



ERCOT Finance & Audit Committee Meeting

ERCOT

2705 West Lake Drive, Taylor, Texas

April 18; 8:00 to 10:00 a.m.**

TCC II Room 205

Agenda Item #	Description/Purpose/Action Required	Presenter	Time
	Call to Order	C Karnei	8:00 a.m.
1.	Approval of Minutes* (Vote)	C Karnei	8:00 a.m.
2.	Update on 2005 Financial Audit	S Barry/PWC	8:05 a.m.
3.	Review of Employee Conduct Documents <ul style="list-style-type: none"> • Ethics Agreement • Code of Conduct • Fraud Prevention 	C Shellman	8:20 a.m.
4.	Review Finance & Audit Self Assessment Results	S Byone	8:30 a.m.
5.	PMO Update <ul style="list-style-type: none"> • Organizational Changes • Large Project Update 	R Connell	8:40 a.m.
6.	Audit Preparedness <ul style="list-style-type: none"> • Internal Controls • SAS 70 	S Byone/ J Brenton	8:50 a.m.
7.	Committee Briefs <ul style="list-style-type: none"> ▪ Changes on ERM Stoplight (D Meek) ▪ Credit Stats (Q&A) ▪ Audit Point Update (Q&A) 	All	8:55 a.m.
8.	Future Agenda Items <ul style="list-style-type: none"> • Review and approve ERCOT Annual Report • ERO Preliminary Budget Review • 2007 Budget Planning • Nodal Surcharge Filing • Credit Update 	S Byone	9:05 a.m.
	Adjourn to Executive Session <ul style="list-style-type: none"> ▪ SAS 70 Audit Planning (10 min) ▪ Introduction of new Director, Internal Audit <ul style="list-style-type: none"> ▪ Review Significant Audit Findings ▪ EthicsPoint Update ▪ Review Status of Annual Audit Plan 	J Brenton C Karnei B Wullenjohn	9:10 a.m.
	Adjourn		9:50 a.m.

*** Background material enclosed or will be distributed prior to meeting. All times shown in the Agenda are approximate
The next FA Committee Meeting will be held May 16th, at ERCOT, 7620 Metro Center Drive, Austin, Texas*

Draft MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

8:00 A.M.

March 21, 2006

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 8:05 AM. The Meeting was called to order by Darrell Hayslip, who ascertained that a quorum was present.

Meeting Attendance**Committee members:**

Clifton Karnei, <i>Chair</i>	Brazos Electric Cooperative	Cooperative	Present by Telephone
Darrell Hayslip, <i>Vice Chair</i>	Calpine Corporation	Ind. Generator	Present
Robert Manning	H-E-B Grocery Co.	Consumer	Present
Miguel Espinosa	Independent Board Member	Independent Board Member	Present
R. Scott Gahn	Just Energy	Ind. Retail Electric Provider	Present
Tom Standish	Centerpoint Energy	Investor-Owned Utility	Present

ERCOT staff and guests present:

Brenton, Jim	ERCOT
Byone, Steve	ERCOT (CFO)
Connell, Robert	ERCOT
Davies, Morgan	Calpine
Doolin, Estrellita	ERCOT
Fourmer, Margarita	Competitive Assets
Gresham, Kevin	Reliant Energy, PRS Chair
Gruber, Richard	ERCOT
Kolodries, Eddie	Customized Energy Solutions
Meek, Don	ERCOT
Moseley, Cheryl	ERCOT
Mueller, Geoff	ERCOT
Nilcazm, Tamila	Austin Energy
Petterson, Mike	ERCOT
Ruebsahm, Jamille	Deloitte & Touche
Ryan, Jean	Constellation
Spells, Vanessa	ERCOT
TroxteLL, David	ERCOT
Vance, Cathy	ERCOT
Vincent, Susan	ERCOT
Walker, Mark	NRG Texas
Yager, Cheryl	ERCOT

Approval of Previous Minutes

Bob Manning moved to approve the Minutes for the previous regular meeting held February 21, 2006; Clifton Karnei seconded the motion. The motion passed unanimously.

Nodal Financing Scenarios

Cheryl Yager presented five options for financing the Nodal market redesign. Darrell Hayslip noted that Options #1 and #3 had the most viability, and Bob Manning stated that ERCOT should file all options with the PUC. Mike Espinosa and Clifton Karnei stated that they agreed that all options should be submitted to the PUC. Mike Espinoza noted that Option #2 provided the lowest total cost to ERCOT. Steve Byone told the Committee that it would be helpful to put a recommendation before the PUC, but ERCOT would file as the Board directed, and Mr. Espinosa asked if Mr. Byone had an indication from the PUC regarding its preference. Mr. Byone informed the Committee that the PUC had indicated that it would prefer to not have large rate adjustments and would like to spread the cost of Nodal over the useful life, or even longer, if possible. Tom Standish mentioned that ERCOT had historically spread debt over longer than useful life and they should consider spreading this debt over approximately seven and one half years, which would be the useful life plus the development period. Mr. Standish also stated that they should provide the PUC with the pros and cons of all options that they filed with the PUC. The Committee discussed the options in detail. Scott Gahn asked about the amounts being funded first, and Mr. Byone informed the Committee that the next phase funding request would be for additional amounts over the \$5.1 Million that the Board and the PUC had already authorized.

Clifton Karnei moved to recommend Option #1 but to also submit all options to the PUC; Scott Gahn seconded the motion. The motion passed unanimously.

Mr. Manning stated that the filing should provide the PUC with all options, and the strengths and weaknesses of all options, in summary form, and Mr. Espinosa stated that it should also specifically note that since ERCOT was a non-taxable entity it received no tax benefit from paying interest.

Corporate Policy Framework

Cheryl Moseley presented an overview of the ERCOT Policy framework to the Committee. She explained that it included policies, standards, and operating procedures, and also informed the Committee where the Investment and Financial policies resided within the framework. Committee members confirmed they were satisfied with the framework.

Large Projects Briefing

Rob Connell updated the Committee about capital Projects, noting that 4 were completed in February and 7 had been completed year to date. Mr. Connell informed the Committee that 1 large project (TCC Data Center Optimization) was moving into planning and 3 large projects would be presented to the Board for approval: (a) Austin Test Environment – moving to execution; (b) ERCOT Dark Fiber Network Replacement – budget change; and (c) Taylor Facilities Buildout for Nodal. Mr. Espinosa stated that he wanted a forecast of employees, including what each of the 150 new employees would do and when and where they would do it. Mr. Standish added that if the Regional Entity needed space at ERCOT, he wanted to know about this right away. Mr. Byone informed the Committee that the Board would receive a detailed presentation in Executive Session, and Mr. Connell stated that he would get further details for the Committee regarding the projected Nodal headcount.

Committee Evaluation/Self Assessment Results

Mr. Byone informed the Committee that he had only received approximately a 50% response, so he would wait until receiving more results before providing an analysis. Committee members agreed to complete the surveys as requested.

Credit Working Group (“CWG”) Administration

1. CWG Charter

Ms. Yager reminded the Committee that it was time for the annual review and ratification of the Credit Work Group Charter, and she noted that the Credit Work Group (CWG) had reviewed the document and did not propose any revisions at this time. Darrell Hayslip informed the Committee that he had received questions from TAC members about participation in CWG and that TAC had expressed concern that communication between CWG and TAC wasn't as robust as it should be. Morgan Davies noted that the CWG and TAC leadership had met to discuss how to strengthen their working relationship and CWG committed to working more closely with TAC on credit issues and to improving communications. Scott Gahn recommended that the Charter specifically require that if the CWG recommended something that would change credit policy, CWG would be required to go to TAC to get input. Mr. Gahn stated that he recommended this because credit is a stakeholder issue and CWG doesn't have voting requirements like TAC. Mr. Hayslip asked if Mr. Gahn was seeking to copy TAC or seek approval from TAC, because he was not in favor of requiring TAC approval, but he would like to have TAC input. Mr. Gahn stated that he wanted to require TAC comments and to have all TAC comments reported to the Committee. Clifton Karnei stated that he was worried that requiring this additional procedure could inhibit the CWG's ability to assist the Committee and the Board in making decisions. Mr. Hayslip stated that he also wanted full disclosure but no requirement that TAC approve the CWG's proposals, because the Board would not always agree with TAC on credit decisions. Mr. Gahn stated that he wanted to require a formal procedure only when CWG made a motion to change ERCOT credit policy.

Darrell Hayslip made a motion to propose additional language at the end of the first sentence in the second Paragraph, that requires CWG to copy the Chair and Vice Chair of TAC on any recommendations the CWG provides to the F&A Committee (“with a copy to the Chair and Vice Chair of TAC”); Mike Espinosa seconded the motion. The motion passed by a vote of 4 to 2.

Mr. Gahn stated that he still wanted to require CWG to notify TAC and provide TAC input to the Committee. Mr. Hayslip stated that CWG was required to post a complete and detailed agenda for each meeting and to have all meetings in accordance with its agenda. Cheryl Yager noted that CWG could not change credit policy without going through the normal Protocol revision process.

Darrell Hayslip noted that, because TAC and other committee chairs changed in January, the Committee might want to have the CWG vote on its Chairman earlier than March of each year. Mr. Hayslip suggested that the phrase “in March of each year” be removed from the end of the first sentence in the first paragraph under section IV. The Committee members discussed and agreed with this.

Bob Manning made a motion to approve the CWG Charter, as amended by the previous vote and by removing the last clause of the first sentence under Paragraph IV of the CWG Charter; Mike Espinosa seconded the motion. The motion passed unanimously.

2. Credit Work Group Chairman Confirmation

Cheryl Yager informed the Committee that the CWG had selected Morgan Davies, by an email vote, to be its Chair, and asked the Committee to confirm the selection as required by the Charter. Mr. Manning stated that the Committee wanted more detail included in the Committee packet so that there would be time to review the information.

Clifton Karnei moved to approve Morgan Davies as CWG Chair; Scott Gahn seconded the motion. The motion passed unanimously.

Managing Credit Risks – Next Steps

Morgan Davies reviewed some of the beneficial credit changes that had been adopted over the past year. Mr. Davies noted, however, that there was still a substantial amount of unmitigated credit exposure and that CWG was meeting to address this ongoing level of exposure. He provided the Committee with the CWG “wish list” of additional alternative means of addressing the outstanding credit risk. In reviewing the list, Mr. Davies noted that CWG’s preferred solution is to reduce credit exposure by reducing the amount of time it takes to do a Mass Transition. Mr. Davies stated, however, that the CWG was also considering alternate solutions, including increased collateral requirements and credit insurance as a means to mitigate credit exposure. Mr. Karnei suggested that the full Board should be shown the slide of the wish list, and Mr. Hayslip agreed to present this to the Board. Mr. Hayslip informed Mr. Davies that the Committee needed more detailed costs for each of the requested alternatives. The Committee discussed the alternatives. Mr. Manning suggested that it should be a goal to have a shorter Mass Transition timeframe and he requested that the CWG consider revolutionary or fundamental change rather than incremental change to resolve this issue. Mr. Hayslip requested that Mr. Davies return to report to the Committee when the CWG had some concrete suggestions to report. Mr. Hayslip then noted that credit exposure could also be reduced by further reducing settlement cycle time. Richard Gruber noted that the lack of real time metering was one of the biggest hindrances to a shorter settlement cycle. Cheryl Yager noted that the most significant credit exposure currently facing the market was still due to the Mass Transition process. She indicated that once the Mass Transition issues were addressed, the CWG and the market could look at the cost/benefit to reducing the settlement cycle beyond what it is currently.

