

Julie Parsley
Commissioner

Paul Hudson
Chairman

Barry T. Smitherman
Commissioner

W. Lane Lanford
Executive Director



Public Utility Commission of Texas

February 9, 2005

The Honorable Trey Martinez Fischer
Texas House of Representatives
P.O. Box 2910
Austin, TX 78768-2910

Dear Representative Martinez Fischer:

I would like to take this opportunity to familiarize you with actions taken by the Public Utility Commission of Texas (PUC) since allegations of impropriety first arose at the Electric Reliability Council of Texas (ERCOT) in April 2004.

Immediately upon being notified of the allegations, the PUC held an emergency open meeting to address the issue and authorized an independent entity (*Canaudit, Inc.*) to conduct an immediate security audit related to external penetration of ERCOT information technology systems.

During summer of last year, the Public Utility Commission, in conjunction with personnel from the State Auditors Office, scoped and issued Request For Proposals for additional independent audits related to ERCOT's management and internal controls procedure and its internal IT security protocols. Deloitte & Touche and Ernst & Young delivered final results of these audits in November 2004.

To ensure that ERCOT rectifies each shortcoming identified in the three independent audits, the PUC has ordered ERCOT to perform the following:

1. Required ERCOT to prepare a highly detailed spreadsheet listing each recommendation identified by the independent auditors and ERCOT's plan for implementing that recommendation along with planned implementation dates and appropriate milestones.
2. Required ERCOT to begin monthly presentations to the Public Utility Commission in Open Meeting reporting on the progress made implementing each recommendation and any changes that have been made to prior implementation schedules.



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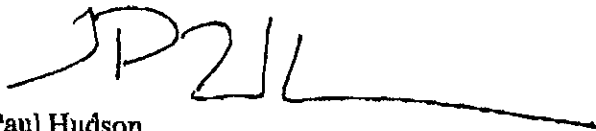
3. **Require ERCOT management and Board to discuss with the Commission its strategy and timeline for undertaking any necessary follow-up audits. Such audits might address any additional needs identified in the current audits or verify the effective implementation of changes made in response to the current audits.**

As you know, state statute (PURA 39.151(e)) requires the PUC to authorize ERCOT's administrative fee. Therefore, our diligence on behalf of the electricity customers of this state required us to act forcefully and expeditiously to address further issues related to the alleged fiscal impropriety.

We are steadfast in our desire that the PUC exercise strong oversight to ensure ERCOT reestablishes a position of trust and respect in the Texas electricity market.

We look forward to working with you and the Legislature on this matter. As always, please do not hesitate to contact us if you would like to discuss this issue further, if you would like a copy of any audit's findings or if you have any other question or concern.

Warmest Regards,

A handwritten signature in black ink, appearing to read 'PH', followed by a long horizontal line extending to the right.

Paul Hudson
Chairman

cc: Office of the Governor
Office of the Lieutenant Governor
Office of the Speaker
Chairman Steve Odgen
Chairman Troy Fraser
Chairman Jim Pitts
Chairman Phil King
Chairman Burt Solomons
Honorable members of the Texas Legislature