



MEMO

Date: August 9, 2005
To: ERCOT Board of Directors
From: Steve Byone
Subject: Acceptance of Financial Statements (2003 & 2004)

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: August 16, 2005

Agenda Item No.: 11b

Issue:

ERCOT must obtain an annual audit of its financial records pursuant to the Bylaws.

Section 9.6 Audit. At least annually, an audit of the financial statements of ERCOT shall be performed by the Auditor approved by the Board.

Background/History:

PricewaterhouseCoopers LLP (“PwC”) was engaged by ERCOT, subsequent to Board approval, to perform the annual audit of ERCOT’s financial books and records.

On August 16, 2005, PwC will make a formal presentation to the Finance & Audit Committee (“F&A Committee”) of the Board to discuss the proposed audit report for year 2004 and PwC’s assessment of the internal controls, recommendations, and other business items that the F&A Committee may raise. In addition, PwC will recommend a restatement of the 2003 financial statements.

The F&A Committee Charter requires that the Committee make a recommendation to the Board on whether to accept the financial statements. It is contemplated that the F&A Committee will review and recommend that the Board accept the audited financial statements as presented by PwC.

Conclusion/Recommendation:

The F&A Committee of the Board of Directors is expected to recommend approval and acceptance of the Report on Audit of Financial Statements for the Years ended December 31, 2003 and 2004 as presented by PwC. If so, the Committee and ERCOT Staff recommend that the Board accept the financial statements.