



ERCOT Finance & Audit Committee Meeting
ERCOT
7620 Metro Center Drive, Austin, Texas
Room 168
October 17, 2006; 7:45 a.m. - 10:00 a.m.**

Agenda Item #	Description/Purpose/Action Required	Presenter	Time
1.	Call to Order	C Karnei	7:45 a.m.
2.	Adjourn to Executive Session		7:45 a.m.
	• Review Draft 2007 Internal Audit Plan	B Wullenjohn	7:45 a.m.
	• Significant Audit Findings	B Wullenjohn	8:05 a.m.
	• EthicsPoint Update	C Vance	8:15 a.m.
	Reconvene to General Session		8:20 a.m.
3.	Approval of Minutes* (Vote) (09/19/06) (10/05/06)	C Karnei	8:20 a.m.
4.	Review and approval of 2007 Operating Budget (Vote)	M. Petterson	8:25 a.m.
5.	Treasury and Credit Update	C. Yager	8:50 a.m.
	• Quarterly Investment Statistics		
	• Credit Insurance		
6.	Discussion on Materiality Levels	M. Petterson	9:05 a.m.
7.	Regulatory Accounting Discussion	M. Petterson	9:15 a.m.
8.	Committee Briefs (major changes/Q&A)	All	9:25 a.m.
	• Financial Update	M Petterson	
	• PMO	D Troxtell	
9.	Future Agenda Items/Other Topics	S Byone	9:50 a.m.
10.	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 November 14, at ERCOT, 7620 Metro Center Drive, Austin, Texas.*

Draft MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

7:45 A.M.

September 19, 2006

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 7:45 A.M. on September 19, 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	Present
William Taylor	Calpine Corporation	Ind. Generator	Present

ERCOT staff and guests present:

Brenton, Jim	ERCOT
Byone, Steve	ERCOT (CFO)
Campbell, Cassandra	ERCOT
Capezzuti, Nancy	ERCOT
Doolin, Estrellita	ERCOT
Hancock, Misti	ERCOT
Jones, Sam	ERCOT (CEO)
Meek, Don	ERCOT
Petterson, Mike	ERCOT
Ruebsahm, Jamille	Deloitte & Touche (D&T)
TroxteLL, David	ERCOT
Vance, Cathy	ERCOT
Vincent, Susan	ERCOT
Wullenjohn, William	ERCOT
Yager, Cheryl	ERCOT

Executive Session

At 7:47 AM, the Committee meeting was adjourned and the Committee went into Executive Session until approximately 8:45 AM. The Committee returned to Open Session at 8:52 AM.

Approval of Previous Minutes

Bob Manning moved to approve the minutes for the previous meeting held on August 15, 2006; **William Taylor** seconded the motion. The motion passed unanimously.

Approval of Financing Option

Miguel Espinosa moved to recommend approval of the staff financing proposal, which was discussed in detail in Executive Session, to increase the revolving credit facility capacity by \$75 million to a total of \$125 million; Scott Gahn seconded the motion. The motion passed unanimously.

Audit Update

Nancy Capezzuti reported that the annual Benefit plan audits were nearing completion, that no significant issues had been identified, and that the final report was expected by month-end. Steve Byone added that he would bring the audit report to the Committee at the upcoming October 5, 2006 special Committee meeting, for acceptance, so that the Committee could accept these prior to the required filing of the IRS Form 5500's, since these needed to be filed prior to the next regular scheduled meeting of the Committee.

Sean Barry with PwC provided an update on the SAS 70 audit. He explained that the first half of testing had been completed and that Information Technology (IT) security had been identified as the only potential issue. Mr. Barry stated that PwC had not formulated a final conclusion yet, but that, if there was any qualification in this area it would likely be contained within one period. Miguel Espinosa expressed concern about any potential security issues, even if only at one point in time, and stated that he wanted to discuss this matter in detail in the Executive Session of the Board. Sam Jones explained that the real challenge with security was the cumbersome nature of ERCOT systems—including 600 servers. He suggested that the answer was to automate access and that the Security team would be presenting a proposed solution to the full Board at the Board meeting.

2007 Budget Status Report

Michael Petterson confirmed that the 2007 Budget objectives and assumptions that had previously been discussed with the Committee had not changed. He also noted that the primary issues about the 2007 budget were the fact that Finance was still waiting on better information about the Nodal project, the Regional Entity, the Independent Market Monitor, and compensation structure. Mr. Petterson highlighted certain budget items including the following:

- ERCOT system administration fee held at current \$0.4171 per MWH for 2007 (note, this current budget does not meet goal, so management is working to find \$.5 million additional cost reduction)
- Higher costs associated with maintaining grid reliability, providing information technology system support and security, and corporate support such as physical security and legal services
- Offset by higher revenue stemming from electric load growth and lower costs associated with market operations
- Labor and benefit expenses are notable in that higher gross labor and benefit costs (approximately \$13.6 million) are offset by allocation of labor and benefit costs to the market redesign program (approximately \$13.8 million)
- Management implications for managing ERCOT staffing throughout implementation and upon completion of the market redesign effort
- Capital expense at \$30 million

Mr. Petterson also highlighted the following items on the 2007 Budget development schedule:

- September 26, 2006 (3 PM)– Public meeting on ERCOT's draft 2007 Budget
- October 5, 2006 (3 PM – 5 PM) – Special Meeting of the Finance & Audit Committee to discuss ERCOT's draft 2007 Budget

- October 17, 2006 – Finance & Audit Committee recommendation to the Board of Directors regarding ERCOT's 2007 Budget
- November 14, 2006 – Board of Directors approval of ERCOT's 2007 Budget

2007 Project Delivery Checkpoint

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). He explained that all of the following projects (except TCC2 build out) would be reviewed during executive session:

- **PR-50007_01 Enhancements to FasTrak**
 - **Amendment** to original budget amount.
 - Project budget expected to exceed original approved Project Budget.
 - 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.
- **PR-50078_01 SBC Network Replacement**
 - **Amendment** to original budget amount.
 - Project budget expected to exceed original approved Project Budget.
 - Additional development efforts underway to resolve connectivity issues.
 - Targeting 4Q 2006 for implementation.
 - **Approval request** for Budget increase included in BoD Executive Session.
- **PR-60075_01 Identity and Access Management**
 - Request approval to move to Execution phase with a not to exceed amount budget.
 - Project Budget Proposed after Planning expected to exceed \$1 Million
 - Remediate SAS70 Audit Findings
 - Increased efficiency & accuracy in user account provisioning
 - Reduce risk from orphaned or unauthorized accounts
 - 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
- **Proposed TCC2 SE/SW Build-out**
 - **For information only** – no approval necessary at this time.
 - Project is expected to exceed \$1M; will return to Board for approval in 1Q 2007
 - At the direction of the Board, ERCOT staff re-evaluated needs
 - Finish TCC2 2nd floor South-East and South-West sections and build a 6000 SF receiving, staging and storage facility

Committee Briefs

Risk Management Event Profile Matrix

Don Meek reviewed the Risk Management Event Profile Matrix and explained that the risk level in Communications had decreased, because of the increased planning efforts and reorganization of the Communications and External Affairs Department. Mr. Meek indicated that staff was reviewing the report format and asked for Committee input.

Committee members indicated that they found the current format informative and easy to use. They did not see a need at this time to change the format.

Future Agenda Items

Steve Byone reviewed with the Committee the following proposed agenda items for October:

- Special 2007 Budget review meeting on October 5th from 3:00 to 5:00
- Regularly scheduled October meeting
 - 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

Adjournment

At approximately 9:30 A.M., the meeting was adjourned. The next regularly scheduled Committee meeting will be held on the morning of October 17, 2006, and a special meeting of the Committee, to discuss the 2007 budget and accept the benefit plan audit, would be held at 3 PM on October 5, 2006.

Estrellita Doolin, Assistant Secretary

Draft MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center
3:00 P.M.
October 5, 2006

Pursuant to notice duly given, the meeting of the Electric Reliability Council of Texas, Inc. Finance & Audit Committee convened at 3:06 P.M. on **October 5, 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 (by telephone)
Miguel Espinosa, Vice Chair	Independent Board Member	Independent Board Member	Present (by telephone)
Robert Manning	H-E-B Grocery Co.	Consumer	Present (by telephone)
R. Scott Gahn	Just Energy	Ind. Retail Electric Provider	Present (by telephone)
Tom Standish	Centerpoint Energy	Investor-Owned Utility	Present (by telephone)
William Taylor	Calpine Corporation	Ind. Generator	Present (by telephone)

ERCOT staff and guests present:

Anderson, Troy	ERCOT
Brewster, Chris	Steering Committee of Cities serviced by TXU
Byone, Steve	ERCOT (CFO)
Capezzuti, Nancy	ERCOT (VP HR and OD)
Dalton, Andrew	Valero (ERCOT Board Member – by telephone)
Gilmore, Gina	ERCOT
Giuliani, Ray	ERCOT
Hancock, Misti	ERCOT
Hinsley, Ron	ERCOT (CIO)
Jones, Sam	ERCOT (CEO)
Kolodziej, Eddie	Customized Energy Solutions
Mueller, Paula	Public Utility Commission of Texas (PUCT)
Petterson, Mike	ERCOT
Thorne, James	ERCOT
TroxteLL, David	ERCOT
Vincent, Susan	ERCOT
Yager, Cheryl	ERCOT

Benefit Audit Acceptance

Nancy Capezzuti presented the draft PricewaterhouseCoopers **Financial Statements and Supplemental Schedule with Report of Independent Auditors for December 31, 2005 and 2004 for the Money Purchase Plan and the 401(k) Savings Plan** to the Committee and asked for any questions or concerns. Ms. Capezzuti confirmed that there should be no material changes between the drafts presented and the final reports, but that ERCOT needed the Committee to

recommend acceptance of these reports to the Board, based upon the drafts presented, so that ERCOT could timely file the IRS Form 5500s with the IRS prior to the Board meeting. William Taylor asked for clarification regarding the tax status issues, and Ms. Capezzuti confirmed that the administrative issues discussed in the report occurred during the years 1999 – 2003. Ms. Capezzuti also noted that the issues identified were still being worked through, including certain reimbursement owed by employees from prior years. Ms. Capezzuti confirmed that the Plan forfeiture amounts (from employees that did not vest for contributions) would more than offset any amounts that ERCOT was not able to collect.

