

ERCOT
ACTION SUMMARY
November 9, 2004

A. TIGHTENING MANAGEMENT PRACTICES AND CONTROLS

1. Implemented mandatory competitive bids for contractors, outside services, and major goods purchases, or written justification for deviation from policy; awards are made following group review process based on multiple evaluation criteria
2. Strengthened approval and accounting procedures for consultant and contractor invoices, including more rigorous documentation requirements for timesheets and expenses
3. Requiring more extensive background checks on employees and contractors who work on-site (unescorted) at ERCOT or have access to ERCOT computer systems, including confirming or performing (if needed) background checks for all current employees
4. Implemented mandatory management training on required policies and procedures for engaging and using consultants and contractors
5. Implemented mandatory management training sessions to reinforce policies and procedures regarding competitive bidding
6. Recruited and hired experienced contract administrator to coordinate and monitor contractor engagements
7. Reviewed all existing contracts and obtained insurance certificates where needed
8. Expanded internal audit program and increased resources available to the Internal Audit Manager
9. Implementing a short- and long-term schedule of internal audits that will investigate adequacy of internal controls in all ERCOT departments and program areas, and potential frauds, conflicts of interest and irregularities
10. Implemented a third-party reporting service (EthicsPoint) for employees to report suspected activity — anonymously if desired
11. Revised the employee ethics affirmation agreement to strengthen provisions that ensure ethical employee-vendor relationships
12. Enhanced procedures to require a more thorough financial and company review of prospective consulting companies and major vendors

13. Strengthened policy to require more stringent affirmation by prospective vendors and their individual consultants that no violations of ERCOT's conflict of interest and ethics policies exist
14. Strengthened the Vendor Information Form, now required for all additions to the vendor master listing; the new form requires a Tax ID or social security number, a W-9 form, and affirmation of adherence to ERCOT's policies relating to conflicts and gifts
15. Independent audit of management and internal controls, ordered and managed by PUC, is currently underway by Deloitte and Touche (report due Nov. 15)
16. Independent information technology security assessment, ordered and managed by PUC, is currently underway by Ernst & Young (report due Nov. 15)
17. Independent audit of external cyber-security, ordered and managed by PUC, completed in August by the firm CanAudit, resulted in numerous reforms and improvements to IT security processes and practices
18. Engaged the services of a highly regarded cyber security firm, Dyonyx, to assist management in ensuring adequate structure and staffing for long-term security of ERCOT IT systems
19. Updated the Standard Master Consulting Agreement and Scope of Work document to tighten and clarify contract labor policies and invoicing requirements
20. Initiated a secondary review of invoices by Treasury Analyst to disallow payment for items that are not properly supported or documented
21. Revised accounting practices to explicitly prohibit pre-payment for services
22. Updated the Consultant Travel Expense Reimbursement Policy to strengthen and clarify allowable expenses
23. Contracts Administrator is now capturing standard rates for various types of consulting activities in a database and will use the database to identify and compare prospective new vendors during qualification and bidding
24. Implemented the Lawson Procurement System which requires additional approvals between Accounts Payable and managers who approve invoices
25. Requiring, through Lawson system that all significant financial terms of a contract are included on a purchase order so that terms can be checked more easily prior to invoice approval

26. Legal Department has reconciled and consolidated three databases related to contracts and contractors, and is evaluating the feasibility of using the Lawson Procurement System as the single stand-alone database for contracts
27. Legal Department is regularly reviewing contracts to ensure that contract documentation is complete, any financial or insurance requirements are current, and that the vendor is in “good standing” with ERCOT before any contract is executed
28. Legal Department is supervising a monthly review of the contractor database to provide notice to appropriate management staff regarding upcoming contract expirations

B. STRENGTHENING ACCOUNTABILITY AND OPENNESS

29. Enforcing management compliance with all personnel and contractor processes through employee disciplinary action
30. Expanded 2005 budget process with PUC staff and public with more detailed budget information and more public meetings
31. Increased resources dedicated to communication with Legislators and staff, PUC Commissioners and staff, and public
32. Actively working to improve ongoing communication between PUC and ERCOT — establishing formal communication channels and determining communication expectations
33. Open meetings policy affirmed by clarifying RSVP policy on website (RSVPs are requested but not required)
34. Former employees involved in the contract irregularity issues have either resigned or been terminated from employment at ERCOT
35. “Open book policy” and significant resources dedicated to working with the Department of Public Safety to assist in the ongoing criminal investigation of the former employees involved in the contract irregularity issues

C. IMPROVING EFFICIENCY IN USE OF RESOURCES

36. Proposed freezing the administration fee at \$.44* per megawatt-hour in the 2005 budget (assumes no increases in requirements due to market redesign or expanded market monitor role)
37. Proposed reducing the debt by \$5 million per year from projections in both 2005 and 2006

38. Reducing reliance on outside services from 25 percent in 2004 to 14 percent of company labor for 2005 (based on budget proposal of 10/12/04)
39. General Counsel has noticed claims against ERCOT's insurance providers for losses due to employee misconduct; a claim against the first layer of insurance has been made and is being considered now
40. Aggressively cutting expenses to maintain fee at current level while absorbing additional principal payment due on debt and continuing to deliver efficient services to the market
41. Challenging all proposals to hire consultants and contractors as part of the 2005 budget process and going forward: established organizational goal to increase full-time staff if their function is planned to remain indefinitely in place at ERCOT, and using consultants and contractors only where it makes the most sense
42. Reduced benefits from 37 percent of base salary to 32 percent, including requiring employees to share costs of dependent health insurance premiums
43. Preparing to conduct a salary study, to be overseen by the PUC, to examine compensation levels in comparison with other ISOs, utilities, and other industries

* Since creation of this document, the administration fee has been reduced to \$.42 per megawatt-hour through a PUC-led settlement process.

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