Guidelines for Engagement of External Auditors for Other Services

Mike Petterson noted that the current Finance & Audit Committee Charter requires, among other things, the Committee to approve the provision of all auditing and non-audit services by the independent auditor to the Company in advance of the provision of those services and to approve the fees for all non-audit services provided by the independent auditor. Unlike the Sarbanes Oxley Act the current Finance & Audit Committee Charter does not include a de minimus exception waiving the preapproval requirement for certain non-audit services.

To address the issue, Mr. Petterson recommended the F&A Committee adopt requirements similar to those in the Sarbanes Oxley Act by modifying the current F&A Committee Charter to require engagements for non-audit services provided by the independent audit firm totaling less than \$5,000 to be communicated in writing to the members of the Finance and Audit Committee at the first meeting following the engagement for the non-audit services at issue. Mr. Petterson noted that the recommended threshold is well below the de minimus exceptions provided for in the Sarbanes Oxley Act.

After receiving unanimous concurrence from Committee membership, Mr. Petterson committed to propose an amended Charter of the Finance and Audit Committee at the Committee’s April 2006 meeting which will allow for the de minimus exception approved by the Committee.

Future Finance & Audit Committee Meeting Agenda Items

Mr. Byone informed the Committee that PriceWaterhouseCoopers would be reporting to the Committee in April regarding the financial audit and that he would report on the Committee self assessment and provide an internal control update.

Adjournment

At approximately 9:35 A.M., the meeting was adjourned and the Committee went into Executive Session. The next meeting will be held on the morning of April 18, 2006.

Susan Vincent, Secretary

- ❑ The 2005 financial audit is in progress; an audit report is not yet available.
- ❑ The audit report with auditors' opinion is targeted for completion on April 14, 2006.
- ❑ It is possible that completion of the audit and issuance of the audit report will be delayed. In that case, the audit report will be distributed at the April 18, 2006 Board meeting or as soon as possible thereafter.

CONTRACTOR ETHICS AGREEMENT

As an independent contractor of Electric Reliability Council of Texas, Inc. (“ERCOT”), the person signing this Ethics Agreement (“you”) must perform Services for ERCOT legally, with integrity and total objectivity, and in compliance with all laws, rules, regulations, ERCOT Protocols, Policies and Procedures, including but not limited to, the ERCOT Code of Conduct and this Ethics Agreement. ERCOT will not tolerate fraud, misconduct, or abuse of the Ethics Agreement or Code of Conduct.

In the course of providing services to ERCOT, you will come in contact with or generate Confidential Information. “Confidential Information” means all information, technical data or know-how which relates to the business, services or products of ERCOT, ERCOT’s members or customers, or ERCOT’s other contractors, consultants or vendors, including, without limitation, any research, products, services, developments, inventions, processes, techniques, designs, data, scientific, technical, engineering, distribution, marketing, pricing, financial, merchandising and sales information, which is disclosed to you, directly or indirectly, in writing, orally, electronically or by drawings or inspection. ERCOT’s customers include load entities, transmission providers, generating entities, and other market entities utilizing ERCOT services and are listed on ERCOT’s website, www.ercot.com (“Market Participants”).

In consideration of your being provided access to Confidential Information, you must agree to maintain the confidentiality of all Confidential Information. Further, any deliverable you provide to or produce while providing services to ERCOT must be treated by you as Confidential Information unless and until ERCOT has approved the public release of such item in writing.

By your signature below, you agree to maintain the confidentiality of all Confidential Information and will specifically:

- Not use Confidential Information for any purpose other than providing services to ERCOT.
- Not disclose Confidential Information to any person or entity other than ERCOT employees or other independent contractors of ERCOT who have executed a confidentiality agreement similar to this, as necessary to effectuate your services to ERCOT.
- Take reasonable security measures, comparable to those of similar companies in similar industry, and to use reasonable care, at least comparable to the care exercised by similar companies in similar industry, to preserve and protect the secrecy of and to avoid disclosure or use of Confidential Information.
- Take reasonable actions and precautions to prevent unauthorized disclosure of Confidential Information.
- Promptly advise ERCOT in writing of any misappropriation or misuse by any person or entity of such Confidential Information which may come to its attention and will cooperate in any reasonable way to help ERCOT regain possession of Confidential Information and prevent further unauthorized use or disclosure.
- Return all Confidential Information upon the termination of services or upon the request of ERCOT.

In addition, in consideration of your engagement and your receiving access to Confidential Information for purposes of providing services to ERCOT, you must agree to not engage in any

prohibited Conflicts of Interest during the time you provide any services for ERCOT. By your signature below, you agree that you will not engage in any prohibited Conflicts of Interest. Prohibited Conflicts of Interest include situations where:

- You stand to gain or lose personally from an ERCOT business decision;
- You or any member of your immediate family (parent, child, sibling, or the spouse of a parent, child, or sibling) or household have an interest, direct or indirect (including employment), in a Market Participant or other entity dealing with ERCOT, and the interest is of such an extent or nature that your decision might be affected or determined by it;
- You are directly related (parent, child, sibling, or the spouse of a parent, child, or sibling) to or a member of the immediate family or household of any ERCOT employee or director;
- You serve in an advisory, consulting, technical, or management capacity for Market Participant of ERCOT.

If a Conflict of Interest or appearance of Conflict of Interest becomes apparent to you after you sign this Acknowledgement, you should inform the ERCOT Human Resources Vice President or General Counsel immediately. Because the appearance of a Conflict of Interest may be just as damaging to ERCOT's reputation as a real conflict, you are expected to take an objective look at your actions from time to time to determine whether a reasonable observer would have grounds to believe a prohibited Conflict of Interest exists.

Please indicate your acknowledgment of and agreement to your responsibilities with respect to ERCOT's Confidential Information and ethics requirements by signing below (*electronic or faxed signature may be accepted at ERCOT's discretion*):

ACKNOWLEDGED AND AGREED:

Signed: _____

Printed Name: _____

Date: _____

Name of Your Employer: _____

Please return this Agreement to ERCOT Legal Department and Fax to (512) 225-7079.

EMPLOYEE ETHICS AGREEMENT

Employees of Electric Reliability Council of Texas, Inc. (“ERCOT”) must conduct ERCOT’s business legally, with integrity and total objectivity, and in compliance with all laws, rules, regulations, Protocols and ERCOT policies and procedures, including but not limited to, the ERCOT Employee Handbook, the ERCOT Code of Conduct and this Employee Ethics Agreement. ERCOT will not tolerate fraud, misconduct or abuse of the Ethics Agreement or Code of Conduct.

Confidential Information

ERCOT employees must maintain confidentiality of all Confidential Information. “Confidential Information” means all information, technical data or know-how which relates to the business, services or products of ERCOT, its members or Market Participants, or its contractors, consultants or vendors which is disclosed to an employee because of his or her employment with ERCOT. Any information labeled private, proprietary, “Protected Information,” “Confidential” or known to be confidential according to a rule, law, Protocol or other ERCOT policy or procedure shall be treated as Confidential Information by ERCOT employees unless the information is properly classified as public. To preserve the integrity of the market in the ERCOT Region and the trust and credibility of ERCOT, it is essential that ERCOT employees not disclose Confidential Information to anyone who is not an ERCOT employee, officer, director, or contractor who has signed a confidentiality agreement, unless specifically authorized by the provider of the information and/or the ERCOT Legal Department.

Prohibited Conflicts of Interest

ERCOT employees must conduct ERCOT’s business with total objectivity and without any influence from any Prohibited Conflict of Interest. “Prohibited Conflicts of Interest” include, but are not limited to, situations where an employee or a member of his or her immediate family (parent, child, sibling or the spouse of a parent, child or sibling) or household:

1. Stands to gain or lose personally from an ERCOT business decision;
2. Has an ownership or controlling interest in, any Market Participant, ERCOT supplier or vendor, or any other entity doing business with ERCOT;
3. Is employed by any Market Participant, ERCOT supplier or vendor, or any other entity dealing with ERCOT;
4. Has an interest, direct or indirect,, of such an extent or nature that the employee’s decisions, recommendations or other actions on behalf of ERCOT might be affected by the interest; or
5. Serves in an advisory, consulting, technical or management capacity for any business organization that does business with ERCOT or is an ERCOT Market Participant, unless such activity is for no compensation and is approved by the employee’s supervisor and disclosed to the Legal Department.

Employees need not disclose ownership of publicly-traded equity securities of another entity if the securities are held as an investment and the employee or related party (a) owns less than one percent (1%) of the outstanding securities of the entity, (b) does not have representation on the entity’s board of directors (or equivalent managing entity), and (c) does not exercise influence over the entity’s day-to-day management decisions.

An employee must immediately inform Human Resources or the Legal Department if a Prohibited Conflict of Interest or even the appearance of a Prohibited Conflict of Interest might exist, so that management may evaluate the situation. After full disclosure by the employee, ERCOT may agree to conditions that appropriately limit any potential influence from a Prohibited Conflict of Interest.

Non-Solicitation

In consideration of receipt of ERCOT’s Confidential Information, employees shall not, while employed by ERCOT and for a period of one year from the date of separation of employment with ERCOT, either directly or indirectly solicit, induce or encourage any ERCOT employee to either terminate her/his employment with ERCOT or accept employment with any other independent system operator, or any



supplier or consultant of ERCOT. The term “solicit, induce or encourage” includes, but is not limited to initiating communications with an ERCOT employee relating to possible employment, offering bonuses or additional compensation, or referring ERCOT employees to personnel, recruiters or other agents.

Notice

Any ERCOT employee who has concerns or questions about these requirements and prohibitions should contact Human Resources or the Legal Department. Employees may also, file anonymous reports through EthicsPoint or other ERCOT anonymous reporting tool.

Employee Agreement

By my signature below, I hereby confirm and acknowledge that I have read and I understand the requirements of the ERCOT Code of Conduct and this ERCOT Employee Ethics Agreement, I agree to be bound by and comply with all requirements and the intent of these requirements, and I will be subject to disciplinary action, termination, injunction, and/or all other available legal or equitable remedies if I violate the Code of Conduct, this Ethics Agreement, or the intent behind either, whether my violation is intentional or careless.

Employee Signature: _____

Date: _____

Printed Name: _____

CODE OF CONDUCT – THE WAY WE WORK

Introduction

This Code of Conduct defines the ethical behavior of ERCOT in dealing with all of our constituents – both internal and external. It is designed to enable us to make business decisions consistent with our corporate values of integrity and operational excellence and to behave in a manner that reflects high ethical standards.

Application of the principles outlined in this Code is essential to achieving our corporate goals. All of us, in each of our capacities at ERCOT – every officer, employee, consultant and contractor performing work on behalf of ERCOT ("ERCOT Representative") – represent ERCOT. Each of us is responsible for knowing the contents of this Code and applying its principles in day-to-day business activities.

