



ERCOT Update

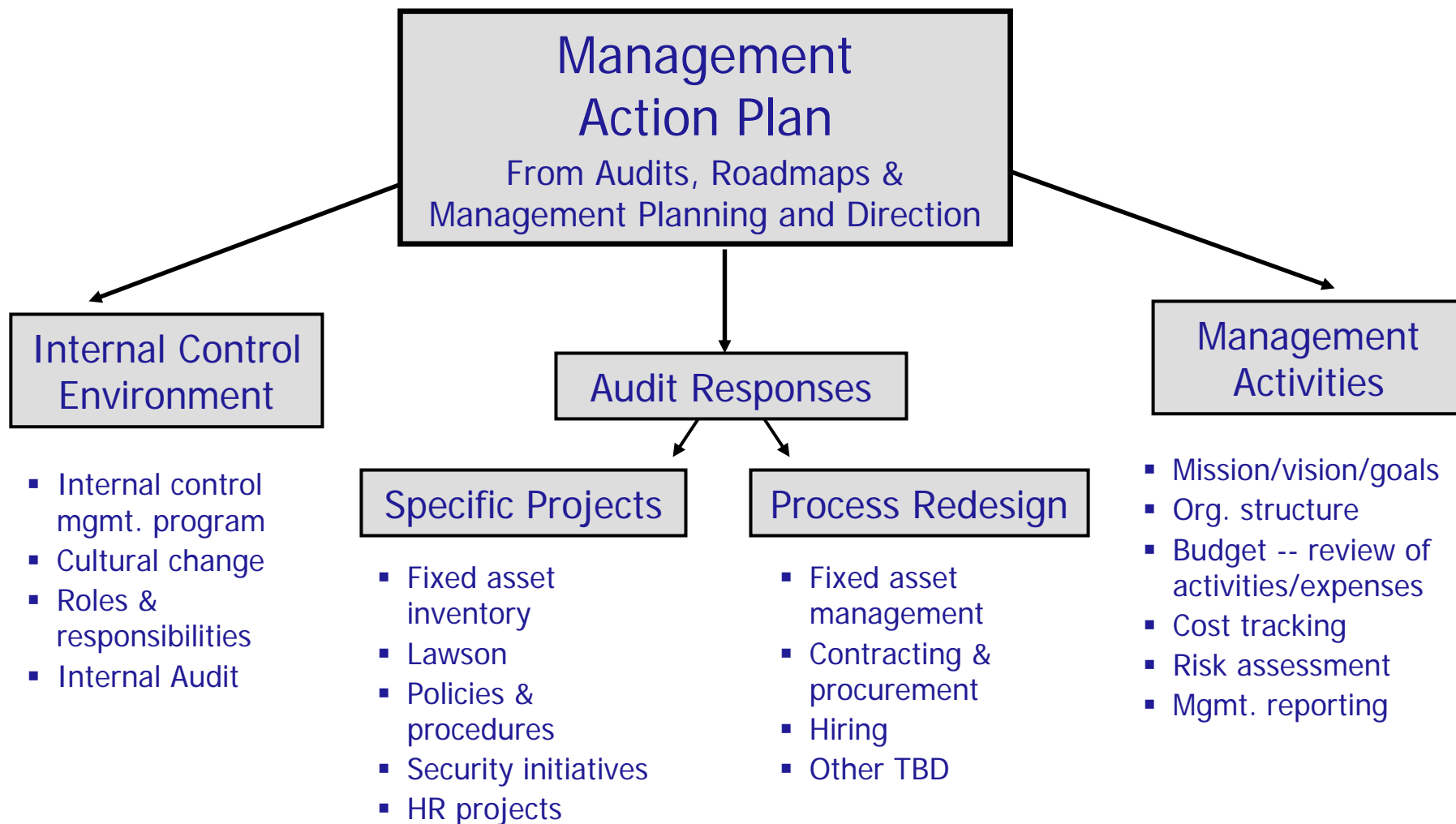
Management Action Plan (MAP)

Public Utility Commission of Texas
January 27, 2005

Thomas F. Schrader, CEO
Roy Bowman, CFO

1. MAP Status Update
2. Audit Response Tracking
3. Security Update
4. Employee Time Tracking
5. Debt Summary
6. Financial Performance Summary

Management Action Plan (MAP)



