Item 4.1: CEO Update

Bill Magness
President & CEO
ERCOT

Board of Directors Meeting

ERCOT Public
October 11, 2016

CEO Update: Variance to Budget ($ in Millions)
Net Revenues After Department Expenditures

Net Revenues Year to Date Actuals: $7.5 M Favorable *(as of August 31, 2016)*

Major Revenue Variances

$1.0 M under budget: system administration fees unfavorable due to milder-than-expected weather

Major Expenditure Variances

$2.7 M under budget: resource management ($2.0 M staffing management; $1.1 M project work; $ -0.4 M staff backfill)

$1.2 M under budget: computer hardware and other equipment purchases

$0.9 M under budget: interest expense due to project funding; interest income due to higher rates

$1.3 M under budget: employee health, relocation, immigration and recognition program costs

$1.7 M under budget: timing differences

Net Revenues Year End Forecast: $9.6 M Favorable *(as of September 29, 2016)*

Major Revenue Variances

$0.8 M over budget: system administration fees favorable based on current actuals and load forecast for remainder of year

Major Expenditure Variances

$4.0 M under budget: resource management ($3.2 M staffing management; $1.4 M project work; $ -0.6 M staff backfill)

$1.5 M under budget: computer hardware and other equipment purchases

$1.4 M under budget: interest expense due to project funding and no revolver usage; interest income due to higher rates

$1.2 M under budget: employee health, relocation, immigration and recognition program costs

2016 Off-Cycle & R5 Release Summary

- Outage Scheduler Enhancements Go Live – September 26, 2016

- R5 Release Dates: November 1 – 3, 2016

- Includes changes for Daylight Savings Time (DST)

- 106 Change Requests across the application areas

- NPRRs and SCRs
  - NOGRR143: Alignment of Nodal Operating Guides with NERC Reliability Standard, BAL-001-TRE-1
  - NPRR495: Changes to Ancillary Services Capacity Monitor
  - NPRR712: Clarification of RUC Process
  - NPRR736: Updates to the Ancillary Service Capacity Monitor Display
  - SCR786: Retail Market Test Environment

- Majority of the R5 changes are for the following functional areas:
  - Energy Management System, Enterprise Information Services, Enterprise Integration, Market Information System, Market Management System, Net Dependable Capability and Reactive Capability, Outage Scheduler
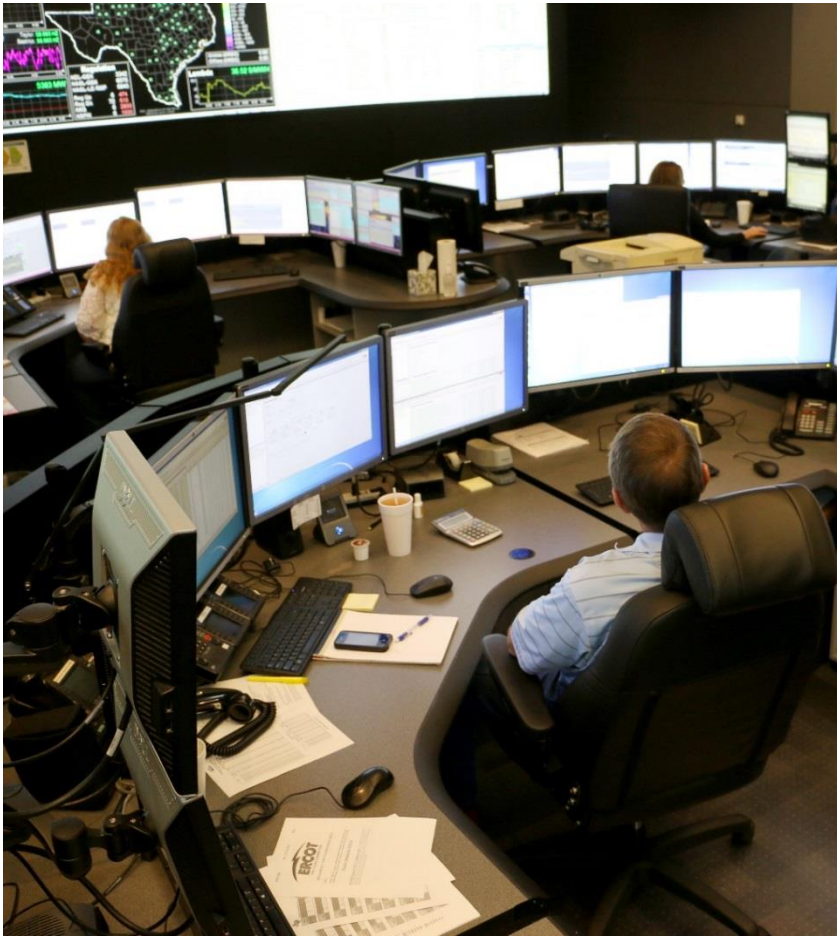
October 2016 Updates

