



**The Finance and Audit (F&A) Committee is
expected to consider
F&A Committee Agenda Item 4:**

***Recommendation regarding Acceptance of
2023 ERCOT 401(k) Savings Plan Audit
Report***

at its meeting on August 19, 2024.

**The Board of Directors is expected to hear
the F&A Committee's recommendation on
this matter as part of the
F&A Committee Report
at the Board meeting
on August 20, 2024.**

**Attached are the Board materials
in relation to these agenda items.**



**Item 4: Recommendation regarding
Acceptance of 2023 ERCOT 401(k)
Savings Plan Audit Report**

Dawn Herms
Director HR Operations

Finance & Audit Committee Meeting

ERCOT Public
August 19, 2024

Finance and Audit Committee Request

Why this is being presented today:

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

The Finance and Audit (F&A) Committee Charter requires that, annually, the Committee shall recommend to the Board the acceptance of the ERCOT 401(k) Savings Plan audit report

On August 31, 2023, the Board selected Baker Tilly to provide 401(k) Savings Plan audit services for plan year 2023. Baker Tilly's 2023 audited financial statements reflect no findings indicating material issues with the administration of the ERCOT 401(k) Savings Plan

To request a vote from the F&A Committee:

1. ERCOT staff requests a vote from the F&A Committee to recommend that the Board accept the audited financial statements for the ERCOT 401(k) Savings Plan, as of December 31, 2023, and prepared by Baker Tilly

ERCOT 401(k) Savings Plan Overview for Plan Year 2023

Total Assets as of December 31, 2022	Total Assets as of December 31, 2023
\$330,947,870	\$396,223,615

Participant Count	Percent Participating	Average Contribution Rate
Non-Highly Compensated	94.09%	8.52%
Highly Compensated	98.28%	8.77%





Reporting and insights from 2023 audit: Electric Reliability Council of Texas 401(k) Savings Plan

August 19, 2024

This communication is intended solely for the information and use of those charged with governance, and, if appropriate, management, and is not intended to be and should not be used by anyone other than these specified parties.

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms.



Executive summary

We have substantially completed our audit of the financial statements of the Electric Reliability Council of Texas 401(k) Savings Plan (the “Plan”) for the year ended December 31, 2023. This letter presents communications required by our professional standards.

Your audit should provide you with confidence in your financial statements. The audit was performed based on information obtained from meetings with management, data from your systems, knowledge of your Plan’s operating environment and our risk assessment procedures. We strive to provide you clear, concise communication throughout the audit process and of the final results of our audit.

Additionally, we have included information on key risk areas Electric Reliability Council of Texas, Inc. (ERCOT) should be aware of in your strategic planning. We are available to discuss these risks as they relate to your Plan’s financial stability and future planning.



Our Responsibilities

As your independent auditor, our responsibilities include:

- Planning and performing the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high level of assurance.
- Assessing the risks of material misstatement of the financial statements, whether due to fraud or error. Included in that assessment is a consideration of the Plan's internal control over financial reporting.
- Performing appropriate procedures based upon our risk assessment.
- Evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management.
- Perform an audit in accordance with ERISA Section 103(a)(3)(C) pursuant to 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 (ERISA) of Electric Reliability Council of Texas 401(k) Savings Plan.
- Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities.



Our Responsibilities

We are also required to communicate significant matters related to our audit that are relevant to the responsibilities of those charged with governance, including:

- Internal control matters
- Qualitative aspects of Electric Reliability Council of Texas 401(k) Savings Plan (the Plan) accounting practice including policies, accounting estimates and financial statement disclosures
- Significant unusual transactions
- Significant difficulties encountered
- Disagreements with management
- Circumstances that affect the form and content of the auditors' report
- Audit consultations outside the engagement team
- Corrected and uncorrected misstatements
- Other audit findings or issues



Significant changes to the audit plan

There were no significant changes made to either our planned audit strategy or to the significant risks and other areas of emphasis identified during the performance of our risk assessment procedures.



