no events have occurred through that date that would impact the financial statements.

Recently Issued Accounting Pronouncement - In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)*. ASU No. 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by Accounting Standards Codification 820, *Fair Value Measurement*. ASU No. 2015-07 is effective for the Plan year ended December 31, 2017, and is to be applied retrospectively, with early application permitted. ERCOT anticipates minor disclosure changes as a result of the implementation.

3. FAIR VALUE MEASUREMENTS

The Plan follows a framework for measuring fair value, which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. There are three general valuation techniques that may be used to measure fair value: i) market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities; ii) cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost); and iii) income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Mutual funds are valued at the daily closing price as reported by the fund. The mutual funds are registered with the Securities and Exchange Commission and are required to publish their daily net asset value (“NAV”) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded. Units of the common collective trust fund (Wells Fargo Stable Return Fund Class C) are stated at their NAV or equivalent as a practical expedient for fair value. The NAV of the common collective trust fund is based on the fair value of the underlying investments held by the fund less its liabilities, with fair value determined by the issuer based on independent pricing services.

The common collective trust fund (the “Fund”) invests in financial instruments that seek to provide participants a stable crediting rate and security of principal plus accrued interest. The financial instruments include guaranteed investment contracts (“GICs”), security backed contracts, and separate account GICs. Underlying the security backed contracts and separate account GICs are fixed income portfolios. The fixed income portfolios may include investments in, but are not limited to, U.S. Treasury and agency bonds, mortgage-backed securities, corporate bonds, asset-backed securities, and bond funds. Bonds in the underlying portfolios are rated investment grade by independent pricing services at time of purchase. The Fund also may invest in cash or cash equivalents. There are no significant restrictions on redemptions; participants may redeem their funds daily. The Fund has no unfunded commitments and there have been no changes in the valuation methodologies used at December 31, 2014 or 2013.

The preceding method described for valuation of the Fund may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Plan management believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan’s investment assets at fair value as of December 31, 2014:

	Level 1	Level 2	Level 3	Total Fair Value
Mutual funds:				
Growth	\$ 79,120,463	\$ -	\$ -	\$ 79,120,463
Blended	35,157,636	-	-	35,157,636
Value	17,548,657	-	-	17,548,657
Intermediate				
term bonds	7,760,325	-	-	7,760,325
Fixed income	4,384,183	-	-	4,384,183
Money market	3,178,845	-	-	3,178,845
World fund	23,876	-	-	23,876
Common collective trust fund-				
Fixed income	-	11,790,524	-	11,790,524
	<u>\$ 147,173,985</u>	<u>\$ 11,790,524</u>	<u>\$ -</u>	<u>\$ 158,964,509</u>

The following table sets forth by level, within the fair value hierarchy, the Plan's investment assets at fair value as of December 31, 2013:

	Level 1	Level 2	Level 3	Fair Value
Mutual funds:				
Growth	\$ 73,307,928	\$ -	\$ -	\$ 73,307,928
Blended	29,071,974	-	-	29,071,974
Value	16,035,333	-	-	16,035,333
Intermediate				
term bonds	6,180,283	-	-	6,180,283
Fixed income	4,296,168	-	-	4,296,168
Money market	2,953,682	-	-	2,953,682
World fund	15,973	-	-	15,973
Common collective				
trust fund-				
Fixed income	-	11,642,419	-	11,642,419
	<u>\$ 131,861,341</u>	<u>\$ 11,642,419</u>	<u>\$ -</u>	<u>\$ 143,503,760</u>

4. INFORMATION CERTIFIED BY THE TRUSTEE

All information disclosed in the accompanying financial statements, notes and supplemental schedule related to the Plan's investment assets and notes receivable from participants at December 31, 2014 and 2013, and the related net investment gain and interest income for the year ended December 31, 2014, was obtained or derived from information supplied to the Plan administrator and certified as complete and accurate by the Trustee.

5. INVESTMENTS

Individual investments that represented 5% or more of the Plan's net assets at December 31, 2014 and 2013 are as follows:

	2014	2013
Vanguard Institutional Index Fund	\$ 19,041,049	\$ 14,939,191
Fidelity Contrafund	16,190,422	15,346,429
Wells Fargo Stable Return Fund Class C	11,790,524	11,642,419
Vanguard Selected Value	10,607,014	*
Prudential Jennison Mid Cap Growth Fund Class Z	10,489,269	10,481,570
Heartland Select Value IS	*	9,895,903
ABF/S Small Cap Growth Fund Institutional Class	*	8,169,826
Oppenheimer Developing Markets Y	*	8,160,204

* This investment either represented less than 5% of the Plan's net assets or was not available at December 31, 2014 or 2013.

The net appreciation in fair value of investments (including gains and losses on investments bought, sold, and held during the Plan year) was \$629,022 for the year ended December 31, 2014, as noted below.