Principles of business conduct:

- Doing what is right
- Respecting the rights of others
- Upholding the law
- Maintaining the integrity, confidentiality and privacy of information
- Avoiding conflicts of interest
- Conducting ourselves appropriately

This Code of Conduct applies equally to all ERCOT Representatives.

Principles of business conduct

Doing what is right

To be ethical is to know the difference between right and wrong and to do what is right. Asking this question and applying this Code of Conduct ensures that our actions are ethical and consistent with ERCOT's mission and values. Additionally, ERCOT policies, procedures and controls are created to guide us in our daily, business-specific activities as ERCOT Representatives.

Respecting the rights of others

Professional conduct

Management makes decisions regarding hiring and promotion of employees on the basis of merit and in accordance with applicable provisions contained in human rights and employment legislation. ERCOT Representatives shall treat each other in a respectful and professional manner and will not discriminate or harass others on the basis of age, sex, race, color, religion, creed, national origin, citizenship, veteran status, pregnancy, disability, or other basis protected by law.

Property rights

Company assets, subject to limited approved exceptions, are used only for ERCOT business purposes. ERCOT Representatives have a responsibility to ensure that ERCOT assets are put to good use in successfully achieving ERCOT's mission and goals. All personnel entrusted with managerial or supervisory responsibility are responsible for ensuring that appropriate policies, procedures and controls are put in place and followed to safeguard company assets.

Stakeholder rights

Stakeholder relationships are critical to ERCOT's continuing success. ERCOT Representatives are expected to conduct themselves with fairness, courtesy and in good faith. In order to support the mission

and functional requirements of ERCOT, employees, consultants, and contractors may be provided and entrusted with confidential information by Market Participants. During the performance of their roles, ERCOT Representatives may also generate confidential information. Furthermore, ERCOT Representatives may receive confidential information belonging to entities, such as vendors, that do not participate in the ERCOT marketplace. ERCOT Representatives will respect and ensure the confidentiality and privacy of confidential information and will comply with policies, procedures and controls for protecting information, unless disclosure is required by law or order of a regulatory agency or court, or otherwise authorized by ERCOT.

Supplier rights

Relationships with vendors and suppliers must always be conducted at arm's-length, consistent with accepted business practices and in accordance with applicable laws and the ERCOT Ethics Agreement. In dealing with suppliers, all ERCOT Representatives will conduct themselves with fairness, courtesy, and in good faith. All interactions with suppliers will conform to the requirements of this Code of Conduct and the Ethics Agreement addressing conflict of interest.

Upholding the law

All ERCOT Representatives are expected to comply with and uphold all applicable laws and regulations where ERCOT conducts business.

Maintaining integrity, confidentiality and privacy of information

Company records and accounting practices

The integrity of ERCOT's records and financial reporting is critical to its on-going success. All assets, liabilities, and transactions must be accurately reported and supported by necessary documentation. No asset, liability, or transaction is to be concealed from management or ERCOT's internal or external auditors.

All documents and transactions must be authorized and executed in accordance with ERCOT policies and procedures. Appropriate accounting and financial policies, procedures, controls and audit processes must be maintained. Financial reports must be accurate and prepared in accordance with generally accepted accounting principles as well as applicable laws and regulations.

Confidentiality and privacy of personal information

ERCOT may have access to sensitive or confidential corporate, stakeholder, Market Participant or personal information. Information such as personnel records, payroll records, stakeholder information, Market Participant information, company strategies, financial and competitive information, is confidential and, in some cases, subject to protection by applicable privacy laws. ERCOT Representatives are expected to use extreme care when dealing with confidential, personal, or sensitive information. As a general rule, such information shall not be: (i) released to anyone inside or outside of ERCOT who is not authorized or legally entitled to receive it and (ii) used or disclosed for any reason except for legitimate business purposes or when otherwise required by law.

Avoiding conflicts of interest

All representatives of ERCOT are expected to conduct ERCOT's business with complete objectivity. Any situation in which an individual's judgment may be compromised – where an ERCOT Representative shows undue favoritism to any party or where an ERCOT Representative stands to gain or lose personally from an ERCOT business decision – must be avoided.

The appearance of a conflict of interest may be just as damaging to ERCOT's reputation as a true conflict of interest. ERCOT Representatives are all expected to take an objective look at our actions from time to time and avoid situations creating a conflict, the appearance of a conflict, or that have the potential to create a conflict.

Gifts and benefits

Receiving and giving gifts and benefits in a business context is a sensitive area which requires the exercise of good judgment and common sense. ERCOT Representatives shall not accept gifts or any benefits of significant value (significant value is defined as \$100 or more, annually) from employees or representatives of any Market Participant or vendor doing business, or seeking to do business, with ERCOT.

Conducting ourselves appropriately

ERCOT has important responsibilities to support the Texas community: providing reliable electric service, customer choice, and well-functioning markets. We are “citizens” of the communities in which we have offices – where we work and live. Our citizenship is reflected in the way we fulfill our responsibilities and conduct our business – as outlined in this Code of Conduct. To that end, ERCOT Representatives should always be mindful of the importance of maintaining high standards of ethical and professional conduct, both on the job and off.

Ethics

All ERCOT Representatives must abide by the Ethics Agreement. ERCOT may amend that Agreement from time to time and ERCOT Representatives will be asked to reaffirm their commitment to the Ethics Agreement annually.

Professional standards

Employees, consultants, and contractors holding professional credentials such as attorneys, accountants, and engineers must comply with all relevant professional standards and rules of conduct when practicing their vocation in the service of ERCOT.

Compliance with this Code of Conduct

It is critical to ERCOT’s success that employees and company representatives conduct themselves ethically and legally in every aspect of their business activities performed on behalf of ERCOT. All ERCOT Representatives must comply with this Code of Conduct. Those in leadership positions within ERCOT must assume a responsibility to monitor the actions and conduct of those personnel reporting to them.

Reporting violations

Anyone who believes a violation of this Code of Conduct has occurred should report the violation to an appropriate ERCOT manager or officer, or through EthicsPoint. When an investigation of a suspected Code violation determines that a violation has occurred, appropriate action will be taken. ERCOT will not tolerate fraud, misconduct or abuse of the Ethics Agreement or Code of Conduct.

ERCOT CORPORATE STANDARD

Document Name:	Fraud Prevention Corporate Standard
Document ID:	CS1.4
Effective Date:	April 3, 2006
Owner:	General Counsel
Governs:	ERCOT Personnel
Approved:	Thomas F. Schrader, CEO

1. Purpose

Electric Reliability Council of Texas (ERCOT or the Company) is committed to the highest possible standards of honesty, openness, and accountability in all its affairs. Fraudulent activities will not be tolerated. ERCOT promotes organizational behavior consistent with this commitment by providing guidelines to employees and assigning responsibility for the control environment and the conduct of investigations. The ERCOT fraud prevention standard has been established to outline the company's commitment to prevent and report fraud.

2. Definitions

<i>Term</i>	<i>Definition / Description</i>
Fraud	A broad term for all kinds of acts which have as their objective, the gain of an advantage, to another's detriment, by misrepresentation or deceit. In a business context, fraud is an intentional act of deception, dishonesty or misrepresentation, usually made for personal gain, which causes injury or loss to another person. Fraud at ERCOT can harm the corporation and its employees, the stakeholders, and the public.

3. Standards

Management is responsible for the detection and prevention of fraud, including misappropriation of funds or property and other inappropriate conduct. Each member of the management team must be familiar with the types of improprieties that could occur within his or her area of responsibility and be alert for any indication of irregularity. Both suspected and actual fraud must be reported immediately to the Internal Audit

Department. The Internal Audit Department coordinates all investigations with the Legal Department and other internal and external areas.

Management is responsible under this standard for addressing any fraud or suspected fraud involving ERCOT employees and corporate members, as well as stakeholders, consultants, vendors, contractors, outside agencies doing business with ERCOT, employees of such agencies, and/or any other parties with a business relationship with ERCOT. Any investigative activity required under this standard shall be conducted without regard to the suspected wrongdoer's length of service, position/title, or relationship to the Company.

4. Roles / Accountabilities

All ERCOT Personnel are responsible for understanding and complying with this standard and for asking any questions of Human Resources or Legal, as appropriate, to clarify their understanding of their responsibilities relating to this standard. The Internal Audit Department has primary responsibility for the investigation of all suspected fraudulent acts as defined in this standard. In conducting such investigations, the Department alerts and coordinates activities with Legal, Corporate Security and various other departments as necessary. If investigation results substantiate that fraudulent activities have occurred, the Internal Audit Department shall issue reports to the proper executives and, if appropriate, to the Board of Directors through the Finance and Audit Committee.

Final decisions on the internal disposition of confirmed fraud cases and decisions on whether ERCOT should refer investigation results to the appropriate law enforcement and/or regulatory agencies for independent investigation shall be made by ERCOT senior management in conjunction with legal counsel and the Finance & Audit Committee.

5. Reporting

Initial Reporting

An employee who discovers or suspects fraudulent activity must report the activity immediately. The employee may report the activity by contacting Internal Audit, Legal, Human Resources, his or her manager, or by filing a report via EthicsPoint immediately. The employee or other complainant may choose to remain anonymous when filing a report with EthicsPoint.

In instances where fraud has been confirmed, Internal Audit shall issue a formal report to the Finance and Audit Committee and Executive Management. Before a formal report is prepared, however, Internal Audit will consult with the Legal Department to determine whether a report, if issued, would be subject to a legal privilege and, if so, how to avoid waiving such privilege.

On-Going Investigation Inquiries

All inquiries concerning any activity under investigation from the suspected individual, his or her attorney or representative, or any other inquirer shall be directed to Internal

Audit or Legal. Employees should not provide information concerning a matter under investigation to parties other than Internal Audit, the Legal Department or Corporate Security, except in response to subpoena, law enforcement inquiry, or other appropriate authorization. The proper response to any other inquiries is as follows: "I am not at liberty to discuss this matter." No reference or speculation should be made to "the allegation," "the crime," "the fraud," "the forgery," "the misappropriation," or any other similar term.

**Self Assessment Results - ERCOT Finance & Audit Committee
February 2005**

	Topic	Yes	No	Not Sure	Comments
1.	Does the committee have the appropriate number of members? The committee should not be so large that: <ul style="list-style-type: none"> ▪ its ability to operate efficiently and effectively is reduced ▪ members' ability to raise issues is hampered ▪ it is difficult to get a quorum when a time-sensitive issue arises 	3			
2.	Committee members demonstrate their objectivity during meetings through behaviors such as driving agendas, rigorous probing of issues, consulting with other parties, and hiring experts, as necessary.	2		1	Fiduciary and ERCOT Stakeholder interests are sometimes problematic. I believe that the Committee Chair should be an Independent Unaffiliated Director with finance, accounting and board experience. Not afraid to challenge management for the betterment of ERCOT.
3.	Differences of opinion on issues are resolved to the satisfaction of the committee.	1		2	Some issues stay unresolved because they need further analysis – this works okay.
4.	Committee members challenge the Chair as appropriate.	2		1	Communications are free and candid, without being rude. Challenge is seldom necessary.
5.	The committee charter is used as a document to guide the committee in its efforts, and to help guide the committee's agenda.	2			F&A just amended its charter to clarify membership criteria. We usually stay within our charter.
6.	6.1 Committee members are financially literate, and the committee has determined that it has adequate financial expertise in accordance with its charter.	3			We have some members who are experts in some areas of F&A. All members are at least financially literate. Discussed in January
	6.2 Committee members participate in some form of continuing education to stay abreast of changes in the financial accounting and reporting, regulatory and ethics areas.	1	2		There has been no continuing education beyond the NACD materials that are mailed to us. As a CPA, I am required to average 40 hours per year of continuing education.