William Taylor moved to recommend acceptance of the Financial Statements and Supplemental Schedule with Report of Independent Auditors for December 31, 2005 and 2004 for the Money Purchase Plan and 401(k) Savings Plan; Bob Manning seconded the motion. The motion passed unanimously.

Presentation of 2007 Budget

Michael Petterson, ERCOT Controller, gave an overview of the budget assumptions, and noted that the budget assumed that the Texas Nodal Market Implementation Program (TNMIP) and the Regional Entity costs would be funded via separate fees, that the amount of capital expenditures for 2007 would be \$30 million, and that the fee would remain flat at \$0.4171 per megawatt hour.

Clifton Karnei provided a brief overview of the September 26th Open Meeting on the 2007 Budget, noting that it had been lightly attended and that the primary discussion was regarding the level of funding for projects. Mr. Byone mentioned that desire was expressed for possibly establishing project funding for unnamed projects to be determined during the course of 2007. Mr. Karnei noted that the PUCT was not in favor of permitting money to be set aside for unknown items. He also noted that the desire to keep a flat fee, and possibly avoid a lengthy and expensive contested fee case contributed to establishment of the project budget of \$30 million.

Mr. Petterson gave a detailed presentation of the proposed 2007 Budget to the Committee and guests and answered the Committee's questions regarding the topics presented together with explanations for changes from the 2006 Budget. There were notable questions and discussions relating to total ERCOT employee staffing throughout the Texas Nodal Market Implementation Program, evaluation of consulting and contractor services proposed for 2007 relative to the 2006 budgeted amounts, and assumptions relating to the five-year (2008-2012) System Administrative Fee forecast. Mr. Petterson and Mr. Byone noted that, because the NERC fees were expected to increase from approximately \$0.9 million to approximately \$1.3 million, and there was a chance that the increase might not be approved as part of the Regional Entity fee, there was a risk of a \$0.4 million increase in expenses due to NERC fees.

Mr. Petterson confirmed that there would be another detailed presentation for the full Board at the October 17, 2006 meeting. In response to questions and issues raised by members of the F&A Committee, additional information will be incorporated into the 2007 proposed budget package distributed to the Board of Directors

Possible Move of Nodal Capital Projects to Zonal Capital Projects

Mr. Karnei asked for a discussion regarding the potential movement of funding regarding certain capital projects from the TNMIP back to the System Administration fee, as mentioned by Mr. Byone in an email to the Committee prior to the meeting. Mr. Byone explained that, because the Interim Nodal Surcharge was paid differently than the System Administration fee, it was critically important that all projects required to implement the Nodal protocols be clearly differentiated from the projects that would have been required by the ERCOT region even in a zonal market. Mr. Byone explained that ERCOT staff had conducted a thorough review of the projects within the TNMIP and

had determined that certain of the projects (or elements thereof) that had been classified as TNMIP were actually projects which would have been undertaken even if ERCOT did not convert to a Nodal market. Most of these projects had originally been contemplated in the zonal project process, but had been moved to become TNMIP projects because they were critical path items (with urgent timing concerns) for the TNMIP. Mr. Byone informed the Committee that staff had identified approximately \$37 million in projects that should be classified as zonal for cost recovery purposes. He also informed the committee that certain elements of these costs were not included in the 2006 Budget, the 2007 ERCOT Budget or the subsequent ERCOT Forecasts that had just been presented, because these projects had just been identified and the Board had not yet been consulted regarding the reclassification.

Mr. Byone explained that all of the identified projects were deemed critical, but the Board would need to determine how best to fund the additional \$37 million. Mr. Byone presented the Committee with an option which included using excess revenues in 2006 to fund the equity portion of additional capital (approximately \$9.3 million) and increasing, on a temporary basis, ERCOT's debt-to-equity ratio for 2007. Mr. Byone advised the Committee that in his opinion, if the debt-to-equity ratio was modified allowing debt funding above the standard 60/40 level, this would need to get back to an overall 60/40 level for the combined three year period by the end of 2008. Mr. Karnei noted that the Committee would be hesitant to increase the debt-to-equity ratio and that any increase would need to be very temporary. He also asked what other options (such as reducing other projects) had been considered which could offset the required revenue and keep the debt-to-equity ratio at or closer to 60/40. Andrew Dalton suggested that the Board consider what rate change would be required if the debt-to-equity ratio were kept constant. Mr. Byone agreed to provide that figure at the Board meeting. Mr. Karnei confirmed that the Committee wanted to explore all payment options.

Scott Gahn asked whether the projects shouldn't be required to go through the normal project process for zonal, because they might not be approved by TAC. Mr. Byone reiterated that all items were critically required by the TNMIP. Mr. Byone confirmed that, in the "normal" zonal project process there would be some flexibility regarding the timing of some of the projects, but there was little if any flexibility given the current nodal implementation plan. The Committee discussed with Mr. Byone and Mr. Hinsley the vetting of the numbers with the ERCOT zonal staff and the required timing of the projects in the zonal market. Mr. Hinsley confirmed that most of the required projects would have been done in late 2006 and 2007 and all of the required projects that were being reassigned would have been required in zonal by year end 2008. Mr. Byone confirmed to the Committee that ERCOT staff had expected a great deal of discussion on this topic, but wanted to raise the issue with the Finance and Audit Committee prior to the Board meeting, at which this could be discussed in detail.

Mr. Byone asked the Committee if any additional information was requested by the Committee for the final review of the 2007 Budget with the Board. Mr. Karnei noted that the Committee's final Budget recommendation would need to wait until after the discussion on the reallocation of \$37 million, at the Board meeting. Mr. Taylor asked if ERCOT had sufficient resources to complete \$30 million in capital projects in 2007. Mr. Byone confirmed that ERCOT staff had committed to being capable of completing this level of projects.

Adjournment

At approximately 4:43 P.M., the meeting was adjourned. The next Committee meeting will be held on the morning of October 17, 2006.

Susan Vincent, Secretary

ERCOT

2007 Proposed Budget

Finance & Audit Committee
October 17, 2006

Budgetary Objectives

Control cost while:

- Maintaining grid reliability
 - **Enhanced communication routines**
 - **SB20 and long range plans**
 - **Competitive energy renewable zones**
- Maintaining and supporting the market
 - **15+ full time equivalents associated with PRRs approved in 2006**
 - **Independent market monitor economist contract, office space needs, and multiple priority projects**
- Maintaining Critical Information Technology Infrastructure
 - **Cyber and physical security enhancements**
 - **Hardware projects on 2007 project priority list**
 - **New staff in response to hardware failure in late 2005**
- Ensuring reasonable business controls and oversight
 - **Scope of internal audit activity**
 - **Additional independent board members**
 - **Internal control audits**
 - **Staff to administer ERCOT's internal control management program**

Funding Assumptions

- Majority of ERCOT base operations funded through the System Administration Fee
- Texas Nodal Market Implementation Program (TNMIP) funded through a PUCT approved surcharge
- Regional Entity (RE) statutory functions funded through a PUCT approved fee consistent with a delegation agreement between NERC and ERCOT

Objectives & Assumptions

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

Capital Expenditure

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

Objectives & Assumptions

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

Previously Scrutinized Expenditure Categories

- **Compensation**
 - Progress continues on board approved compensation strategy. To date no significant changes have been identified.
- **Staffing level**
 - PUCT considering sponsoring an independent review of ERCOT workforce levels
- **Debt Financing**
 - Board approved policy regarding debt funding ratios confirmed
- **Projects**
 - Enhanced processes regarding prioritization
 - ERCOT mandated infrastructure prioritized
- **Employee Events**
 - Excluded from budget
- **Relocation**
 - Consistent with newly approved policy (assumed 25 @ \$25,000)

