



ERCOT Finance & Audit Committee Meeting
ERCOT
7620 Metro Center Drive, Austin, Texas
Room 168
September 19, 2006; 7:45 a.m. - 10:00 a.m.**

Agenda Item #	Description/Purpose/Action Required	Presenter	Time
	Call to Order – Executive Session	C Karnei	7:45 a.m.
1.	Executive Session		
	• SAS 70 Auditor Selection for 2007	B Wullenjohn	7:50 a.m.
	• Update on Timeline for 2007 Internal Audit Plan	B Wullenjohn	7:55 a.m.
	• Update on Internal Audit Staffing	B Wullenjohn	8:00 a.m.
	• Update on Internal Audit 2007 Budget Request	B Wullenjohn	8:05 a.m.
	• Significant Audit Findings	B Wullenjohn	8:10 a.m.
	• Ethics Point	C Vance	8:20 a.m.
	• Review of Liquidity Financing Alternatives	C Yager	8:25 a.m.
	Adjourn to Regular Session		8:45 a.m.
2.	Approval of Minutes* (Vote) (08/15/06)	C Karnei	8:45 a.m.
3.	Audit Update		
	• Review Results of Annual Benefit Plan Audit	N Capezzuti	8:50 a.m.
	• SAS 70 Update	S Barry	8:55 a.m.
4.	Vote: Liquidity Financing Alternatives		9:00 a.m.
5.	2007 Budget Status Report	M Petterson	9:05 a.m.
6.	2006 Project Delivery Checkpoint	D Troxtell	9:25 a.m.
7.	Committee Briefs (major changes/Q&A)	All	9:45 a.m.
8.	Future Agenda Items/Other Topics	S Byone	9:50 a.m.
	Adjourn		9:55 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 October 17, at ERCOT, 7620 Metro Center Drive, Austin, Texas.*

Draft MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

8:00 A.M.

August 15, 2006

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at approximately 8:00 A.M. on **August 15, 2006**. The Meeting was called to order by **Clifton Karnei** who ascertained that a quorum was present.

Meeting Attendance

Committee members:

Clifton Karnei, Chair	Brazos Electric Cooperative	Cooperative	Present
Miguel Espinosa, Vice Chair	Independent Board Member	Independent Board Member	Present
Robert Manning	H-E-B Grocery Co.	Consumer	Present
R. Scott Gahn	Just Energy	Ind. Retail Electric Provider	Present
Tom Standish	Centerpoint Energy	Investor-Owned Utility	Not Present
William Taylor	Calpine Corporation	Ind. Generator	Present

ERCOT staff and guests present:

Anderson, Troy	ERCOT
Berinsky, Carl	ERCOT
Brenton, Jim	ERCOT
Byone, Steve	ERCOT (CFO)
Campbell, Cassandra	ERCOT
Davies, Morgan	Calpine
Davis, Derrick	ERCOT
Doolin, Estrellita	ERCOT
Gresham, Kevin	Reliant Energy
Gruber, Richard	ERCOT
Hancock, Misti	ERCOT
Jones, Sam	ERCOT (CEO)
Meek, Don	ERCOT
Moseley, Cheryl	ERCOT
Mueller, Paula	Public Utility Commission of Texas (PUC)
Petterson, Mike	ERCOT
Ruebsahm, Jamille	Deloitte & Touche (D&T)
Schwerdtfeger, Kathie	Deloitte & Touche (D&T)
Troxell, David	ERCOT
Uffelman, Bernard	Deloitte & Touche (D&T)
Vance, Cathy	ERCOT
Vincent, Susan	ERCOT
Wagner, Marguerite	Reliant Energy
Walker, Mark	NRG Texas
Wullenjohn, William	ERCOT
Yager, Cheryl	ERCOT

Approval of Previous Minutes

Robert Manning moved to approve the minutes for the previous meeting held on July 18, 2006; Miguel Espinosa seconded the motion. The motion passed unanimously.

Reforecast of 2006 Revenues and Expenses

Michael Petterson reviewed the reforecast of 2006 revenues and expenses including an explanation for the favorable revenue variance. Mr. Petterson explained that the Texas Nodal Market Implementation Program (TNMIP) costs were being isolated and would be covered by the surcharge recently verbally approved by the PUC. Steve Byone commented that ERCOT was committed to operating within the \$0.4054/mwh fee for base operations (not including TNMIP costs or costs attributable to Regional Entity activities), because the unbudgeted expenses (including costs of the 2006 fee case and related compensation study) were offset by the additional revenue. Clifton Karnei asked that the Committee be provided with the outside services cost of the 2006 fee case.

Revised 2007 Budget Schedule

Michael Petterson presented the revised 2007 budget schedule and highlighted the following items:

- Tuesday, Sept. 19 Board Agenda – Updated TNMIP resource requirements, timeline and budget.
- Tuesday, Sept. 26 Public Meeting – Preliminary 2007 Budget Presentation (facilitated by ERCOT).
- Thursday, Oct. 5 Finance & Audit Committee Special Meeting (if necessary).
- Tuesday, Oct. 17 Board Agenda – Finance & Audit Committee 2007 budget recommendation.

Mr. Espinosa confirmed with Mr. Petterson that ERCOT and the PUC were exchanging and receiving all needed information in this process.

Nodal Surcharge Briefing

Steve Byone reported that the PUC had verbally approved the requested interim \$0.0663 per megawatt hour (MWh) Nodal Surcharge for the costs of TNMIP and had instructed ERCOT to send bills beginning October 1 to QSEs representing generation, based on the newly approved allocation method. Mr. Byone noted that the final order on the Nodal Surcharge was expected to be issued during one of the next two open PUC meetings. He also noted that the TNMIP financing plan would be updated after the final order was issued. Robert Manning asked if the approved interim fee would be sufficient to pay for all TNMIP costs, and Mr. Byone explained that it would not; ERCOT would require new debt to partially fund TNMIP. Mr. Byone confirmed that ERCOT still expects that approximately 40% of the funds needed for TNMIP will be obtained through the Nodal Surcharge in the development phase while approximately 60% will be funded with debt. The fact that ERCOT wants to recover costs during the useful life of the assets means that the ultimate Nodal fee might need to be higher than the interim fee. Mr. Byone confirmed to Mr. Manning that ERCOT did not expect to request a higher *interim* fee. The committee asked that a high-level estimate of the expected final surcharge (incorporating updated TNMIP budget projects) be provided at the September meeting.

Discussion of Materiality Level

Michael Petterson explained that ERCOT would benefit from having a clear statement of materiality, so that it could set the appropriate level of and efficiently scope its internal controls. Mr. Petterson provided rationale, support, and background for management's conclusions regarding the type and size of transactions recommended to be considered material to ERCOT's financial statements. Mr. Petterson explained that the materiality threshold had a cost impact on a company, since it drove the costs of compliance, and that other companies were looking at this issue for Sarbanes Oxley compliance. Steve Byone confirmed that PwC was in support of ERCOT (with support of the Committee and Board) establishing a materiality threshold to aid the company in establishing its controls, and stated that he believed PwC would continue to establish its own materiality level to use during ERCOT audits. Mr. Byone agreed to try to obtain more information about the level of materiality used by other ISOs and to ask PwC to attend an upcoming Committee meeting, so that the Committee could further discuss this topic. Mr. Byone assured the Committee that in the event materiality levels were adopted, ERCOT would remain committed to striving for zero errors and was only seeking the threshold to help focus internal control activities. Mr. Karnei stated that the Committee did not condone sloppiness or errors of any kind, and he requested that ERCOT prepare a statement embodying this general concept to go along with a materiality statement for consideration by the Committee. Mr. Espinosa also confirmed with Mr. Byone that materiality regarding fraudulent conduct would be very different from the general materiality threshold and that a zero tolerance for fraud would remain in place at ERCOT. Bill Wullenjohn stated that establishing materiality levels would not impact the internal audit program and confirmed that internal audit would continue to investigate seemingly small issues if fraud were suspected.