**Self Assessment Results - ERCOT Finance & Audit Committee
February 2005**

	Topic	Yes	No	Not Sure	Comments
	6.3 The committee understands how the organization's performance compares with its budgetary targets and its peers, and how management plans to address any unfavorable variances.	2		1	Did study one year ago comparing ERCOT fee to other ISOs. Budget versus actual is looked at every month. This topic gets a lot of attention.
	6.4 The committee discusses the initial selection of or changes in significant accounting policies used in developing the financial statements, the reason for and impact of any changes in policy, and reasons alternative treatments were not adopted.	2		1	F&A discusses accounting policies, and the reasons behind them. Has not come up in the past
	6.5 The committee discusses significant, complex, or unusual transactions with management and the external auditors.	3			We speak regularly with management and auditors.
	6.6 The committee understands which areas represent high risk for material misstatement of the financial statements, and discusses assumptions and approaches used with management and the external auditors.	3			Thanks to the expertise of our chairman and a couple of other members, we understand and discuss the most sensitive matters.
	6.7 The committee forms its own view of the risk of material misstatement due to fraud, discusses with management and the external auditors their views on the risk of material misstatement due to fraud, and is comfortable that any differences in views can be reconciled.	2		1	Absolutely true. Mike Espinosa led the Special Committee, and we worked these issues thoroughly. This was done during the 2004 Audit on the sales tax issue.
	6.8 The committee fully understands significant changes in financial statements from prior years and from budget, and is provided with sufficient, reliable evidence to support variances.	2		1	
	6.9 The committee commits sufficient time to review, discuss, and consider the financial statements.	1	1	1	Materials are distributed prior to meetings, allowing for this.
	6.10 The committee meets with financial management to discuss results reported before finalization.	3			We meet monthly, and all topics of significance are discussed before they are finalized.
7.	Committee members have a clear understanding of ERCOT's debt structure and cash management practices.	3			
8.	Committee members receive sufficient details regarding long-term financial planning.	3			

**Self Assessment Results - ERCOT Finance & Audit Committee
February 2005**

	Topic	Yes	No	Not Sure	Comments
9.	The Committee makes appropriate use of workgroups or task forces to investigate issues defined by the Committee.	2		1	I have not seen this, but I am new. Credit work group is an example
10.	The committee engages outside experts as appropriate.	2		1	Maybe even more than needed?
11.	11.1 The organization's financial reporting processes are stronger as a result of management's interactions with the committee.	3			Lots of progress during the past 2 years.
	11.2 The committee understands and agrees with the board on which categories of internal control it oversees. Categories include: <ul style="list-style-type: none"> ▪ Integrity of financial reporting ▪ Compliance with laws and regulations ▪ Operational efficiency and effectiveness 	2		1	
	11.3 The committee and the board concur with any changes to the committee's internal control oversight mandate.	3			Changes to the Committee's charter are approved by the Board.
	11.4 The committee understands the current high-risk areas - including information technology and computer systems - in the categories of controls it oversees, as well as how management addresses those areas.	3			The Committee offered specific instructions in this area on the 2006 Internal Audit Plan.
12.	The committee is cognizant of the line between oversight and management, and endeavors to respect that line.	1		2	Sometimes we may drift into micro-management.
13.	The committee conducts executive sessions in a manner that offers a "safe haven" to the individual, while at the same time asking tough and necessary questions, evaluating the answers, and pursuing issues that might arise to a satisfactory resolution.	3			
14.	14.1 The committee does its part to ensure the objectivity of the internal audit team.	1		2	We need to involve more of the internal audit staff in future committee meetings.
	14.2 The committee provides constructive feedback to the chief audit executive at least annually.	2		1	Almost every month.

**Self Assessment Results - ERCOT Finance & Audit Committee
February 2005**

	Topic	Yes	No	Not Sure	Comments
	14.3 The committee receives sufficient detail regarding material issues and complaints brought forward which relate to the company's fraud, ethics or accounting practices.	3			Ethics point reports are reviewed monthly
	14.4 The committee has developed the scope of work to be done by the independent auditor and by the internal audit department based upon a reasoned review of the risks or exposures to the company.	2		1	PUC also specifies scope of some audits But could improve here.
15.	The committee communicates at an appropriate level of detail when informing the Board of its actions.	2	1		
16.	Committee members receive clear and succinct agendas and supporting written material sufficiently prior to scheduled meetings.	2			Staff is doing an excellent job in this area. Thank you, staff!
17.	Committee members have adequate opportunities to discuss issues and ask questions.	1	2		We frequently skip agenda items due to time constraints. Agenda is packed, and time is always short. Time is tight at times.
18.	The frequency of committee meetings is appropriate for the responsibilities assigned to the committee.	2		1	We may be able to meet less often, if agenda items are spread through the year.
19.	Meeting facilities and presentation materials are effective for the conduct of committee activities.	3			
20.	Please add additional comments, questions and suggestions here.				



