



Finance & Audit Committee Meeting

January 17, 2006



Clifton Karnei

- ❑ Call to order
- ❑ Approval of December minutes
- ❑ Election of Committee Chair & Vice Chair



FA Charter Review – Steve Byone

Please refer to supplemental materials sent in January 10 email:

FA Charter & FA Charter review document



Audit Report Acceptance – Nancy McIntire

□ Benefits Plan

Please refer to supplemental materials sent in January 10 email:

Memo re: 2004 Audited Financial Statements for ERCOT's 401(k) Savings Plan and Money Purchase Plan



Committee Briefs

- ❑ ERM – Don Meek
- ❑ ICMP – Cheryl Moseley
- ❑ Audit Point Status – Cheryl Moseley
- ❑ Credit Stats – Cheryl Yager
- ❑ PMO Update – Rob Connell

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC. RISK MANAGEMENT EVENT PROFILE MATRIX (as of January 6, 2006)					
Strategic Position	Operational Excellence	Market Facilitation	Grid Reliability	Reporting	Compliance
<p>Strategy Development</p> <p><i>Objective setting adequately incorporates informed stakeholder input, market realities and management expertise</i></p> <p>ERCOT staff is generally not sufficiently aware of ERCOT's short and long range strategic plan. Current planning is viewed as more ad hoc than formal. Employees do not clearly understand the ERCOT vision and their role in working to achieve the vision.</p>	<p>Performance Monitoring</p> <p><i>Clearly defined performance metrics linked to mission and goals; actively monitored, status communicated and corrective action taken</i></p> <p>Current performance monitoring of business activities fail to provide sufficient insight and early warning of potential underperforming activities (i.e. PMO). Inadequate project management & delivery capability will negatively impact the implementation of new PRRs and the transition to nodal market.</p>	<p>Efficiency</p> <p><i>Market design promotes efficient delivery of energy to consumers with appropriate pricing signals</i></p> <p>Major significant issues relating to the efficiency of the current market have been identified. (Nodal development has not been formally adapted)</p>	<p>Grid Operations</p> <p><i>Information required to operate the grid is efficiently gathered and appropriate tools are prudently configured to efficiently operate the system</i></p> <p>Current tools utilized by the System Operator (including the State Estimator and the accuracy/availability of SCADA data) and the lack of an Operator Training Simulator expose ERCOT to greater reliability risks.</p>	<p>Review Practices</p> <p><i>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading</i></p> <p>Internal review standards to ensure accuracy and completeness of information prior to release are below desired levels.</p>	<p>Legal & Legislative</p> <p><i>Operations are conducted in compliance with all laws and regulations and current and proposed legislation are understood and communicated</i></p> <p>Failure to properly comply with law, regulations, and protocols may result in fines, penalties, reliability degradation or other impacts. Ongoing interaction with key regulators and legislators.</p>
<p>Mission and Goals</p> <p><i>Corporate objectives and performance standards are understood and followed</i></p> <p>Inufficiently documented company policies, goals, and objectives and an inefficient translation of high-level corporate objectives into priorities for individual divisions, departments, and employees will diminish ERCOT's ability to achieve stated objectives. Current management initiatives related to goal setting and 'Line of Sight' have increased awareness of goals, and objectives.</p>	<p>Business Practices</p> <p><i>Business planning, processes and management standards are effective and efficient</i></p> <p>Business Continuity Plan, Disaster Recovery Plan, Internal control processes, record retention procedures, and safety practices are currently below desired expectations. Additional development activities required to implement and test these processes. Additional NERC recommendations with respect to managing a potential Avian Flu outbreak are still in development.</p>	<p>Administration</p> <p><i>Market rules are fairly applied to all participants</i></p> <p>Major significant issues relating to administration of existing protocols have been identified.</p>	<p>Planning</p> <p><i>Operational and long-range planning methods enable efficient responses to necessary system changes to maintain reliability standards</i></p> <p>Lack of timely and accurate information necessary to build a reasonable system model and forecasts, an insufficient ability to conduct long-range (5-10 years out) planning, demand planning resulting from a transition to Nodal, and exposure that transmission planning will receive related to the passage of SB 20 combine to create a heightened level of risk.</p>	<p>Disclosure</p> <p><i>Reporting and other disclosures to intended parties is timely, accurate and effective</i></p> <p>A Disclosure Committee is in the process of being institutionalized to discuss and report an issue related to external reporting and compliance. Disclosure matters related to Dec. '05 Retail Transaction system issue need to be reviewed and 'lessons learned' incorporated into future responses to outside Market Participants.</p>	<p>Internal Control Compliance</p> <p><i>Internal Control Compliance, processes and management standards are effective and efficient</i></p> <p>The Manager of the ICOMP Office is working with process owners on addressing GAPS identified during last year's efforts to document internal controls. In addition, all prior audit issues are being actively tracked and monitored by management as well as Internal Audit to ensure that appropriate actions are taken to address audit findings and recommendations.</p>
<p>Reputation</p> <p><i>Positive perceptions by stakeholders typically lead to less cost and greater flexibility resulting in enhanced enterprise value</i></p> <p>ERCOT's Reputation is below desired levels primarily due to fallout from 2004 scandal. Increased scrutiny resulting from the Fee Case filing, high visibility of Nodal implementation, and the potential for renewed focus on the previous scandal (as trials begin). Dec '05 Retail Transaction system issue have increased Market Participant scrutiny.</p>	<p>Human Resources</p> <p><i>Organization design, managerial and technical skills, bench strength and reward systems are aligned with corporate goals</i></p> <p>Compensation program design, poor career path definition, minimal funding for continuing education, lack of certainty around roles/responsibilities, and excessive use of contractors contribute to morale issues and increased risk of not being able to attract and retain quality employees. Staff turnover levels have continued to present a risk issue.</p>	<p>Counterparty Credit</p> <p><i>Bankruptcies and other capital deficiencies increase the cost for market participants and potentially impact Grid reliability through</i></p> <p>Processes for certifying & decertifying market participants increase the potential for credit issues. A medium to large market participant default could materially impact the ERCOT market, grid reliability, and ERCOT's reputation. There is room for improvement with current analytic methods in order to provide desired levels of early warning.</p>	<p>Bulk System Resources</p> <p><i>Market Participants have constructed and made available adequate bulk electric grid resources</i></p> <p>Uncertainty surrounding generation projects, installed and operational capacity, and the high dependency on natural gas in Texas' generation fleet may impact reliability.</p>	<p>Communication</p> <p><i>Internal and external communications are timely and effective</i></p> <p>Internal and external communications are below desired standards with improvement needed in both methods and message. Lack of sufficient internal communication used as a primary reason for morale-related issues.</p>	<p>Industry Standards</p> <p><i>Business practices provide stakeholders with required assurances of quality</i></p> <p>Failure to adhere to ERCOT adopted industry standards, and/or industry standards with which ERCOT is expected to adapt, may increase risk. Changes in NERC/IFERC standards and policies require ERCOT action to ensure ongoing compliance. SAS 70 Audit issues remain to be addressed.</p>
<p>Fiscal Management</p> <p><i>ISO design requires competent, prudent and cost effective provision of services</i></p> <p>Procurement process, ERCOT methods to account for project related O&M and Capital and account payable processes are overly complex and thus inefficient. In addition, cost reduction measures may be inappropriate to adequately address operational performance expectations.</p>	<p>Technology Infrastructure</p> <p><i>Information systems and data are effectively managed and are reliable</i></p> <p>System development, testing, implementation, and data management environments are not at desired levels. The technology roadmap is not clearly defined and contributor to overall challenges/inefficiencies. Dec '05 Retail Transaction system issue evidence of existing infrastructure concerns.</p>	<p>Settlement & Billing</p> <p><i>Accounting is timely and accurately reflects electricity production and delivery on behalf of buyers and sellers</i></p> <p>ERCOT's settlement & dispute processes have a small number of ADR's outstanding, however there are being addressed in a timely fashion. The recent SAS 70 audit has found major significant issues in the 13 Settlement & Billing control areas.</p>	<p>Operational Responsibility</p> <p><i>Market participants conduct their operations in a manner which facilitates consistent grid reliability</i></p> <p>Ineffective (ERCOT) enforcement ability relating to reliability standards leads to gradual erosion of reliability.</p>	<p>Adequacy and Integrity</p> <p><i>Robust processes exist to support management assertions embodied within financial reports</i></p> <p>Financial and Operations management information is insufficient (due to accuracy and/or poor design) to enable management to effectively monitor and manage all aspects of the business.</p>	<p>Regulatory Filings</p> <p><i>Evidence, testimony and other supporting materials are compelling and successful</i></p> <p>Failure to properly review and timely file required information may result in incomplete, inaccurate, or late filings. Competing priorities may impact the accuracy and timeliness of filings.</p>