Proposed Budget

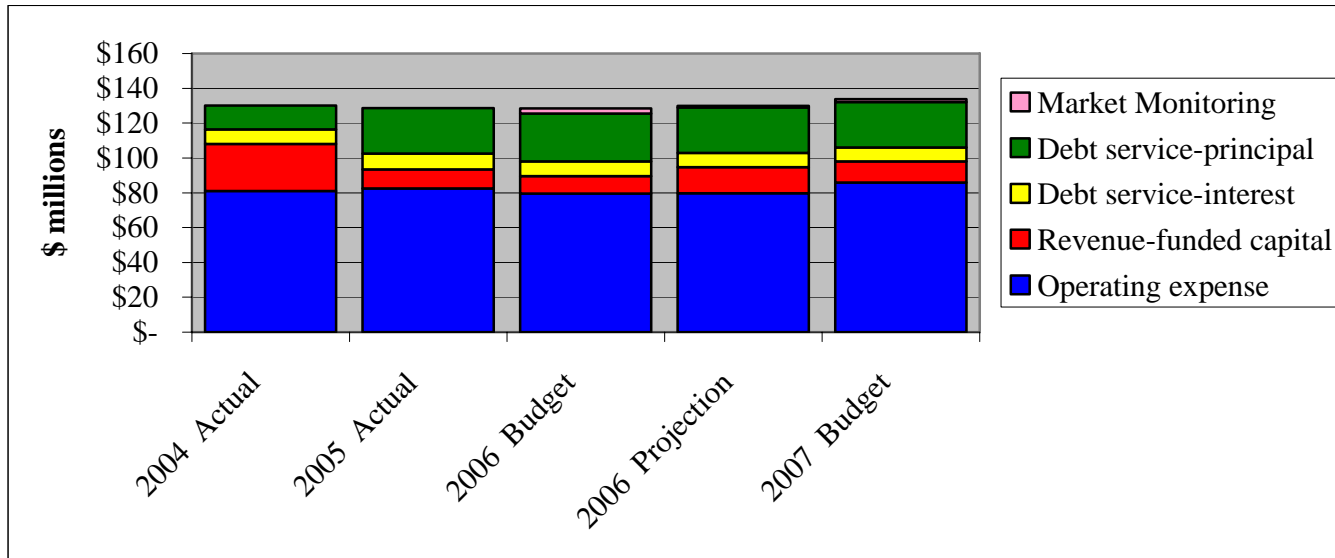
Total – Base Operations

	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 YTD Actual (8.31.06)	FY 2007 Requested	\$ Variance	% Variance
ERCOT							
System Operations	14,110,440	17,037,703	18,397,359	11,299,757	19,999,385	1,602,026	8.7%
Market Operations	16,059,800	12,895,145	15,380,491	8,775,870	14,710,225	(670,266)	-4.4%
Information Technology	24,173,297	23,580,578	26,608,982	17,651,688	30,026,593	3,417,611	12.8%
Corporate Administration	26,676,194	28,937,517	20,003,867	15,870,857	21,221,797	1,217,930	6.1%
Total - ERCOT	81,019,731	82,450,943	80,390,699	53,598,171	85,958,000	5,567,301	6.9%
ERCOT							
Labor & Benefits	44,646,173	55,004,423	59,313,464	41,049,340	72,988,269	13,674,805	23.1%
Labor for Capital Projects	(5,485,762)	(5,599,341)	(6,790,776)	(2,720,894)	(7,373,639)	(582,863)	8.6%
Labor for Nodal	-	-	-	(3,518,724)	(13,776,690)	(13,776,690)	NA
Subtotal - Labor & Benefits	39,160,411	49,405,083	52,522,688	34,809,722	51,837,940	(684,748)	-1.3%
Material, Supplies, Tools & Equipment	1,420,677	1,165,662	1,293,635	647,989	1,204,080	(89,555)	-6.9%
Special Reviews	33,571	1,751,528	-	-	-	-	NA
Outside Services	18,819,101	9,267,941	7,376,746	5,342,154	9,447,052	2,070,306	28.1%
Utilities, Maintenance & Facilities	6,420,972	6,591,288	6,090,491	4,185,914	7,245,027	1,154,536	19.0%
HW/SW License and Maintenance	6,125,259	7,189,225	7,219,010	4,815,653	9,371,689	2,152,679	29.8%
Insurance	1,585,329	1,698,946	1,761,763	1,097,547	1,758,229	(3,534)	-0.2%
Employee Expenses	1,737,487	1,396,360	1,400,825	722,406	1,860,300	459,475	32.8%
Property Taxes	1,198,352	1,016,255	1,043,000	695,333	1,116,000	73,000	7.0%
NERC Dues	880,000	913,795	967,533	647,651	967,533	-	0.0%
Other	3,638,572	2,054,860	715,008	633,802	1,150,150	435,142	60.9%
Total - ERCOT	81,019,731	82,450,943	80,390,699	53,598,171	85,958,000	5,567,301	6.9%

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	(0.85)
Subtotal - Cost Savings	<u>7.97</u>
Expenditures	
Revenue Funded Capital Projects	2.00
Labor & Benefit (<i>net of project & nodal effort</i>)	(0.29)
Outside Services	2.12
HW/SW License & Maintenance	2.15
Utilities, Maint. & Facilities	1.12
Employee Expenses	0.49
Relocation	0.52
Other	(0.14)
Subtotal - Increased Costs	<u>7.97</u>
Excess Expenditures over Revenue	<u>0.00</u>

Fee Requirement



<u>(\$Millions)</u>	2004 Actual	2005 Actual	2006 Budget	2006 Projection	2007 Budget
Operating expense	81.0	82.5	79.5	79.8	86.0
Revenue-funded capital	26.9	10.9	10.0	15.0	12.0
Debt service-interest	8.4	9.2	8.4	8.2	8.0
Debt service-principal	13.6	26.1	27.6	26.1	26.1
Market Monitoring	0.0	0.0	3.0	0.8	1.7
Total revenue requirement	130.0	128.7	128.5	129.8	133.8
GWh	288.3	298.8	301.9	301.2	312.7
System Administration Fee	\$0.44	\$0.42	\$0.4171	\$0.4171	\$0.4171
Debt Outstanding	178.4	160.6	149.0	149.5	141.4

Note:

(a) Other revenue will supplement System Administration Fee to meet total funding requirement.

Fee Schedule

Description	Calculation/Rate/Comment	2007 Budget	
		Amount	Percentage
ERCOT system administration fee	\$0.4171 per MWh	\$ 130,420,000	98.0%
Private wide-area network fees	Recovery of budgeted costs. Actual cost of using third party communications network, initial equipment installation cost not to exceed \$18,000, and monthly network management fee not to exceed \$865.	1,945,000	1.0%
Non-ERCOT load serving entity fee	\$1.15 per ESI ID per year	125,000	0.0%
Interest income	Computed based on assumed bank rates and deposit balances	789,000	1.0%
Membership dues	\$2,000 for corporate members and \$500 for associate and adjunct members	250,000	0.0%
Generation interconnection study fees	Based on the size of the proposed generating plant, \$1,000 - \$5,000 for a preliminary study conducted by ERCOT staff and actual costs incurred by the transmission and distribution service provider for completing a detailed study.	230,000	0.0%
Map sale fees	\$20 - \$40 per map request	1,000	0.0%
Qualified scheduling entity application fee	\$500 per entity	7,500	0.0%
Competitive retailer application fee	\$500 per entity	7,500	0.0%
Mismatched schedule processing fee	\$1 per mismatched event	1,000	0.0%
Total		<u>\$ 133,776,000</u>	100.0%
Nodal Surcharge	\$0.0663 per unit of net metered generation		
Regional Entity Fee	Fee and billing determinant to be determined		

2007 Project (Base Operations) Request

Program Area	Funding for Projects in Progress	Baseline Maintenance	Enhancements	PUCT NERC Market	Total Budget
<i>(in millions)</i>					
Corporate Operaitons	0.900	0.850	2.500	-	4.250
Information Technology Operations	3.100	4.350	5.300	-	12.750
Market Operations	0.400	0.100	0.800	0.200	1.500
Retail Operations	4.700	-	0.975	1.325	7.000
System Operations	2.350	-	0.600	1.550	4.500
Total	11.450	5.300	10.175	3.075	30.000

A description of the project prioritization process and a detailed project listing can be found at:

<http://www.ercot.com/services/comm/projects/index.html>

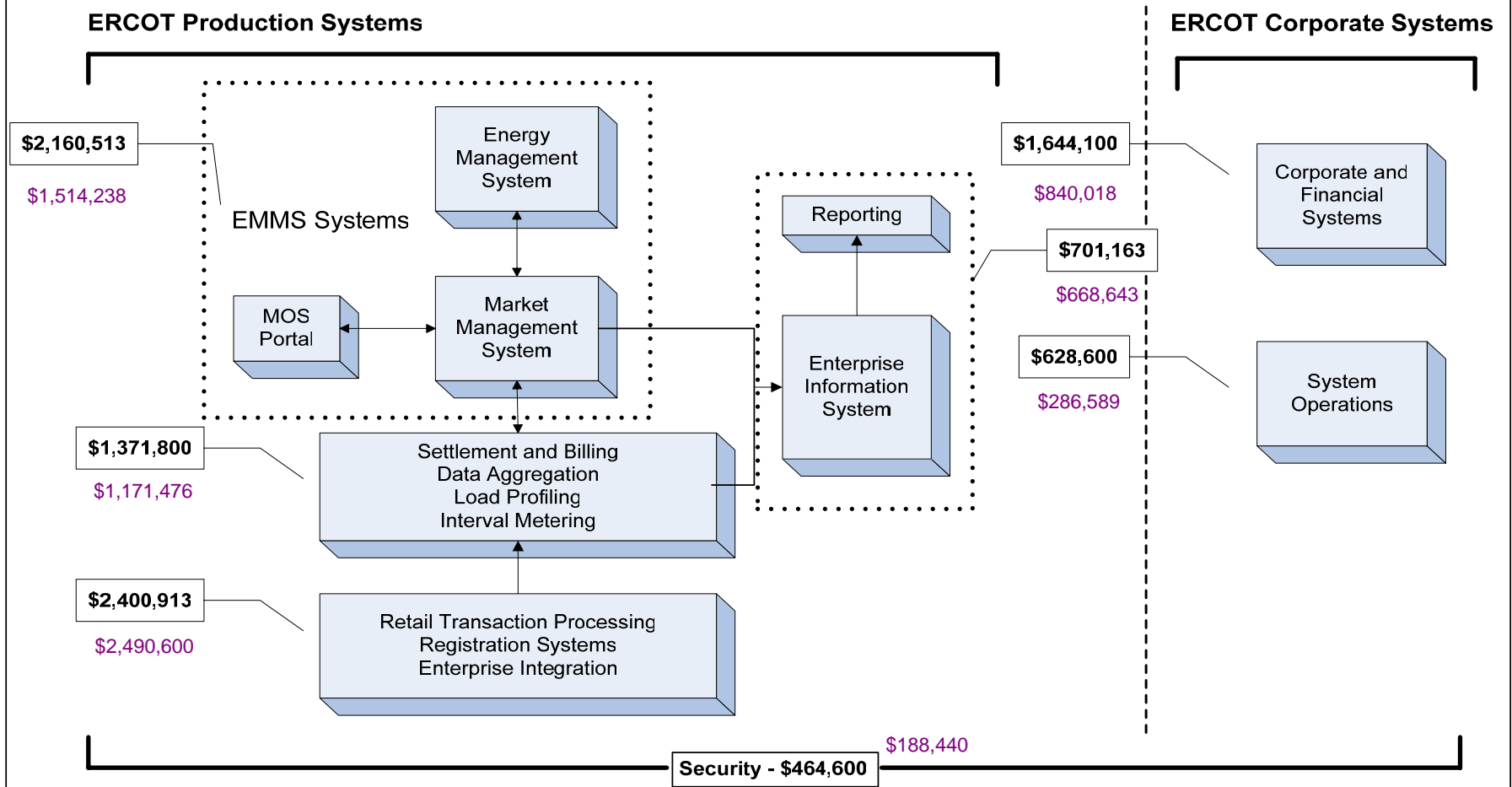
Outside Services

Description	FY 2006 Budget	FY 2007 Requested	\$ Variance	% Variance	Comments
Temporary Staffing	1,184,091	2,248,980	1,064,889	89.9%	Zonal Backfills for Staff Transfer to Nodal
Information Technology Services	960,550	1,248,180	287,630	29.9%	Increased Network, Storage and Application Assistance
Compliance	720,000	910,000	190,000	26.4%	Information System Security Requirements
Reliability	237,492	470,500	233,008	98.1%	Increased Forecasting Services
On Boarding & Employee Services	75,000	372,400	297,400	396.5%	Increased Recruiting Effort;Reclassified Hiring Services
Independent Surveys & Studies	312,000	281,992	(30,008)	-9.6%	
Process Improvement & Risk Management	376,800	254,000	(122,800)	-32.6%	Application Assessment Cost Reduction
Management Training	188,830	45,000	(143,830)	-76.2%	Reduce based on PUCT feedback in 2006
Subtotal	4,054,763	5,831,052	1,776,289	43.8%	
Accounting/Audit Expenses	1,058,255	1,108,000	49,745	4.7%	
Call Center/QSE Standby	1,073,728	1,058,000	(15,728)	-1.5%	
Legal Services	690,000	800,000	110,000	15.9%	Increased HR & Filing Requirements
Governance	500,000	650,000	150,000	30.0%	Increased Board Members, Executive Search
Subtotal	3,321,983	3,616,000	294,017	8.9%	
TOTAL	7,376,746	9,447,052	2,070,306	28.1%	

Hardware & Software Maintenance /Support

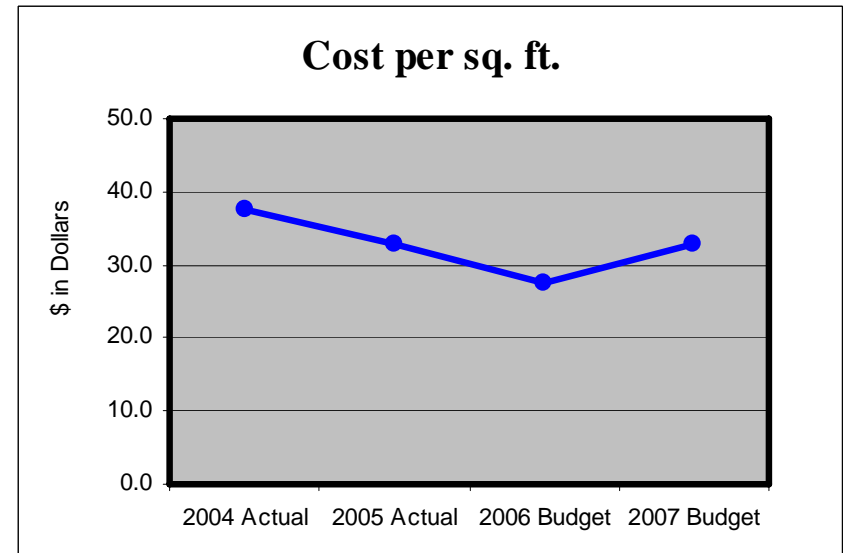
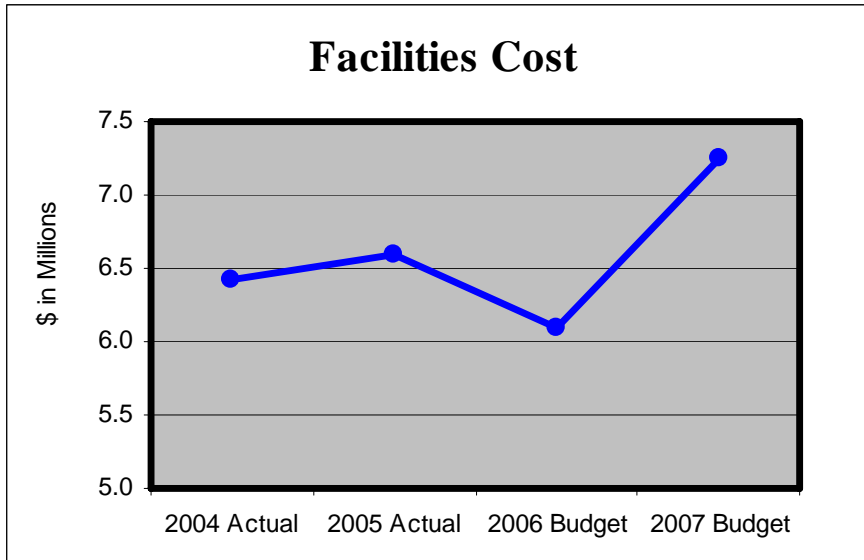
ERCOT 2007 Hardware & Software Support/Maintenance Budget = \$9,371,689

2006 Budget = \$7,160,000



Utilities, Maintenance & Facilities

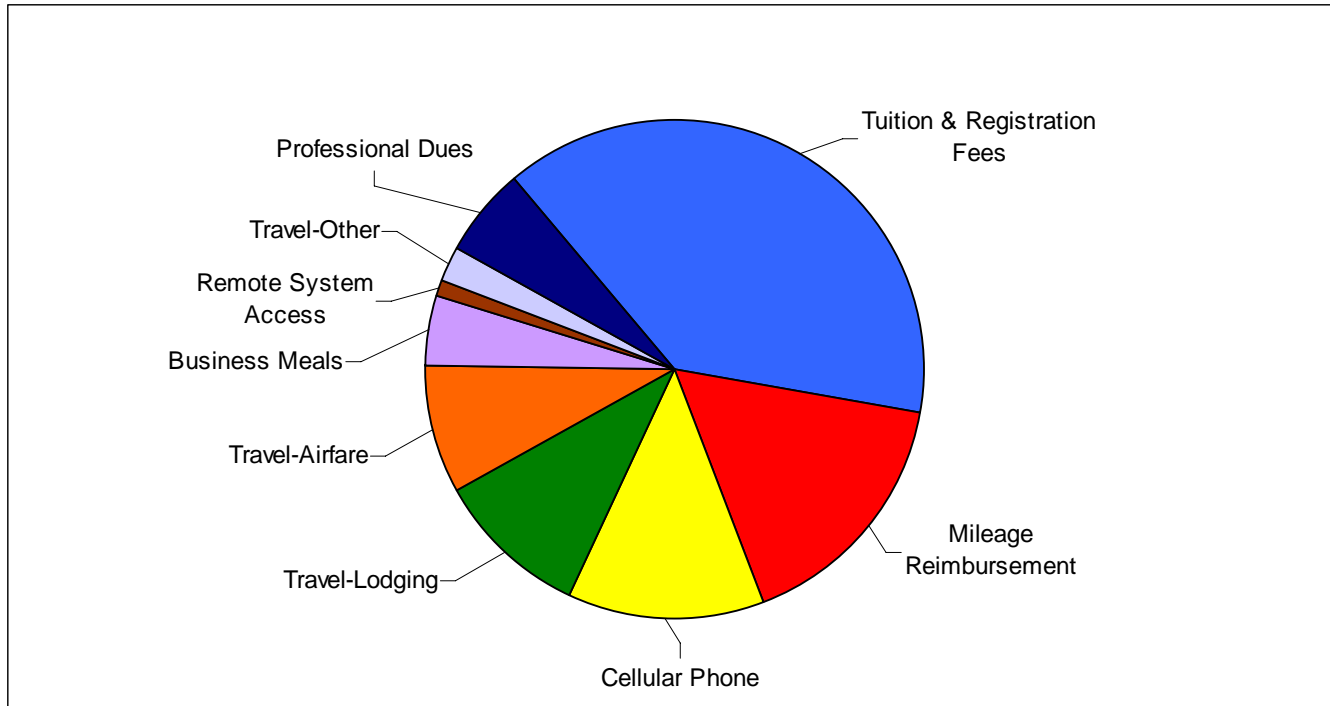
	2004 Actual	2005 Actual	2006 Budget	2007 Budget
Total Utilities, Maintenance & Facilities	6,420,971	6,591,287	6,090,491	7,245,027
Cost Per Square Foot	37.55	32.83	27.56	32.78