Project Priority List/Funding Level

David Troxtell presented the 2007 Project Priority List with detailed information for each of the five operating areas (i.e. Corporate Operations, IT Operations, Market Operations, Retail Operations, and System Operations). Mr. Troxtell explained that, for the first time, capital projects of \$36 million, which was \$11 million increase from the previous two years, had been requested and approved by PRS and TAC. Mr. Karnei noted that the previous project threshold of \$25 million had been an arbitrary figure that had been adopted, and the Committee had asked that TAC and PRS review the requested project list without an artificial limitation for 2007.

Kevin Gresham, Chair of PRS, described the process used by PRS and TAC to prioritize projects indicating that a much more vigorous vetting process had been used for 2007 relative to previous years. Mr. Gresham also explained that all projects that would be made irrelevant by TNMIP had been eliminated from the list. Mr. Troxtell confirmed to Scott Gahn that the primary areas requesting a spending increase were Corporate (primarily Security) and IT Operations.

Mr. Troxtell explained that, because (1) the requested project level was \$11 million greater than 2006, (2) the current budget assumption was that the 2007 system administration fee would remain flat, and (3) ERCOT's current debt ratio assumption is 40/60, equating to a demand of \$4.4 million on general revenue, ERCOT proposed that the Committee consider one of four 2007 budget options:

- Permit all projects, retain debt restrictions, keep fee flat and cut \$4.4 million in other ERCOT services
- Permit all projects, retain debt restrictions and increase fee by \$4.4 million (~\$0.015)
- Permit all projects, keep fee flat and change debt ratio from 40/60 to 28/72
- Reduce the projects to 2006 levels (~\$25 million)

The Committee discussed the options in detail, noting that ERCOT could not realistically cut \$4.4 million from its general operations, since large cost cutting had already occurred in 2005 and 2006. William Taylor asked if ERCOT staff would realistically be able to complete this level of projects during 2007, given all demands on personnel. Mr. Troxtell stated that the project staff believed that it could complete this level of projects, but Mr. Byone stated that the Executive management team was continuing to analyzing ERCOT's ability to complete \$36 million in projects. Mike Espinosa and Clifton Karnei suggested that the Committee consider the budgets for base operations and TNMIP before making a decision about which option to adopt, but indicated support to either request an increase of the fee if all projects were necessary or to increase the permitted debt ratio, if management determined the level of projects could be completed.

Audit Status Briefing (Internal Controls/SAS 70)

Steve Byone reported that Deloitte & Touche was continuing their work with ERCOT regarding Internal Controls and that their final report was expected in November. Kathie Schwerdtfeger of D&T commented that D&T auditors were generally pleased with the design of the control framework but had identified opportunities for ERCOT personnel to be more efficient and to better document items for testing. She also mentioned that she was in support of the "materiality" approach recommended by management. Byone also reported that initial SAS 70 testing had been completed by PwC and that further remediation work was required in the Logical Security area.

Audit and Compliance, Incidence Response Preparedness and ERM Update

Steve Byone made reference to the materials that would be presented to the full Board and offered Committee members the opportunity to make comments and ask questions.

Credit

Morgan Davies made reference to the materials that would be presented to the full Board and offered Committee members the opportunity to make comments and ask questions. Mr. Byone informed the Committee that Mark Armentrout had requested the Committee be prepared to inform the Board of its recommendation regarding next steps on credit. The Committee members discussed in detail the work that the TAC, PRS, and the Credit Working Group had

put into improving credit risk. Clifton Karnei noted that, with the reduction in the timeline for Mass Transition, the compromise PRR in process, and the on-going analysis of credit insurance, the Committee would seek feedback from the Board regarding what further steps the Board expected from the Committee. Scott Gahn stated his belief that the Committee had done sufficient work on credit matters, and that PRS and TAC should be provided time to review the proposed PRR through the normal stakeholder process. Given the discussion, Mr. Karnei suggested that the Committee monitor the progress of the PRR in process, continue to pursue credit insurance and continue to monitor credit issues. Mr. Karnei asked that the Committee's proposed course of action, as discussed, be reduced to writing to be reviewed at the next Committee meeting.

Committee Briefs

Risk Management Event Profile Matrix

Don Meeks reviewed the Risk Management Event Profile Matrix, and Mr. Byone and Mr. Meeks highlighted changes which had occurred since July.

Future Agenda Items

Steve Byone reviewed with the Committee the following as agenda items for September:

1. Texas Nodal Market Implementation Program
2. 2007 Budget Status Report
3. 2006 Project Delivery Checkpoint
4. Annual Benefit Plan Audit
5. Options to Increase Liquidity

Adjournment

At approximately 9:30 A.M., the meeting was adjourned and the Committee went into Executive Session. The next regularly scheduled meeting will be held on the morning of September 19, 2006.

Susan Vincent, Secretary

Review Results of Annual Benefit Plan Audit

Nancy Capezzuti

*Please see decision template in
Board packet under agenda item # 17b*

ERCOT

2007 Proposed Budget

Finance & Audit Committee
September 19, 2006

- **Budgetary Objectives**

Cost Control while:

- Maintaining Grid Reliability
- Maintaining & Supporting the Market
- Maintaining Critical Information Technology Infrastructure
- Ensuring Reasonable Business Controls & Oversight

- **Funding Assumptions – (Not included in System Administration Fee)**

- Texas Nodal Market Implementation funded via PUCT approved surcharge
- Cost of Regional Entity (statutory) functions funded via a NERC delegation agreement

Assumptions

Revenue

- Revenue must be sufficient to cover
 - Operating Expenses
 - Debt Service Obligations
 - Revenue-funded Portion of Capital Expenditures
- MWh's projected at 3.5% over 2006 budget level, resulting in approximately \$ 4.5 million in additional revenue
- Wide-area network fees increased by 5% based on 2006 activity level

Capital Expenditure

- \$30.0 million project portfolio
 - \$18.0 million debt funded (60%)
 - \$12.0 million revenue funded (40%)

Assumptions (Continued)

Operating Expenses

- Labor & Benefits
 - Benefit load estimated at 32% consistent with 2006
 - Vacancy rate of 4% (funding 560 positions) reduced from 7% in 2006
 - Merit allowance estimated at 3% consistent with market trends
 - Promotion allowance estimated at 1% consistent with market trends

Maintaining Grid Reliability

	FY 2004	FY 2005	FY 2006	FY 2007
	Actual	Actual	Budget	Requested
System Operations				
<i>Labor & Benefits</i>	11,967,381	15,454,656	16,787,504	20,809,739
<i>Labor for Capital Projects</i>	(370,561)	(309,879)	(895,643)	(361,998)
<i>Labor for Nodal</i>	-	-	-	(3,020,689)
<i>Material, Supplies, Tools & Equipment</i>	20,598	30,358	30,818	51,000
<i>Special Reviews</i>	-	-	-	-
<i>Outside Services</i>	695,410	469,073	999,492	1,170,500
<i>Utilities, Maintenance & Facilities</i>	107	3,789	500	-
<i>HW/SW License and Maintenance</i>	-	6,498	17,320	-
<i>Insurance</i>	-	-	-	-
<i>Employee Expenses</i>	368,041	305,218	387,500	496,800
<i>Property Taxes</i>	-	-	-	-
<i>NERC Dues</i>	-	-	-	967,533
<i>Other</i>	549,464	164,194	102,335	66,500
Total - System Operations	13,230,440	16,123,908	17,429,826	20,179,385
			% of Proposed ERCOT O&M Budget	23.3%

Note: NERC Dues reflected in Corporate Administration in 2004 - 2006.