Project Management Update Organizational Changes

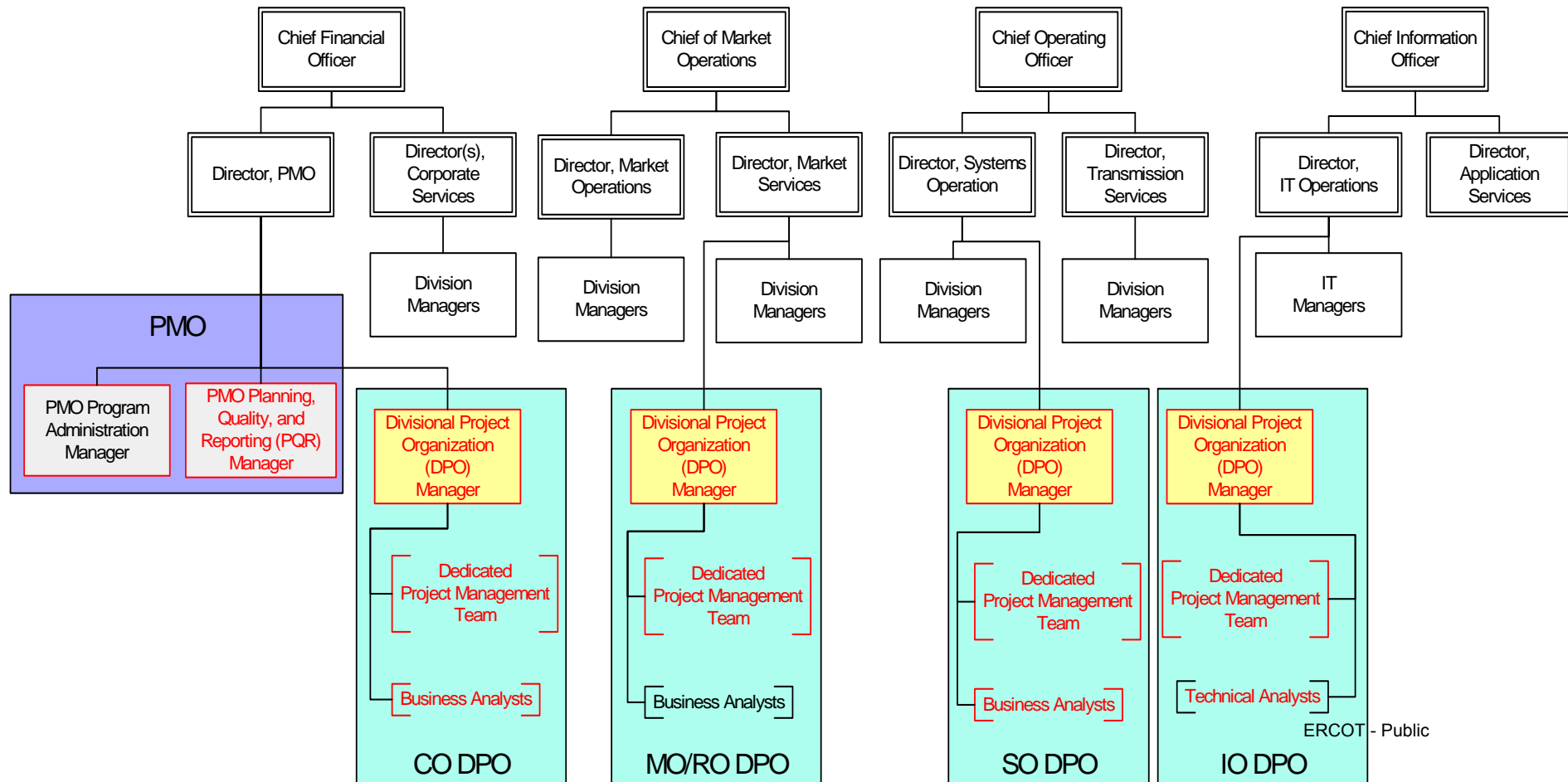
4/07/05

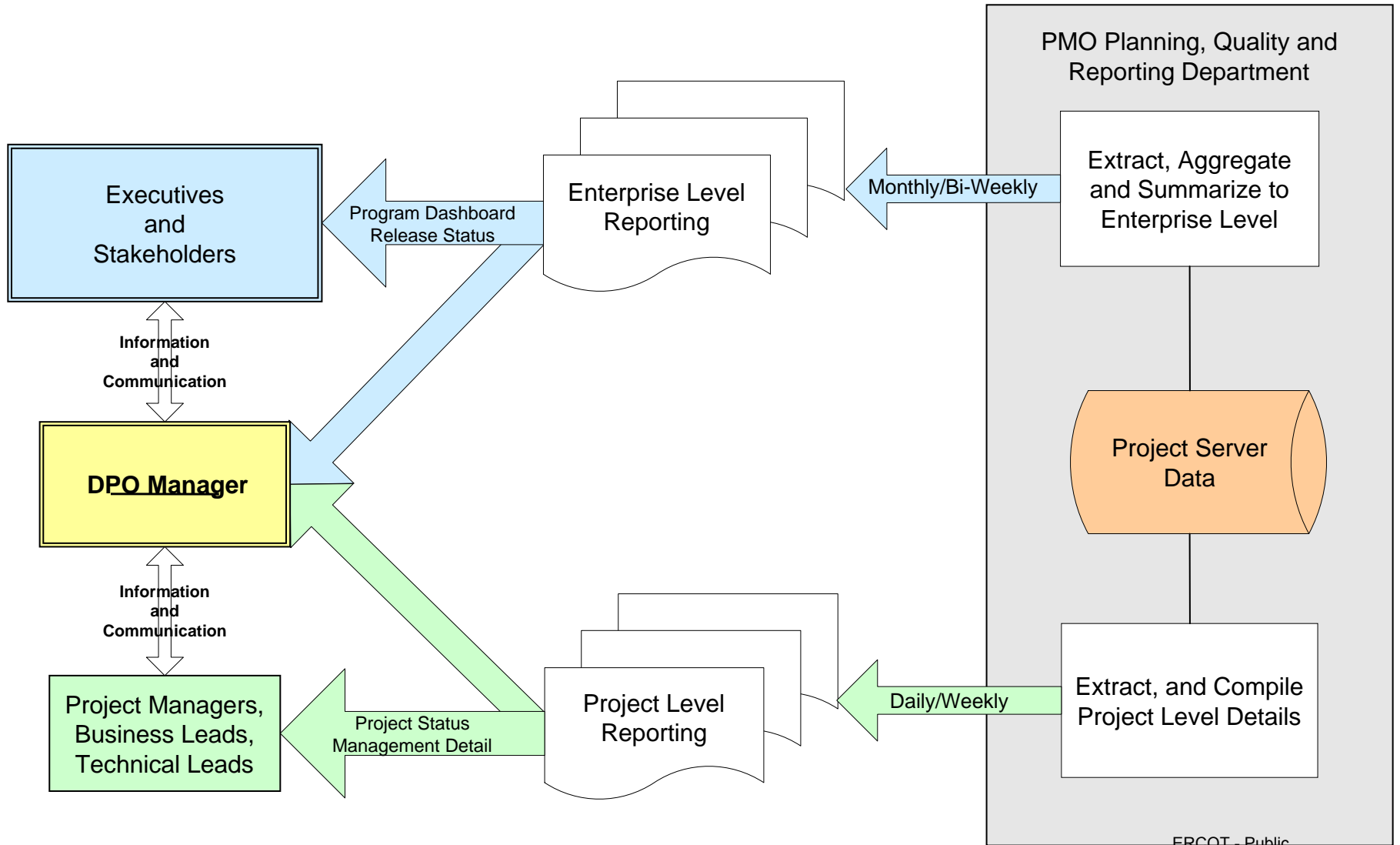
- ❑ During Q3 2005, KEMA performed a PMO Review that provided “Quick Hit”, Short Term, and Long Term recommendations to help improve the effectiveness of the PMO and project delivery.

- ❑ Internal process improvement team is completing the implementation the following “Quick-Hit” recommendations to improve project delivery:
 1. Address project accountability, responsibility and basic management practices with specific focus on organizational structures and corresponding roles and responsibilities.
 2. Establish effective project reporting and communications at both the project and enterprise levels.
 3. Establish a resource utilization process that reflects accurate allocations for use in forecasting, scheduling, tracking and budgeting of projects.

- ❑ Implemented the following organizational structures
 - Update current **Centralized** *Program Management Office (PMO)* focusing on fostering project management excellence through standardized processes, procedures, tools, training and support functions for all ERCOT projects
 - Establish **Decentralized** *Divisional Projects Organization (DPO)* focusing on accountability and responsibility for business area project portfolio management and delivery.
- ❑ Established Divisional-PPL's assigning accountability and responsibility to each ERCOT Executive for managing their resulting business area capital projects portfolio.
- ❑ Clarified, documented and communicated Roles and Responsibilities to revised organizational structures.

The project management teams will report directly to their corresponding business area establishing a Divisional Project Organization (DPO) that will be supported by the Program Management Office (PMO).





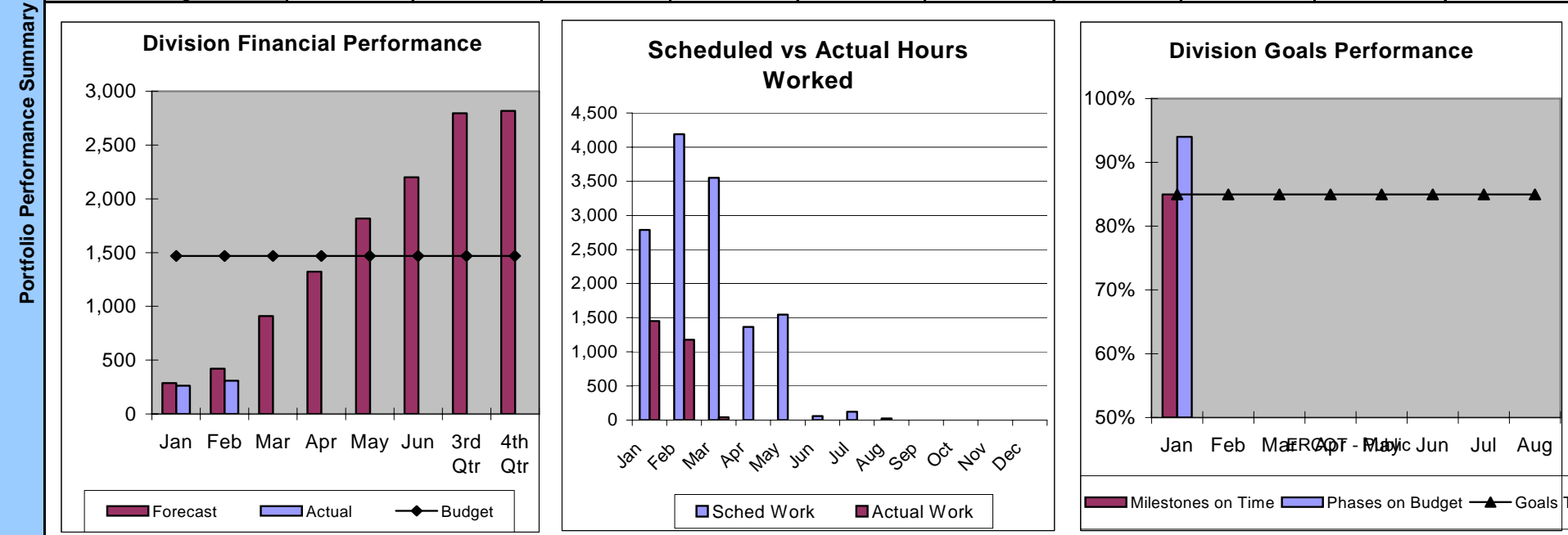
CO Divisional Project Report

Reporting Period: 2006 YTD through 2/28/2006

Executive Summary	Division Project Leadership				Projects in Division Portfolio				Portfolio Performance			
	Executive	Directors	DPO	Managers	Initiation	Planning	Execution	Total	Budget	Schedule	Milestones	Risk
	Schrader	Connell	Troxzell	Delenela	5	4	6	15	G	R	Y	Y
	Byone	Grimm		Berry	Completed Projects YTD:			0				
	McIntire	Petterson		Moseley	Projects Not Started:			5	Division 2005 Budget:		\$1,468,191	
Shellman	Yager											
Portfolio Summary for this Reporting Period												

Financial	2005	Jan	Feb	Mar	Apr	May	Jun	3rd Qtr	4th Qtr	2006 Total	2007 Est
Forecast	2,119	287	135	488	412	495	382	597	20	2,816	
Actual	2,032	262	47	0	0	0	0	0	0	309	
Pct Spent	96%	91%	35%	0%	0%	0%	0%	0%	0%	11%	

Key Goals	Jan	Feb	Mar	Apr	May	Jun	3rd Qtr	4th Qtr	2006 Total	2007 Est
Milestones Forecast	7	12	13	15	11	14				
Actual On Time	6	10								
Phases Forecast	2	3	5	3	5	4				
Actual On Budget	2	2								



Divisional Projects Report Detail Page - Sample

Corporate Operations (CO) Program Area Portfolio **Division Budget = \$1,468,191**
Division Capability = \$3,120,613

Priority	Rank											2005	Jan	Feb	Mar	Apr	May	Jun	3rd Qtr	4th Qtr	2006 Totals	Schedule	Budget	Risk
Forecast and Actual in \$000's																								

Projects Above Outline

1.0	0.19	Intrusion Detection/Intrusion Protection	Orig Baseline	563																	-			
		Execution	Forecast	574	24	10	11														45	R	G	R
		50132	Budget:	\$613	Actual	543	5														5			
1.0	0.20	Collateral Calculation	Orig Baseline	100	27	21	47	33	18	2											148			
		Execution	Forecast	112	48	37	44	37	50	10											226	R	R	R
		50017	Budget:	\$217	Actual	66	12														12			
1.0	0.21	Lawson SIR - Time Tracking	Orig Baseline	380	101																101			
		Closing	Forecast	169	69																69	G	G	G
		50015_01	Budget:	\$435	Actual	263	15														15			
1.1	11.1	IT Incident Reporting	Orig Baseline	61	-																-			
		Execution	Forecast	61	9	2	1														12	G	G	G
		50152	Budget:	\$87	Actual	60	52														52			
1.1	11.2	Log and Event Management	Orig Baseline	692	100																100			
		Execution	Forecast	649	10	5	20	20	10												65	R	G	R
		50140	Budget:	\$752	Actual	649	53														53			
1.1	11.3	Secure E-Mail	Orig Baseline	289	-																-			
		Execution	Forecast	268	15	5	10														30	R	G	R
		50141	Budget:	\$339	Actual	197	2														2			
1.1	11.4	Document Management	Orig Baseline	200	250	94	15	3													362			
		Planning	Forecast	230	100	-	40	125	52	35											352	G	G	G
		50123	Budget:	\$575	Actual	213	123														123			
1.1	19.4	Proxy Server	Orig Baseline	-		5	20	55	55	55	110										300			
		Planning	Forecast	-		5	20	55	55	55	110										300	G	G	G
		60076_01	Budget:	\$307	Actual	-															-			
1.1	19.5	Identity & Access Management	Orig Baseline	-		200	100	36													336			
		Planning	Forecast	-		20	30	72	72	72	72										338	Y	Y	Y
		60075_01	Budget:	\$336	Actual	-															-			

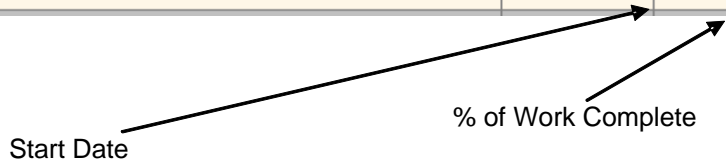
Projects Above Capability Line

1.1	19.6	Security Camera Enhancements	Orig Baseline	-		22	50	50	50	50											222			
		Execution	Forecast	-		2	240	15	21	7											285	G	G	G
		50106_01	Budget:	\$287	Actual	2															2			
1.1	20	Risk Management	Orig Baseline	-		21	40	50	50	50	110										321			
		Initiation	Forecast	-		20	40	50	50	50	110										320	G	G	G
		60014_01	Budget:	\$321	Actual	-																		
1.1	22	Vendor and Contract Management	Orig Baseline	-		28	25	30	30	30	90	20									253			
		Planning	Forecast	-		20	25	30	30	30	90	20									245	G	G	G
		50111_01	Budget:	\$253	Actual	-															-			