Planned scope and timing

Audit focus

Based on our understanding of the Plan and environment in which you operate, we focused our audit on the following key areas:

- Internal control over financial reporting and related tests of controls, including the risk of management override of controls.
- Payroll and participant data processing
- Fair value measurements and disclosures
- Revenue recognition related to contributions and investment income at the plan and participant level, where applicable
- Notes receivable from participants, including testing of appropriate documentation and compliance under the statutory exemption
- Benefit payment testing, including the appropriateness of the payment to eligible participants and compliance with plan documents.
- Changes to plan provisions, acquisitions and/or plan mergers, and changes to service providers, if any.
- Other areas/risks based on discussion with management
- Our areas of audit focus were informed by, among other things, our assessment of materiality. Materiality in the context of our audit was determined based on specific qualitative and quantitative factors combined with our expectations about the Plan's current year results.

In respect to compliance testing, the Department of Labor's (DOL) Rules and Regulations for Reporting and disclosure under the Employee Retirement Income Security Act (ERISA) do not permit for a materiality threshold.



Key areas of focus and significant findings

Significant risks of material misstatement

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's professional judgment, requires special audit consideration. Within our audit, we focused on the following significant risks noted below.

Significant risk areas	Testing approach	Conclusion
Management override of controls	The risk of management override is addressed by the assignment of audit staff based on consideration of audit risk, procedures to incorporate an element of unpredictability, consideration of the selection and application of significant accounting principles, review of accounting estimates for bias, evaluation of business rationale for unusual transactions and evaluation of the appropriateness of fraud related inquiries performed.	No issues identified



Key areas of focus and significant findings

Other areas of emphasis

We also focused on other areas that did not meet the definition of a significant risk, but were determined to require specific awareness and a unique audit response.

Other areas of emphasis	Testing approach	Conclusion
Plan not operating in accordance with plan provisions and regulations	Performed participant level testing including verification of eligibility, proper calculation of eligible compensation, proper calculation of employee deferrals and employer match, benefits paid and loans administered in accordance with plan provisions, rollovers accepted from qualified sources, and contributions and loan repayments remitted timely.	No issues noted



Internal control matters

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Required communications

Qualitative aspect of accounting practices

- Accounting policies: Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we have advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Plan are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing accounting policies was not changed during 2023. We noted no transactions entered into by the Plan during the year for which accounting policies are controversial or for which there is a lack of authoritative guidance or consensus or diversity in practice.
- Accounting estimates: Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements, the degree of subjectivity involved in their development and because of the possibility that future events affecting them may differ significantly from those expected.



Required communications

The following estimates are of most significance to the financial statements:

Estimate	Management's process to determine	Baker Tilly's conclusions regarding reasonableness
Fair value of investments	Management relies on the trustee's valuation of investments based on published net asset values and amortized cost.	We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

There have been no significant changes made by management to the processes used to develop the particularly sensitive accounting estimates or changes to the significant assumptions noted above.

Financial statement disclosures: The disclosures in the financial statements are neutral, consistent and clear.



Required communications

Significant unusual transactions

There have been no significant transactions that are outside the normal course of business for the Plan or that otherwise appear to be unusual due to their timing, size or nature.

Significant difficulties encountered during the audit

We encountered no significant difficulties in dealing with management and completing our audit.

Disagreements with management

Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Auditors' report

There have been no departures from the auditors' standard report.

Audit consultations outside the engagement team

We encountered no difficult or contentious matters for which we consulted outside of the engagement team.



Required communications

Other audit findings or issues

We encountered no other audit findings or issues that require communication at this time.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Plan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing or accounting matters.

Compliance with laws and regulations

We did not identify any non-compliance with laws and regulations during our audit

Fraud

We did not identify any known or suspected fraud during our audit.



Required communications

Going concern

Pursuant to professional standards, we are required to communicate to you, when applicable, certain matters relating to our evaluation of the Plan's ability to continue as a going concern for a reasonable period of time but no less than 12 months from the date the financial statements are issued or available to be issued, including the effects on the financial statements and the adequacy of the related disclosures, and the effects on the auditor's report. No such matters or conditions have come to our attention during our engagement.

Independence

We are not aware of any relationships between Baker Tilly and the Plan that, in our professional judgment, may reasonably be thought to bear on our independence.

Form 5500

We obtained and read the draft Form 5500 prior dating our report. We noted no material inconsistencies with the audited plan financial statements.

Related parties

We did not have any significant findings or issues arise during the audit in connection with the Plan's related parties.



Required communications

Other matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the DOL's Rules and Regulations for Reporting and Disclosure under the ERISA, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves.



