

ALERT **CHEMICAL RELIABILITY COUNCIL OF TEXAS, INC.**
RISK MANAGEMENT EVENT PROFILE MATRIX (as of February 21st, 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 or long-range strategic plan. Management is in the process of communicating to employees an ERCOT vision and the employee's role in working to achieve the vision. The uncertainty surrounding the proposed ERO environment increases risk.</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>No significant issues relating to the efficiency of the current market have been identified. (Nodal development has not been formally adopted)</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 exposes ERCOT to greater reliability risks. Recent improvements have increased the amount and accuracy of information available for analysis.</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. Board of Director's Review of management activities on an ongoing basis assists in ensuring proper review and disclosure practices.</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 laws, 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>Insufficiently 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 Plans, Disaster Recovery Plans, Internal control processes, record retention procedures, and safety practices are currently below desired expectations. Additional development activities required to implement and test these procedures. Additional NERC recommendations with respect to managing a potential Avian Flu outbreak are also in development.</p>	<p> Administration</p> <p><i>Market rules are fairly applied to all participants</i></p> <p>No 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 reasonable system models and forecasts, an insufficient ability to conduct long-range (6-10 years out) planning, demands on 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 risks.</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 on issues related to external reporting and compliance. Disclosure matters related to Dec. '05 Retail Transaction systems issues 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 ICMP 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 systems issues 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, NODAL staffing contribute to the risk of not attracting and retaining quality employees. Staff turnover levels present a risk issue. Compensation redesign, incentive bonuses, tuition reimbursement, and succession planning are ongoing mitigation activities.</p>	<p> Counterparty Credit</p> <p><i>Bankruptcies and other capital deficiencies increase the cost for market participants and potentially impact Grid reliability through participant failure</i></p> <p>Processes for certifying & decertifying market participants increase the potential for credit losses. 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 communications was cited as a primary employee concern with respect to job satisfaction.</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 adopt, may increase risks. Changes in NERC / FERC 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 accounts payable processes are overly complex and thus inefficient. In addition, cost reduction measures may be too stringent 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 contributes to overall technology inefficiencies. Dec '05 Retail Transaction systems issues 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 has a small number of ADR's outstanding, however these are being addressed in a timely fashion. The recent SAS 70 audit has found no 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 being redesigned 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>

Legend: Elevated Risk Level Reduced Risk Level

Rationale for Category Risk Assessment Changes

Mission and Goals
Fiscal Management
Adequacy and Integrity
Industry Standards

Upgrade
Upgrade
Upgrade
Downgrade

Completion of goal setting sessions by Management and ongoing communication of mission and goals to employees
Streamlining of procurement process, implementation of new timetracking system, and completion of employee training
Completion of redesign of internal management reporting processes and procedures to support financial reporting attestation
Increased scrutiny on internal processes and controls required to fully satisfy various audit requirements (SAS 70, etc.)