Maintaining & Supporting the Market

	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2007 Requested
Market Operations				
<i>Labor & Benefits</i>	11,214,613	12,426,752	14,790,488	18,106,564
<i>Labor for Capital Projects</i>	(1,031,940)	(1,189,359)	(1,489,286)	(2,392,026)
<i>Labor for Nodal</i>	-	-	-	(3,713,935)
<i>Material, Supplies, Tools & Equipment</i>	12,947	8,310	4,500	12,600
<i>Special Reviews</i>	-	-	-	-
<i>Outside Services</i>	4,543,502	1,243,364	1,487,808	1,136,492
<i>Utilities, Maintenance & Facilities</i>	26,634	23,024	47,767	39,600
<i>HW/SW License and Maintenance</i>	574	6,697	4,630	-
<i>Insurance</i>	-	-	-	-
<i>Employee Expenses</i>	383,577	250,973	359,394	450,900
<i>Property Taxes</i>	-	-	-	-
<i>NERC Dues</i>	-	-	-	-
<i>Other</i>	909,893	125,384	175,190	152,750
Total - Market Operations	16,059,800	12,895,145	15,380,491	13,792,945
			% of Proposed ERCOT O&M Budget	15.9%

Information Technology Infrastructure & Support

	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2007 Requested
Information Technology				
<i>Labor & Benefits</i>	12,991,782	15,369,548	18,622,454	23,544,093
<i>Labor for Capital Projects</i>	(3,577,151)	(3,544,127)	(3,838,652)	(3,862,495)
<i>Labor for Nodal</i>	-	-	-	(5,440,156)
<i>Material, Supplies, Tools & Equipment</i>	478,171	555,081	593,163	548,530
<i>Special Reviews</i>	-	-	-	-
<i>Outside Services</i>	3,996,628	466,365	906,916	2,055,480
<i>Utilities, Maintenance & Facilities</i>	3,127,316	2,876,707	2,674,224	3,487,352
<i>HW/SW License and Maintenance</i>	6,123,643	7,149,347	7,188,310	9,512,348
<i>Insurance</i>	-	-	-	-
<i>Employee Expenses</i>	679,914	540,138	429,776	561,600
<i>Property Taxes</i>	-	-	-	-
<i>NERC Dues</i>	-	-	-	-
<i>Other</i>	352,994	167,519	32,791	120,200
Total - Information Technology	24,173,297	23,580,578	26,608,982	30,526,952
	% of Proposed ERCOT O&M Budget			35.3%

Organizational Support

	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2007 Requested
Corporate Administration				
<i>Labor & Benefits</i>	8,472,397	11,753,467	9,113,018	10,407,494
<i>Labor for Capital Projects</i>	(506,110)	(555,976)	(567,195)	(757,120)
<i>Labor for Nodal</i>	-	-	-	(1,601,910)
<i>Material, Supplies, Tools & Equipment</i>	908,961	571,913	665,154	591,950
<i>Special Reviews</i>	33,571	1,751,528	-	-
<i>Outside Services</i>	9,583,561	7,089,138	3,982,530	5,287,300
<i>Utilities, Maintenance & Facilities</i>	3,266,915	3,687,768	3,368,000	4,037,775
<i>HW/SW License and Maintenance</i>	1,042	26,683	8,750	-
<i>Insurance</i>	1,585,329	1,698,946	1,761,763	1,758,229
<i>Employee Expenses</i>	305,955	300,032	224,155	351,000
<i>Property Taxes</i>	1,198,352	1,016,255	1,043,000	1,116,000
<i>NERC Dues</i>	880,000	913,795	967,533	-
<i>Other</i>	1,826,221	1,597,762	404,692	810,700
Total - Corporate Administration	27,556,194	29,851,312	20,971,400	22,001,418
	% of Proposed ERCOT O&M Budget			25.4%

Note: NERC Dues reflected in System Operations in 2007.

Corporate Administration by Function

	Proposed 2007 Budget									Total
	Corporate Admin	Human Resources	Facilities & Security	Corporate PMO	General Counsel	Finance & Accounting	Internal Audit & Controls	NERC Compliance	Entity Admin	
<i>Labor & Benefits</i>	720,269	1,273,067	2,848,056	2,040,033	2,454,923	3,541,133	1,362,648	524,949	(4,357,584)	10,407,494
<i>Labor for Capital Projects</i>	-	(35,490)	(301,665)	(419,965)	-	-	-	-	-	(757,120)
<i>Labor for Nodal</i>	-	(115,700)	(584,402)	(561,925)	(49,098)	(283,972)	(6,813)	-	-	(1,601,910)
<i>Material, Supplies, Tools & Equipment</i>	700	8,000	544,700	2,700	10,300	16,800	600	8,150	-	591,950
<i>Special Reviews</i>	-	-	-	-	-	-	-	-	-	-
<i>Outside Services</i>	1,500,000	467,400	954,000	142,900	1,050,000	461,000	700,000	12,000	-	5,287,300
<i>Utilities, Maintenance & Facilities</i>	500	15,000	3,989,000	-	1,500	1,000	-	30,775	-	4,037,775
<i>HW/SW License and Maintenance</i>	-	-	-	-	-	-	-	-	-	-
<i>Insurance</i>	-	-	-	-	-	1,753,229	-	5,000	-	1,758,229
<i>Employee Expenses</i>	8,100	29,700	78,300	45,900	54,000	87,510	29,700	17,790	-	351,000
<i>Property Taxes</i>	-	-	-	-	-	1,116,000	-	-	-	1,116,000
<i>NERC Dues</i>	-	-	-	-	-	-	-	-	-	-
<i>Other</i>	8,500	685,000	10,500	3,500	56,500	40,000	4,000	2,700	-	810,700
Subtotal	2,238,069	2,326,977	7,538,489	1,253,143	3,578,125	6,732,700	2,090,135	601,364	(4,357,584)	22,001,418
							(a)	(b)		