Nonattest services

The following nonattest services were provided by Baker Tilly:

- Preparation of Plan's financial statements and supplemental schedule
- Preparation of trial balance from trust reports
- Preparation of adjusting entries as necessary



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Date: August 20, 2024
To: Board of Directors
From: Bill Flores, Finance and Audit (F&A) Committee Chair
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 20, 2024

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, 2023.

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 December 8, 2020, the Board approved Baker Tilly to provide 401(k) Plan audit services for calendar years 2021, 2022, 2023, 2024, and 2025, subject to the annual approval of the Board for 2022, 2023, 2024, and 2025. Based on this approval, ERCOT engaged Baker Tilly to provide 401(k) Plan audit services for the calendar year ending December 31, 2023.

It is expected that on August 19, 2024, representatives of Baker Tilly will meet with the F&A Committee to discuss the proposed final audit report for the ERCOT 401(k) Plan, as of December 31, 2023.

The F&A Committee is expected to recommend that the Board accept the 2023 audited financial statements for the ERCOT 401(k) Plan, as of December 31, 2023, as prepared by Baker Tilly, during its meeting.

A draft of the final audit report for the ERCOT 401(k) Plan, as of December 31, 2023, prepared by Baker Tilly, 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 2023 filing is due no later than October 15, 2024;



- 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 Baker Tilly 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 Baker Tilly, as of December 31, 2023, at its meeting on August 19, 2024, and is expected to recommend that the Board accept the audited financial statements of ERCOT's 401(k) Plan, as of December 31, 2023, as presented in draft form by Baker Tilly, 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 2023;

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, on December 8, 2020 the ERCOT Board of Directors (Board) selected Baker Tilly to provide 401(k) Plan audit services for the calendar years 2021, 2022, 2023, 2024, and 2025, subject to the annual approval of the Board for 2022, 2023, 2024, and 2025; and

WHEREAS, Baker Tilly has issued an opinion acceptable to this Board in connection with its audit of ERCOT's 2023 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, 2023, as presented by Baker Tilly, at its meeting of August 19, 2024; 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, 2023, as presented by Baker Tilly;

THEREFORE, BE IT RESOLVED, that ERCOT is hereby authorized and approved to accept the audited financial statements of ERCOT's 401(k) Plan, as of December 31, 2023, as presented by Baker Tilly.

CORPORATE SECRETARY'S CERTIFICATE

I, Chad V. Seely, Corporate Secretary of ERCOT, do hereby certify that, at its August 20, 2024 meeting, the Board passed a motion approving the above Resolution by _____.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of August, 2024.

Chad V. Seely
Corporate Secretary

Exhibit A

Draft 2023 ERCOT 401(k) Savings Plan Audit Report

**Electric Reliability Council of Texas
401(k) Savings Plan**

Financial Statements and
Supplementary Information

December 31, 2023 and 2022

DRAFT 1.23.2024

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DRAFT 7.23.2024

Independent Auditors' Report

To the Plan Administrator of
Electric Reliability Council of Texas 401(k) Savings Plan

Scope and Nature of the ERISA Section 103(a)(3)(C) Audit

We have performed audits of the financial statements of the Electric Reliability Council of Texas 401(k) Savings Plan (the Plan), an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), as permitted by ERISA Section 103(a)(3)(C) (ERISA Section 103(a)(3)(C) audit). The financial statements comprise the statements of net assets available for benefits as of December 31, 2023 and 2022, and the related statement of changes in net assets available for benefits for the year ended December 31, 2023, and the related notes to the financial statements.

Management, having determined it is permissible in the circumstances, has elected to have the audits of the Electric Reliability Council of Texas 401(k) Savings Plan's financial statements performed in accordance with ERISA Section 103(a)(3)(C) pursuant to 29 CFR 2520.103-8 of the Department of Labor's (DOL) Rules and Regulations for Reporting and Disclosure under ERISA. As permitted by ERISA Section 103(a)(3)(C), our audits need not extend to any statements or information related to assets held for investment of the Plan (investment information) by a bank or similar institution or insurance carrier that is regulated, supervised, and subject to periodic examination by a state or federal agency, provided that the statements or information regarding assets so held are prepared and certified to by the bank or similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 of the DOL's Rules and Regulations for Reporting and Disclosure under ERISA (qualified institution).

Management has obtained certifications from a qualified institution as of December 31, 2023 and 2022, and for the year ended December 31, 2023, stating that the certified investment information, as described in Note 9 to the financial statements, is complete and accurate.

