



Date: August 2, 2016
To: Board of Directors
From: Jorge Bermudez, Finance and Audit (F&A) Committee Chairman
Subject: Acceptance of ERCOT's 401(k) Savings Plan Audit Report

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: August 9, 2016

Item No.: 9.1

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, 2015.

Background/History:

ERCOT maintains a 401(k) retirement savings plan for its employees, qualified under the Employee Retirement Income Security Act (ERISA). Pursuant to ERISA, plan sponsors must annually file Form 5500 with the U.S. Department of Labor. The required filing must include the Plan's audited financial statements.

On October 13, 2015, the Board approved an extension of services with Maxwell Locke & Ritter LLP (MLR) to provide 401(k) Plan audit services for calendar years 2015, 2016 and 2017. Based on this approval, ERCOT engaged MLR to provide 401(k) Plan audit services for the calendar year ending December 31, 2015.

It is expected that on August 8, 2016, representatives of MLR will meet with the F&A Committee to discuss the proposed final audit report for the ERCOT 401(k) Plan, as of December 31, 2015.

The F&A Committee is expected to recommend that the Board accept the 2015 audited financial statements for the ERCOT 401(k) Plan, as of December 31, 2015, as prepared by MLR, during its meeting.

A draft of the final audit report for the ERCOT 401(k) Plan, as of December 31, 2015, prepared by MLR, and submitted for the Board's acceptance, is attached hereto as Exhibit A.

Key Factors Influencing Issue:

- The ERISA reporting requirements and filing requirements for the annual 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 2015 filing is due no later than October 15, 2016;
- 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; and



- The expectation that MLR 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 MLR, as of December 31, 2015, at its meeting on August 8, 2016, and is expected to recommend that the Board accept the audited financial statements of ERCOT's 401(k) Plan, as of December 31, 2015, as presented in draft form by MLR, 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 (401(k) Plan) as a benefit for its eligible employees during the fiscal year 2015;

WHEREAS, Employee Retirement Income Security Act rules and regulations also require an annual financial statement audit of benefits plans such as the 401(k) Plan;

WHEREAS, in October 2015, the ERCOT Board of Directors (Board) selected Maxwell, Locke & Ritter LLP (MLR) to provide 401(k) Plan audit services for the calendar years 2015, 2016 and 2017, subject to the annual approval of the Board for 2016 and 2017; and

WHEREAS, MLR has issued an opinion acceptable to this Board in connection with its audit of ERCOT's 2015 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, 2015, as presented by MLR, at its meeting of August 8, 2016; 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, 2015, as presented by MLR;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby accepts the audited financial statements for ERCOT's 401(k) Plan, as of December 31, 2015, as presented by MLR.

CORPORATE SECRETARY'S CERTIFICATE

I, Vickie G. Leady, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its August 9, 2016 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, 2016.

Vickie G. Leady
Assistant Corporate Secretary

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

**Financial Statements and
Supplemental Schedule
as of and for the Year Ended
December 31, 2015 and
Independent Auditors' Report**

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INDEPENDENT AUDITORS' REPORT

To the Retirement Plan 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, 2015 and 2014, and the related statement of changes in net assets available for benefits for the year ended December 31, 2015, 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, 2015 and 2014, and for the year ended December 31, 2015, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2015, the Plan adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which exempts investments measured using the net asset value practical expedient from categorization within the fair value hierarchy. Also as discussed in Note 2 to the financial statements, in 2015, the Plan adopted Parts I and II of FASB ASU No. 2015-12, *Plan Accounting: Defined Benefit Pension Plans (Topic 960); Defined Contribution Plans (Topic 962); and Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient*. Part I eliminates certain disclosures and the requirement to measure and disclose the fair value of fully benefit-responsive investment contracts; contract value is the only required measure for fully benefit-responsive investment contracts. Part II simplifies employee benefit plan reporting with respect to certain Plan investment disclosures. Our opinion is not modified with respect to these matters.

Other Matter

The supplemental schedule, Schedule of Assets Held at End of Year, as of December 31, 2015 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
August xx, 2016

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ELECTRIC RELIABILITY COUNCIL OF TEXAS 401(k) SAVINGS PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS:		
Investments at fair value	\$ 165,896,060	\$ 158,801,721
Receivables-		
Notes receivable from participants	<u>3,925,891</u>	<u>3,319,270</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u><u>\$ 169,821,951</u></u>	<u><u>\$ 162,120,991</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, 2015

ADDITIONS IN NET ASSETS ATTRIBUTED TO:

Contributions:

Employer, net of forfeitures	\$ 10,405,011
Participant	6,678,840
Rollover	407,418
Total contributions	<u>17,491,269</u>

Investment gain (loss):

Net depreciation in fair value of investments	(8,815,073)
Interest and dividend income	<u>7,707,503</u>
Total investment loss, net	(1,107,570)

Interest income on notes receivable from participants 142,472

Other income 50,251

Total additions 16,576,422

DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO:

Benefits paid to participants	8,859,297
Administrative expenses, net	<u>16,165</u>
Total deductions	<u>8,875,462</u>

NET INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS 7,700,960

NET ASSETS AVAILABLE FOR BENEFITS:

Beginning of year	<u>162,120,991</u>
End of year	<u>\$ 169,821,951</u>

See notes to financial statements.

