CEO UPDATE

H.B. (Trip) Doggett
President & CEO

ERCOT Board of Directors Meeting
June 15, 2010
CEO Update – Nodal & Project Management

NODAL – By the Numbers:

- 169 Days to Go-Live
- 5th Phase of Market Trials: Implementing Full Functionality
- 0 Items Impacting Go-Live Date
- 79 of 81 QSEs with Resources qualified (99.9% of Sys. Generation)
- 176 of 182 QSEs without Resources qualified
<table>
<thead>
<tr>
<th><strong>Market Trials: Phase 5</strong></th>
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<tbody>
<tr>
<td><strong>DAM/RUC</strong></td>
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<tr>
<td>• DAM &amp; DRUC running 5x per week</td>
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<td>• DRUC running <em>with</em> DAM for last 6 weeks</td>
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<td>• DAM Settlements are being executed</td>
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<td>• Settlement / extracts available since Mid-May</td>
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<td>• Strong market participation: (Avg. 186 QSEs per DAM run)</td>
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<td><strong>CRR</strong></td>
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<td>Completed &amp; Invoiced:</td>
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<td>• 4 monthly CRR auctions</td>
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<td>• 1 “Balance of the Year” auction</td>
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<td><strong>Real-Time</strong></td>
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<tr>
<td>• SCED</td>
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<tr>
<td>• Real Time settlements</td>
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<tr>
<td><strong>Other</strong></td>
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<td>Ancillary Services: SASM will run as needed</td>
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<td>Closed Loop LFC: 2-hour test occurred last month</td>
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<td>Credit: module launched May 14th</td>
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Upcoming Market Trials Milestones:

- **Closed Loop LFC**: 8-hour test week of June 14th
- **DAM/RUC/SASM Scenarios**: Will run on Tues. & Thurs. in June
- **Credit**: CMM patch to address NPRR 206 in late June
## CEO Update – Market Operations

**Market Trials:**
- Teams actively executing business processes
- Working to improve quality of solution

**Information Lifecycle Management (ILM) Project**
- Recovered 26 TBs of storage to date
- Expectation to recover 40 TBs by end of June.
- Issues: Project efforts in Production systems caused retail processing issues on May 25.
CEO Update – Market Operations

SAS70

- **Zonal:**
  - Testing underway  No issues noted to date
- **Nodal:**
  - Readiness work with external vendor near completion
  - Final report due in late June

**Issues:**

- Some missing EPS meter information for operating days May 6-8
- Caused by internal process failures
- Resulted in settlement errors of greater than 2%
- Resettlement of impacted operating days week of May 24
CEO Update – Grid Planning & Operations

Load Frequency Control (LFC)
- May 20: Successful LFC test with Nodal system
- Frequency controlled for 30 mins. *(with all QSEs on Nodal control)*
- Controlled with 2 transmission constraints, handled a unit trip

New Wind Generation Record:
- May 23: instantaneous output of 6,722 MW

Network Model Update Schedule
- Reached agreement on plan to switch to 90-day Nodal update schedule by Sept. 1

Hurricane Drill
- Successful drill with QSEs and TSPs
CEO Update – Information Technology & Facilities

New Data Centers
• Construction ahead of schedule, below budget
• Permanent power installation completed in May
• Final integration testing and commissioning activities scheduled for July (one month early)

Data Center Relocation
• Completed contract for Bastrop data center dark fiber installation
• Major equipment vendor site/due diligence visits completed
• First equipment requests for Proposals scheduled for June release
Nodal Credit Monitoring and Management System (CMM)
- CMM provides credit availability measures and exposure by Market Participant
- Application run with feeds from Congestion Review Rights (CRR) and Day-Ahead Market (DAM)
- Initial test successful in meeting test objectives.

EMMS Market Management System
- Resolved Issue: Missed Real-Time Balancing markets
- Has not reoccurred and can not recreate since last change applied
Finance

Year-to-date performance is $7.0 million favorable, primarily as a result of three factors:

Revenue:
- $3.2 million recovery from The Reserve, a one-time event

Expenses:
- $2.8 million under run in Salary & Benefits attributable to lower than anticipated staffing levels and increased project effort
- $1.3 million under run in Interest costs stemming from lower-than-budgeted interest rates and utilization of TCR auction receipts in lieu of borrowing from the revolver credit facility
Impact of Economy and Weather on Load Forecast Error

Legend
- Weather Impact
- Economy Impact

2010 YTD
- Forecast Energy: 121 TWh
- Actual Energy: 121 TWh

Bar Chart: GWh
- Jan-10
- Feb-10
- Mar-10
- Apr-10
- May-10

June 15, 2010
Economic and Weather Impacts on the Load Forecast

- Forecast for May = 28,284 GWh (forecast economy and normal weather)
- Backcast for May = 27,051 GWh (actual economy and normal weather)

\[
\text{Economic impact} = 27,051 \text{ GWh} - 28,284 \text{ GWh} = (1,233) \text{ GWh}
\]
(actual economy less forecast economy) (weather is the same for both models)

- Actual May load = 27,220 GWh (actual economy and actual weather)

\[
\text{Weather impact} = 27,220 \text{ GWh} - 27,051 \text{ GWh} = 169 \text{ GWh}
\]
(actual weather less normal weather) (actual economy for both models)
Year-end financial performance is forecast to be $7.6 million favorable and reflects the following:

**Revenue:**
- $3.2 million recovery from The Reserve *(one-time event)*
- $2.6 million unfavorable System Administration Fee variance – a significant drop in energy demand relative to the budget over the remainder of the year

**Expenses:**
- Continuation of favorable labor ($3.3M), interest expense ($2.4M), TRE Protocol Services ($0.5M), and other Base Operating costs ($0.8M)
CEO Update – Legal

Macomber Map
- Excellent national media coverage
- Successful legislative briefing regarding development

Sunset Commission
- Completed hearing
- Provided follow-up information requested by Sunset Comm. Members
**CEO Update – Compliance**

**NERC 2009 693 Final Audit:**
- Audit details will be provided to the Board in executive session
- ERCOT has not received the Final 2009 CIP audit report

**Tracing Protocols In Business Procedures**
- Set up new process to track progress and produce metrics
- Helps ERCOT Readiness Team track inclusion of Protocol traces in business procedures
- Using RequisitePro
## CEO Update – Human Resources

### Progress in Talent Management & Succession Planning Process
- Identifying key talent employees
- Next phase: Review & validate key talent employee profiles
- Scheduled for Q3 2010

### Training Strategy
- Posted RFP seeking On-line/Web-based training vendors
- Seeking to address technical skills, competencies, certifications, and overall employee development

### Open Enrollment
- 439 employees actively participated

### Health & Wellness Plans
- 98% of employees covered
ERCOT & Habitat for Humanity

Karen Farley
Thelma Garza