- ❑ Progress in many areas:
 - Finance Division leadership
 - Internal controls implementation project
 - Security work plan
 - Fixed asset inventory project
 - Process improvement RFP near release
 - Internal Audit staff additions
 - Employee time tracking
 - Reduce contractor dependence
 - COSO Framework adoption
 - Response to Fee reduction

Work Plan Summary: Jan. thru April

January	February	March	April
CFO	Dir. Security		
	VP HR		
	CIO		
Work Plan			
Reporting			
Audit Tracking Tool			
	Internal Control Mgmt. Plan – Phase I		Phase II
	Process Improvement Project		
	Control Environment Change		
		Risk Assessment Evaluation	
Policies & Procedures: Planning, Changes, Documentation & Implementation			

Audit Response Tracking

FOLLOWUP FROM DECEMBER UPDATE:

- ☐ Initial population of Tracking Tool completed
 - Responsibility
 - Milestones & completion dates
 - Started Quality Assurance
- ☐ Internal Control Management Plan
 - Five RFP responses received
 - Vendor evaluation by ERCOT and PUC Staff scheduled for Friday, Jan. 28
- ☐ CFO → Roy Bowman appointed and confirmed
- ☐ Director of Security → Jeyant Tamby appointed acting director

NEXT STEPS:

- ❑ Quality Assurance review by CFO to confirm completeness & assignments
 - Confirm specific tasks within Audit recommendations
 - Eliminate overlap and duplication
- ❑ Work closely with PUC Staff
 - Meet monthly to review detailed audit response progress
 - Develop 'Dashboard' summary reports to capture ongoing status
- ❑ Implementation Teams
 - Develop and implement specific audit responses and MAP projects
 - Each team reports weekly to management on progress, barriers and next steps
- ❑ Executive searches

Information Contained in the Tracking Tool

- ☐ Source
 - Internal Audit
 - Deloitte & Touché
 - Ernst & Young
 - CanAudit
 - PricewaterhouseCoopers
- ☐ Audit
- ☐ Business Unit(s)
- ☐ Subject
- ☐ Issue Number
- ☐ Action Plan Number
- ☐ Disposition
- ☐ Management Estimation of Progress (% completed)
- ☐ Responsible Manager(s)
- ☐ Next Due Date
- ☐ Expected Completion Date
- ☐ Actual Completion Date
- ☐ Action Plan Status
- ☐ Priority

Audit Response 'Dashboard'

	Total Items	Closed	In Process	In Queue
High Priority				
Medium Priority				
Low Priority				
Total				
Deloitte				
Ernst & Young				
CanAudit				
PwC				
Internal Audit				
Total				

Security Update

- ❑ Jeyant Tamby, ERCOT EMMS Systems Director, will serve as Acting Director of Security
 - Ernst & Young to provide work plan & technical support
- ❑ Continuing to implement Security Plan
 - Provides framework for a security practice
 - Includes remediation steps to address audit findings and gap findings

Security Plan: First Steps

- ☐ Asset Classification Standard
 - Standard data tagging procedures
 - Standard data storage procedures
 - Responses to information requests
 - Segregation of stored data based on classification
- ☐ Audit responses
- ☐ File NERC 1200 Compliance Report
- ☐ Standards for access to ERCOT facilities & systems
 - Cyber and physical access coordination
 - Access based on job profiles rather than group profiles
 - “Stripping” of access to those with everyday need; “Hall pass” and work orders for intermittent and emergency access
 - Streamlining / aligning exit, transfer and new personnel (employees and contractors)
 - “Tightening” of Digital Certificate handling

CFO Report

- ☐ Audit Response
 - Fixed Assets (inventory and process)
 - Internal Controls Management Plan
 - Policies and Procedures
- ☐ Fiscal Management
 - Cost reductions
 - Time tracking
 - Zero Base (activity-based) Budgeting
- ☐ Compensation and Benefit Study
- ☐ Annual Financial Audit

Fee Settlement: Budget Reductions

❑ Operating Expenses:	\$ 4,566,000
❑ Projects (equity portion):	3,080,000
❑ Still To Be Identified:	<u>354,000</u>
❑ Total:	\$ 8,000,000

Employee Time Tracking

Employee Time Tracking Status

- ❑ Commenced January 10, 2005
 - Temporary manual process using spreadsheets
 - Automated solution by March 31, 2005
 - Data organized by employee, by day, by activity, by hour
- ❑ First data received January 18, 2005
 - Work during period January 10 – January 15
 - Future data in 2-week increments (1st & 15th)
- ❑ Time tracking is performance expectation for all staff
- ❑ Process and data are being fine-tuned