Enterprise Risk Management – Don Meek

Rationale for Category Risk Assessment Changes

Mission and Goals	Upgrade	Roll out of “Line of Sight” and other goal and performance setting programs have increased staff awareness of Enterprise mission and goals
Reputation	Downgrade	Anticipated market participants’ perceptions of recent issue related to Retail Transaction system unavailability and ERCOT response
Technology Infrastructure	Downgrade	Recent Retail Transaction system unavailability has raised issues related to backup and disaster recovery capabilities
Settlement and Billing	Upgrade	The Settlements & Billing area has reduced the number of ADRs to a minimal level, handled on a timely basis. No SAS 70 Audit Issues found in this area.
Disclosure	Downgrade	Issues with ERCOT’s recent disclosure of Retail Transaction system unavailability indicate there is room for improvement

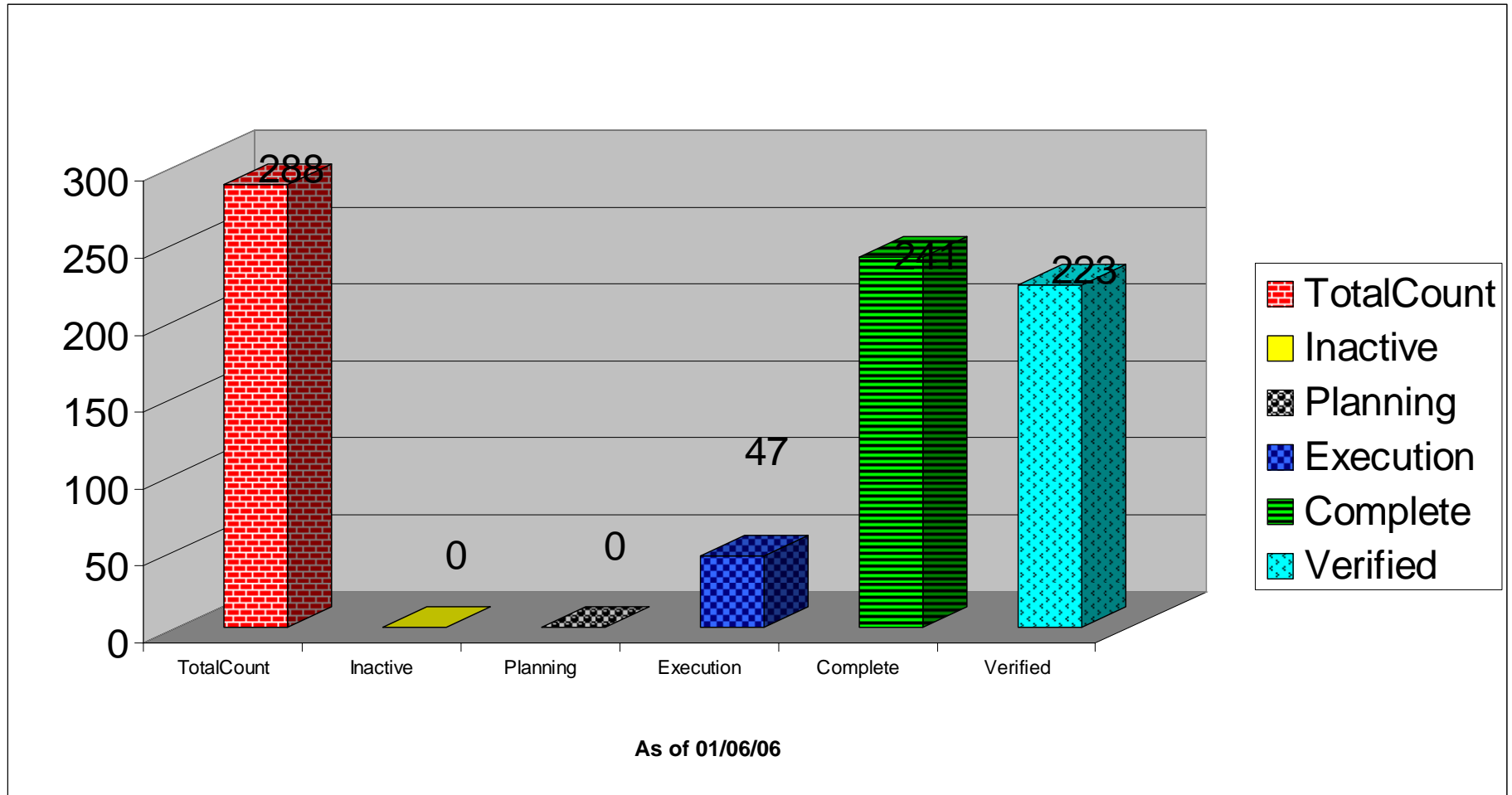


ICMP & Audit Point Status – Cheryl Moseley

Audit Recommendation Points and
ICMP Gap Remediation Update

January 6, 2006

Audit Recommendation Statistics





Completion Status by Audit

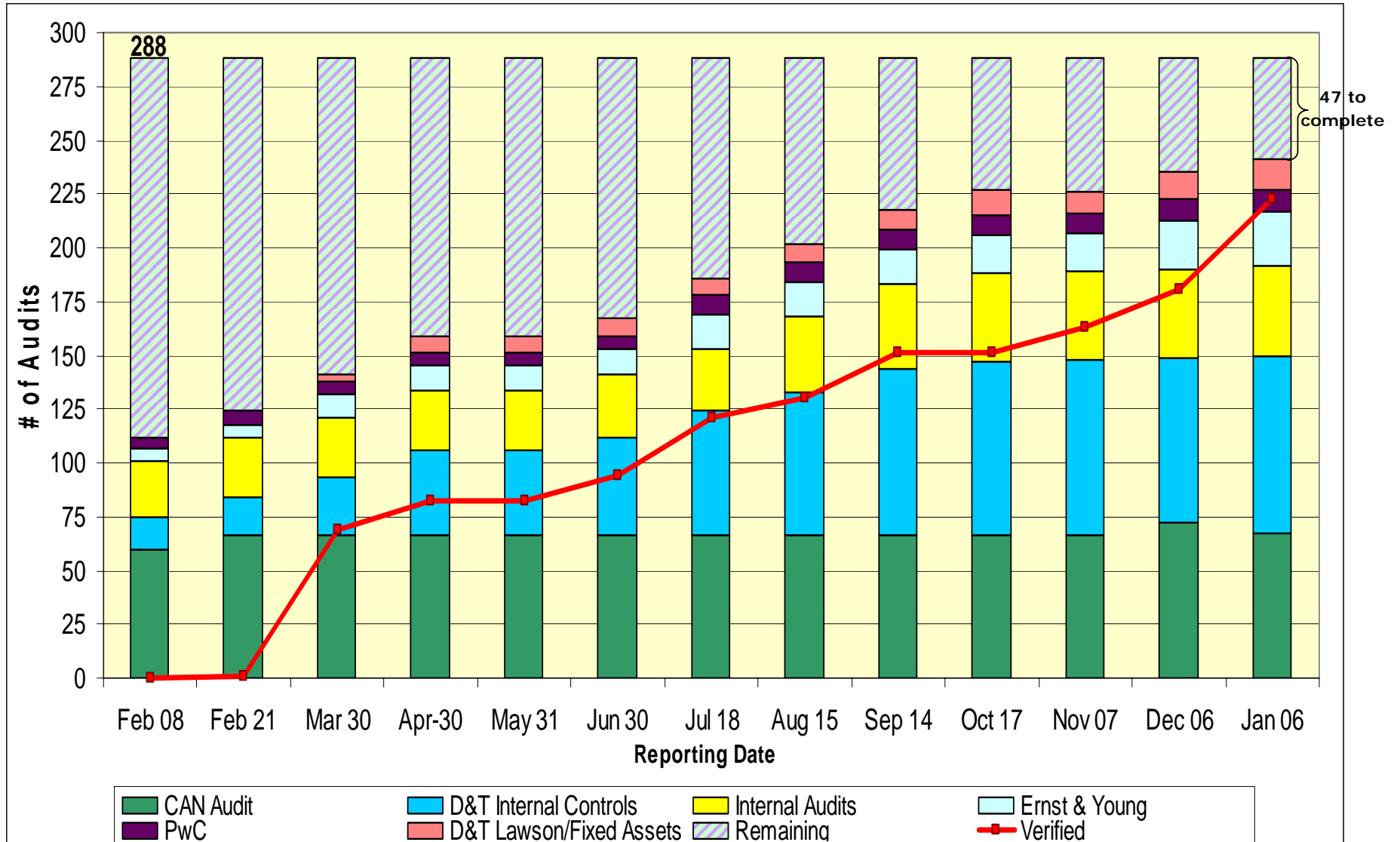
Completions by Priority		Complete on December 6					Complete on January 6				
Audit	Total Items	High	Medium	Low	Total	Verified	High	Medium	Low	Total	Verified
CAN Audit	72	22	20	30	72	39	19	19	29	67	62
D&T Internal Controls	109	69	8	0	77	70	74	9		83	77