ELECTRIC RELIABILITY COUNCIL OF TEXAS 401(k) SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2015

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 immediately upon 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. The automatic deferral contributions increase annually by 1%, not to exceed 6% of defined compensation. 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, 2015, ERCOT made matching and fixed non-elective contributions in the amount of \$10,861,846, 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, 2015. At December 31, 2015 and 2014, forfeitures available for use by ERCOT were \$105,383 and \$50,482, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Accounting Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. 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. The Retirement Plan Committee determines the Plan's valuation policies utilizing information provided by the investment advisers and Trustee. 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 depreciation 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, 2015 or 2014. 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 depreciation 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, 2015, ERCOT used \$50,323 from the unallocated funds account to pay certain recordkeeping fees incurred by the Plan. The balance in the unallocated funds account totaled \$50,019 and \$54,939 at December 31, 2015 and 2014, 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.

Recently Adopted Accounting Pronouncements - In May 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)*, which exempts investments measured using the net asset value practical expedient in Accounting Standards Codification 820, *Fair Value Measurement*, from categorization within the fair value hierarchy. ASU No. 2015-07 is effective for all Plan years beginning after December 15, 2016, and is to be applied retrospectively, with early application permitted. Management has elected to early adopt the provisions of this new standard, the effect of which is reflected in the reconciliation of investments at fair value in Note 3. There was no effect on net assets available for benefits as of December 31, 2015 and 2014 or on the increase in net assets available for benefits for the year ended December 31, 2015 as a result of this change.

In July 2015, the FASB issued ASU No. 2015-12, *Plan Accounting: Defined Benefit Pension Plans (Topic 960); Defined Contribution Plans (Topic 962); and Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient*. ASU No. 2015-12 simplifies employee benefit plan reporting with respect to fully benefit-responsive investment contracts and plan investment disclosures, and provides for a measurement-date practical expedient. ASU No. 2015-12 is effective for all Plan years beginning after December 15, 2015, with early application permitted. Parts I and II are to be applied retrospectively, while Part III is to be applied prospectively. Management has elected to early adopt Parts I and II of this new standard; Part III is not applicable to the Plan.

Part I eliminates certain disclosures and the requirement to measure and disclose the fair value of fully benefit-responsive investment contracts; contract value is the only required measure for fully benefit-responsive investment contracts. Part II eliminates the requirements to disclose individual investments that represent 5% or more of net assets available for benefits and the net appreciation or depreciation in fair value of investments by general type. Part II also simplifies the level of disaggregation of investments that are measured using fair value. Plans will continue to disaggregate investments that are measured using fair value by general type; however, plans are no longer required to also disaggregate investments by nature, characteristics and risks. Further, the disclosure of information about fair value measurements shall be provided by general type of plan asset. The adoption of ASU No. 2015-12 has resulted in the reclassification of \$162,788 related to the adjustment from fair value to contract value for a fully benefit-responsive common/collective trust within the statement of net assets available for benefits as of December 31, 2014. However, there was no effect on net assets available for benefits as of December 31, 2015 and 2014 or on the increase in net assets available for benefits for the year ended December 31, 2015 as a result of this change.

Subsequent Events - ERCOT has evaluated subsequent events through August xx, 2016, the date the financial statements were available to be issued, and no events have occurred through that date that would impact the financial statements.

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 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.

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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

Mutual funds: 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 and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Stable value collective trust fund: This investment is a stable value fund that invests in a fully benefit-responsive investment contract and is valued at the net asset value of units of the collective trust. The fund is solely invested in Wells Fargo Stable Return Fund G, a collective trust fund which invests in investment and security-backed contracts. The net asset value is used as a practical expedient to estimate fair value. This practical expedient would not be used if it is determined to be probable that the fund will sell the investment for an amount different from the reported net asset value.