- ❑ Each Activity will be defined for consistent usage
- ❑ Each activity will be linked to one or more of seven corporate goals:
 - Goal 1 – Reliability & Congestion Management
 - Goal 2 – Retail Transaction Processing Success
 - Goal 3 – Wholesale Access, Settlement & Billing
 - Goal 4 – Management Systems and Business Practices
 - Goal 5 – Financial Management and Cost Effectiveness
 - Goal 6 – External and Stakeholder Affairs
 - Goal 7 – Organizational Readiness

Debt Summary

Debt Summary Schedule

	Senior Notes	Term Loan	Revolver	Total Debt	Short-term Use of TCR Revenues	Net Borrowed
<u>Year to Date</u>						
December 31, 2004	136,363	35,000	7,000	178,363	-	178,363
January 31, 2005 (est)	136,363	35,000	-	171,363	8,000	179,363
Net increase / (decrease)	-	-	(7,000)	(7,000)	8,000	1,000 (a)
<u>Change from prior month</u>						
December 31, 2004	136,363	35,000	7,000	178,363	-	178,363
January 31, 2005 (est)	136,363	35,000	-	171,363	8,000	179,363
Net increase / (decrease)	-	-	(7,000)	(7,000)	8,000	1,000 (a)

Notes:

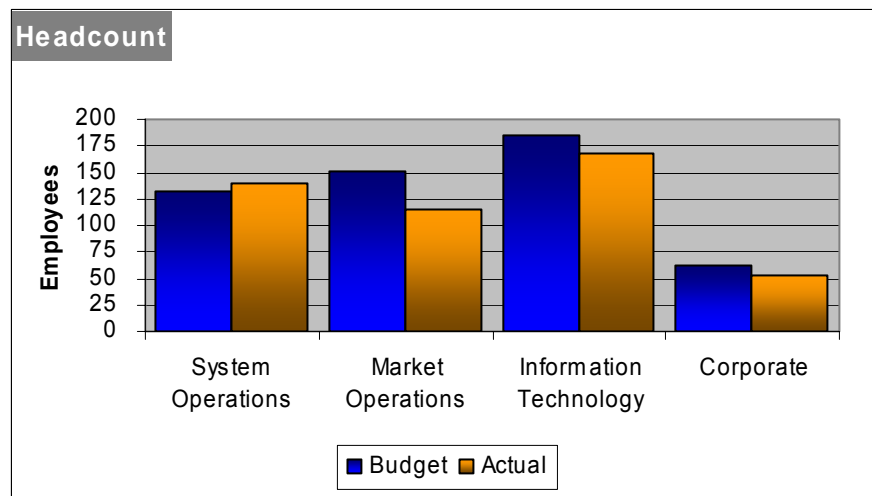
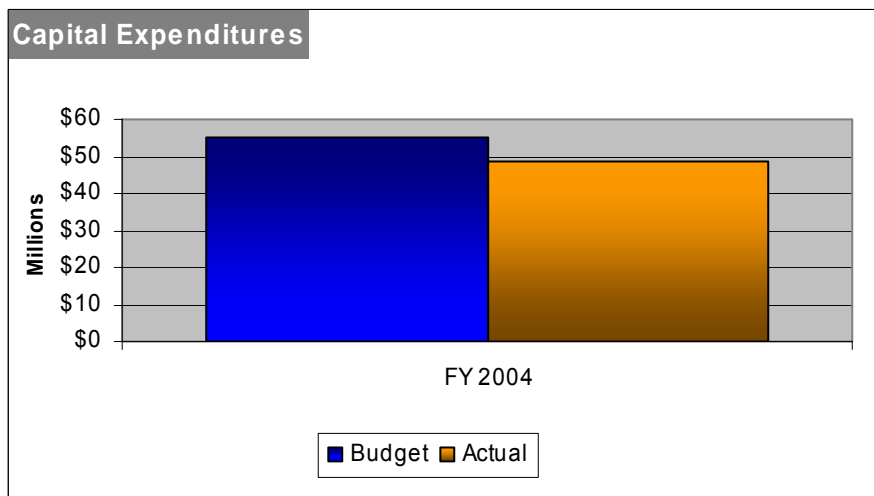
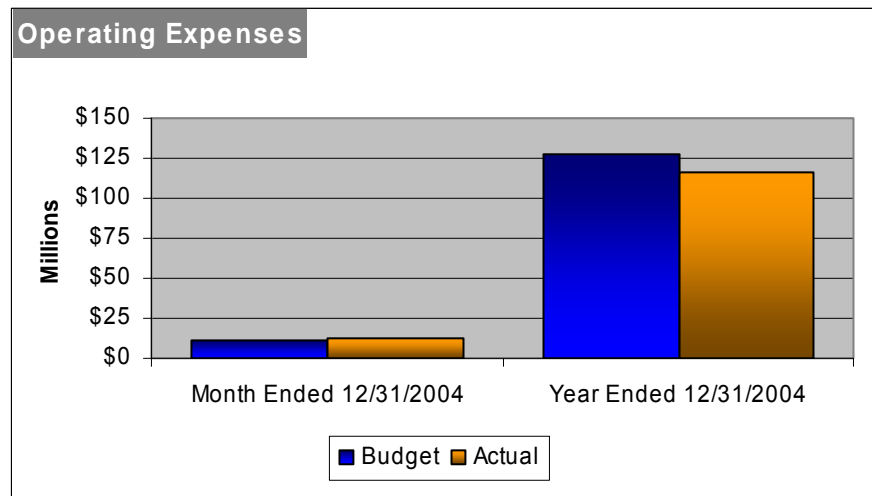
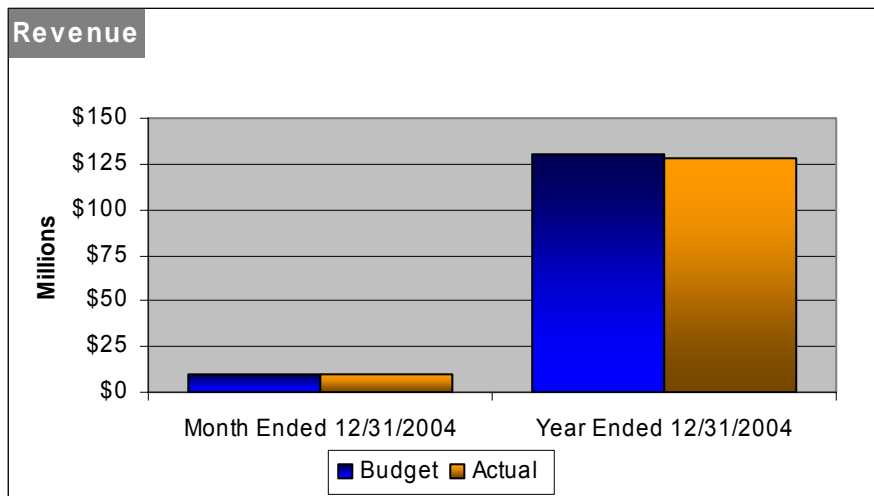
(a) Borrowings under the Revolver were replaced with use of TCR Revenues for more cost effective use of funds. Overall debt increased \$1,000,000 for the period because of capital investments