ERCOT - Public

Corporate Operations (CO) Program Area Portfolio

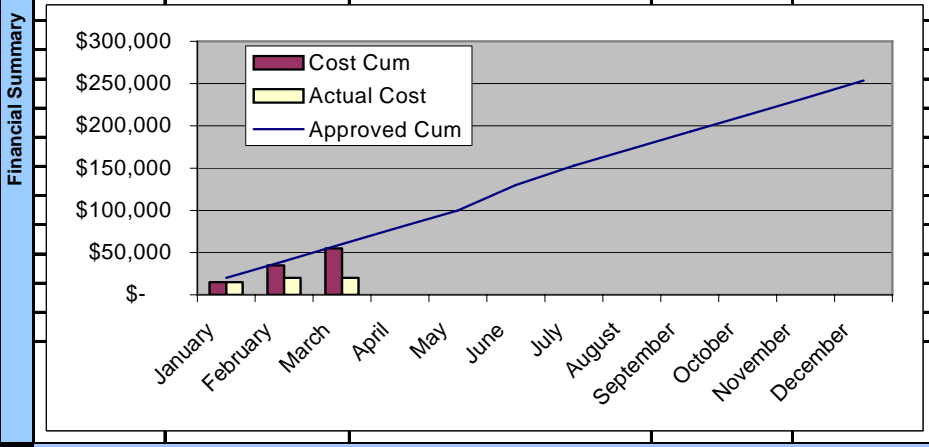
Project Name	▲ Initial Rank	% Complete	Qtr 4, 2005			Qtr 1, 2006			Qtr 2, 2006			Qtr 3, 2006			Qtr 4, 2006		
			Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Corporate Operations																	
PR-60075_01 Identity and Access Management	0.290	11%															
PR-40068 Console Operations Service Desk Complete	119	100%															
PR-50123 Document Management	19	30%															
PR-50106_01 Security Camera Enhancements	20	10%															
PR-50111_01 Vendor & Contract Management	22	10%															
PR-50015_01 Lawson SIR - Time Tracking	26	47%															
PR-50148 Intranet Document Manager PHII	26.1	100%															
PR-50017 Collateral Calculation	27	43%															
PR-50152 IT Incident Reporting	33	80%															
PR-50140 Log and Event Management	36	70%															
PR-50141 Secure Email	37	65%															
PR-50126_01 Internal Control Evaluation Program	5.2	0%															
PR-50126_03 Enterprise Risk Management	5.2	1%															
PR-50132 Network Intrusion Detection and Intrusion Protection System	5.3	71%															
PR-50149 Computer Aided Facility Management	68	90%															
PR-30143-02 Project Server 2003	77	100%															
PR-60076_01 Proxy Server	TBD	0%															
PR-xxxxx xx SAS 70	TBD	0%															



Project Status Report - Sample

Executive Summary	Project Status Report		Division	SO	PR Number:	12345	PR Name:	Pretend Project			Reporting Period:	013106 - 020706		
	Sponsor	Owner	PM	Bus. Lead	Del. Mgr		Source	Ref.	Priority	Rank	Budget	Schedule	Risk	
	Jones	Saathoff	Buckley	Kettlewell /Teng	Chase		PUCT	NA	1.1	5	G	R	Y	
Summary	Production Migration activities are starting again as resources are available to perform required activities										Prior Year Spend	Current Year Budget	Carryover Budget	
											\$ 3,276	\$ 234,411	\$ -	

Phase	Goals	Original Budget	Approved Budget	Forecast Budget	Actual Cost	Committed Cost
Initiation		\$ 50,000	\$ 50,050	\$ 3,276	\$ 3,276	\$ 3,276
Planning	Y	\$ 13,500	\$ 14,496	\$ 14,496	\$ 14,496	\$ 14,496
Execution	Y	\$ 186,884	\$ 186,884	\$ 217,569	\$ 190,520	\$ 190,520
Close		\$ 2,287	\$ 2,287	\$ 2,346	\$ 32	\$ 32
Total Budget	Y	\$ 252,671	\$ 253,717	\$ 237,687	\$ 208,324	\$ 208,324
Notes:	<Budget note>					



Milestones Completion Dates	Goals	Original Schedule	Approved Schedule	Forecast Schedule	Actual Schedule
Project Start	Y	17-Mar-05	17-Mar-05	17-Mar-05	21-Feb-05
Requirements	Y	18-May-05	18-May-05		18-May-05
Detail Design	Y	5-Dec-05	5-Dec-05		5-Dec-05
Technical Archit.	Y	5-Dec-05	5-Dec-05		5-Dec-05
Planning	N	6-Aug-05	6-Aug-05		15-Nov-05
Development	N	26-Sep-05	26-Sep-05		19-Oct-05
P-test	N	11-Oct-05	11-Oct-05		20-Jan-06
I-Test/ UAT	N	19-Oct-05	19-Oct-05		
Go Live	N	14-Nov-05	14-Nov-05		
Project Complete	N	5-Jan-06	5-Jan-06		
Milestone Notes:	Schedule is being updated with new dates for major milestones.				

Gantt	Project Name	% C	Qtr 1, 2005	Qtr 2, 2005	Qtr 3, 2005	Qtr 4, 2005	Qtr 1, 2006	Qtr 2, 2006
	PR-50005 EDW EMMS Reports	91%	Jan Feb Mar	Apr May Jun	Jul Aug Sep	Oct Nov Dec	Jan Feb Mar	Apr May Jun

Risks / Issues	Status	Risks / Issues Description & Impact	Mitigation or Corrective Action	Assigned To:
	Issue - Resolved	Recent Outage in December delayed Production Migration due to lack of Production Operations resource capacity to perform migration tasks.	Re-evaluate schedule and update when resources are available to proceed.	
	Risk - Identified	Creation of new indexes takes longer than expected.	Allow 3 additional days contingency in schedule.	
Risks / Issues	Risk - Identified	Additional storage may be necessary during creation of new indexes.	<ul style="list-style-type: none"> Utilize 3 additional days contingency to allow for storage request. Alert Brian Hanley of risk to identify steps to get additional storage quickly, if needed. 	ERCOT - Public

PCR	PCR	PCR Type	Rollgate	App / Rej	Description / Comments
	3	Scope	1/16/2006	Approved	Description of scope change
	4	Scope	2/13/2006	Approved	Description of scope change



PMO Update

April 18, 2006

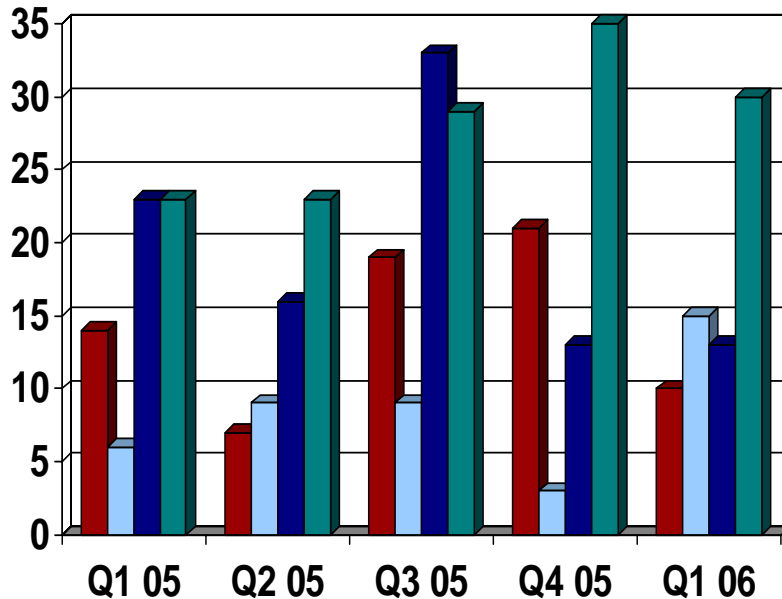
First Quarter Results (to 3/31/06)

- 3 completed in Mar, 10 YTD
- 15 in Initiation
- 13 in Planning
- 30 in Execution

Projects Completed in March

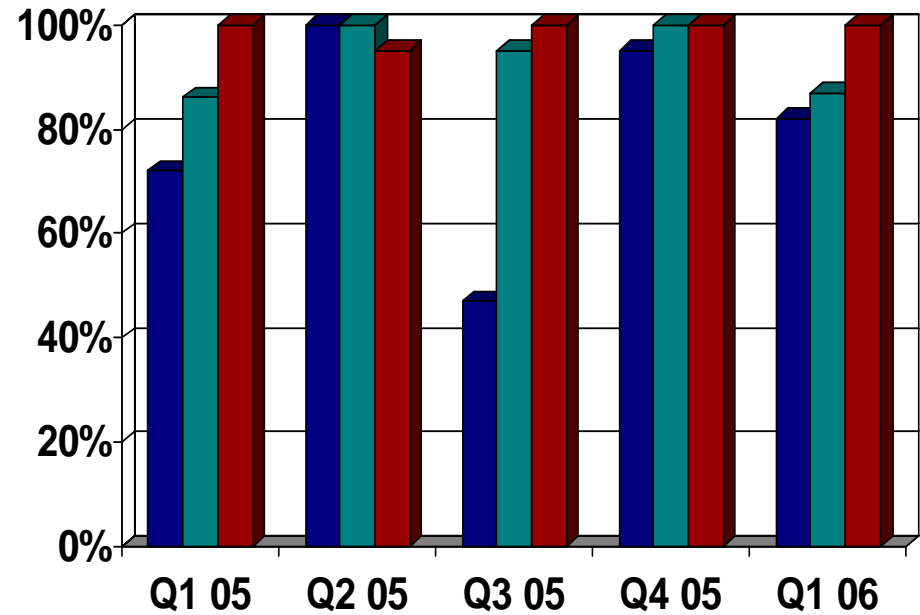
- PR-50050 Satellite Communication for Black Start Suppliers
- PR-50008 Aggregation of combined Cycle Units Providing RRS
- PR-50121_06 SOA EndPoint Services

Project Activity













■ Completed ■ Initiation ■ Planning ■ Execution

Project Performance



■ On Time ■ On Budget ■ Deliverables

Project	Total Budget	Actual 03/31/06	Metrics			
			Duration/Information (Sponsor)	Phase/Scheduled Completion	Schedule	Budget
Service Oriented Architecture (2004-2006)	\$6.1M	\$5.7M				
<i>3 separate projects over 12 mos. (R Giuliani)</i>			<i>Execution Phase/4th Qtr 2006</i>			
Enterprise Data Warehouse (2003-2006)	\$3.5M	\$2.7M				
<i>9 separate projects over 36+ mos. (R. Hinsley)</i>			<i>Execution Phase/3rd Qtr 2006</i>			
Operations Training Simulator (2005-2006)	\$3.4M	\$298K				
<i>Training Simulator System for Operators (S Jones)</i>			<i>Planning Phase/4th Qtr 2006</i>			
Enhancements to FasTrak Tools	\$2.5M	\$1M				
<i>Tool for Tracking Market Issues (R Giuliani)</i>			<i>Execution Phase/3rd Qtr 2006</i>			
Enhancements to SCR727 (2005-2006)	\$1.9M	\$345K				
<i>Entered into Execution (R Giuliani)</i>			<i>Execution Phase/3rd Qtr 2006</i>			

ACTIVE & PROJECTED PORTFOLIO

	Initiation	Planning	Execution	Total Active	On Time	On Budget	% On Time	% On Budget
CO	3	5	5	13	10	11	76.9%	84.6%
IO	1	1	4	6	5	5	83.3%	83.3%
MO	1	0	10	11	8	10	72.7%	90.9%
RO	0	3	3	6	6	6	100%	100%
SO	4	4	8	16	12	12	75%	75%
NODAL	6	0	0	6	6	6	100%	100%
Totals	15	13	30	58	47	50	81.6%	86.8%

Retail Operations Program Area

- ❑ PR-50121-07 SOA Retail Business Processes
 - Project in planning ready to move to execution
 - Project now over \$1M requesting approval to go execution
 - Resolution will be presented for Board approval

Corporate Operations Program Area

- ❑ PR 60078 Taylor Facilities Build for Nodal
 - Project to finish out Taylor space required for Nodal teams
 - Forecasted Nodal needs last month with Board
 - Current project does not require a resolution
 - Will provide an update for Board

- ❑ Projects Completed in January
 - PR-50145 Austin Control Center Power and Cooling
 - PR-40133 RAP-C (Remedial Action Plans for Congestion) Modeling Enhancements
 - PR-50033_02 MV90 (Metering) System Installation
- ❑ Projects Completed in February
 - PR-50136 EMMS Upgrade of OSI PI and OAG
 - PR-40100 RTCA Archiving
 - PR-40098 Performance Monitoring for SCADA/State Estimator
 - PR-50125 Production Storage
- ❑ Project Completed in March
 - PR-50050 Satellite Communication for Black Start Suppliers
 - PR-50008 Aggregation of combined Cycle Units Providing RRS
 - PR-50121_06 SOA EndPoint Services

❑ Scope of Satellite Communications for Black Start Suppliers:

Procure and install a satellite voice communication system for ERCOT to maintain continued communications with Transmission Operators after a major outage event that may have disabled land based voice communications.