Opinion

In our opinion, based on our audits and on the procedures performed as described in the Auditors' Responsibilities for the Audit of the Financial Statements section:

- The amounts and disclosures in the accompanying financial statements, other than those agreed to or derived from the certified investment information, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.
- The information in the accompanying financial statements related to assets held by and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Electric Reliability Council of Texas 401(k) Savings Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our ERISA Section 103(a)(3)(C) audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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. Management's election of the ERISA Section 103(a)(3)(C) audit does not affect management's responsibility for the financial statements.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Electric Reliability Council of Texas 401(k) Savings Plan's ability to continue as a going concern for at least one year following the date that the financial statements are available to be issued.

Management is also responsible for maintaining a current plan instrument, including all plan amendments, administering the Plan, and determining that the Plan's transactions that are presented and disclosed in the financial statements are in conformity with the Plan's provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

Auditors' Responsibilities for the Audit of the Financial Statements

Except as described in the Scope and Nature of the ERISA Section 103(a)(3)(C) Audit section of our report, our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Electric Reliability Council of Texas 401(k) Savings Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Electric Reliability Council of Texas 401(k) Savings Plan's ability to continue as a going concern for a reasonable period of time.

Our audits did not extend to the certified investment information, except for obtaining and reading the certification, comparing the certified investment information with the related information presented and disclosed in the financial statements, and reading the disclosures relating to the certified investment information to assess whether they are in accordance with the presentation and disclosure requirements of accounting principles generally accepted in the United States of America.

Accordingly, the objective of an ERISA Section 103(a)(3)(C) audit is not to express an opinion about whether the financial statements as a whole are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Other Matter — Supplemental Schedule Required by ERISA

The supplemental schedule, Schedule H, Line 4(i) - Schedule of Assets (Held at End of Year) as of December 31, 2023 is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the DOL's Rules and Regulations for Reporting and Disclosure under ERISA. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information included in the supplemental schedule, other than that agreed to or derived from the certified investment information, has been subjected to auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. For information included in the supplemental schedule that agreed to or is derived from the certified investment information, we compared such information to the related certified investment information.

In forming our opinion on the supplemental schedule, we evaluated whether the supplemental schedule, other than the information agreed to or derived from the certified investment information, including its form and content, is presented in conformity with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA.

In our opinion:

- The form and content of the supplemental schedule, other than the information in the supplemental schedule that agreed to or is derived from the certified investment information, are presented, in all material respects, in conformity with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA.
- The information in the supplemental schedule related to assets held by and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

Frisco, Texas
July 23, 2024

DRAFT 7.23.2024

Electric Reliability Council of Texas 401(k) Savings Plan

Statements of Net Assets Available for Benefits

December 31, 2023 and 2022

	2023	2022
Assets		
Investments		
Investments at fair value	\$392,251,898	\$327,270,975
Receivables		
Notes receivable from participants	3,971,717	3,676,894
Total assets	396,223,615	330,947,869
Net assets available for benefits	\$396,223,615	\$330,947,869

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, 2023

Additions	
Investment income	
Interest, dividends and other income	\$ 5,100,669
Net appreciation in fair value of investments	55,753,460
Total investment income	60,854,129
Interest income on notes receivable from participants	208,180
Contributions	
Participant contributions	12,016,072
Employer contributions, net	17,308,740
Rollovers	2,748,163
Total contributions	32,072,975
Total additions	93,135,284
Deductions	
Benefits paid to participants	27,708,267
Administrative expenses, net	151,271
Total deductions	27,859,538
Net increase	65,275,746
Net assets available for benefits	
Beginning of year	330,947,869
End of year	\$ 396,223,615

See notes to financial statements

Electric Reliability Council of Texas 401(k) Savings Plan

Notes to Financial Statements

December 31, 2023 and 2022

1. Description of Plan

The following description of the Electric Reliability Council of Texas 401(k) Savings Plan (the Plan) provides only general information. Participants should refer to the plan document for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan established effective January 1, 1997, as restated March 7, 2022. The Plan covers all employees, excluding leased employees, of Electric Reliability Council of Texas, Inc. (ERCOT) (the Company or Employer). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan Administrative Committee is responsible for oversight of the Plan. The Plan's Administrative Committee determines the appropriateness of the Plan's investment offerings and monitors investment performance.