Utilities, Maintenance & Facilities

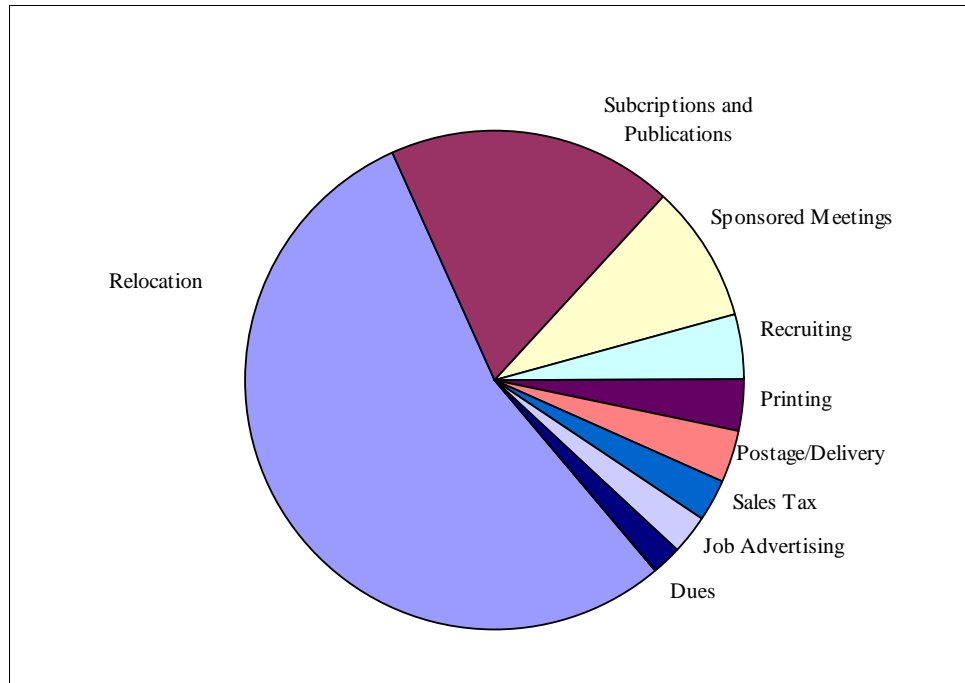
Description	2004 Actual	2005 Actual	2006 Budget	2006 YTD 08/31/06	2007 Requested	2006 Budget	2006 Budget
						vs. 2007 Requested \$ Variance	vs. 2007 Requested % Variance
Utilities							
Electricity	818,506	967,597	900,000	697,237	1,045,000	145,000	16.1%
Water Service	-	23,637	-	26,052	32,400	32,400	NA
Fuel Oil	2,308	8,503	4,000	6,309	10,000	6,000	150.0%
Water/Gas/Sewer/Trash	41,107	32,445	30,000	1,473	8,100	(21,900)	-73.0%
Subtotal - Utilities	861,921	1,032,182	934,000	731,071	1,095,500	161,500	17.3%
Rent							
Office Rental	938,022	730,186	720,000	476,562	741,500	21,500	3.0%
Miscellaneous Rental	-	-	-	-	-	-	NA
Storage Rental	38,137	20,580	6,000	4,531	5,000	(1,000)	-16.7%
Subtotal - Rent	976,159	750,766	726,000	481,093	746,500	20,500	2.8%
Telecom							
PBX Lease for ISO	50,347	16,785	-	137	-	-	NA
Telephone - Local	854,463	682,805	599,100	484,475	658,147	59,047	9.9%
Telephone - Long Distance	128,941	116,284	123,300	49,444	74,666	(48,634)	-39.4%
Telephone - Conf. Calls	76,205	35,712	65,267	33,280	57,400	(7,867)	-12.1%
Internet Service	215,296	86,340	90,000	60,910	99,549	9,549	10.6%
Subtotal - Telecom	1,325,252	937,926	877,667	628,247	889,762	12,095	1.4%
WAN	1,730,117	1,972,119	1,846,824	1,511,155	2,324,965	478,141	25.9%
Building Maintenance							
Building Maintenance	417,600	721,601	446,000	250,632	813,500	367,500	82.4%
Grounds Maintenance	29,410	52,868	40,000	36,708	60,000	20,000	50.0%
Custodial Service	218,209	222,545	240,000	141,786	235,000	(5,000)	-2.1%
Misc Services	90,749	84,189	100,000	73,402	106,800	6,800	6.8%
Bldg Security Services	771,554	817,091	880,000	556,318	973,000	93,000	10.6%
Subtotal - Maintenance	1,527,522	1,898,294	1,706,000	1,058,845	2,188,300	482,300	28.3%
Total Building Maintenance, Security, Rent & Utilities	6,420,971	6,591,287	6,090,491	4,410,412	7,245,027	1,154,536	19.0%

Employee Expenses by Account



Account	Corporate Operations	Information Technology	Market Operations	System Operations	Total	% of Expense Total	% of ERCOT O&M Budget
Tuition & Registration Fees	136,028	276,816	184,625	93,514	690,984	37.14%	0.80%
Mileage Reimbursement	57,967	30,281	50,139	126,834	265,221	14.26%	0.31%
Cellular Phone	44,438	101,863	73,131	45,126	264,559	14.22%	0.31%
Travel-Lodging	35,120	45,578	48,307	82,024	211,029	11.34%	0.25%
Travel-Airfare	29,215	33,402	31,942	74,307	168,866	9.08%	0.20%
Business Meals	16,525	14,634	32,827	26,700	90,685	4.87%	0.11%
Remote System Access	3,887	45,076	12,535	16,556	78,054	4.20%	0.09%
Travel-Other	7,079	10,851	10,803	22,625	51,358	2.76%	0.06%
Professional Dues	20,742	3,098	6,591	9,114	39,544	2.13%	0.05%
Total	351,000	561,600	450,900	496,800	1,860,300	100.00%	2.16%

Other Expenses



Account Description	FY 2004	FY 2005	FY 2006	FY 2006	FY 2007	%	% of ERCOT
	Actual	Actual	Budget	YTD Actual (8.31.06)	Requested		
Relocation	794,695	570,839	135,000	197,732	625,000	54.34%	0.73%
Subscriptions and Publications	70,629	113,927	120,778	235,597	214,291	18.63%	0.25%
Sponsored Meetings	6,234	60,642	107,000	21,915	103,952	9.04%	0.12%
Recruiting	60,182	35,283	63,400	34,074	46,844	4.07%	0.05%
Printing	12,924	19,703	66,850	43,579	39,826	3.46%	0.05%
Postage/Delivery	18,525	30,498	47,430	33,893	36,786	3.20%	0.04%
Sales Tax	3,831	203	-	52,437	33,397	2.90%	0.04%
Job Advertising	22,292	46,112	28,500	10,515	28,259	2.46%	0.03%
Dues	7,046	16,772	31,700	20,236	21,796	1.90%	0.03%
Other	209,476	137,844	112,194	(41,630)	-	0.00%	0.00%
Total	1,205,833	1,031,823	712,852	608,348	1,150,150	100.00%	1.34%

Five Year Forecast

ERCOT - Base Operations Key Assumptions

Labor & Benefits

- Headcount held within currently approved level of 584
- Salary expense in 2008 based on a 3% merit with an additional 1% for promotions
 - For 2009 – 2012, assumed overall salary expense increase of 2% (inclusive of merit and promotion adjustments)
- Contra labor estimate based on historical trend and anticipated project budget

Outside Services

- Trend based on historical experience

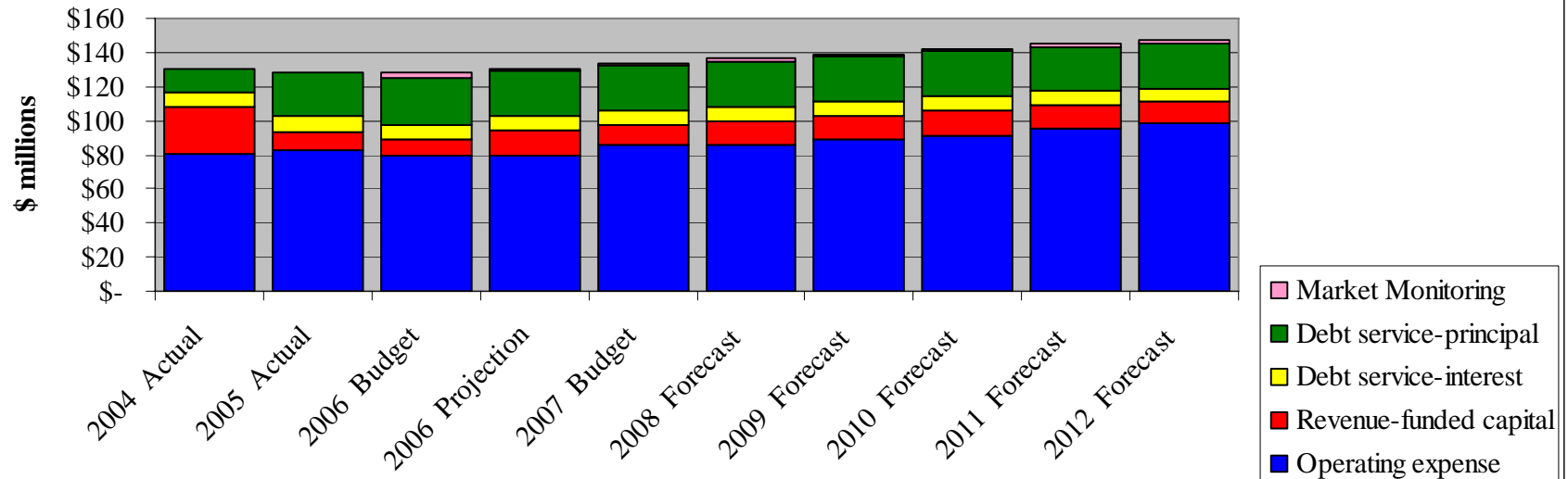
All other categories

- Increase based on Consumer Price Index
 - 2008 – 1.9 %
 - 2009 – 1.8 %
 - 2010 – 1.8 %
 - 2011 – 1.9 %
 - 2012 – 2.0 %