Ernst & Young	35	22	1	0	23	15	24	1		25	23
Internal Audits	44	36	3	2	41	37	37	3	2	42	39
PwC	10	7	2	1	10	8	7	2	1	10	10
D&T Lawson / Fixed Assets	18	8	4	0	12	12	8	6		14	12
Totals	288	164	38	33	235	181	169	40	32	241	223
Percent Complete					81.60%					83.68%	
Percent of Complete Verified						77.02%					92.53%



Audit Responses in Progress

In Progress by Phase and Priority		In Progress December 6					In Progress January 6				
		Phase		Priority			Phase		Priority		
Audit	Total Items	Planning	Execution	Low/Med	High	Total	Planning	Execution	Low/Med	High	Total
CAN Audit	72	0	0	0	0	0	0	5	2	3	5
D&T Internal Controls	109	0	32	4	28	32	0	26	3	23	26
Ernst & Young	35	0	12	0	12	12	0	10	0	10	10
Internal Audits	44	0	3	1	2	3	0	2	0	2	2
PwC	10	0	0	0	0	0	0	0	0	0	0
D&T Lawson / Fixed Assets	18	0	6	3	3	6	0	4	1	3	4
Totals	288	0	53	8	45	53	0	47	6	41	47

Completion Status By Audit





ICMP Gap Completion Status

Complete by Business Process		Complete on November 7				Complete on December 6			
Business Process	Total Items	Key	Non Key	Total	Verified	Key	Non Key	Total	Verified
Accounts Payable	33	6		6		6		6	
Capital Projects	7	1		1		1		1	
Contract Mgmt	22	1		1		1		1	
Corp Gov	5	5		5		5		5	
Fin Report	6			0				0	
Fixed Assets	24			0		4	1	5	
Human Resources	16			0				0	
Info Sys Mgmt	10	1	3	4		1	3	4	
Payroll	14			0			2	2	
Procurement	75	3		3		3		3	
Revenue	3			0				0	
Treasury	2	2		2		2		2	
Totals	217	19	3	22	0	23	6	29	0