❑ Features and Deliverables:

Objective of the project:

- Procure satellite communications equipment, services, maintenance and installation at ERCOT’s Taylor and Austin facilities.
- Provide training and documentation for ERCOT operators and operations support staff.

❑ Current Activity

- Project close out.



- ❑ **Scope of Aggregation of Combined Cycle units Providing RRS:**
 - PRR502 - Allows RRS obligations awarded to combined cycle plants to be aggregated for all units in a block.

- ❑ **Features and Deliverables:**
 - **Instead of operators viewing multiple rows of combined cycle units, the display shows the combined cycle unit data aggregated into one row of data.**

- ❑ **Current Activity**
 - Closing out project.

Planning 7 Months	Execution 1 Month
----------------------	----------------------

Mar 2005 - Feb 2006
 (On Hold Apr 2005 – Jul 2005)

Feb 2006 – Mar 2006

❑ **Scope of End Point Services Project included:**

- Migration of Siebel-to-LodeStar 1 & 2 interfaces to SOA architecture.

❑ **Features and Deliverables:**

- Correct functioning of Siebel-to-LodeStar 1 & 2 interfaces.
- Monitoring and alarming for Siebel queues.
- Monitoring and alarming for TIBCO queues.
- Monitoring of process status via Lightning monitoring tool.

❑ **Current Activity**

- Project is in stabilization until 4/14/2006.



- ❑ Approval of documents to remediate documentation gaps for business processes is complete
- ❑ Additional resources are assisting in the review/ evaluation of controls and QA/QC of control design
- ❑ Conducting updates on controls in control repository based on control self assessments and internal audit testing conducted
- ❑ Training updates for business processes is underway



User Recertification Identity and Access Management

Public Session: Finance and Audit
Committee Status Update

April 18, 2006

Jim Brenton
Director, Corporate Security & Facilities

- ❑ CY2005 SAS70 Audit Identified Intranet Node Access System Exceptions which “Qualified” Control Objectives 17 and 18

- ❑ Compensating Controls pending Improved Access Management Systems
 - Implemented 100% Monthly Audit for Facility Access Control—CO18
 - Initiated User Recertification Project for Logical Access Control—CO17

- ❑ Other Exceptions Resolved
 - Completed update of CCTV Cameras and Monitors—CO18
 - Standardized Server Hardening and Configuration Guidelines—CO17

**ERCOT RELIABILITY COUNCIL OF TEXAS, INC.
RISK MANAGEMENT EVENT PROFILE MATRIX (as of April 7th, 2006)**

Strategic Position	Operational Excellence	Market Facilitation	Grid Reliability	Reporting	Compliance Page 46
<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 communicating ERCOT's vision and the employee's role in working to achieve the vision. Additionally, uncertainty surrounding the proposed ERO/RE 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>Performance monitoring tools lack desired early warning indicators and may fail to highlight potential underperforming activities</p>	<p>Customer Choice</p> <p><i>Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.</i></p> <p>IT components supporting Customer Choice are currently not at the desired levels to meet SLA's. Successful replacement of SeeBeyond Application with TIBCO and Test environment build out will have a major impact on Customer Choice operations.</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. An initiative is in progress to identify key legal and regulatory requirements and ensure they are satisfied on a timely basis.</p>
<p>Mission and Goals</p> <p><i>Corporate objectives and performance standards are understood and followed</i></p> <p>Current management initiatives related to goal setting and 'Line of Sight' have increased awareness of goals, and objectives related to high-level corporate objectives and priorities for individual divisions, departments, and employees</p>	<p>Business Practices</p> <p><i>Business planning, processes and management standards are effective and efficient</i></p> <p>Business continuity and disaster recovery plans, record retention procedures, and safety practices are currently below desired expectations. Additional development activities required to implement and test these procedures.</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.</p>	<p>Internal Control Compliance</p> <p><i>Internal Control Compliance, processes and management standards are effective and efficient</i></p> <p>Failure to comply with internal controls may lead to imprudent or unauthorized use of corporate assets and/or inaccurate reporting. Audit findings are actively monitored by management as well as Internal Audit. An internal control compliance effort will be largely completed by May 2006.</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>Increased scrutiny resulting from the Fee Case filing, high visibility of initial Nodal implementation and lingering impacts resulting from the Dec '05 Retail Transaction system failure combine to negatively impact ERCOT reputation. Recent settlements relating to the 2004 scandal reflect favorably on ERCOT Inc.</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>PUCT inquiries regarding compensation programs, a mandated salary freeze and employee related cost cutting directives increase the risk of higher turnover and prolonged recruitment efforts. Hiring necessary to support the NODAL ramp-up further strains the situation. Previous mitigation actions including variable pay, tuition reimbursement and employee training programs are also in question.</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 removing defaulting participants from the market increases the potential for credit losses. A medium to large market participant default could materially impact the ERCOT market, grid reliability, and ERCOT's reputation.</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 improving but need continued emphasis for content and timeliness to the various recipients of information.</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>Current fiscal practices are effective in managing and controlling costs. Management has a focus on cost control having developed a key corporate goal to monitor on-going cost savings.</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 may lead 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. No significant items identified at this time. A fully functioning Compliance and Disclosure risk sub committee will further support this area.</p>	<p>Regulatory Filings</p> <p><i>Evidence, testimony and other supporting materials are compelling and successful</i></p> <p>Filings are completed timely and accurately. Ongoing management of competing priorities is necessary to avoid impacting the accuracy and timeliness of filings.</p>

Legend: Elevated Risk Level Reduced Risk Level

(New Risk Categories Indicated in Green)

ERCOT - Public

Rationale for Category Risk Assessment Changes

Reputation	Upgrade
Human Resources	Downgrade
Internal Control Compliance	Upgrade
Regulatory Filings	Upgrade

Measures taking after Dec. '05 Retail System Outage and Plea Bargaining of former ERCOT employees involved in 2004 scandal
PUC compensation inquiries, salary freeze and cost management directives dramatically decrease morale and hamper recruiting efforts
Roll-out of ICMP program to be fully implemented by May 2006 with accompanying control framework largely in place
Regulatory filings have all been made on time and processes improved to ensure ongoing compliance in a timely manner

ERCOT Market Credit Status

As of 02/28/2006

As of 03/31/2006

	# 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-	10	30,695,399	9%	274,841,374	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>					
Ratings below BBB- or not rated					
Cash & Letters of Credit	38	209,673,076	56%	306,885,628	S
Guarantee Agreements	8	134,499,990	35%	218,211,777	S
Total Exposure	56	374,868,465	100%		
Other QSEs in the ERCOT Market (ERCOT owes)					
<u>QSEs that meet ERCOT Creditworthiness Standards</u>					
Ratings over BBB-	6	(2,016,673)	-2%	118,610,481	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>					
Ratings below BBB- or not rated					
Cash & Letters of Credit	39	(22,793,868)	-22%	61,144,549	S
Guarantee Agreements	13	(77,898,963)	-76%	186,277,000	S
Total	58	(102,709,504)	-100%		

	# 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-	5	19,848,093	9%	104,310,382	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>					
Ratings below BBB- or not rated					
Cash & Letters of Credit	35	121,169,278	50%	246,728,650	S
Guarantee Agreements	10	101,008,612	41%	318,200,000	S
Total Exposure	50	242,025,983	100%		
Other QSEs in the ERCOT Market (ERCOT owes)					
<u>QSEs that meet ERCOT Creditworthiness Standards</u>					
Ratings over BBB-	11	(19,553,487)	-26%	293,703,073	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>					
Ratings below BBB- or not rated					
Cash & Letters of Credit	42	(28,127,730)	-37%	74,434,734	S
Guarantee Agreements	11	(28,457,802)	-37%	118,007,473	S
Total	64	(76,139,019)	-100%		