Contributions

Each year, participants may contribute up to 99% of pretax annual compensation, as defined in the plan document, up to the maximum limits of the Internal Revenue Code (IRC). Participants also may designate all or a portion of their deferral contributions as after-tax contributions into a Roth account. Participants who have attained age 50 before the end of the plan year are eligible to make catch-up contributions. Participants also may contribute amounts representing distributions from other qualified defined benefit or defined contribution plans (rollover). Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan includes an automatic enrollment provision whereby all newly eligible employees are automatically enrolled in the Plan unless they affirmatively elect not to participate in the Plan. Automatically enrolled participants have their deferral rate set at 3% of eligible compensation and their contributions invested in designated fund determined by the Plan Administrative Committee until changed by the participant. Automatically enrolled participants will have their deferral rate increase by 1% on January 2nd until their deferral rate reaches 6%. The Plan also allows for Company fixed nonelective contributions and Company discretionary contributions. For the year ended December 31, 2023, the Company elected to make a discretionary matching contribution equal to 75% of participant elective deferrals up to 6% of a participant's eligible, annual compensation, resulting in a true-up contribution in the subsequent period. Additionally, the Company made a fixed nonelective contribution of 10% of each participant's eligible compensation. Contributions are subject to certain Internal Revenue Service (IRS) limitations.

Participant Accounts

Each participant's account is credited with the participant's contributions, allocations of the Company's contributions and an allocation of the Plan's earnings. Participant accounts are charged with an allocation of administrative expenses that are paid by the Plan. 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.

Vesting

Participants are vested immediately in their contributions plus actual earnings thereon. Vesting in the Company's discretionary matching contribution is based on years of continuous service. A participant is 20% vested after one year of credited service and continues to vest in increments of 20% until 100% vested after five years of credited service. Participants are vested in the Company's fixed nonelective contribution after three years of continuous service.

Electric Reliability Council of Texas 401(k) Savings Plan

Notes to Financial Statements

December 31, 2023 and 2022

Notes Receivable From Participants

Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. The loans are secured by the balance in the participant's account. The loan interest rate, is set at 1% above the prime rate, as defined by the Plan provisions. Principal and interest are paid ratably through monthly payroll deductions. Terms range up to five years or greater for the purchase of a primary residence.

Payment of Benefits

On termination of service due to death, disability or retirement, a participant may elect to receive either a lump sum amount equal to the value of the participant's vested interest in his or her account, or installment payments as provided in the plan document. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump sum distribution. If a terminated participant's vested balance is less than or equal to \$1,000, the amount may be automatically distributed in the form a of lump sum cash payment. In addition, the Plan allows for hardship distributions if certain criteria are met.

Forfeited Accounts

At December 31, 2023 and 2022, forfeited nonvested accounts totaled \$62,671 and \$157,961, respectively. These accounts will be used to first pay plan administrative expenses, and then to reduce future employer contributions. During 2023, employer contributions were reduced by \$399,663 and plan administrative expenses were reduced by \$32,362, from forfeited nonvested accounts, in accordance with plan provisions.

Revenue Sharing

The Plan has a revenue sharing account, which is funded by Fidelity Management Trust Company (the Trustee). Revenue sharing accounts are used to pay administrative expense or are reallocated to participant accounts. For the year ended December 31, 2023, there were revenue sharing contributions of \$52,443, which are recorded as "other income" on the Statement of Changes in Net Assets Available for Benefits. Revenue sharing available for future use totaled \$36,905 and \$16,973 as of December 31, 2023 and 2022, respectively. During 2023, revenue sharing funds were used to pay administrative expenses.

2. Summary of Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Electric Reliability Council of Texas 401(k) Savings Plan

Notes to Financial Statements

December 31, 2023 and 2022

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 Plan's investment committee determines the Plan's valuation policies utilizing information provided by the investment advisers, and trustee, as applicable. 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 (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Notes Receivable From Participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Interest income is recorded on the accrual basis. Related fees are recorded as administrative expenses and are expensed as incurred.

Payment of Benefits

Benefits are recorded when paid.

Expenses

Certain expenses of maintaining the Plan are paid by the Plan, unless otherwise paid by the Company. Expenses that are paid by the Company are excluded from these financial statements. 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 (depreciation) in fair value of investments.

Recent Accounting Standards

The SECURE 2.0 Act of 2022 was signed into law on December 29, 2022. This legislation includes a vast array of provisional changes to retirement plans, becoming effective in 2023 and beyond. Plan management adopted mandatory provisions effective for the year ended December 31, 2023, and continues to evaluate the impact of the adoption and implementation of this legislation on the Plan. The application of SECURE 2.0 Act did not have a material effect on the Plan's financial statements.