Capital Expenditure

- Identified projects funded based on approved Board ratio of 60% debt and 40% revenue

Five Year Forecast - Fee Requirement




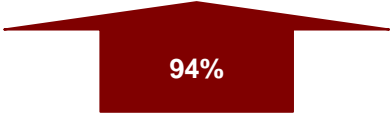




	2004	2005	2006	2006	2007	2008	2009	2010	2011	2012
(\$Millions)	Actual	Actual	Budget	Projection	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
Operating expense	81.0	82.5	79.5	79.8	86.0	85.9	88.5	90.7	95.4	98.7
Revenue-funded capital	26.9	10.9	10.0	15.0	12.0	14.0	14.4	15.6	14.2	12.8
Debt service-interest	8.4	9.2	8.4	8.2	8.0	8.4	8.0	7.8	7.5	7.3
Debt service-principal	13.6	26.1	27.6	26.1	26.1	26.1	26.4	26.4	26.4	26.4
Market Monitoring	0.0	0.0	3.0	0.8	1.7	1.8	1.7	1.7	1.7	1.7
Total revenue requirement	130.0	128.7	128.5	129.8	133.8	136.2	139.0	142.2	145.2	146.9
GWh	288.3	298.8	301.9	301.2	312.7	318.6	325.2	332.9	340.1	346.7
% GWh growth	1.1%	3.6%	1.0%	-0.3%	3.8%	1.9%	2.1%	2.4%	2.2%	1.9%
System Administration Fee	\$0.44	\$0.42	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4140
Debt Outstanding	178.4	160.6	149.0	149.5	141.4	136.2	131.4	128.4	123.4	116.2
(\$ / MWh)										
Operating expense	0.27	0.27	0.2582	0.2564	0.2680	0.2630	0.2655	0.2661	0.2741	0.2782
Revenue-funded capital	0.09	0.04	0.0325	0.0480	0.0374	0.0429	0.0432	0.0458	0.0408	0.0361
Debt service-interest	0.03	0.03	0.0272	0.0264	0.0250	0.0259	0.0241	0.0228	0.0215	0.0206
Debt service-principal	0.05	0.09	0.0896	0.0840	0.0815	0.0800	0.0792	0.0774	0.0758	0.0744
Market Monitoring	0.00	0.00	0.0097	0.0024	0.0051	0.0054	0.0051	0.0050	0.0049	0.0048
Total revenue requirement	\$0.44	\$0.42	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4140

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

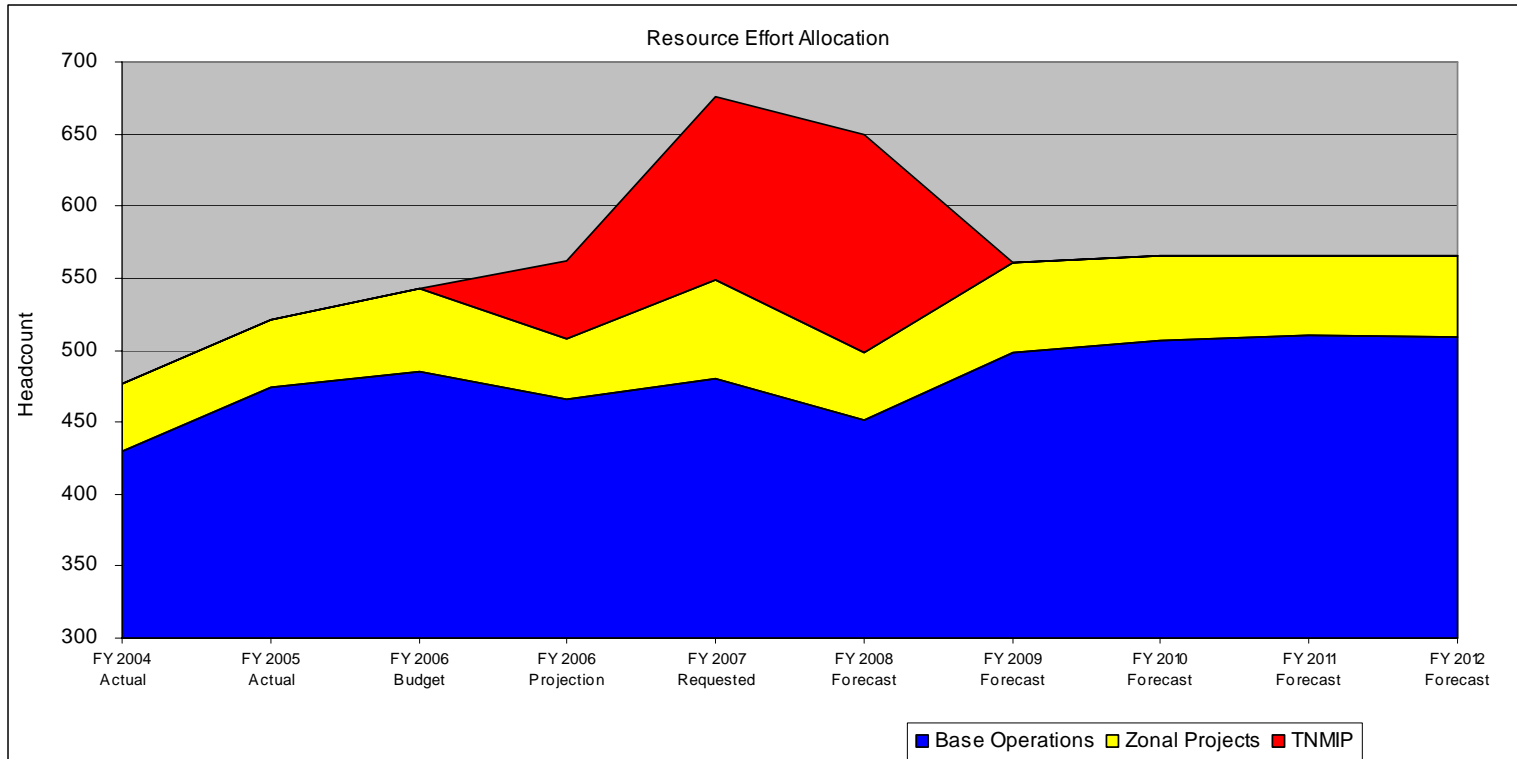
Five Year Forecast – Revenue Requirement

	Actual FY 2004	Actual FY 2005	Budget FY 2006	Projection FY 2006	Budget FY 2007	Forecast FY 2008	Forecast FY 2009	Forecast FY 2010	Forecast FY 2011	Forecast FY 2012
ERCOT O&M Expense										
<i>Labor & Benefits</i>	\$ 44,646	\$ 55,004	\$ 59,313	\$ 61,834	\$ 72,988	\$ 75,908	\$ 67,104	\$ 68,446	\$ 69,815	\$ 71,211
<i>Contra-Labor to Capital Projects</i>	(5,486)	(5,599)	(6,791)	(4,971)	(7,374)	(5,586)	(7,188)	(6,909)	(6,542)	(6,803)
<i>Contra-Labor to TNMIP</i>	-	-	-	(6,454)	(13,777)	(17,647)	-	-	-	-
<i>Subtotal - Labor & Benefits</i>	39,160	49,405	52,523	50,409	51,838	52,676	59,916	61,536	63,273	64,408
<i>Tools, Equipment, &Supplies</i>	1,421	1,166	1,294	1,158	1,204	1,227	1,249	1,272	1,296	1,322
<i>Hardware & Software Expenses</i>	6,125	7,189	7,219	7,461	9,372	9,465	9,484	9,513	9,551	9,570
<i>Outside Services</i>	18,819	9,268	7,377	8,783	9,447	8,242	7,925	7,992	7,744	7,944
<i>Special Audits</i>	34	1,752	-	-	-	-	-	-	-	-
<i>Utilities, Maintenance & Facilities</i>	6,421	6,591	6,090	6,617	7,245	7,383	7,516	7,651	7,796	7,952
<i>Employee Expenses</i>	1,737	1,396	1,401	1,355	1,860	1,896	1,930	1,965	2,002	2,042
<i>Insurance</i>	1,585	1,699	1,762	1,656	1,758	1,792	1,824	1,857	1,892	1,930
<i>Property Taxes</i>	1,198	1,016	1,043	652	1,116	1,136	1,225	1,300	1,340	1,362
<i>NERC Dues</i>	880	914	968	984	968	968	968	968	968	968
<i>Other</i>	3,639	2,055	715	711	1,150	1,117	1,137	1,158	1,180	1,203
<i>Subtotal - O&M Expenses</i>	81,020	82,451	80,391	79,787	85,958	85,901	93,173	95,210	97,040	98,699
Less: Fee Reduction/Cost Reduction TBD			(858)			-	(4,690)	(4,480)	(1,630)	-
<i>Subtotal - O&M Expenses</i>	81,020	82,451	79,533	79,787	85,958	85,901	88,483	90,730	95,410	98,699
Debt service - interest expense	8,426	9,189	8,375	8,201	8,031	8,448	8,023	7,767	7,502	7,310
Debt service - principal payments	13,637	26,137	27,587	26,137	26,137	26,137	26,387	26,387	26,387	26,387
Revenue-funded capital	26,925	10,880	10,000	14,950	12,000	14,000	14,400	15,600	14,200	12,800
Total Revenue Requirement	130,008	128,657	125,495	129,075	132,126	134,486	137,293	140,484	143,499	145,196
Less Other Revenue	2,615	2,050	1,890	2,300	2,567	2,567	2,567	2,567	2,567	2,567
Less Interest Income	347	250	672	1,900	789	789	789	789	789	789
Plus:										
<i>Market Monitoring</i>	-	-	3,000	750	1,650	1,750	1,700	1,700	1,700	1,700
Revenue Rqmt from System Admin Fee GWh	\$ 127,046 288,291	\$ 126,357 298,782	\$ 125,933 301,917	\$ 125,625 301,158	\$ 130,420 312,680	\$ 132,880 318,554	\$ 135,637 325,212	\$ 138,828 332,867	\$ 141,843 340,076	\$ 143,540 346,698
ERCOT System Administration Fee	0.44	\$ 0.42	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4140
Total Capital Spending	46,764	16,365	25,000	25,000	30,000	35,000	36,000	39,000	35,500	32,000
Debt Outstanding at Year-end	\$ 178,363	\$ 160,634	\$ 149,039	\$ 149,497	\$ 141,360	\$ 136,223	\$ 131,436	\$ 128,449	\$ 123,362	\$ 116,175