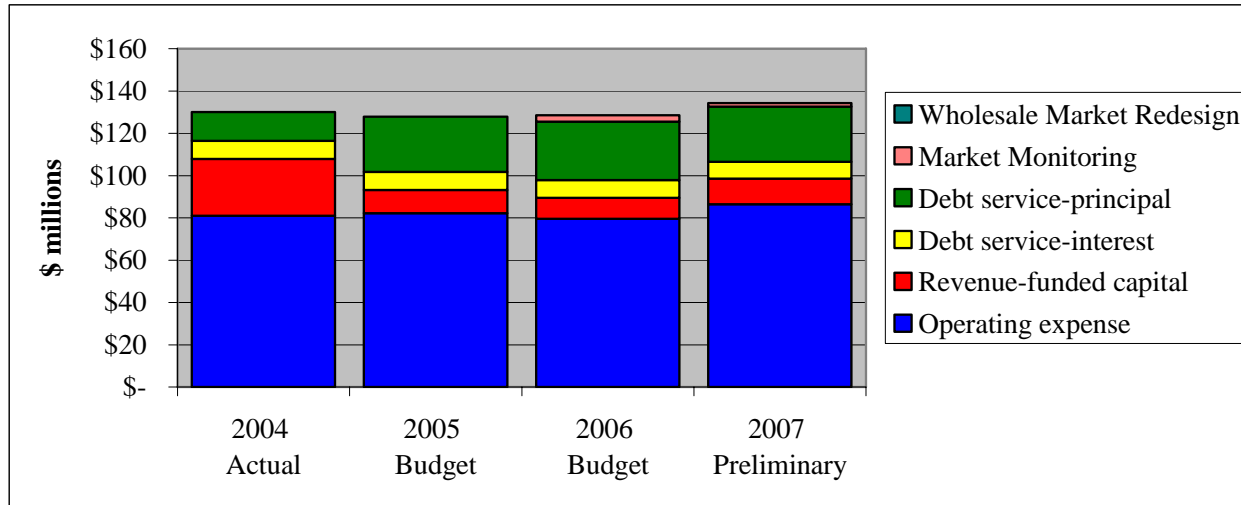
Notes:

- (a) Costs associated with ERCOT SAS 70 Audit included in Internal Audit & Controls.
- (b) Budget reflects non-statutory functions pending final approval from FERC

Total – Base Operations

	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2007 Requested
ERCOT				
System Operation	13,230,440	16,123,908	17,429,826	20,179,385
Market Operations	16,059,800	12,895,145	15,380,491	13,792,945
Information Technology	24,173,297	23,580,578	26,608,982	30,526,952
Corporate Administration	27,556,194	29,851,312	20,971,400	22,001,418
Total - ERCOT	<u>81,019,731</u>	<u>82,450,943</u>	<u>80,390,699</u>	<u>86,500,700</u>
ERCOT				
Labor & Benefits	44,646,173	55,004,423	59,313,464	72,867,890
Labor for Capital Projects	(5,485,762)	(5,599,341)	(6,790,776)	(7,373,639)
Labor for Nodal	-	-	-	(13,776,690)
Material, Supplies, Tools & Equipment	1,420,677	1,165,662	1,293,635	1,204,080
Special Reviews	33,571	1,751,528	-	-
Outside Services	18,819,101	9,267,941	7,376,746	9,649,772
Utilities, Maintenance & Facilities	6,420,972	6,591,288	6,090,491	7,564,727
HW/SW License and Maintenance	6,125,259	7,189,225	7,219,010	9,512,348
Insurance	1,585,329	1,698,946	1,761,763	1,758,229
Employee Expenses	1,737,487	1,396,360	1,400,825	1,860,300
Property Taxes	1,198,352	1,016,255	1,043,000	1,116,000
NERC Dues	880,000	913,795	967,533	967,533
Other	3,638,572	2,054,860	715,008	1,150,150
Total - ERCOT	<u>81,019,731</u>	<u>82,450,943</u>	<u>80,390,699</u>	<u>86,500,700</u>

Revenue Requirement



(\$Millions)	2004 Actual	2005 Budget	2006 Budget	2007 Preliminary
Operating expense	81.0	82.3	79.5	86.5
Less: TBD Expenditure Reduction				(0.5)
Total - Operating expenses	81.0	82.3	79.5	86.0
Revenue-funded capital	26.9	10.9	10.0	12.0
Debt service-interest	8.4	8.5	8.4	8.0
Debt service-principal	13.6	26.1	27.6	26.1
Market Monitoring	0.0	0.0	3.0	1.7
Wholesale Market Redesign	0.0	0.0	0.0	0.0
Total revenue requirement	130.0	127.8	128.5	133.8
GWh	288.3	295.6	301.9	312.7
System Administration Fee	\$0.44	\$0.42	\$0.4171	\$0.4171

Note:

Other revenue will supplement System Administration Fee to meet total funding requirement

Summary of Sources & Uses – 2006 Budget vs. 2007 Budget

	\$ Change in millions <u>Growth/(Reduction)</u>
Revenue	
MWh Growth	4.48
Independent Market Monitoring Savings	1.35
Incremental Debt Savings	1.45
Interest Expense Savings	0.34
Compliance Statutory Reduction	0.43
Interest Income	0.12
Wide Area Network Revenue	0.65
Other Misc. Revenue	-
Fee Reduction from .42 to .4171	<u>(0.85)</u>
Subtotal - Cost Savings	7.97
Expenditures	
Revenue Funded Capital Projects	2.00
Labor & Benefit (<i>net of project & nodal effort</i>)	(0.41)
Outside Services	2.30
HW/SW License & Maintenance	2.28
Utilities, Maint. & Facilities	1.45
Employee Expenses	0.48
Relocation	0.52
Other	<u>(0.11)</u>
Subtotal - Increased Costs	8.51
Excess Expenditures over Revenue	<u><u>(0.54)</u></u>

2007 Project (Base Operations) Request

Program Area	Initial Budget Request	Revised Budget Request
CO	5,750,000	4,250,000
IO	16,000,000	12,750,000
MO	2,058,000	1,500,000
RO	7,659,000	7,000,000
SO	4,908,000	4,500,000
Totals	\$ 36,375,000	\$ 30,000,000

Modified budget request to meet target

Breakout of project budget by project type

Program Area	Carryover	Baseline Maintenance	Enhancements	PUCT/NERC/Market
CO	900,000	850,000	2,500,000	0
IO	3,100,000	4,350,000	5,300,000	0
MO	400,000	100,000	800,000	200,000
RO	4,700,000	0	975,000	1,325,000
SO	2,350,000	0	600,000	1,550,000
Totals	\$ 11,450,000	\$ 5,300,000	\$ 10,175,000	\$ 3,075,000

Ongoing & Upcoming Budgetary Actions

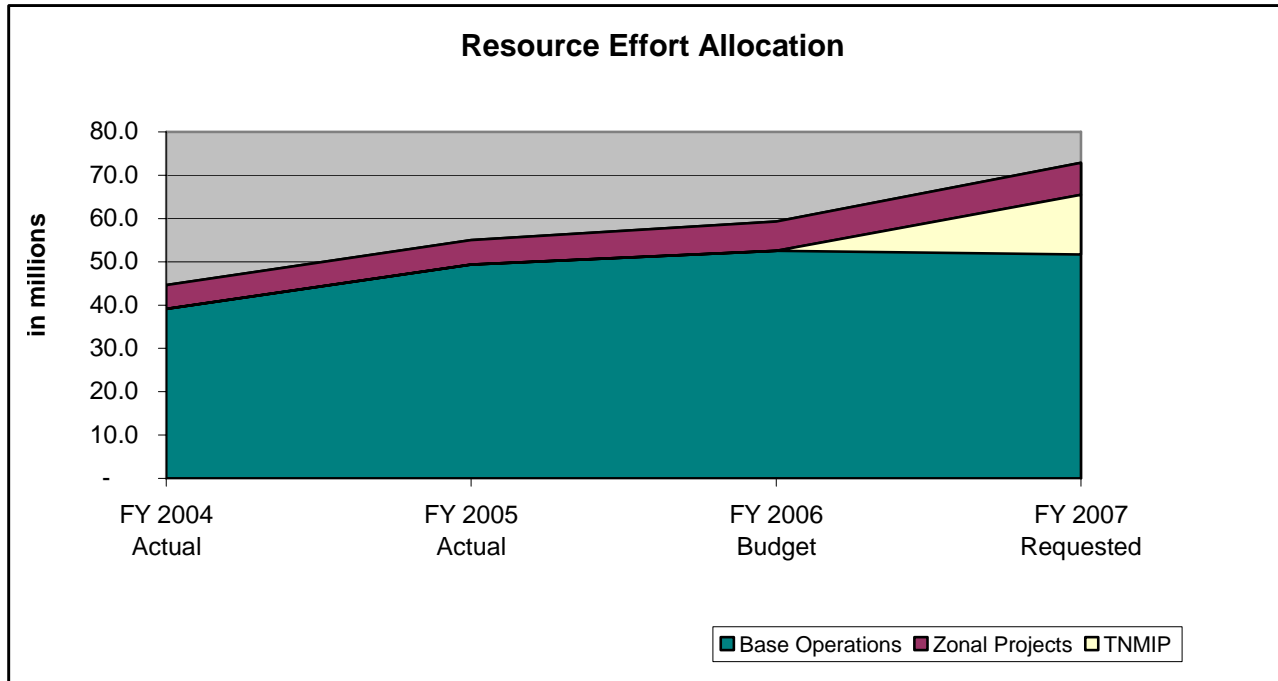
- Incorporate Feedback from Finance & Audit Committee
- Continue Management Review and Analysis
- Reconcile with TNMIP
- Review and Obtain Feedback from PUCT Executives and Staff
- Conduct Public Meeting for Review and Feedback
- Detail Review with Finance & Audit Committee on 10/5