•ICMP office to begin verifications in January



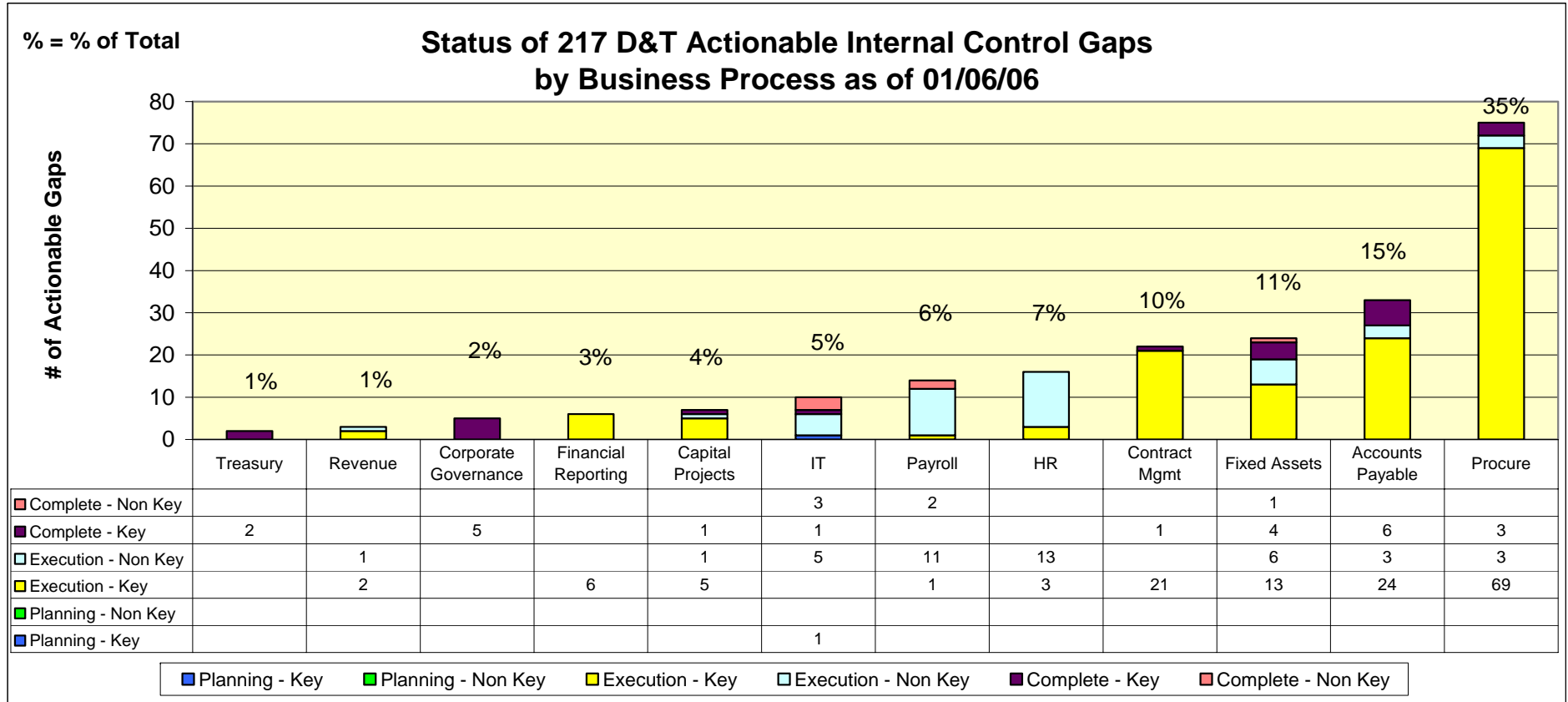
ICMP Gap Remediation in Progress

In Progress		In Progress December 6					In Progress January 6				
		Planning		Execution			Planning		Execution		
Business Process	Total Items	Key	Non Key	Key	Non Key	Total	Key	Non Key	Key	Non Key	Total
Accounts Payable	33			24	3	27			24	3	27
Capital Projects	7			5	1	6			5	1	6
Contract Mgmt	22			21		21			21		21
Corp Gov	5					0					0
Fin Report	6			6		6			6		6
Fixed Assets	24			17	7	24			13	6	19
Human Resources	16			3	13	16			3	13	16
Info Sys Mgmt	10	1			5	6	1			5	6
Payroll	14			1	13	14			1	11	12
Procurement	75			69	3	72			69	3	72
Revenue	3			2	1	3			2	1	3
Treasury	2					0					0
Totals	217	1	0	148	46	195	1	0	144	43	188

- Items in Execution continue to progress



Actionable Internal Control Gaps - Status

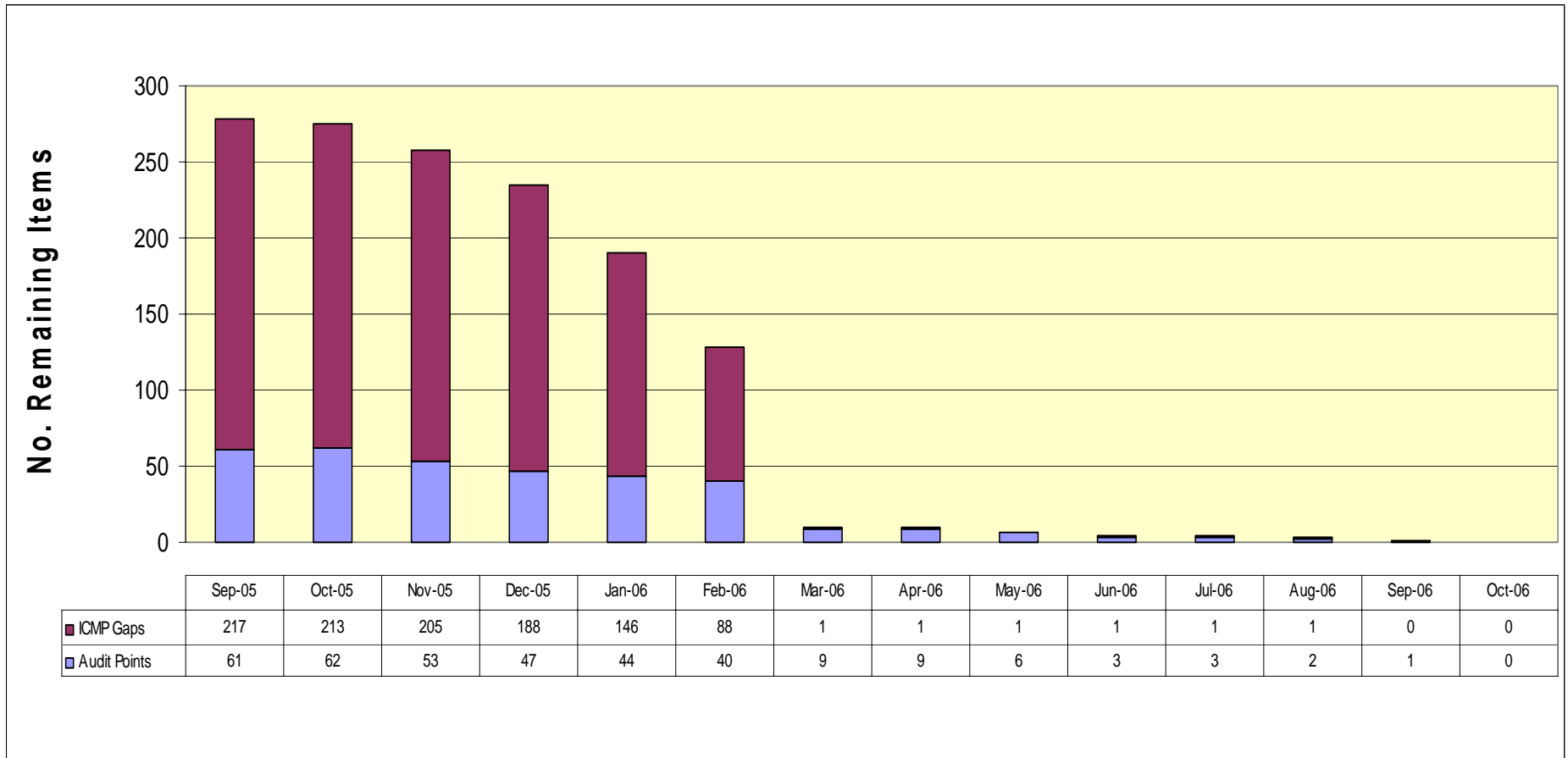


CHANGES FROM PRIOR REPORT on 12/06/05 - Increase/(Decrease):

	Treasury	Revenue	Corporate Governance	Financial Reporting	Capital Projects	IT	Payroll	HR	Contract Mgmt	Fixed Assets	Accounts Payable	Procurement	Total
Complete - Non Key	-	-	-	-	-	-	2	-	-	1	-	-	3
Complete - Key	-	-	-	-	-	-	-	-	-	4	-	-	4
Execution - Non Key	-	-	-	-	-	-	(2)	-	-	(1)	-	-	(3)
Execution - Key	-	-	-	-	-	-	-	-	-	(4)	-	-	(4)
Planning - Non Key	-	-	-	-	-	-	-	-	-	-	-	-	-
Planning - Key	-	-	-	-	-	-	-	-	-	-	-	-	-



Projected Audit Point & ICMP Gap Progress



Credit Stats – Cheryl Yager



ERCOT Market Credit Status

ERCOT Market Credit Status

	as of 11/30/2005				as of 12/31/2005					
	# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted		
Exposure in the ERCOT Market (owed to ERCOT)										
<u>QSEs that meet ERCOT Creditworthiness Standards</u>										
Ratings over BBB-	4	44,813,425	7%	158,650,067	U	6	28,222,198	7%	189,916,961	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	41	488,246,405	73%	633,649,099	S	39	372,578,876	73%	616,567,456	S
Guarantee Agreements	7	138,156,308	0.20	228,800,000	S	8	107,640,689	20%	209,856,870	S
Total Exposure	52	671,216,138	100%			53	508,441,763	100%		
Other QSEs in the ERCOT Market (ERCOT owes)										
<u>QSEs that meet ERCOT Creditworthiness Standards</u>										
Ratings over BBB-	11	(21,967,580)	-14%	229,801,788	U	9	(18,994,795)	-16%	198,534,893	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	35	(85,978,942)	-54%	13,142,405	S	38	(49,552,143)	-43%	13,982,608	S
Guarantee Agreements	6	(50,964,913)	-32%	26,977,000	S	8	(48,603,532)	-41%	86,977,000	S
Total	52	(158,911,435)	-100%			55	(117,150,470)	-100%		
Total	104					108				

U: Unsecured since these QSEs meet the creditworthiness standards

S: Secured i.e. required to post collateral since these QSEs do not meet the creditworthiness standards