Self-directed brokerage account: Account primarily consists of mutual funds that are valued on the basis of readily determinable market prices.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Mutual funds	\$ 149,986,284	\$ -	\$ -	\$ 149,986,284
Self-directed brokerage account	<u>4,224,187</u>	<u>-</u>	<u>-</u>	<u>4,224,187</u>
Total assets in the fair value hierarchy	<u>\$ 154,210,471</u>	<u>\$ -</u>	<u>\$ -</u>	154,210,471
Investments measured at net asset value				<u>11,685,589</u>
Investments at fair value				<u>\$ 165,896,060</u>

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Mutual funds	\$ 143,528,863	\$ -	\$ -	\$ 143,528,863
Self-directed brokerage account	<u>3,645,122</u>	<u>-</u>	<u>-</u>	<u>3,645,122</u>
Total assets in the fair value hierarchy	<u>\$ 147,173,985</u>	<u>\$ -</u>	<u>\$ -</u>	147,173,985
Investments measured at net asset value				<u>11,627,736</u>
Investments at fair value				<u>\$ 158,801,721</u>

The following table summarizes the investments for which fair value is measured using the net asset value per share practical expedient as of December 31, 2015 and 2014. There are no participant redemption restrictions for these investments; the redemption notice period is applicable only to the Plan.

	<u>Fair Value at December 31, 2015</u>	<u>Fair Value at December 31, 2014</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Stable value collective trust fund	\$ 11,685,589	\$ 11,627,736	not applicable	daily	12 months

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, 2015 and 2014, and the related net investment loss and interest income on notes receivable from participants for the year ended December 31, 2015, was obtained or derived from information supplied to the Plan administrator and certified as complete and accurate by the Trustee.

5. 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, 2014. The volume submitter plan instrument has been updated for legislative and regulatory changes. ERCOT’s Retirement Plan 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.

U.S. 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 2012.

6. 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:

Net assets available for benefits per the financial statements	\$ 162,120,991
Add: Adjustment from fair value to contract value for fully benefit-responsive common/collective trust	<u>162,788</u>
Net assets available for benefits per the Form 5500	<u><u>\$ 162,283,779</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, 2015:

Net increase in net assets available for benefits per the financial statements	\$ 7,700,960
Lesss: Adjustment from fair value to contract value for fully benefit-responsive common/collective trust at December 31, 2014	<u>(162,788)</u>
Net increase in net assets available for benefits per the Form 5500	<u><u>\$ 7,538,172</u></u>

7. 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 depreciation 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.

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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, 2015

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 Institutional Shares	Mutual fund	Note 1	\$ 19,970,339
*	Fidelity Contrafund	Mutual fund	Note 1	18,938,918
	Wells Fargo Stable Return Fund Class C	Common/collective trust	Note 1	11,685,589
	Prudential Jennison Mid Cap Growth Fund Class Q	Mutual fund	Note 1	9,982,429
	Vanguard Selected Value Fund Investor Shares	Mutual fund	Note 1	9,502,337
	T. Rowe Price Retirement 2040 Fund	Mutual fund	Note 1	7,415,007
	Vanguard Total Bond Market Index Fund Institutional Shares	Mutual fund	Note 1	7,353,130
	American Beacon Stephens Small Cap Growth Fund Institutional Class	Mutual fund	Note 1	6,555,106
*	Fidelity Spartan Extended Market Index Investor	Mutual fund	Note 1	6,351,053
	T. Rowe Price Retirement 2025 Fund	Mutual fund	Note 1	6,223,056
	BlackRock Equity Dividend Instl Cl	Mutual fund	Note 1	6,198,770
	T. Rowe Price Retirement 2035 Fund	Mutual fund	Note 1	6,030,168
	Oppenheimer Developing Markets Fund Class I	Mutual fund	Note 1	5,663,426
	Artisan International Fund Institutional Class	Mutual fund	Note 1	5,500,373
	T. Rowe Price Retirement 2020 Fund	Mutual fund	Note 1	5,247,720
*	Fidelity Government Income Fund	Mutual fund	Note 1	4,770,110
	T. Rowe Price Retirement 2045 Fund	Mutual fund	Note 1	4,381,852
	T. Rowe Price Retirement 2030 Fund	Mutual fund	Note 1	4,304,085
	Brokeragelink	Self-directed investments	Note 1	4,224,187
	T. Rowe Price Small Cap Value Fund	Mutual fund	Note 1	3,987,797
*	Fidelity Money Market Trust Retirement Government Money Market Portfolio	Mutual fund	Note 1	3,773,316
	T. Rowe Price Retirement 2050 Fund	Mutual fund	Note 1	3,689,494
	Vanguard Developed Markets Index Fund Investor Shares	Mutual fund	Note 1	2,310,677
	T. Rowe Price Retirement 2015 Fund	Mutual fund	Note 1	1,112,475
	T. Rowe Price Retirement 2010 Fund	Mutual fund	Note 1	357,633
	T. Rowe Price Retirement Balanced Fund	Mutual fund	Note 1	255,881
	T. Rowe Price Retirement 2055 Fund	Mutual fund	Note 1	72,461
	T. Rowe Price Retirement 2005 Fund	Mutual fund	Note 1	28,690
	T. Rowe Price Retirement 2060 Fund	Mutual fund	Note 1	9,981
*	Participant Loans	Interest Rates: 4.25% - 9.25%	- 0 -	3,925,891

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.