Development Schedule

Date	Action
Monday, Apr. 17	Executive Committee - Preliminary Conceptual Direction Discussion
Tuesday, Apr.18	Board of Directors - Conceptual Direction Discussion
Tuesday, May 16	Public Meeting - Strategic Planning & Budgeting (in conjunction w/Board Meeting)
Thursday, Jun. 22 - Wednesday, Jun. 28	Budget Review - CFO and Directors (individual meetings will be scheduled)
Monday, July 10	Executive Committee - 2007 Budget Final Review
Friday, July 14 - Tuesday, Aug. 15	PUCT Focused Reviews
Tuesday, July 18	Finance & Audit Committee Agenda - Preliminary Budget Presentation
Wednesday, July 19 - Friday, Dec. 29	Development and implementation of ERCOT's Revised Compensation Strategy
Tuesday, Aug. 1	Draft Delegation Agreement to NERC as ERO, to become Regional Entity (RE) for the ERCOT Region
Tuesday, Aug. 15	Finance & Audit Committee Agenda - Review of TAC-approved 2007 Project Priority List
Tuesday, Sept. 19	Finance & Audit Committee Agenda - 2007 Budget Status Report
Tuesday, Sept. 19	Board Agenda - Updated Texas Nodal Market Implementation Program resource requirements, timeline, and budget
Tuesday, Sept. 26	Public Meeting - Preliminary 2007 Budget Presentation
Sunday, Oct. 1	Final Delegation Agreement to NERC as ERO, to become Regional Entity (RE) for the ERCOT Region
Thursday, Oct. 5	Finance & Audit Committee Special Meeting - 2007 Budget Review (if necessary)
Tuesday, Oct. 17	Board Agenda - Finance & Audit Committee 2007 Budget Recommendation
Tuesday, Nov. 14	Board Agenda - 2007 Budget Approval
Friday, Dec. 15	PUCT Fee Filing

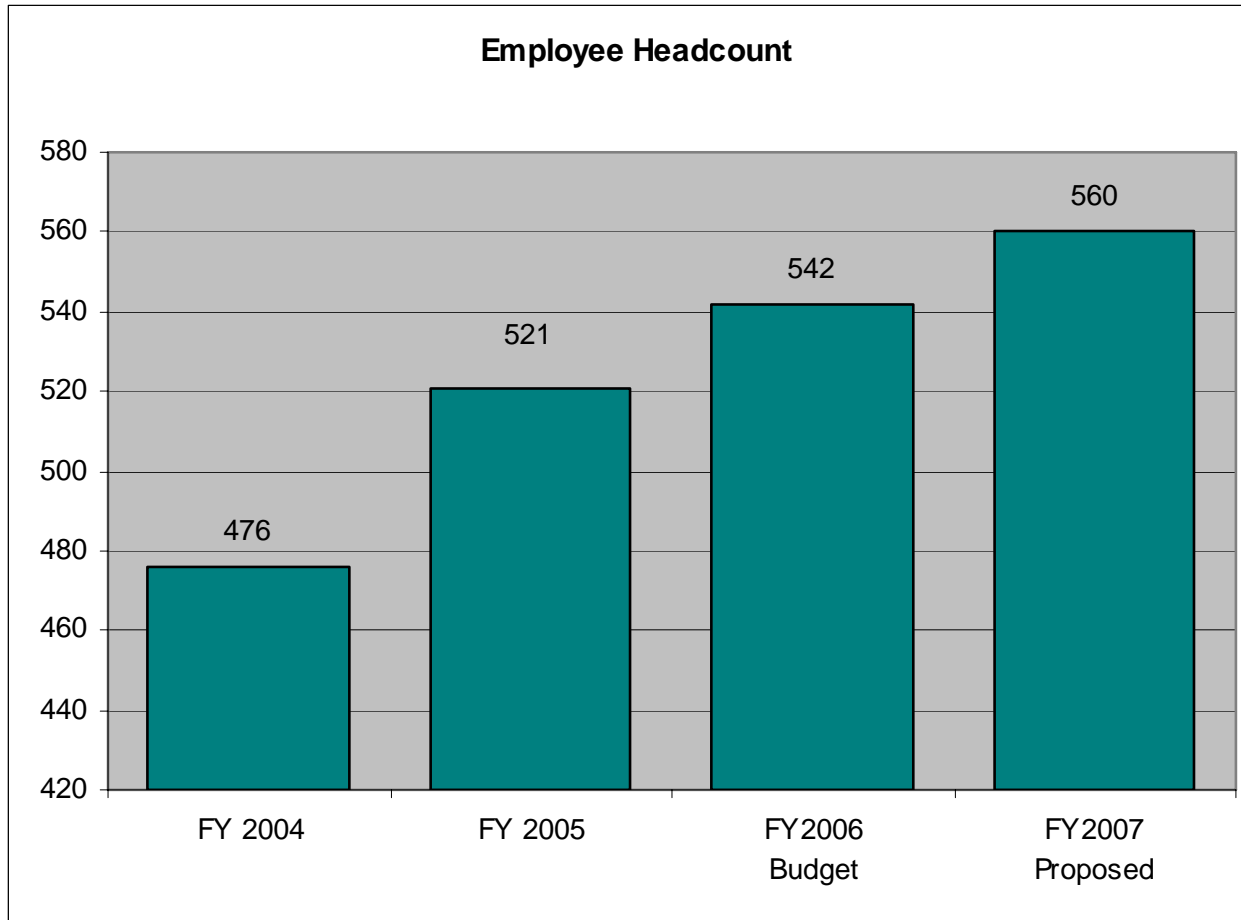
Appendix

Staffing



	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2007 Requested
ERCOT - Labor & Benefits	44.6	55.0	59.3	72.9
Labor for Zonal Projects	(5.5)	(5.6)	(6.8)	(7.4)
Labor for TNMIP	-	-	-	(13.8)