PMO Update – Rob Connell



Projected Completions to Year End

PMO Stats through 12/31/05

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	Total Portfolio
	<i>Jan - Mar</i>	<i>Apr - Jun</i>	<i>Jul-Sept</i>	<i>Oct-Dec</i>	<i>Year End</i>	<i>All Projects</i>
Completed	14	8	19	21	62	115
On-Time	71%	100%	47%	95%	76%	77%
On-Budget	86%	100%	95%	100%	97%	98%
Deliverables	100%	95%	95%	100%	97%	97%

Total 2005 Portfolio

	Completed	On Time	On Budget	Initiation	Planning	Execution	Total Active
IO	11	9	11	1	5	8	14
CO	4	4	4	0	2	3	5
MO	11	11	11	0	2	5	7
RO	8	7	8	0	2	2	4
SO	28	16	25	2	5	16	23
Totals	62	47	59	3	16	34	53

2005 YTD Project Performance

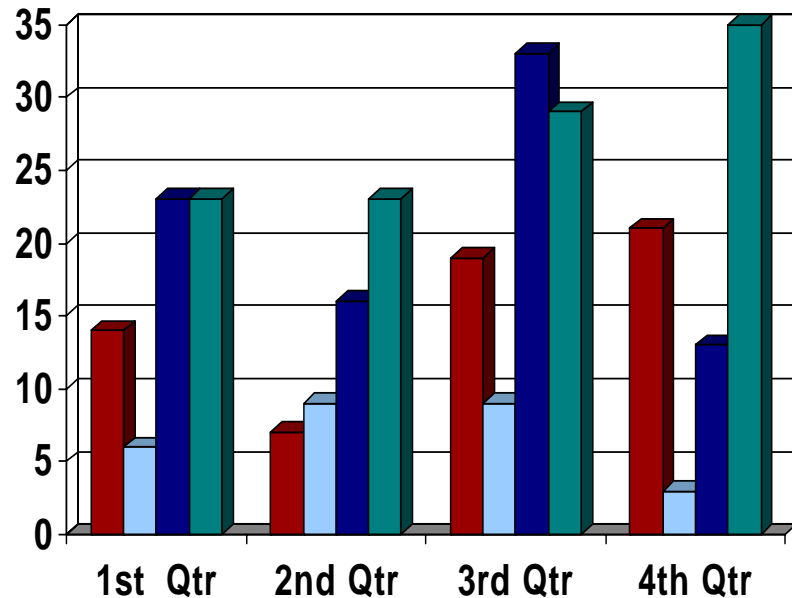
Fourth Quarter Results (to 12/31)

- 21 completed, 62 YTD
- 3 in Initiation
- 13 in Planning
- 35 in Execution

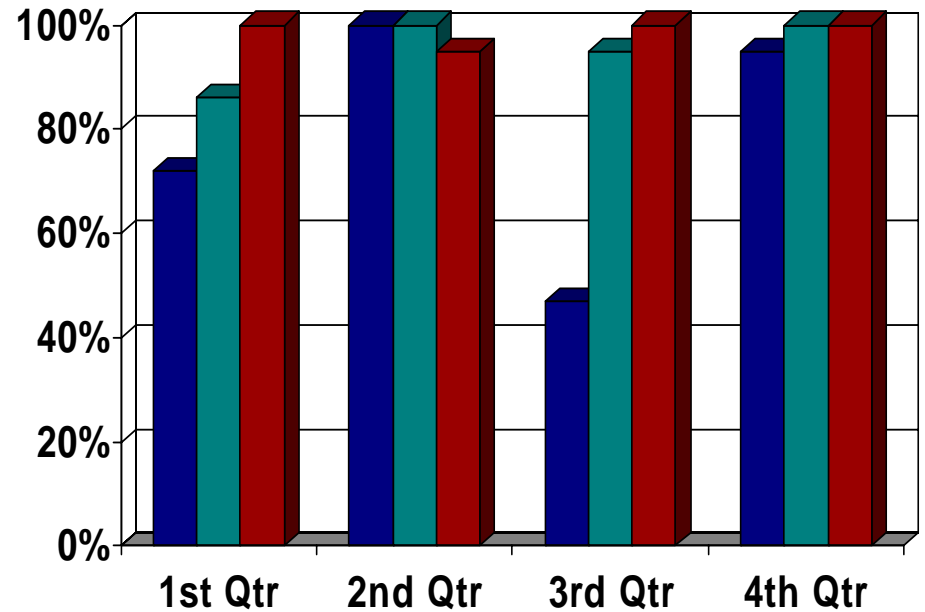
Project Process Improvements In 2005

- All PM Staff Completed PMP Certification
- Reviewing Prioritization Criteria with PRS & TAC
- Planning 2006 Program Portfolios
- PMO Process Improvements Being Implemented

Project Activity



Project Performance



■ Completed ■ Initiation ■ Planning ■ Execution

■ On Time ■ On Budget ■ Deliverables



Large Project Informational Update

PR-40090 Operations Training Simulator

- ❑ OTS Facility Sub Project has been completed.

- ❑ Detailed RFP Process and Vendor Presentations for OTS System Solutions has been completed.

- ❑ OTS Project Budget Information was presented to and approved by the Board in executive session in August 2005.

- ❑ ERCOT Project and Management Teams are ready to begin contract discussions and move this over \$1M project into execution.

- ❑ Informational discussion will be conducted in executive session of the Board.



14 Projects Completed 1st Quarter

➤ Projects Completed in January

- 40102 Renewable Energy Credits Enhancements
- 30099 Taylor Building Expansion

➤ Projects Completed in March

- 30016 Dynamic Ratings
- 40066-01 Lodestar 3.7 Upgrade
- 40112-05 Market Monitoring ISR System Enhancements

➤ Projects Completed in February

- 40042_01 EDW EMMS RSS
- 30144 EMP 2.2 Upgrade (8 Projects)
 1. PR20159 Load Rollover
 2. PR30050 EMS Front-End Replacements (Replace obsolete technology)
 3. PR30074 Enhance STNET Multiple Selected Time Ranges
 4. PR30094 DCP Enhancement (VSAT/TSAT Enhancements)
 5. PR30096 Move PTI Bus Translation to Genesys
 6. PR30170 Implement a selected contingency into Power Flow
 7. PR40099 CTGS Import/Export Dump Utility (ERCOT development)
 8. PR40094 Constraint Activity Manager (CAM v2.2 – ERCOT development)



8 Projects Completed 2nd Quarter

➤ Projects Completed in April

- 30129 Remote Access to Study Cases
- 40042-04 EDW Lodestar ODS
- 40066-03 Siebel 7.7 Upgrade
- 40068 Console Operations

➤ Projects Completed in May

- 50121-01 Service Oriented Architecture – Integrated Enterprise Framework

➤ Projects Completed in June

- **PR-30183-01 EMMS Rel 4 Phase One**
 - 40096 Improvements to VSA/DSA
 - 40059 EMS Archive Comparison Tool
 - 30085 Special Protection Schemes



19 Projects Completed 3rd Quarter

➤ Projects Completed in July

- PR-50001_01 Ancillary Services Reporting
- PR-40075_01 Lodestar Enhancements for PRR-350 and PRR 471
- PR-50033_01 MV90 Software Purchase

➤ Projects Completed in August

- PR-40042_07 EDW EMMS ODS
- PR-40015 TCR Report Enhancements

➤ Projects Completed in September

- PR-50022 Capital Projects Hardware
- PR-40019 Retail Test Website
- EMMS Release 4 (Oct 4th)
 - 40049 Improve Data Elements for Local Constraints & OOMs
 - 30131 PRR359 Improved Resource Plan
 - 30140 AS Simultaneous Selection
 - 40050 Unit Specific Bid Limits based on Generic Costs
 - 40051 OOM Participation in Providing Ancillary Services
 - 40062 PUCT Upgrade SPD
 - 30163 PRR422 - OOM Zonal Dispatch Instructions
 - 40048 EMMS Parameters Capture for MMS Reclear Fidelity
 - 30161 PRR413 - Optimization for the Whole Operating Day in RPRS Procurement Process (In Monitoring Mode)
 - 40072 PUCT Add Corrected MCPes to MOS and pass to MMS
- PR-50002_01 Enhancements to MOMS ISR
- PR-40098 SCADA/SE Performance Monitoring