Five Year Growth

Staff			
2002		296	
2007		560	
Office Space (Sq. Feet)			
2002		114,000	
2007		221,000	
Hardware (Gross Book)			
2002	\$	32,735,000	
2007	\$	70,947,000	
Software (Gross Book)			
2002	\$	102,331,000	
2007	\$	220,538,000	
Principal & Interest			
2002	\$	5,400,000	
2007	\$	34,131,000	
System Administration Fee (per MWh)			
2002	\$	0.2200	
2007	\$	0.4171	

Staffing Effort

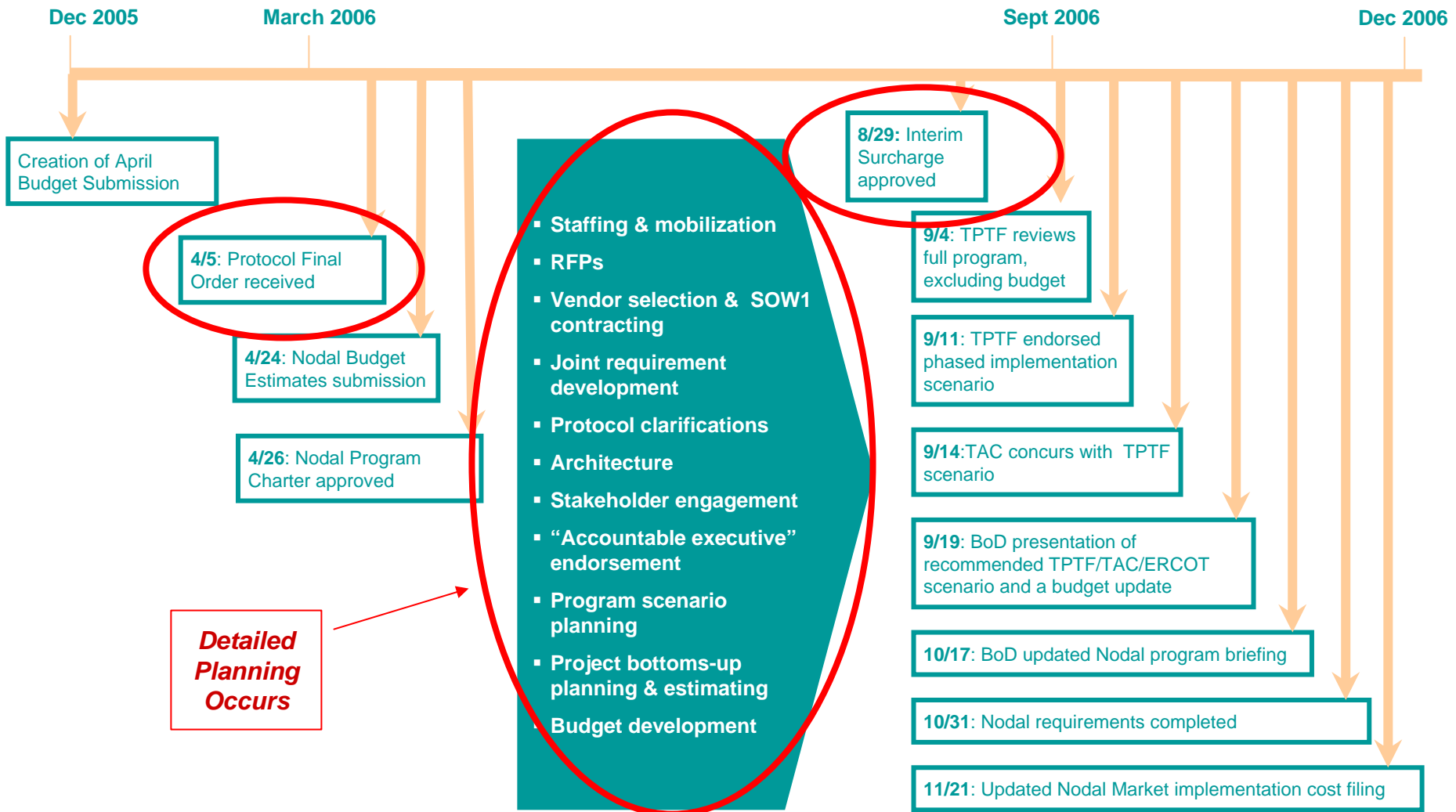


	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Projection	FY 2007 Requested	FY 2008 Forecast	FY 2009 Forecast	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast
Headcount										
Base Operations	430	474	485	465	480	451	498	506	510	509
Projects excluding TNMIP	46	47	57	42	68	48	63	59	55	56
Subtotal - Base Operations	476	521	542	507	548	499	561	565	565	565
Texas Nodal	-	-	-	55	128	151	-	-	-	-
Total Headcount	476	521	542	562	676	650	561	565	565	565

Budget 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, Oct. 4	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
Thursday, Oct. 5	Finance & Audit Committee Special Meeting - 2007 Budget Review (if necessary)
Sunday, Oct. 15	Final Delegation Agreement to NERC as ERO, to become Regional Entity (RE) for the ERCOT Region
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

Nodal Major Events



Background on Nodal Planning

- **Detailed Nodal planning occurred prior to approval of the Nodal Market Implementation Surcharge**
 - Project organized and planned in most efficient manner to implement necessary changes
 - Strict interpretation of Zonal and Nodal costs for allocation among QSEs representing load vs QSEs representing generation was not contemplated
- **PUCT approval of Interim Market Implementation Surcharge**
 - Final order issued August 29th
 - Established need to clearly identify costs relating to implementation of Nodal protocols
 - Results in proposed reclassification of \$37 million in expected project costs from “Nodal” to “Zonal”

Future Reviews and Approvals

- **Nodal Baseline budget expected in November**
 - Currently under review by ERCOT, TPTF, TAC & BOD
 - BOD acceptance anticipated in November
- **Baseline budget expected to form basis for updated Nodal Market Implementation Surcharge**
 - ERCOT required filing with the PUCT
 - ERCOT required to justify all costs recovered via surcharge
 - Interested parties have an opportunity to intervene
 - Interim allocation to generation subject to finalization
 - Interim surcharge collections subject to true-up

Issues Impacting Capital Decisions

- **PUCT order requires implementation of the Nodal market by 1/1/2009**
- **Certain projects previously assumed Nodal *must* be funded from Zonal capital**
 - Critical path projects
 - Significant portion of project costs not currently contemplated in Zonal planning
- **Funding alternatives**
 - Re-prioritize Zonal projects
 - Reduce spending elsewhere
 - Temporarily raise System Administration Fee
 - Temporarily increase debt funding ratio

Management Recommendation

- **Combined approach**

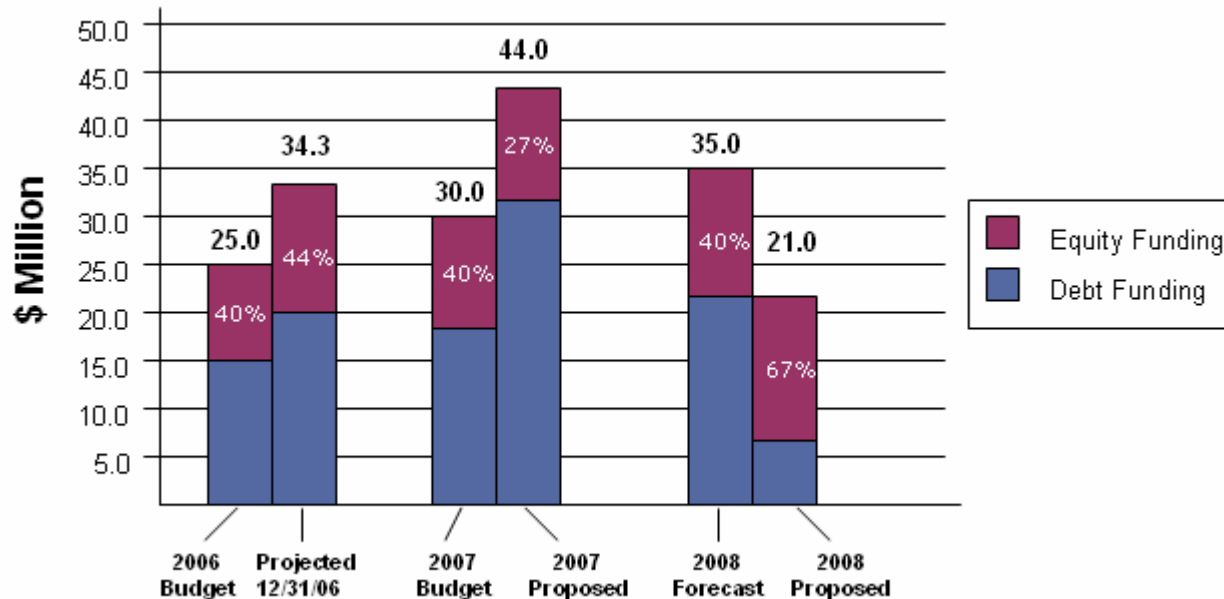
- Re-prioritize Zonal project plans where possible
- Use anticipated 2006 “excess revenue” to fund project additions
- Temporarily decrease 2007 equity contribution from 40% to 27%
- Reduce 2008 Zonal project spending so that the overall (2006-2008) equity contribution target of 40% is restored