Staffing - Headcount



Outside Services

	FY 2004	FY 2005	FY 2006	FY 2007	
	Actual	Actual	Budget	Requested	% Total
ERCOT					
System Operation	695,410	469,073	999,492	1,170,500	12.1%
Market Operations	4,543,502	1,243,364	1,487,808	1,136,492	11.8%
Information Technology	3,996,628	466,365	906,916	2,055,480	21.3%
Corporate Administration	9,583,561	7,089,138	3,982,530	5,287,300	54.8%
Total - ERCOT	18,819,101	9,267,941	7,376,746	9,649,772	100.0%

2006 Year to Date Project Activity by Division

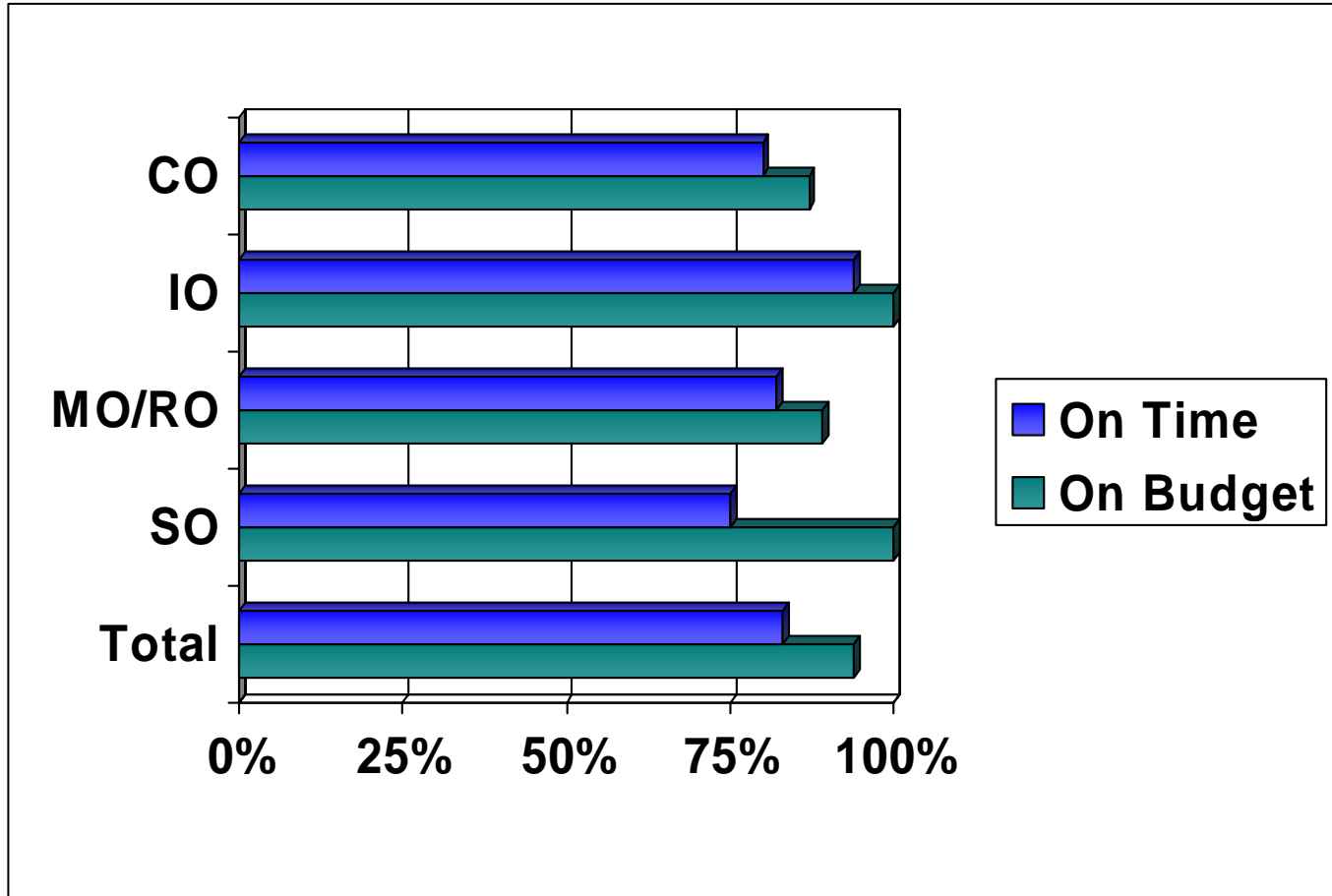
(January to August)

	Phase	Not Started	Initiation	Planning	Execution	Closing *	Completed *	Cancelled	On Hold	Totals by CART
CART	CO	0	1	3	7	1	3	0	0	15
	IO	0	1	2	4	2	7	0	0	16
	MO/RO	0	3	5	14	1	5	2	2	32
	SO	2	2	2	11	1	10	2	5	35
	Totals by Phase	2	7	12	36	5	25	4	7	98

*NOTE: 3 projects went live in the month of August

















2006 Year to Date Completed and Active Projects Performance

(January to August)



2006 Project Delivery Checkpoint

David Troxtell

Projects Over \$1M	Total Budget	Actual 08/31/06	Metrics	
Duration/Information (Sponsor)	Phase/Scheduled Completion		Schedule	Budget
Service Oriented Architecture (2004-2006)	\$8.3M	\$6.8M		
<i>3 separate projects over 12 mos. (R. Giuliani)</i>	<i>Execution Phase/4th Qtr 2006</i>			
Enterprise Data Warehouse (2003-2006)	\$3.5M	\$2.8M		
<i>9 separate projects over 36+ mos. (R. Hinsley)</i>	<i>Execution Phase/3rd Qtr 2006</i>			
Operator Training Simulator (2005-2006)	\$3.8M	\$948K		
<i>Training Simulator System for Operators (S. Jones)</i>	<i>Execution Phase/2nd Qtr 2007</i>			
Enhancements to FasTrak Tools (2005-2006)	\$2.5M	\$2.3M*		
<i>*New Target implementation date of 4th Qtr 2006.</i>				
<i>Tool for Tracking Market Issues (R. Giuliani)</i>	<i>Execution Phase/4th Qtr 2006</i>			
Enhancements to SCR727 (2005-2006)	\$1.9M	\$656K		
<i>Entered into Execution (R. Giuliani)</i>	<i>Execution Phase/3rd Qtr 2006</i>			
Austin QA Build out (2005-2006)	\$1.162M	\$906K*		
<i>*Outside services and hardware reclassified resulting in decreased actuals from June to July.</i>				
<i>Entered into Testing (R. Hinsley)</i>	<i>Execution Phase/3rd Qtr 2006</i>			
Enhancements to MOMS Study Market Clearing Engines (2006)	\$1.2M	\$439K		
<i>Entered Execution (S. Jones)</i>	<i>Execution Phase/1st Qtr 2007</i>			
SBC Network Replacement (2005-2006)	\$1.4M	\$441K		
<i>Fiber Build Out from Taylor to Austin (R. Hinsley)</i>	<i>Execution Phase/3rd Qtr 2006</i>			

Projects Completed in August

- **PR-40015_02 TCR Report Enhancements Phase II**
 - Scope: Project 40015_02 added automated reports available on request to reduce the amount of manual intervention, provide the ability to query documents and reports, reduce the dependency on the use of Excel macros that require constant change/update and provide administrator flexibility as well as more timely/user friendly access to data.
 - Deliverables: The TCR software updated to create Participant Level Data extract. TCR coordinator able to request reports with date range varying from monthly, quarterly, & yearly. The TCR software updated to create CSC Level Data extract. TCR coordinator able to request reports through a new interface with date range varying from monthly, quarterly, and yearly.
 - Timeline: June 2005 – June 2006.