21 Projects Completed 4th Quarter

➤ Projects Completed in October

- PR-40093 RMR Automation
- PR-50010 Lodestar Enhancements PRR420 Modified Competitive Solution for Settlements
- PR-40075 Lodestar Enhancements PRR 488 and PRR 572 Weather Responsiveness Determination and Reporting
- PR-50143 IPC Line Networking Upgrade

➤ Projects Completed in November

- PR-40090_01 OTS Center
- PR-40108 Disclosure of Local Congestion
- PR-50121_03 Market Information Distribution
- PR-50121_02 Hawk TIBCO

➤ Projects Completed in December

- PR-40106 ERCOT.com website
- PR-40034 Texas SET 2.1
- PR-50023 Potential Load Loss
- PR-50015_01 Lawson Time Tracking
- PR-50148 Intranet Document Mgt Enhancements
- PR-50149 Computer Aided Facilities Mgt System
- PR-50154 Spectel Upgrade
- PR-50144 PBX Upgrade
- PR-50146 Network Analysis
- PR- 40107 VeriSign Upgrade
- PR-50129 Revision to Balancing Energy Payments from Specific Resource
- PR-50133 Integration Test Server Upgrade and Synch
- PR-30021 Replace DSM6 and VGR Frequency Recorders



PR-40106 ERCOT.com Enhancements

➤ **Scope of the ERCOT.com Project included :**

This project is being created to address noted deficiencies with the ERCOT **public** website by improving the overall look, feel, usability, and navigation.

➤ **Features and Deliverables:**

- Improved Navigation
- Re-Organization of ERCOT Information
- Improved Search Engine & Content Manager

➤ **Current Activity**

- Lessons Learned
- Administratively Closing out Project

Planning 9 Months	Execution 7 Months
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October - June 2005

June – December 2005

➤ **Scope of Texas Set 2.1 Project included :**

- Implement all change controls as identified by the ERCOT Texas Set Working Group for Retail market-wide implementation
- Coordinate changes to Texas Set code for point to point transactions between TDSPs and CRs
- Conduct a market wide flight test to verify Texas Set functionality with all entities

➤ **Features and Deliverables:**

- Specific enhancements included in Texas Set 2.1 were:
 - Enhancements to support MOU/EC entrance into the Texas Deregulated Electric Market
 - Enhancements to support disconnects for non-pay process
 - Enhancements to communications of add'l billing determinants to the ERCOT Electric Retail Market
 - Delivered all functionality successfully to the market on December 5, 2005

➤ **Current Activity**

- Lessons Learned
- Closing out project.

Planning 5 Months	Execution 6 Months
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February - June 2005

July – December 2005

PR-50023 Potential Load Loss

- **Scope of Potential Load Loss Project included :**
 - Extract provides CRs timely notification of pending loss of customer load for appropriate adjustments to power purchases and scheduling.
- **Features and Deliverables:**
 - The objective of the project was to develop a daily extract of potential customer loss notifications from Siebel and Paperfree to enable CRs to modify their load profiles, purchase power agreements and energy schedules for enhanced daily load forecasting and make it available to CRs via the RMC on the TML.
 - Project initiated as a result of SCR739 Pending Load Loss Reports for CRs in 3Q2005
 - Solution uses Portal to post information on Report Explorer
 - Information is available to all CRs
- **Current Activity**
 - Closing out project.

Planning 2 Months	Execution 2 Months
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August - October 2005

October – December 2005

➤ **Scope of Lawson Time Tracking**

➤ Implementation of automated process to track and report time for all ERCOT employees.

➤ **Features and Deliverables:**

- The objective of the project is to implement time tracking for all ERCOT employees.
 - Project initiated to replace current spreadsheet method with an online entry system within the Lawson Software product suite.
 - Solution designed for future integration with MS Project Server, Lawson Process Flow module.
 - Project in response to request from EC for more effective/ efficient time tracking along with more reliable management reporting of ERCOT initiatives for PUCT.

➤ **Current Activity**

- ERCOT employee training
- Lessons Learned
- Closing out project.

Planning 3 Months	Execution 4 Months
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July – September 2005

September – December 2005

- **Scope of Intranet Document Mgr PH II Project included :**
 - Establish a Administrator role to existing Intranet Document Manager to enable management and control of ERCOT policies and procedures in accordance with Internal Control Management Program standards.
- **Features and Deliverables:**
 - The objective of this project is to provide administrator role for Internal Control Management Program (ICMP) office and improve document listings and search capabilities to existing system in order for the ICMP to manage all ERCOT Policies and Procedures efficaciously.
 - Project initiated due to establishment of the Internal Control Management Program (ICMP) in 4Q2005
 - Creation of new Administration Role for ICMP to administer all corporate policies and procedures
 - Establish corresponding functionality for new Administrator role to efficiently search, post, approve and retire corporate policies and procedures
 - Modify document classifications to coincide with new corporate policy and procedure document structure
 - Improved document listings and search capabilities for general users
- **Current Activity**
 - Administrative closure

Planning 1 Month	Execution 2 Months
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October 2005

November – December 2005

- **Scope of Computer Aided Facility Management Project included :**
 - Installation and configuration of Aperture VIEW system to manage all non-computer related assets, to include establishing reports for financial and auditing purposes.
- **Features and Deliverables:**
 - The objective of this project is to provide Facilities Management a tool to manage all existing non-computer related assets, additions to existing facilities structure, assignments, audit reporting and transfer of existing CAD drawings into system.
 - Installation and configuration of Aperture VIEW system
 - Establish financial and audit reports related to managed assets
 - Access to all ERCOT staff of facility drawings
- **Current Activity**
 - Lessons Learned
 - Administrative closure

Planning 2 Months	Execution 1 Month
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October – November 2005

December 2005

➤ **Scope of Spectel :**

- Increase the number of available ports in the Spectel-Confertel switch by 24
- Hardware which adheres to the ERCOT Technology Roadmap
- Outsourced Professional Servers to deliver this functionality

➤ **Features and Deliverables:**

- 96 port system in Austin and Taylor

➤ **Current Activity**

- Lessons Learned
- Closing out project.

Planning 4 Months	Execution 2 Months
----------------------	-----------------------

June - October 2005

October – December 2005

- ❑ **Scope of PR-50144 Nortel PBX Upgrade:**
 - Upgrade Nortel PBX phone systems software release and associated application software at Austin and Taylor locations.
- ❑ **Features and Deliverables:**
 - To upgrade ERCOT's PBX phone system to latest software at the Austin and Taylor locations
 - Allows for continuing maintenance coverage
 - Comply with Nortel's technical migration
- ❑ **Current Activity**
 - Currently in the Closing Phase of the project.

Planning 3 weeks	Execution 1 month
---------------------	----------------------

September – October 2005

October – November 2005

- **Scope of Network Analysis :**
 - Procure and install network analysis hardware and software
 - Tune analysis application for optimal performance
 - When required, produce baseline reports for applications accessed by users on API's on the Internet, WAN and corporate applications
- **Features and Deliverables:**
 - System has the ability to sniff real-time traffic
 - System can use mini-RMON, SNMP and NetFLOW data to provide statistical information on the traffic observed
 - System can provide application response time data
 - System can alert on various network events
 - System has an intuitive Enterprise front-end management package
- **Current Activity**
 - Lessons Learned
 - Closing out project.