Mutual funds	\$ 488,528
Common collective trust	<u>140,494</u>
Total	<u><u>\$ 629,022</u></u>

6. TAX STATUS

ERCOT has not applied for a determination letter from the Internal Revenue Service (“IRS”) to determine if the Plan is designed in accordance with applicable sections of the IRC. The Plan document is based upon a volume submitter plan instrument from Fidelity Management & Research Company which received an IRS advisory letter dated March 31, 2008. The volume submitter plan instrument has been updated for legislative and regulatory changes. ERCOT’s Benefits Committee and Plan administrator believe that the Plan is designed and is currently being operated in compliance with the applicable provisions of the IRC. Therefore, no provision for income taxes has been included in the Plan’s financial statements.

GAAP requires Plan management to evaluate tax positions taken by the Plan and recognize a tax liability if the Plan has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examinations for years prior to 2011.

7. RECONCILIATION TO THE FORM 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Net assets available for benefits per the financial statements	\$ 162,120,991	\$ 146,259,029
Add: Adjustment from fair value to contract value for fully benefit-responsive investment contracts	<u>162,788</u>	<u>92,400</u>
Net assets available for benefits per the Form 5500	<u><u>\$ 162,283,779</u></u>	<u><u>\$ 146,351,429</u></u>

The following is a reconciliation of the net increase in net assets available for benefits per the financial statements to the Form 5500 for the year ended December 31, 2014:

Net increase in net assets available for benefits per the financial statements	\$ 15,861,962
Add: Adjustment from fair value to contract value for fully benefit-responsive investment contracts at December 31, 2014	162,788
Less: Adjustment from fair value to contract value for fully benefit-responsive investment contracts at December 31, 2013	<u>(92,400)</u>
Net increase in net assets available for benefits per the Form 5500	<u>\$ 15,932,350</u>

8. PARTY-IN-INTEREST AND RELATED PARTY TRANSACTIONS

Certain Plan investments are shares of mutual funds that are managed by the Trustee or its affiliates. Fees incurred by the Plan for related investment management services are included in net appreciation in fair value of investments and administrative expenses. Transactions such as these qualify as party-in-interest transactions. ERCOT pays directly certain other fees related to the Plan's operations.

DRAFT

SUPPLEMENTAL SCHEDULE

ELECTRIC RELIABILITY COUNCIL OF TEXAS 401(k) SAVINGS PLAN

SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS HELD AT END OF YEAR DECEMBER 31, 2014

EMPLOYER IDENTIFICATION NUMBER - 74-2587416

PLAN NUMBER - 002

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par or maturity value	(d) Cost	(e) Current value
	Vanguard Institutional Index Fund	Mutual fund	Note 1	\$ 19,041,049
*	Fidelity Contrafund	Mutual fund	Note 1	16,190,422
	Wells Fargo Stable Return Fund Class C	Common collective trust fund	Note 1	11,790,524
	Vanguard Selected Value	Mutual fund	Note 1	10,607,014
	Prudential Jennison Mid Cap Growth Fund Class Z	Mutual fund	Note 1	10,489,269
	Vanguard Total Bond Market Index Fund	Mutual fund	Note 1	7,586,233
	Oppenheimer Developing Markets Y	Mutual fund	Note 1	7,423,402
	ABF/S Small Cap Growth Fund Institutional Class	Mutual Fund	Note 1	7,052,394
	BlackRock Equity Dividend Instl CL	Mutual fund	Note 1	6,646,685
	T. Rowe Price Retirement 2040 Fund	Mutual fund	Note 1	6,609,132
*	Spartan Extended Market Index Fund	Mutual fund	Note 1	5,821,285
	T. Rowe Price Retirement 2020 Fund	Mutual fund	Note 1	5,653,837
	T. Rowe Price Retirement 2035 Fund	Mutual fund	Note 1	5,105,194
	Thornburg Int Value 5	Mutual fund	Note 1	4,971,200
	T. Rowe Price Retirement 2030 Fund	Mutual fund	Note 1	4,821,377
	T. Rowe Price Small Cap Value SHS	Mutual fund	Note 1	4,605,705
*	Fidelity Government Income Fund	Mutual fund	Note 1	4,384,183
*	Brokerage Link	Self-directed investments	Note 1	3,645,122
	T. Rowe Price Retirement 2045 Fund	Mutual fund	Note 1	3,443,978
	T. Rowe Price Retirement 2025 Fund	Mutual fund	Note 1	3,426,766
	T. Rowe Price Retirement 2050 Fund	Mutual fund	Note 1	2,822,487
*	Fidelity Retirement Government Money Market	Mutual fund	Note 1	2,378,275
	Vanguard Developed Markets Index Inv CL	Mutual fund	Note 1	1,633,666
	T. Rowe Price Retirement 2015 Fund	Mutual fund	Note 1	1,215,432
	T. Rowe Price Retirement 2010 Fund	Mutual fund	Note 1	961,186
	T. Rowe Price Retirement Income	Mutual fund	Note 1	388,904
	T. Rowe Price Retirement 2005 Fund	Mutual fund	Note 1	249,788
*	Participant Loans	Interest Rates: 4.25% - 9.25%	- 0 -	3,319,270

Note 1: As investments are directed by participants, cost information has been omitted as allowed by schedule instructions.

“*” - Denotes a party-in-interest as defined by ERISA.