Projects Completed in August

- **PR-50137 Maestro Replacement**
 - Scope: Phase 1 [Completed]: Replaced Tivoli Maestro Batch Scheduling System. The scope included a vendor selection process to determine which system would replace Maestro. The vendor selected was AppWorx Enterprise Scheduler.
 - Scope: Phase 2 [In Progress]: Migrate PERL scripts from Maestro server to AppWorx server. Configure AppWorx agents in ITEST to match production
 - Deliverables: Phase 1 Replaced Maestro with stable AppWorx Enterprise System. Renamed jobs with more intuitive meanings.
 - Timeline: June 2005 – September 2006

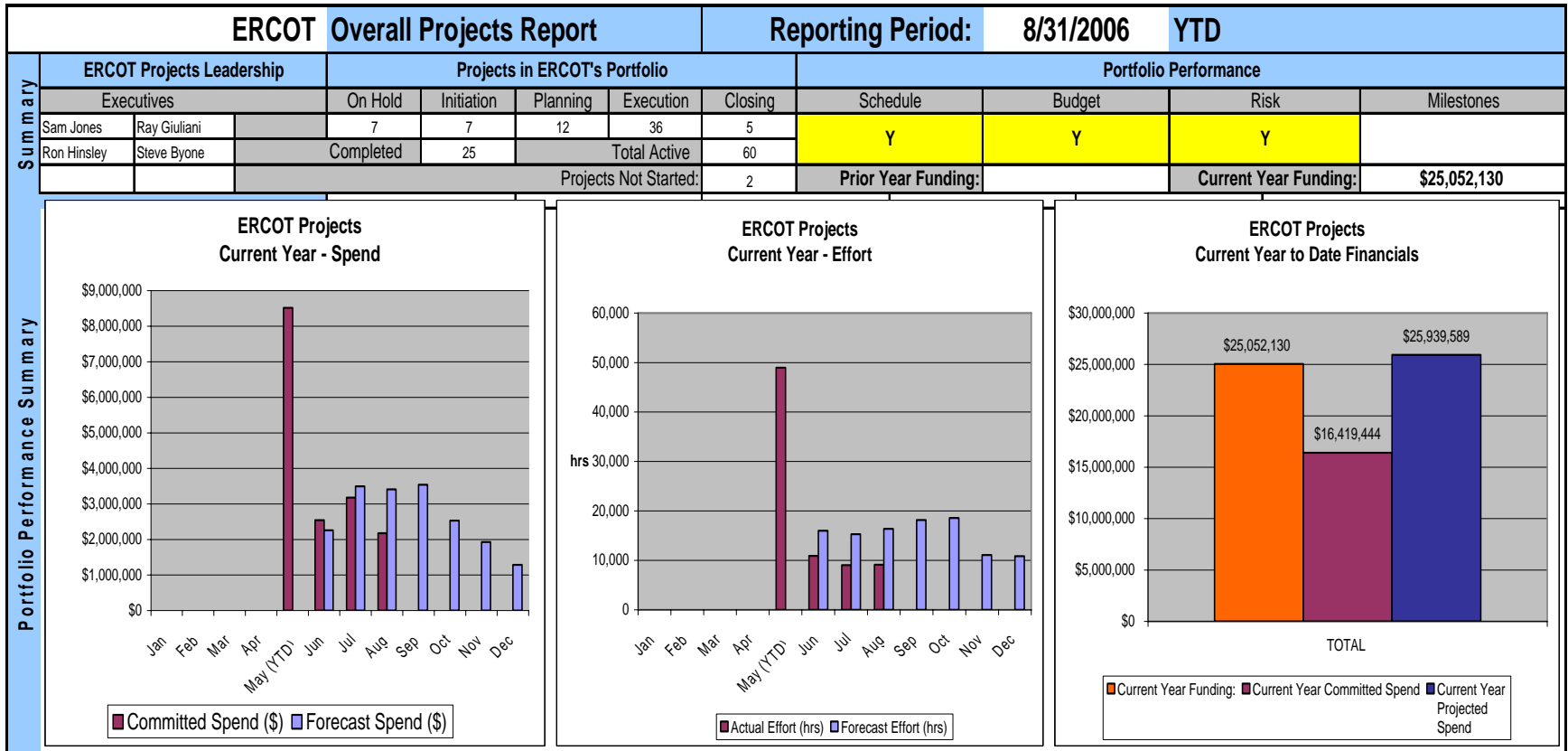
Projects Completed in August

- **PR-50141 Secure Email**
 - **Scope:** Implement a capability to secure email originating from and addressed to ERCOT. This capability will include encryption, spam filtering, antivirus protection and classification filtering.
 - **Deliverables:** Install a Commercial Email Security product (hardware and software) integrated with Commercial encryption product (hardware and software) onto the ERCOT network.
 - **Timeline:** July 2005 – August 2006

Year to Date Project Priority List (PPL) Status

PPL Changes	Total	Projects By Origin		
		PUCT Based	Market Based	ERCOT Based
Completed / Closing	7	1	1	5
Execution	13	2	4	7
Planning	4	1	2	1
Initiated	1	1		
Original 2006 PPL	30	7	8	15
Moved Below Cut Line	(5)	(2)	(1)	(2)
Unexpected Carry Over From 2005	22	1	6	15
2006 Status changes – New Totals:	47	6	13	28
Completed / Closing	11	1		10
Execution	19		2	17
Planning	8	1	2	5
Initiated	6		4	2
Not Started	2			2
Canceled	3			3
On Hold	2	2		
New 2006 Projects	51	4	8	39
Current PPL as of August 15, 2006	98	10	21	67

Enterprise Projects Summary Report



Large Project Update– Amendment to NTE Budget

- **PR-50007_01 Enhancements to FasTrak**
 - Project budget expected to exceed original approved Project Budget
- **Project Status for Information**
 - Additional development efforts underway to resolve API and GUI functionality issues
 - Targeting 4Q 2006 for implementation with reduced scope
 - Approval request for Budget increase included in BoD Executive Session.

Large Project Update – Amendment to NTE Budget

- **PR-50078_01 SBC Network Replacement**
 - Project budget expected to exceed original approved Project Budget.
- **Project Status for Information**
 - Additional development efforts underway to resolve connectivity issues.
 - Targeting 4Q 2006 for implementation.
 - Approval request for Budget increase included in BoD Executive Session.