- Progress on Reliability Must Run (RMR) Issues

- Lower Rio Grande Valley Update

- ERCOT ISO: November is 20th Anniversary

- Implementation achievements advance Strategic Goals
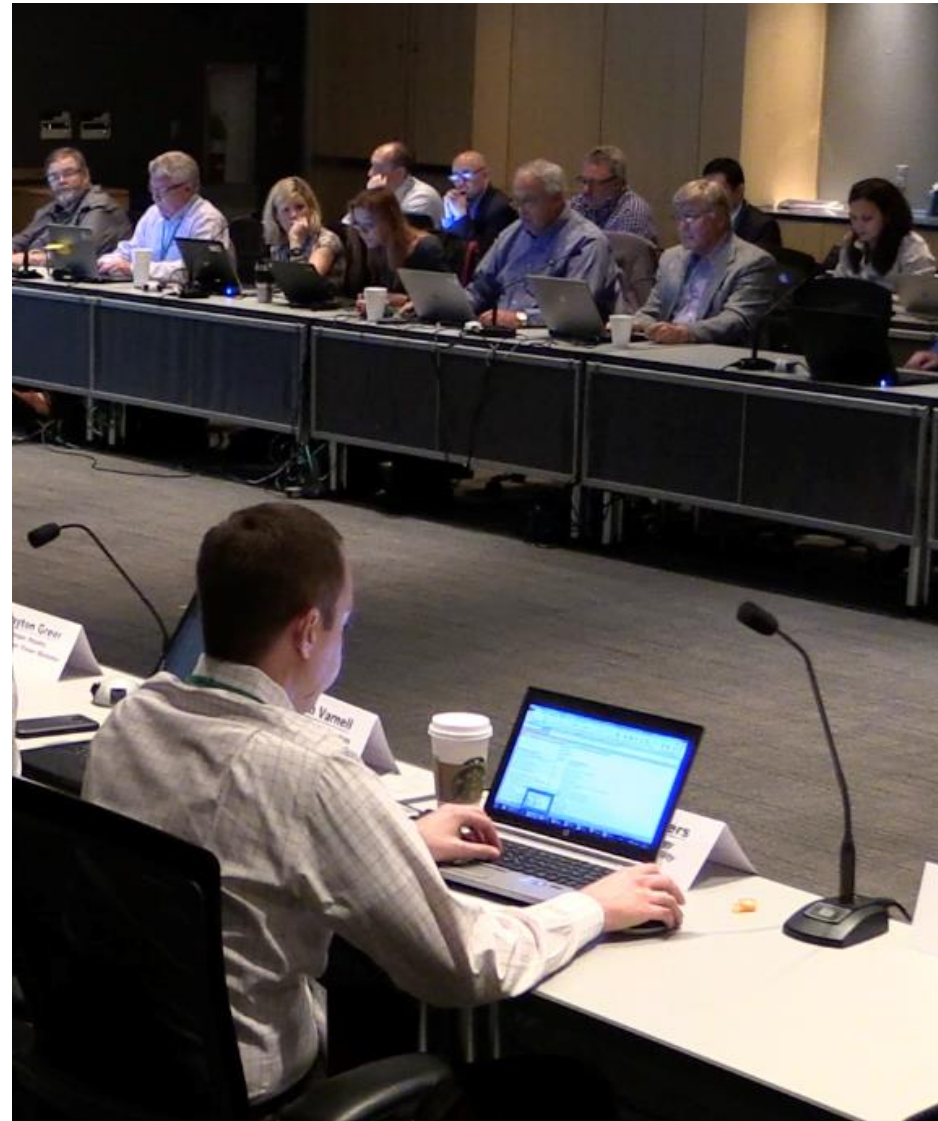
Grid Operations & Markets

In addition to the Energy Management System (EMS) and Critical Infrastructure Protection (CIP) v5 projects discussed previously, ERCOT has completed several major project implementation initiatives.

- Enhanced Outage Scheduler System

- Short Circuit Ratio Tool

- OSI PI Grid Visualization

- Congestion Revenue Rights and Credit Enhancements

- Proxy Energy Curves

Information Technology

- **Hardware Upgrades**
  - Refreshed more than 20 percent of data center computer hardware (as part of DC4 initiative)

- **Configuration Management**
  - Implemented a new Configuration Management System to tightly control more than 3 million computer/software items that run ERCOT systems

- **Resiliency Improvements**
  - Deployed a second high-speed fiber network path between data centers

Governance, Risk & Compliance (GRC)

- Completed 18-month effort to create and map a full inventory of owners and procedures used to comply with Protocol requirements

- Established individual owner for each of **~4,400 "Must, Shall, or Will" requirements** in the Protocols and documented business procedures and controls to ensure compliance

- AlertEnterprise tool provides singular tracking mechanism for all ERCOT requirements (Protocols, NERC standards and internal controls); updates continue as standards, owners and business processes change.

  – Advances ERCOT's Culture of Compliance

  – Provides useful tool for employees

  – Facilitates efficient audit performance

Human Resources & Finance

- Successful implementation of Workday:
A single enterprise resource planning tool for HR / Finance functions

- Benefits

  – Replaces five disparate legacy systems and numerous manual processes

  – Provides access to meaningful, accurate & timely data for decision support

  – Enhances internal reporting for Compliance and Audit requirements

  – State of the art SaaS (software as a service) solution

  – Reduces long-term cost while increasing efficiencies

- Great team effort involving staff across multiple ERCOT areas