Subsequent Events

Subsequent events were evaluated through July 23, 2024, the date the financial statements were available to be issued.

Electric Reliability Council of Texas 401(k) Savings Plan

Notes to Financial Statements

December 31, 2023 and 2022

3. Fair Value Measurements

The framework for measuring fair value 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 under authoritative guidance 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 other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- 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;
- 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 technique are unobservable and significant to the fair value measurement.

The asset 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 maximize the use of relevant observables and minimize the use of unobservable inputs.

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, 2023 and 2022.

Mutual funds: Valued at the net asset value (NAV) or quoted market prices of shares held by the Plan at year-end.

Self-directed brokerage accounts: Valued at NAV or quoted market prices of mutual funds of registered investment companies, certificate of deposits, or stock shares held by the brokerage fund at year end.

Common collective trusts: Valued at the NAV of units of an investment collective trust. The NAV, as provided by the Trustee, is based on the fair value of the underlying investments held by the fund less its liabilities. This NAV is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Participant transactions (purchases and sales) may occur daily. Were the Plan to initiate a full redemption of the common collective trust, the Trustee reserves the right to temporarily delay withdrawals from the trust in order to ensure that securities liquidations will be carried out in an orderly business manner.

Electric Reliability Council of Texas 401(k) Savings Plan

Notes to Financial Statements

December 31, 2023 and 2022

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2023 and 2022:

Assets at Fair Value as of December 31, 2023	Level 1	Level 2	Level 3	Total
Mutual funds	\$213,158,215	\$ -	\$ -	\$213,158,215
Self-directed brokerage accounts	16,357,524	-	-	16,357,524
Common collective trusts	-	162,736,159	-	162,736,159
Total investments at fair value	\$229,515,739	\$162,736,159	\$ -	\$392,251,898

Assets at Fair Value as of December 31, 2022	Level 1	Level 2	Level 3	Total
Mutual funds	\$174,387,467	\$ -	\$ -	\$174,387,467
Self-directed brokerage accounts	12,962,587	-	-	12,962,587
Common collective trusts	-	139,920,921	-	139,920,921
Total investments at fair value	\$187,350,054	\$139,920,921	\$ -	\$327,270,975

4. Concentrations

As at December 31, 2023 and 2022, the plan had investments of \$100,747,746 and \$72,979,429, respectively, that were concentrated in two different investments.

5. Related-Party and Party in Interest Transactions

Certain Plan investments are managed by Fidelity Management Trust Company, the Trustee, and therefore, these transactions qualify as party in interest transactions.

Additionally, the Plan issues loans to participants, which are secured by the participant's account balances. These transactions qualify as party in interest transactions.

Certain administrative functions of the Plan are performed by officers or employees of the Company. No such officer or employee receives compensation from the Plan.

6. Plan Termination

Although it has not expressed any intent to do so, the Company 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 would become 100% vested in their employer contributions.

Electric Reliability Council of Texas 401(k) Savings Plan

Notes to Financial Statements

December 31, 2023 and 2022

7. Tax Status

The Plan adopted a pre-approved plan offered by FMR LLC. The pre-approved plan received an IRS Opinion Letter dated June 30, 2020, that the Plan and related trust are designed in accordance with the applicable sections of the IRC. Although the Plan has been amended since receiving the IRS Opinion Letter, the plan administrator believes that the Plan is designed, and is currently being operated, in compliance with the applicable requirements of the IRC, and, therefore believes that the Plan is qualified, and the related trust is tax exempt.

Plan management is required to evaluate tax positions taken by the Plan and recognize a tax liability if the Plan has taken an uncertain 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.

8. Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, concentration 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.

9. Information Certified by Trustee

The plan administrator has elected the method of compliance permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA for 2023 and 2022. Accordingly, Fidelity Management Trust Company, the Trustee of the Plan, has certified to the completeness and accuracy of all investments reported in the accompanying Statements of Net Assets Available for Benefits as of December 31, 2023 and 2022, and the supplemental Schedule H, Line 4(i) - Schedule of Assets (Held at End of Year) as of December 31, 2023, and the related investment activity reported in the Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2023.