(b) No new debt instruments were entered into and no material changes were made to existing debt instruments.

Presented above with estimated amount of new debt for January 2005.
Reports beginning in February 2005 will reflect actual results for the latest month ending before PUCT Open Meeting.

Financial Performance Summary

ERCOT Financial Snapshot



2004 Results of Operations

Revenues	\$ 128.5
Total expenses (w/o depreciation)	<u>\$ 82.0</u>
Excess revenues over expenses	\$ 46.5
Depreciation	<u>\$ (42.7)</u>
Change in unrestricted net assets	<u>\$ 3.8</u>

Note: Amounts are in \$ millions

2004 Cash Flow Summary

Beginning Cash (January 1, 2004)	\$ 28.1
Cash Provided by Operations	44.8
Cash Used in Investing Activities (Projects)	(67.7)
Cash Provided by Financing Activities	28.1
Ending Cash (December 31, 2004)	<u>\$ 33.3</u>

Note: Amounts are in \$ millions

Financial Summary

Fiscal Year as of December 31, 2004				
	Budget	Actual	\$ Var	% Var
			Fav / (Unfav)	
Operating Costs				
Labor and labor related costs (a)	64,201	56,179	8,022	12.5%
Non-Labor Operating Costs	21,459	17,521	3,938	18.3%
Depreciation and Amortization	41,907	42,745	(838)	-2.0%
Total Operating Costs	127,567	116,445	11,121	8.7%
Project Expenses	55,000	46,502	8,498	15.5%
Debt Level (b)	194,459	178,363	16,096	8.3%