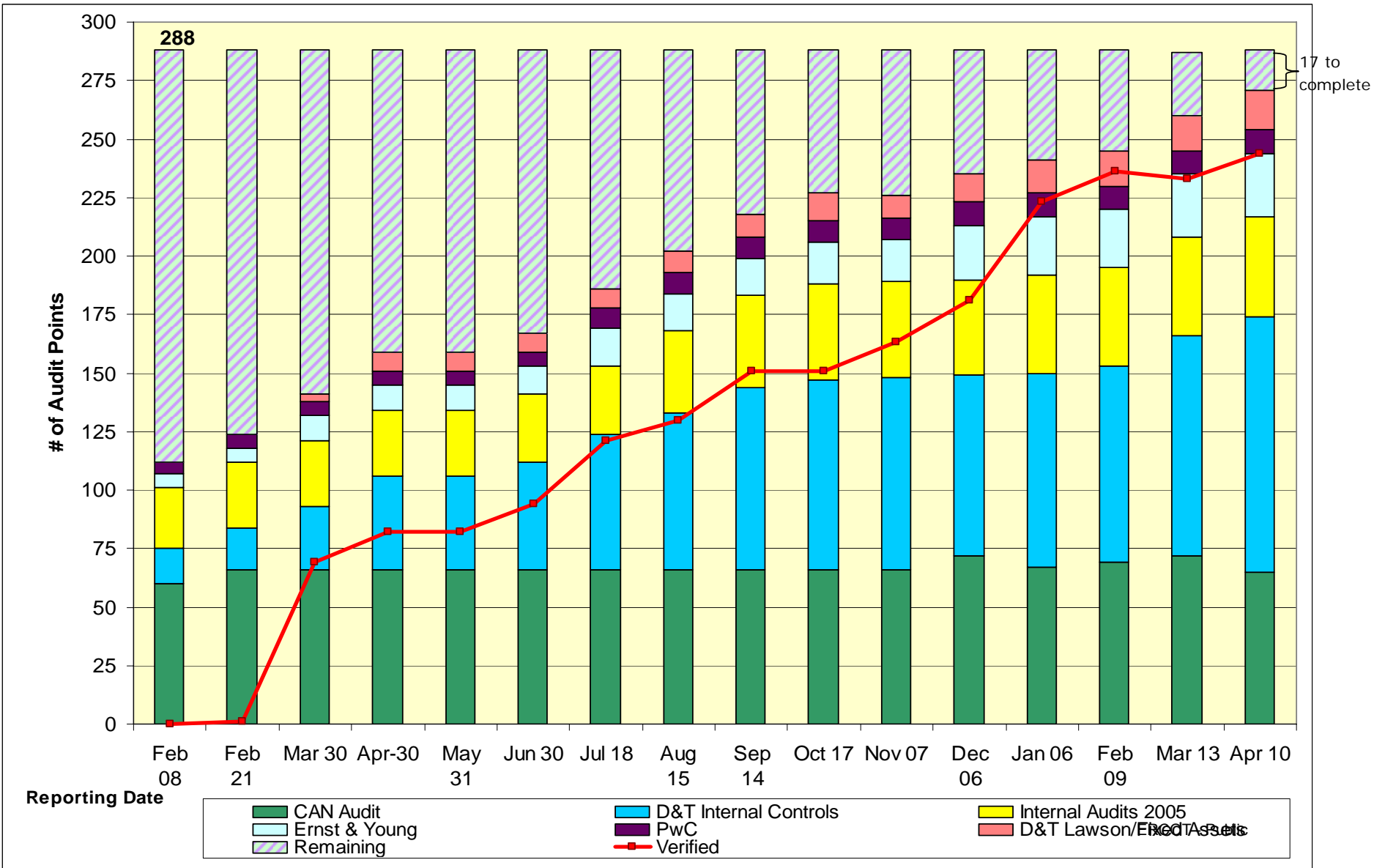
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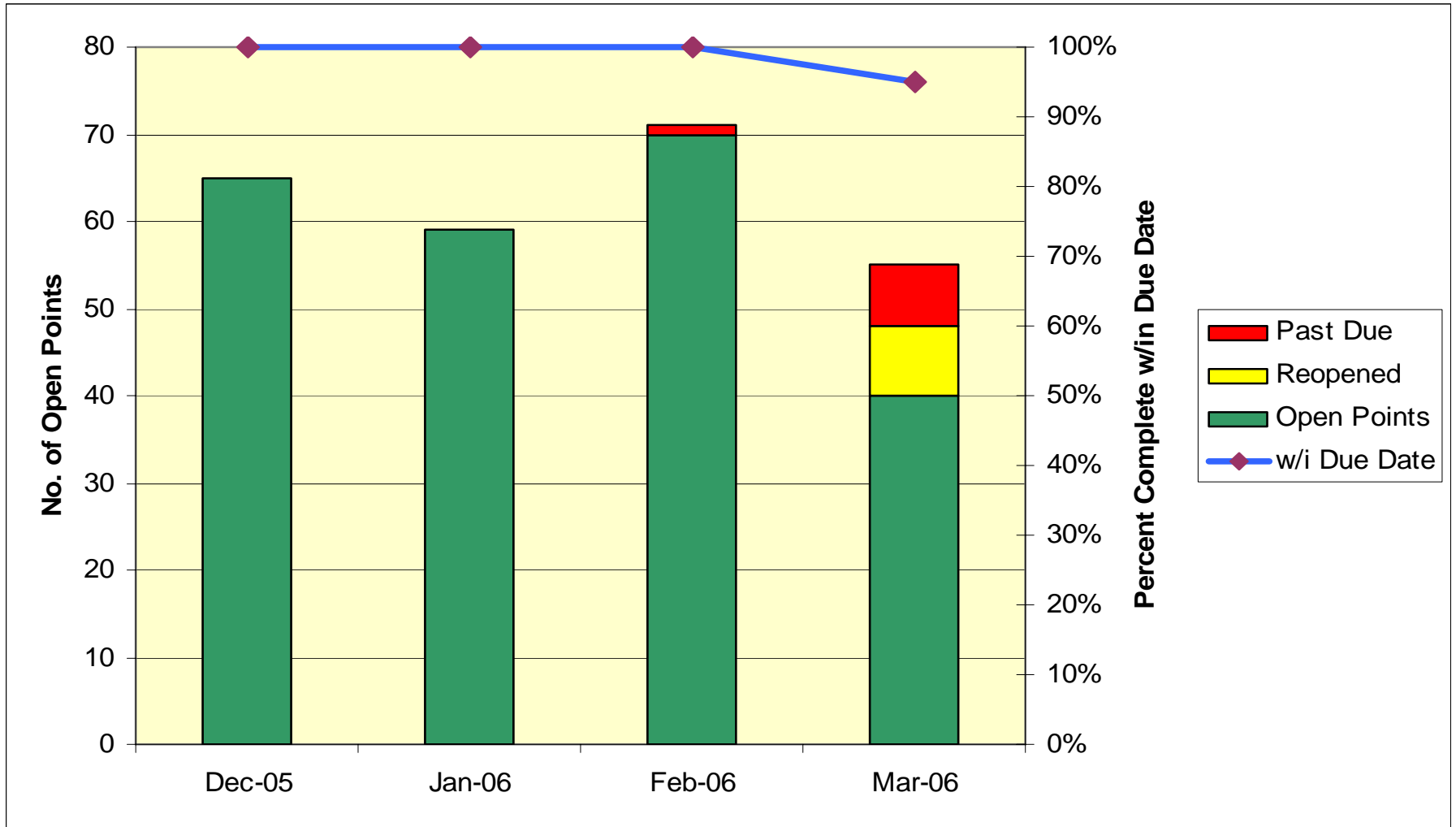
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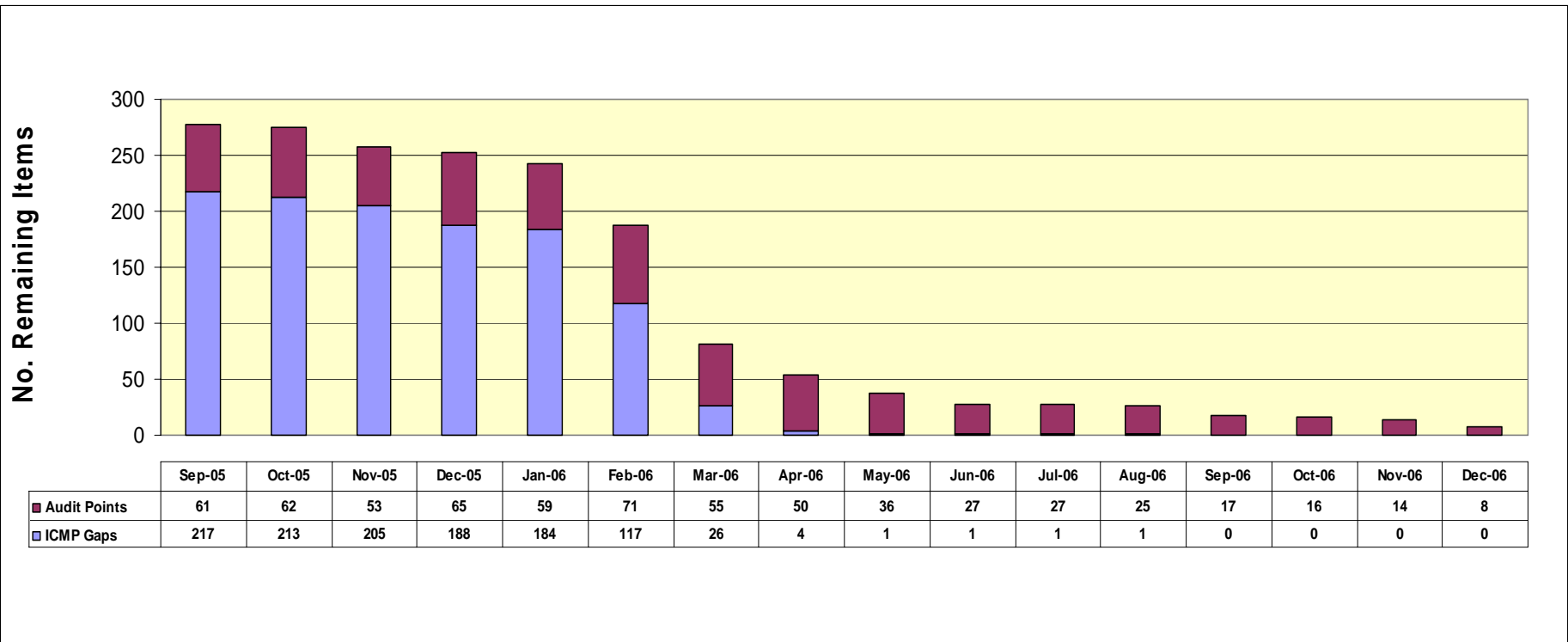
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U: Unsecured since these QSEs meet the creditworthiness standards
 S: Secured i.e. required to post collateral since these QSEs do not meet the creditworthiness standards

- ❑ Approval of documents to remediate documentation gaps for business processes is complete
- ❑ Additional resources assisting review/evaluation of controls and QA/QC of control design
- ❑ Conducting updates on controls in control repository based on control self assessments and internal audit testing conducted
- ❑ Training for updated business processes is underway







- Review and Approve ERCOT Annual Budget
- ERO Preliminary Budget Review
- 2006 Budget Planning
- Nodal Surcharge Filing
- Credit Update

Quarter 1

- √ •Elect officers and confirm financial qualifications
- √ •Review Finance Audit Committee charter
- √ •Approve the Guidelines for Engagements of External auditors for Other Services (pre-approval policy)
- √ •Required written communication and discussion of auditor independence
- √ •Review scope of annual financial audit
- √ •Report by CWG Chair on ERCOT credit policy

Quarter 2

- Report results of annual independent audit to the Board
- Report of external auditor pre-approval status/limits
- Review the procedures for handling reporting violations
- Review conflict of interest and ethics policies
- Review results of annual audit (including required communications)
- Review and approve ERCOT Annual Report
- Review operating plan and budget assumptions

Quarter 3

- Appoint the independent auditors for upcoming year
- Approval of independent auditor fees for upcoming year
- Assessment of compliance, the internal control environment and systems of internal controls
- Review and approval of annual operating budget
- Report by CWG Chair on ERCOT credit policy
- Review updated year-end forecast

Quarter 4

- Approve audit committee meeting planner for the upcoming year, confirm mutual expectations with management and the auditors
- Review and approval of Financial, Investment & Credit policies
- Approve scope of internal auditing plan for upcoming year
- Assessment of the adequacy and effectiveness of the Internal Audit staff
- Perform Finance & Audit committee Self Assessment
- Vote on CWG Chair
- Review requirements for membership in CWG
- Review and approve CWG charter
- Review updated year-end forecast

Recurring Items

- Review minutes of previous meeting
- Report monthly matters to the Board (chair)
- Review EthicsPoint activity
- Review significant audit findings and status relative to annual audit plan