Large Project Moving to Execution

- **PR-60075_01 Identity and Access Management**
 - Project Budget Proposed after Planning expected to exceed \$1 Million
- **Project Approach**
 - Remediate SAS70 Audit Findings
 - Increased efficiency & accuracy in user account provisioning
 - Reduce risk from orphaned or unauthorized accounts
- **Project Status for Information**
 - Currently, in Planning for Phase 1
 - Phase 2 Planning will be conducted upon completion of Phase 1 Project.
 - Approval request for Phase 1 Budget and move into Execution included in BoD Executive Session

Large Project Moving to Initiation

Information Only

- **Proposed TCC2 SE/SW Build-out**
 - Project is expected to exceed \$1M; will return to Board for approval in 1Q 2007
 - Scope: Finish TCC2 2nd floor South-East and South-West sections and build a 6000 SF receiving, staging and storage facility
 - Deliverables:
 - Finish out of TCC2 2nd floor South-East and South-West sections
 - Build 6000 SF storage facility at Taylor
 - Timeline: October 2006 to June 2007

Audits Completed (last 3 months)

Internal Audits

- Payroll & Leave Benefits
- Outage Coordination

External Audits

Open Audits

Internal Audits

- Credit (QSE)
- Inventory & Fixed Assets
- Software Licensing
- Corporate Communications
- On-Boarding and Exiting of Employees & Contractors
- Consultants, Contractors & Compliance
- Fraud Prevention (ongoing)

External Audits

- 2006 SAS70 (PwC)
- Internal Controls (D&T)
- 401K/MPP (PwC)
- Texas Nodal Program Review (managed by IAD)

Planned Audits (next 3 months)

Internal Audits

- Ethics Compliance
- Investments
- System Operations
- Purchasing & Procurement
- Grid Operations Procedures Audit (performed by Compliance)

External Audits

- 2006 Financial Audit

- NOTE: Internal Audits performed by IAD, unless otherwise noted.

Consultations & Analysis Reports

Planned Items (next 3 months)

External

- Various reviews of ERCOT's network and system security posture.

ERCOT Market Credit Status

	as of 07/31/2006					as of 08/31/2006				
	# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted		# of QSEs*	Estimated Aggregate Liability (\$)	% of EAL	Total Unsec Credit Limit / Security Posted	
Ratings below BBB- or not rated										
Cash & Letters of Credit	44	126,683,439	43%	302,167,695	S	45	143,301,254	46%	313,883,117	S
Guarantee Agreements	13	149,006,570	50%	336,361,000	S	12	154,536,635	50%	319,361,000	S
Total Exposure	62	297,734,653	100%			61	310,616,748	100%		
Other QSEs in the ERCOT Market (ERCOT owes)										
<u>QSEs that meet ERCOT Creditworthiness Standards</u>										
Ratings over BBB-	12	(16,391,996)	-22%	142,473,505	U	13	(16,576,934)	-23%	156,473,505	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	40	(43,808,270)	-60%	64,553,420	S	40	(38,493,506)	-54%	64,424,206	S
Guarantee Agreements	10	(13,063,766)	-18%	92,400,000	S	11	(16,202,473)	-23%	109,400,000	S
Total	62	(73,264,032)	-100%			64	(71,272,913)	-100%		
Total	124					125				

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

Note: July data correct for # of QSEs and misclass between categories within EAL.

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
RISK MANAGEMENT EVENT PROFILE MATRIX (as of September 7th, 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. Turnover in Senior Management has resulted in uncertainty regarding ERCOT's strategic vision. Additionally, issues surrounding the ERO/RE and nature of a 'Quasi-state' entity 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>Management is undertaking a study to review the Executive Dashboard which will include recommendations for Key Performance Indicators (KPI's) to provide more meaningful information on goal performance. Management has instituted regular Quarterly Business Reviews to discuss key business 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.</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 is understood and communicated</i></p> <p>Increased efforts have been made to inform members of the legislature about ERCOT and the performance of its functions. In addition, ERCOT has initiated increased informational meetings with PUC decision-makers in order to discuss and coordinate our mutual understanding of PUC and ERCOT issues.</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>Disaster recovery plans, record retention procedures, and safety practices are currently below desired expectations. Additional development activities required to implement and test these procedures. Recent completion and testing of Business Continuity, Crisis Communications, and Emergency Response plans have increased ERCOT's ability to adequately respond to an emergency situation.</p>	<p> Nodal Implementation </p> <p><i>Nodal Implementation is progressing in a timely fashion on budget and schedule within a defined scope.</i></p> <p>Significant risks exist with respect to project budgeting, human resource staffing, project scope and management, and tracking completion of the project in an acceptable timeframe. The magnitude and scope of the initiative provides significant levels of risk to the organization which have not been fully addressed at this time</p>	<p> Planning</p> <p><i>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. Long range planning issues must address increased load growth forecasts as well as review adequacy of current spinning reserve requirements.</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. An initial review has been performed of all ERCOT departmental disclosure requirements and has not discovered any material issues related to the timeliness or accuracy of disclosures.</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. While, an internal control compliance effort was largely completed in Q2 2006, staffing turn-over has resulted in new individuals filling positions who have not received adequate ICMP training</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>High visibility of initial Nodal implementation impact ERCOT reputation. Continuing, but largely mitigated impacts resulting from the Apr. '06 EECF and IT system-related events also impact ERCOT reputation. Impact from the 2004 scandal has been largely mitigated at this point due to internal control changes, convictions and settlements.</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>While we are beginning to reduce the number of open positions, a large number of openings continues to be a focus of attention for ERCOT. The current compensation structure is outdated, which reduces our ability to effectively attract and retain excellent employees. Additional usage of contractors has lead to concerns over associated costs as well as overall effectiveness in completing tasks.</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. Recent PRR's related to shortening the timeframe related to drops to POLR have reduced exposure by an estimated 37%</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. Further study is underway to determine bulk system resource adequacy given increased load growth beyond current expectations.</p>	<p> Communication </p> <p><i>Internal and external communications are timely and effective</i></p> <p>Since the events of April 17th, ERCOT has implemented several corrective measures. Meetings have been conducted with most of the members of the Texas Legislature who have jurisdictional responsibility over ERCOT. a crisis management project for communications is in its final stages and a presentation showing a new External Relations organization for ERCOT was made at the last Board meeting.</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 with remediation activities underway to address preliminary findings.</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. Issues surrounding Nodal implementation budgeting and staffing allocation issues have not been fully addressed.</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. Senior management turnover and continuing systems disruptions (Retail Systems, EMMS, DHCP) continue to be an issue of ongoing concern.</p>	<p> Administration, Settlement & Billing</p> <p><i>Market rules are fairly applied to all participants and accounting is timely and accurately reflects electricity production and delivery</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. No significant issues relating to administration of existing protocols have been identified.</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. Response of generators to Apr. '06 EECF event requires greater scrutiny in analyzing market participant operations.</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. Recent issues have surfaced in the rate surcharge request for Nodal funding.</p>

Legend: Elevated Risk Level Reduced Risk Level Special Attention Required (New Risk Categories / Descriptions Indicated in Green)

Rationale for Category Risk Assessment Changes

Communication

Upgrade

Implementation of an External Relations organization and continued enhancement of communications practices reduces risk levels

ERCOT Risk Management ‘Stoplight’ Report Review

- Enterprise Risk Management reporting to the Board and F&A Committee is via the current monthly Risk Inventory ‘Stoplight’ Report
- Management conducted a review of the current ‘Stoplight’ report and considered alternative formats during an annual review process
- The goal was to review the effectiveness and potentially improve the methods used to communicate the status of enterprise-wide risk issues
- Management is seeking F&A Committee feedback on the current format of the Risk Inventory ‘Stoplight’ Report

- **Completed internal control self assessments**
- **Deloitte & Touche has completed design review and walk-thru of controls**
- **ERCOT addressing comments/suggestions provided by D&T on the control framework; making modifications if necessary**
- **D&T will conclude testing in October**
- **Current plan is for D&T to provide a report by the end of November**

Future Agenda Items – October

- **Credit Insurance Update**
- **Review & Approval of 2007 Operating Budget**
- **Assessment of Compliance, the Internal Control Environment and Systems of Internal Controls**
- **Discussion on Materiality Levels**
- **Regulatory Accounting Discussion**

F&A Yearly Schedule

Steve Byone

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

√ Items completed for 2006