Notes:

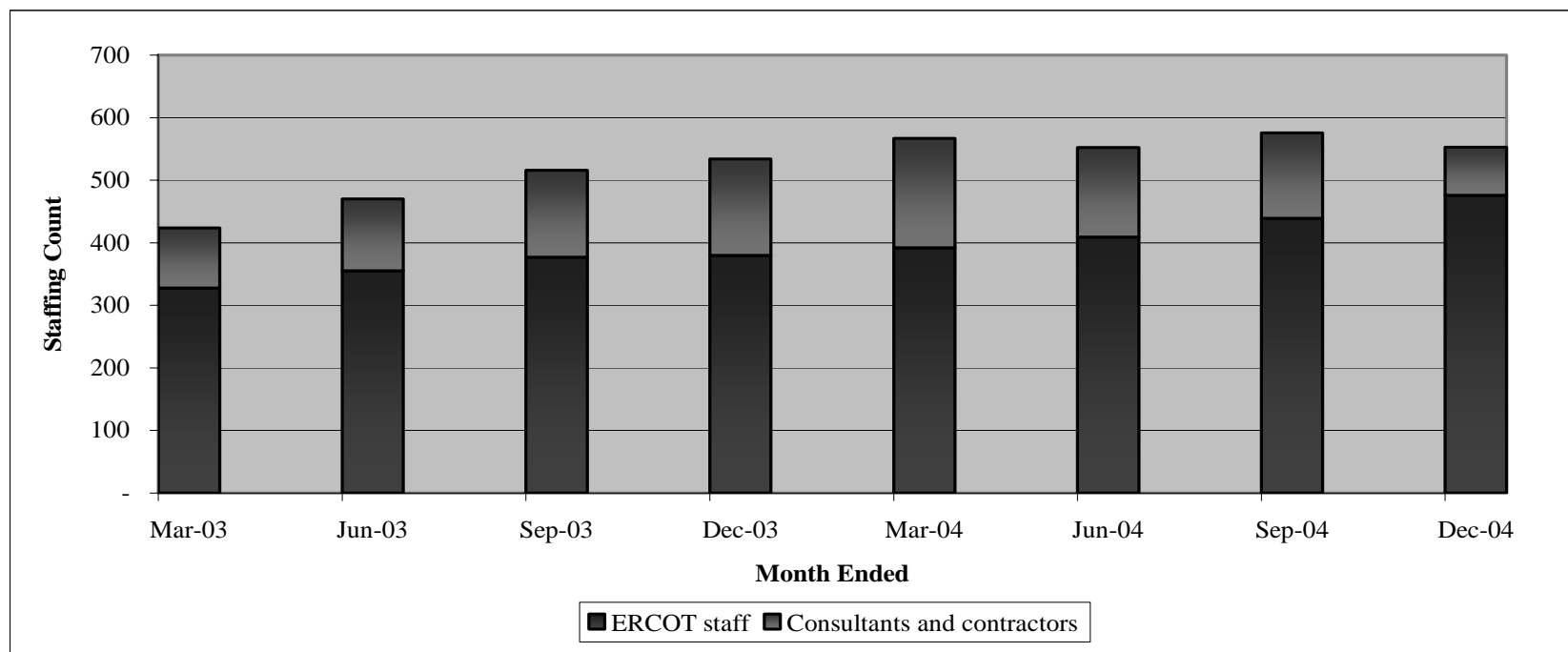
(a) Labor and labor related costs include the following items:

- (1) Salary and benefits for ERCOT employees
- (2) A credit for ERCOT staff time capitalized as part of capital project costs
- (3) Consultant and contractors expenses relating to operational activity
- (4) Employee training, travels and other business expenses

(b) Outstanding debt variance is approximately equal to the following elements:

- (1) Favorable operating expense variance
- (2) Sixty percent of the underspending on capital projects

Staffing and Consultant Summary



	Actual							
	Mar-03	Jun-03	Sep-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04
ERCOT staff	328	355	377	380	392	409	439	476
Consultants and contractors	96	115	139	154	175	143	137	77

Beginning with the February 2005 update to the PUC, staffing and consultant information will be provided by department and month

- ❑ Time Tracking Report by activity for period of Jan. 10-15, 2005

- ❑ Financial Summary for the 12 months ended December 31, 2004, including:
 - Revenues
 - Operating expenses
 - Capital expenditures
 - Draft financial statements