Electric Reliability Council of Texas 401(k) Savings Plan

Schedule H, Line 4(i) - Schedule of Assets (Held at End of Year)

EIN: 74-2587416 Plan Number: 002

December 31, 2023

(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
Mutual Funds				
*	Fidelity Investments	Fidelity Contrafund K6	N/R	\$46,863,287
*	Fidelity Investments	Fidelity 500 Index Fund	N/R	53,884,459
*	Fidelity Investments	Fidelity Extended Market Index Fund	N/R	12,824,421
*	Fidelity Investments	Fidelity Government Income Fund	N/R	4,780,145
	T. Rowe Price	T. Rowe Price QM U.S. Small-Cap Growth Equity Fund I Class	N/R	11,205,321
	T. Rowe Price	T. Rowe Price Small-Cap Value Fund I Class	N/R	5,793,716
	PGIM	PGIM Jennison Mid-Cap Growth Fund Class R6	N/R	17,779,072
	BlackRock	BlackRock Equity Dividend Fund Institutional Shares	N/R	8,437,125
	MFS	MFS International Growth Fund Class R6	N/R	8,100,231
	Vanguard	Vanguard Total Bond Market Index Fund Institutional Class	N/R	10,811,143
	Vanguard	Vanguard Developed Markets Index Fund Investor Class	N/R	4,492,080
	Vanguard	Vanguard Inflation-Protected Securities Fund Admiral Shares	N/R	1,665,621
	American Century Investments	American Century Mid-Cap Value Fund Class R6	N/R	13,009,082
	Invesco	Invesco Oppenheimer Developing Markets Fund Class R6	N/R	7,223,258
	Franklin Templeton Investments	Western Asset Core Bond Fund Class I	N/R	2,668,376
	Cohen & Steers	Cohen & Steers Real Estate Securities Fund, Inc. Class Inst	N/R	1,378,676
	JP Morgan	JP Morgan Large Cap Growth R6	N/R	2,242,202
Total Mutual Funds				213,158,215
Common Collective Trusts				
	T. Rowe Price Trust Company	T. Rowe Price Retirement 2065 Fund F Class	N/R	301,969
	T. Rowe Price Trust Company	T. Rowe Price Retirement 2005 Fund F Class	N/R	102,883

Electric Reliability Council of Texas 401(k) Savings Plan

Schedule H, Line 4(i) - Schedule of Assets (Held at End of Year)

EIN: 74-2587416 Plan Number: 002

December 31, 2023

(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
	T. Rowe Price Trust Company	T. Rowe Price Retirement 2010 Fund F Class	N/R	\$ 1,079,137
	T. Rowe Price Trust Company	T. Rowe Price Retirement 2015 Fund F Class	N/R	1,396,349
	T. Rowe Price Trust Company	T. Rowe Price Retirement 2020 Fund F Class	N/R	7,987,587
	T. Rowe Price Trust Company	T. Rowe Price Retirement 2025 Fund F Class	N/R	8,830,971
	T. Rowe Price Trust Company	T. Rowe Price Retirement 2030 Fund F Class	N/R	17,495,335
	T. Rowe Price Trust Company	T. Rowe Price Retirement 2035 Fund F Class	N/R	23,874,625
	T. Rowe Price Trust Company	T. Rowe Price Retirement 2040 Fund F Class	N/R	27,015,205
	T. Rowe Price Trust Company	T. Rowe Price Retirement 2045 Fund F Class	N/R	16,694,505
	T. Rowe Price Trust Company	T. Rowe Price Retirement 2050 Fund F Class	N/R	18,054,171
	T. Rowe Price Trust Company	T. Rowe Price Retirement 2055 Fund F Class	N/R	6,883,192
	T. Rowe Price Trust Company	T. Rowe Price Retirement 2060 Fund F Class	N/R	4,263,018
	T. Rowe Price Trust Company	T. Rowe Price Retirement Balanced Trust Class F	N/R	1,213,056
	Wells Fargo Bank, N.A.	Galliard Stable Return Fund C	N/R	27,544,156
		Total Common Collective Trusts		162,736,159
	Self-Directed Brokerage Account			
*	Fidelity Investments	Self-Directed Brokerage Account	N/R	16,357,524
		Total investments at fair value		392,251,898
*	Participant Loans	Interest rates: 4.25% - 9.50%	\$0	3,971,717
				\$396,223,615

*A party in interest as defined by ERISA
N/R - cost omitted for participant directed investments