Planning 2 Months	Execution 1 Months
----------------------	-----------------------

September - November 2005

November – December 2005

➤ **Scope**

This project will convert existing digital certificates associated with the Security Administrator function of the Texas Market Link from Lite to Enterprise.

➤ **Features and Deliverables:**

- Ability to issue Enterprise level digital certificates
- Ability to re-issue (convert) current lite digital certificates as enterprise digital certificates (complete conversion in 1 year)

➤ **Current Activity**

- Lessons Learned
- Administratively Closing out Project

Planning 8 Months	Execution 5 Months
----------------------	-----------------------

March – August 2005

August – December 2005



PR-50129 Revision to Balancing Energy

➤ **Scope of Revision to Balancing Energy Payments Project included :**

➤ Implementation of PRR569, and the associated changes to Lodestar for compliance.

➤ **Features and Deliverables:**

▪ Modifies the settlement calculation so that the payment to the QSE will be based on the normalized Fuel Index Price for Local Balancing Energy Payments

▪ Modification to calculations are for both aggregate and non-aggregate resources that are gas fired.

➤ **Current Activity**

▪ None, project completed

Planning 3 Months	Execution 4 Months
----------------------	-----------------------

June -- August 2005

September – December 2005

- **Scope of iTEST Lodestar Server Sync Project included :**
 - Installation and implementation of 2 additional servers in iTEST to mimic the parallel processing of Lodestar batch in production
- **Features and Deliverables:**
 - Installation of 2 additional Blade servers to mimic production
 - Implementation of Maestro code similar to production to distribute Lodestar batch processing across 3 servers
 - Installation completed and read for conversion of Maestro to the new scheduling tool in 2006
- **Current Activity**
 - None, project completed

Planning 2 Months	Execution 4 Months
----------------------	-----------------------

May - June 2005

July – October 2005

➤ **Scope of Replace DSM6 Frequency Recorders :**

➤ Replace unreliable DSM6 High-Speed Frequency Recorders with more current Frequency Recorders to meet ERCOT Operating Guides and NERC Reliability Standards.

➤ **Features and Deliverables:**

➤ The objective of the project was to:

- Provide ERCOT with redundant High-Speed Frequency Recorders.
- Automatically capture, record, and notify ERCOT of frequency disturbances.
- Provide ERCOT with frequency data and software tools to analyze disturbances.
- Establish equipment compatibility to share and compare disturbances with Market Participants.

➤ **Current Activity**

▪ Closing out project.

Planning 3 Months	Execution 2 Months
----------------------	-----------------------

August - October 2005

November – December 2005

- **Scope of PR-50121_02 Hawk:**
 - To install the TIBCO Hawk production monitoring tool for monitoring. The second component to this effort was to engage TIBCO for their “Hawk Accelerator” engagement to address implementation of pre-configured “rules-based” monitoring script & settings to address the integration environments by 12/05
- **Features and Deliverables:**
 - Rules based - a user-defined monitoring policy
 - Example: Automatically restart a failed process; Clear an alert when certain criteria are met; Send alert via email, page or OV if a condition still persists
 - Utilize the TIBCO Administrator for TIBCO component Management
 - Initial installation will be completed by TIBCO through the Hawk Accelerator program
 - Pre-built scripts
 - Develop scripts for CSA monitoring for Siebel Adapter
 - Develop scripts for MID for file structure monitoring and ABD Adapter
- **Current Activity**
 - Lessons learned
 - Currently in the Closing Phase of the project.
 - SNMP HP Open View integration will be rolled into subsequent SOA project initiatives to support project specific business functionality monitoring

Planning 7 weeks	Execution 6 weeks
---------------------	----------------------

September – October 2005

October 2005 – November 2005

Quarterly Investment Performance Review – Cheryl Yager

*Please refer to supplemental materials
sent in January 10 email:*

Investment Results 4Q 2005

- ERCOT is managing a significant amount of cash received from various sources
- Sources of investable funds

12.31.05

➤ Market	
➤ Prepayment of Invoices	\$ 27mm
➤ Transmission Congestion Rights	\$ 57mm
➤ From annual and monthly auctions	
➤ Cash deposits held as collateral	\$ 97mm
➤ Operations	
➤ Fees collected not yet needed (timing)	\$ 1mm
➤ Borrowing	\$ ---
Total investable cash	\$182mm

- Must be consistent with Investment Policy requirements
 - Safety of principal, Liquidity and Return on Investments
 - Authorized instruments (see next page)

- Result: Generally we have invested in Money Market Mutual Funds

APPENDIX C

Authorized Instruments

	<u>Description</u>	<u>Quality Limitation</u>	<u>Maturity Limitation (Note 1)</u>	<u>Limitation per issuer</u>	<u>Category limitation</u>
1.	Obligations of or guaranteed by the US government	n/a	5 yrs or less	none	none
2.	Obligations of or guaranteed by other US governmental entities (e.g. federal agencies, state or municipal, etc)	n/a	5 yr or less	\$ 5,000,000	50% of total
3.	Certificates of deposit and share certificates	Note 2	1 yr or less	\$ 5,000,000	33% of total
4.	Repurchase agreements in which the collateral is government or agency securities (1 or 2 above). (Note 3)	Note 2	7 days or less	\$ 5,000,000	33% of total
5.	Commercial paper	A1/P1 or better	1 yr or less	\$ 5,000,000	33% of total
6.	Banker's acceptances	Note 2	1 yr or less	\$ 5,000,000	33% of total
7.	Money market mutual funds (MMMF)	Note 4	Note 4	Note 4	none

Note 1: To the extent possible, ERCOT will attempt to match its investments with anticipated cash flow requirements. A base level of cash may remain uninvested to meet the operating needs of ERCOT.

Note 2: Investments may be made with financial institutions with a corporate or senior debt credit rating of at least A- with S&P or A3 with Moody's. Investments in repurchase agreements must be subject to a Master Repurchase Agreement signed with the bank or dealer (e.g. a PSA Master Repurchase Agreement or equivalent).

Note 3: Collateral is required for all repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value and accrued interest. Collateral may consist only of other instruments approved above. Collateral will always be held by an independent third party with whom ERCOT has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to and retained by ERCOT. The right of collateral substitution is granted.

Note 4: There is no credit rating required given 1) the MMMFs stated objective to preserve capital, 2) the credit quality restrictions placed on MMMFs by the SEC (may hold no more than 5% of middle-rated securities - A2/P2 or equivalent), 3) the SEC restriction that no more than 5% of assets in a MMMF may be invested in any one security (requires diversification) and 4) the restriction that MMMFs can only invest in instruments with maturities of less than 13 months and that the average maturity of all holdings in a MMMF cannot extend beyond 90 days. There is no maturity limitation or limitation per issuer for the reasons mentioned above.

- Money Market Mutual Funds (MMMF) must meet the requirements of SEC Rule 2a-7 with respect to duration and credit quality. This includes:
 - A stated objective to preserve capital
 - Credit quality requirements - most instruments must be the equivalent of A1/P1 (no more than 5% can be middle rated – A2/P2, none lower than this)
 - Diversification required - No more than 5% of assets in a MMMF can be invested in any one security
 - Duration required to be short term – Individual instruments should not have maturities of longer than 13 months. The average maturity of all holdings in a MMMF cannot extend beyond 90 days.

