



Item 11: Acceptance of 2021 System and Organization Control Audit Report

Christine Hasha

Senior Manager, CIP and Corporate Compliance

Board of Directors Meeting

ERCOT Confidential

December 9-10, 2021

2021 System and Organization Control (SOC) Audit Report Acceptance

- Statement on Standards for Attestation Engagements No. 18 (SSAE 18), effective May 1, 2017, is the AICPA audit standard for reporting on controls at service organizations.
- These examinations are performed by an independent auditor who assesses the description of the system, and the suitability of the design and operating effectiveness of controls at an organization that provides services to user entities when those controls are likely to be relevant to user entities' internal control over financial reporting (ICFR).
- Market Participants rely on ERCOT's market Settlements and billing processes as the results impact their financial statements; therefore, the SOC report provides critical information to user entity financial executives and their financial auditors.
- The result of a SOC examination is a report, which includes an opinion letter from the auditor, on controls placed in operation at the service organization. ERCOT's SOC 1, Type 2 audit covers the controls surrounding the Settlements and billing operations that ERCOT performs for Market Participants, for a period of time from October 1 to September 30 of the following year. Once the report has been accepted by the Board, ERCOT issues a Market Notice that the report is available.



Scope of SOC audit at ERCOT

ERCOT has identified 19 Objectives and 166 controls related to market Settlements and billing. The controls correspond to ERCOT's market functions and are deemed relevant to internal control over financial reporting (ICFR) for Market Participants, as well as risks to ERCOT.

The 19 objectives cover two specific topic areas:

- Transaction processing controls
 - Registration/Qualification
 - Network Operations Model
 - “Market Operations” (DAM, RTM and CRR)
 - Load Profiling, Data Acquisition and Aggregation
 - Settlement, Billing and Financial Transfer
- General IT controls
 - Access controls (Logical & Physical)
 - Program change management and system development
 - Computer operations

ERCOT employs a third-party audit firm to conduct an examination of the Settlements and billing processes. This approach is less disruptive to certain aspects of ERCOT operations and more cost effective.



Recommendation Regarding Acceptance of 2021 System and Organization Control Audit Report

- Protocol Sections 1.4.3.1(1) and 8.2(2)(f) require such engagements be part of ERCOT performance monitoring.
- The draft SOC audit report, for the twelve (12) months ending September 30, 2021 (i.e., the 2021 System and Organization Control Audit Report) is available for consideration and acceptance by the Board. The Audit Report is unmodified and there are testing exceptions.
- ERCOT staff recommends that the ERCOT Board of Directors accept the 2021 System and Organization Control Audit Report.
- Due to the confidentiality of the 2021 System and Organization Control Audit Report, the draft report is available solely for the Board's electronic viewing under Board Agenda Item ES 7.2.

<VOTE>



Date: December 2, 2021
To: Board of Directors
From: Christine Hasha, Senior Manager, CIP & Corporate Compliance
Subject: Acceptance of 2021 System and Organization Control Audit Report

Issue for the ERCOT Board of Directors

ERCOT Board of Directors Meeting Date: December 9-10, 2021

Item No.: 11

Issue:

Acceptance of the 2021 System and Organization Control (SOC) Audit Report.

Background/History:

Per Section 1.4.3.1(1) of the ERCOT Protocols (entitled “Audits to be Performed”), “At least annually, an Appointed Firm shall perform a System and Organization Control (SOC) audit of ERCOT regarding ERCOT’s market Settlements operations.” Schellman & Co., LLC (Schellman) was engaged to perform the audit for 2021.

Schellman’s opinion on the SOC audit for the period from October 1, 2020 to September 30, 2021 is unmodified. There are testing exceptions.

On December 10, 2021, Schellman will meet with the ERCOT Board to review the proposed SOC Audit Report for the twelve-month period ended September 30, 2021 (also known as the “2021 System and Organization Control (SOC) Audit Report”). Given the unmodified opinion, ERCOT staff recommends that the Board accept the 2021 SOC Audit Report.

Due to the confidentiality of the 2021 SOC Report, the draft report is available solely for the Board’s electronic viewing in the Board’s Executive Session meeting materials under Agenda Item ES 7.2.

Key Factors Influencing Issue:

1. ERCOT Protocol Section 1.4.3.1(1) requires an annual SOC audit be performed.
2. Certain external organizations, including Market Participants, utilize the SOC Audit Report as an assurance of the suitability of ERCOT internal controls in connection with certain Sarbanes-Oxley reporting requirements.
3. Because most Market Participants’ fiscal years end December 31, acceptance of the SOC Audit Report in a timely manner will allow the Report to be utilized in connection with preparation of their year-end financial statements.

Conclusion/Recommendation:

ERCOT staff recommends that the Board accept the 2021 System and Organization Control Audit Report.



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

WHEREAS, Section 1.4.3.1(1) of the ERCOT Protocols (entitled “Audits to be Performed”) requires that at least annually, an Appointed Firm shall perform a System and Organization Control (SOC) audit of ERCOT regarding ERCOT’s market Settlements operations;

WHEREAS, Schellman & Co., LLC (Schellman) was engaged as the Independent Service Auditor to perform ERCOT’s System and Organization Control audit for 2021;

WHEREAS, Schellman’s opinion on the System and Organization Control audit for the period from October 1, 2020 to September 30, 2021 is unmodified;

WHEREAS, after due consideration of the alternatives, ERCOT staff recommends that the Board of Directors (Board) of ERCOT accept the System and Organization Control audit report for the twelve-month period ended September 30, 2021 (also known as the 2021 System and Organization Control Audit Report), as presented by Schellman; and

WHEREAS, the Board deems it desirable and in the best interest of ERCOT to accept ERCOT staff’s recommendation to accept the 2021 System and Organization Control Audit Report;

THEREFORE, BE IT RESOLVED, that the 2021 System and Organization Control Audit Report is hereby accepted.

CORPORATE SECRETARY’S CERTIFICATE

I, Jonathan M. Levine, Assistant Corporate Secretary of ERCOT, do hereby certify that, at its December 9-10, 2021 meeting, the Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of December, 2021.

Jonathan M. Levine
Assistant Corporate Secretary