- Compare MMMF rates with other investment options

- Review weekly - iMoneyNet rankings
 - Compare ERCOT current fund returns with weekly rankings
 - If ok, complete file documentation
 - If not, review other available funds
 - Request and review prospectus
 - Confirm no conflict of interest with Market Participants
 - If appropriate, set up a new investment fund

- At December 31, 2005, ERCOT was invested in Barclay's Global Investor funds

- In January, 2006, ERCOT has moved funds to The Reserve Fund family of funds
 - Better rates
 - No conflict with Market Participant
 - Larger funds



4th Qtr Investment Results

**Electric Reliability Council of Texas
Summary of Investment Results
Fourth Quarter 2005
(in 000's)**

	Balance at December 31	Average Bal for Qtr	Interest 4th Qtr	Yield 4th Qtr	% of portfolio at Dec 31
Return for the quarter ended December 31, 2005					
BGI Institutional Institutional (Operating and Mkt) (Note 1)	84,253	55,959	558.6	3.96%	45.3%
BGI Institutional Prime (Operating and Mkt) (Note 1)	1,180	6,197	58.3	3.73%	0.7%
BGI Governmental (Deposits/restricted) (Note 2)	96,656	92,688	915.3	3.91%	53.1%
Other cash net of outstanding checks	(54)				0.0%
Total cash and cash equivalents (est)	182,045	155,044	1,532.2	3.92%	100.0%

	Benchmark information			
	ERCOT Yield (Notes 4 and 5)	Ranking MoneyNet (Note 4)	Top 10-11 Funds within category (Note 4)	Ave over all taxable funds
Benchmark data				
BGI Institutional Institutional (Note 1)	4.27%	4 out of 13	Range 4.31% to 4.23%	3.61%
BGI Institutional Prime (Note 1)	4.22%	Not in top 13	Range 4.31% to 4.23%	3.61%
BGI Governmental (Note 2)	4.22%	4 out of 10	Range 4.28% to 4.17%	3.61%

Note 1: The BGI Institutional and Prime funds include commercial paper and other high grade, short term corporate notes, CD's, time deposits and other short term money market instruments that meet the SEC requirements to be included in a MMF.

Note 2: The BGI Governmental includes Treasuries and other governmental securities.

Note 3: No individual securities held at Dec 31, 2005.

Note 4: As of January 3, 2006 based on 7-day yield.

Note 5: The Federal Reserve increased the borrowing rate to banks by 25 basis points on November 1, 2005.

Note 6: The average yield was lower over quarter due to higher balances in October, 2005 when rates were lower.

Statement of Compliance

Upon a review of the investment activity for the period ended December 31, 2005, I have no knowledge of any activity that does not comply with the Investment Policy.


Cheryl Yager, Treasurer


Steve Byrnes, Chief Financial Officer

Preliminary 2005 Budget Variance - Mike Petterson

*Please refer to supplemental materials sent in January 10
email:*

*Memo re: Application of Expected 2005 Actual vs. Budget
Revenue Variance*



Expected 2005 Budget Variance

ERCOT will use all reasonable means to operate within the approved Budget for the current year.

When unforeseen events occur (e.g. MWh's are significantly over/under projected levels, functionality is added or removed, etc.), and as a result, **ERCOT experiences or expects to experience in the next 12 month period more than a 25% variance from 1) its Capital Budget 2) its Operating and Maintenance Budget (excluding depreciation and amortization), or 3) its projected revenue stream,** staff will promptly recommend a plan for Board consideration which may include cost reductions or additions, fee increases or decreases, or other means to ensure that approved functions can be maintained, capital expended and expenses paid in the normal course of business.



Expected 2005 Budget Variance

- Expected favorable variance - \$10.1 million
 - Revenue-funded capital - \$4.3 million
 - Operating expenses - \$3.7 million
 - Revenue - \$2.1 million

- Manifested in cash balance

- Leading options
 - Fund initial wholesale market redesign
 - Reduce debt-funding of 2005 projects
 - Increase 2006 project funding
 - Issue a refund to QSEs
 - Temporarily reduce the System Administration Fee

Overview of Corporate Policy Framework - Cheryl Moseley

Please refer to supplemental materials sent in January 10 email:

Working Document List, approved corporate policies 1-6, plus financial and investment policies discussed at November FA)



Corporate Policy Structure

Policy Layer (PRT/ERT Approval)	CP 1 - Corporate Governance (Carolyn Shellman)	CP 2 - Assets (Steve Byone)	CP 3 - Business Operation (Steve Byone)	CP 4 - Compliance (Carolyn Shellman)	CP 5 - Employment (Nancy McIntire)	CP 6 - Information Protection (Primary: Ron Hinsley/Secondary: Jim Brenton)		CP 7 - Physical Security (Jim Brenton)	CP 8 - Information Technology Operations
Standard Layer (PRT/ERT Approval)	CS 1.1 - Policy & Procedure Management (Cheryl Moseley)	CS 2.1 Procurement (Jim Dubensky)	CS 3.1 Financial (Bd of Dir/Byone)	NERC Compliance (Larry Grimm)	CS 5.1 Human Resources (Nancy McIntire)	CS 6.1 Information Classification (Ann Delenela)	IT Security (Ann Delenela)	Physical Security (Ron Berry)	CS 8.1 System Migration and Release Management
	CS 1.2 - Contract Approval Standard (Susan Vincent)	CS 2.2 Capitalized Assets (Joe Naizer)	CS 3.2 Investment (Bd. Of Dir/Byone)	PUCT/Protocol Compliance (Carolyn Shellman)	Fraud Prevention (Carolyn Shellman)	CS 6.2 Records Mgmt & Retention (Susan Vincent)	Networks	Health & Safety (Mike McCutchen)	CS 8.2 Operations Change Control
	CS 1.3 - Enterprise Risk Management (Steve Byone)	CS 2.4 Program Management (Rob Connell)	CS3.3 Accounting (Mike Petterson)	FERC Compliance (Carolyn Shellman)		CS 6.3 Wireless Devices (David Johnson)	System Operations and Administration	Security Training	System Development and Maintenance
	CS 1.4 - Communication (Paul Wattles)		CS3.4 Treasury (Cheryl Yager)	Compliance with Laws & Regulations (Carolyn Shellman)		CS 6.4 Corporate Applications (s/b moved under CP8)	Acceptable Use of Computing Assets (Ann Delenela)		
	CS 1.5 - Approval Authority (Steve Byone)			Response to Audits and Assessments		Protection of Proprietary Information	Controlling Access to Information and Systems		

Standards listed here are currently approved or in progress. This list is not complete and will be expanded or modified, as additional documentation is completed.

Operating Procedures (Approved by Area Officer, unless it impacts more than one business unit. If impacts more than one business unit, approved through PRT/ERT process.)

Guidelines (This type of documentation is optional and may not be needed depending on the process.)

Definitions

- Corporate Policies** Applicable to the entire organization. General principles for a key area establishing general framework and forming the basis of detailed arrangements.
- Corporate Standard** Applicable to the entire organization. General requirements for a key area that are needed to meet the principles of the related Corporate Policy. Related to a Corporate Policy.
- Operating Procedure** Applicable to one or more divisions or departments. Process descriptions and detailed workflow descriptions which also deal with requirements. Related to a Corporate Standard.
- Guideline (Optional)** Applicable to a division or department, as necessary. Implementation details needed to implement the requirement of the related Corporate Standard. Related to Standard or Procedure

- Policy Review Team** (PRT) Team of Directors that review policies and standards that impact the organization.
- Executive Review Team** (ERT) Executive Team that review policies and standards recommended for approval by the PRT.

Next FA meeting: February 21, 2006

- ❑ ABC Objectives & Timeline
- ❑ PWC Audit Plan
- ❑ Scope of Third-party Internal Control Review
- ❑ SAS 70 Unqualified Opinion Planning
- ❑ Revised capital project prioritization criteria
- ❑ Review Credit Working Group Charter (Feb/Mar)
- ❑ Fee Filing Update
- ❑ Committee Briefs

- ❑ Adjourn to Executive Session