- **Benefits**

- Accommodate critical path items
- Maintain overall credit quality
- Maintain stable System Administration Fee
 - Avoid System Administration Fee Case in 2007
 - Maintain staff focus on Nodal implementation

Review and Approval of 2007 Operating Budget (Vote)

Steve Byone



2006 Budget

- Development of 2006 capital program consistent with previous practice
- 2006 capital program totaling \$25 million
- Original PPL of 30 projects

2006 YTD

- Typical reprioritizing occurs
- New projects are added
- Due to under delivery in 2005, increased carryover is incorporated
- Current PPL consists of 102 projects
- \$25M budget is no longer available

Request for 2006 Zonal Budget Increase

- Project work assumed to be a component of nodal must be allocated to zonal
 - Some affected items made *preliminary* PPL; though not all
 - Timing of certain required effort accelerated – Nodal critical path
 - *Preliminary* PPL items were contemplated for completion by year-end 2008
- Total budget for all items shifting back to zonal for funding is \$37 million
 - **Completion of Items totaling \$9.3 million requires a 2006 spending increase**

Review and Approval of 2007 Operating Budget (Vote)

Steve Byone

Detail of Projects Shifting to “Zonal”

Sources and Uses of Equity Funding for ERCOT Projects

\$ Million

	2006 Budget	Projected 12/31/2006	2007 Budget	2007 Proposed	2008 Forecast	2008 Proposed	3 Year Totals
Capital Plan							
Debt Funding	15.0	19.4	18.0	32.0	21.0	7.0	58.4
Equity Funding	10.0	15.0	12.0	12.0	14.0	14.0	41.0
Proposed Capital Spend	25.0	34.3	30.0	44.0	35.0	21.0	99.3
Equity Funding							
Revenue Funding	10.0	10.0	12.0	12.0	14.0	14.0	36.0
* Incremental Debt Reduction		1.5					1.5
* IMM		1.4					1.4
Anticipated Excess Revenue		2.2					2.2
Sub-total Equity Funding	10.0	15.0	12.0	12.0	14.0	14.0	41.0
Projected Need @ 40%	10.0	13.7	12.0	17.6	14.0	8.4	39.7
Over/(Short)	-	1.2	-	(5.6)	-	5.6	1.2
Effective Equity %	40%	44%	40%	27%	40%	67%	41%

Alternative - Adjust System Administration Fee (cents/MWh) \$ 0.0179

Accommodation of Projects Shifting From Nodal to Zonal Within Capital Plans

Program Area/Project	2006 Budget	Projected 12/31/2006	2007 Budget	2007 Proposed	2008 Forecast	2008 Proposed	3 Year Totals
SO/NMMS		1.8		4.5		0.8	7.0
SO/State Estimator		1.3		3.2		0.6	5.0
SO/EMS Upgrade		1.9		4.5		1.6	8.0
IT/Hardware	1.0	4.4	5.5	1.8		2.3	15.0
IT/TCC Virtualization			2.0				2.0
Totals	1.0	9.3	7.5	14.0	0.0	5.3	37.0

* Excess revenue from these components targeted for additional project work as contemplated in the 2006 PUCT Approved Fee

- **Vote to recommend 2007 Budget to Board of Directors**

APPENDIX

Proposed Budget

Maintaining Grid Reliability

	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 YTD Actual (8.31.06)	FY 2007 Requested	2006 Budget vs. 2007 Requested	
						\$ Variance	% Variance
System Operations							
<i>Labor & Benefits</i>	11,967,381	15,454,656	16,787,504	11,152,669	20,809,739	4,022,235	24.0%
<i>Labor for Capital Projects</i>	(370,561)	(309,879)	(895,643)	(277,394)	(361,998)	533,645	-59.6%
<i>Labor for Nodal</i>	-	-	-	(905,561)	(3,020,689)	(3,020,689)	NA
Subtotal - Labor & Benefits	11,596,820	15,144,777	15,891,861	9,969,714	17,427,052	1,535,191	9.7%
<i>Material, Supplies, Tools & Equipment</i>	20,598	30,358	30,818	23,206	51,000	20,182	65.5%
<i>Special Reviews</i>	-	-	-	-	-	-	NA
<i>Outside Services</i>	695,410	469,073	999,492	316,004	990,500	(8,992)	-0.9%
<i>Utilities, Maintenance & Facilities</i>	107	3,789	500	-	-	(500)	-100.0%
<i>HW/SW License and Maintenance</i>	-	6,498	17,320	742	-	(17,320)	-100.0%
<i>Insurance</i>	-	-	-	-	-	-	NA
<i>Employee Expenses</i>	368,041	305,218	387,500	211,780	496,800	109,300	28.2%
<i>Property Taxes</i>	-	-	-	-	-	-	NA
<i>NERC Dues</i>	880,000	913,795	967,533	647,651	967,533	-	0.0%
<i>Other</i>	549,464	164,194	102,335	130,660	66,500	(35,835)	-35.0%
Total - System Operations	14,110,440	17,037,703	18,397,359	11,299,757	19,999,385	1,602,026	8.7%
	% of Proposed ERCOT O&M Budget				23.3%		

Proposed Budget

Maintaining & Supporting the Market

	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 YTD Actual (8.31.06)	FY 2007 Requested	2006 Budget vs. 2007 Requested	
						\$ Variance	% Variance
Market Operations							
<i>Labor & Benefits</i>	11,214,613	12,426,752	14,790,488	9,211,085	18,106,564	3,316,076	22.4%
<i>Labor for Capital Projects</i>	(1,031,940)	(1,189,359)	(1,489,286)	(638,161)	(2,392,026)	(902,740)	60.6%
<i>Labor for Nodal</i>	-	-	-	(926,464)	(3,713,935)	(3,713,935)	NA
Subtotal - Labor & Benefits	10,182,673	11,237,393	13,301,202	7,646,460	12,000,603	(1,300,599)	-9.8%
<i>Material, Supplies, Tools & Equipment</i>	12,947	8,310	4,500	7,336	12,600	8,100	180.0%
<i>Special Reviews</i>	-	-	-	-	-	-	NA
<i>Outside Services</i>	4,543,502	1,243,364	1,487,808	940,740	2,053,772	565,964	38.0%
<i>Utilities, Maintenance & Facilities</i>	26,634	23,024	47,767	21,842	39,600	(8,167)	-17.1%
<i>HW/SW License and Maintenance</i>	574	6,697	4,630	-	-	(4,630)	-100.0%
<i>Insurance</i>	-	-	-	-	-	-	NA
<i>Employee Expenses</i>	383,577	250,973	359,394	100,569	450,900	91,506	25.5%
<i>Property Taxes</i>	-	-	-	-	-	-	NA
<i>NERC Dues</i>	-	-	-	-	-	-	NA
<i>Other</i>	909,893	125,384	175,190	58,923	152,750	(22,440)	-12.8%
Total - Market Operations	16,059,800	12,895,145	15,380,491	8,775,870	14,710,225	(670,266)	-4.4%
				% of Proposed ERCOT O&M Budget	17.1%		

Proposed Budget

Information Technology Infrastructure & Support

	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 YTD Actual (8.31.06)	FY 2007 Requested	2006 Budget vs. 2007 Requested	
						\$ Variance	% Variance
Information Technology							
<i>Labor & Benefits</i>	12,991,782	15,369,548	18,622,454	12,256,471	23,544,093	4,921,639	26.4%
<i>Labor for Capital Projects</i>	(3,577,151)	(3,544,127)	(3,838,652)	(1,562,578)	(3,862,495)	(23,843)	0.6%
<i>Labor for Nodal</i>	-	-	-	(1,240,833)	(5,440,156)	(5,440,156)	NA
Subtotal - Labor & Benefits	9,414,631	11,825,421	14,783,802	9,453,059	14,241,442	(542,360)	-3.7%
<i>Material, Supplies, Tools & Equipment</i>	478,171	555,081	593,163	225,419	548,530	(44,633)	-7.5%
<i>Special Reviews</i>	-	-	-	-	-	-	NA
<i>Outside Services</i>	3,996,628	466,365	906,916	627,587	2,015,480	1,108,564	122.2%
<i>Utilities, Maintenance & Facilities</i>	3,127,316	2,876,707	2,674,224	2,112,608	3,167,652	493,428	18.5%
<i>HW/SW License and Maintenance</i>	6,123,643	7,149,347	7,188,310	4,808,596	9,371,689	2,183,379	30.4%
<i>Insurance</i>	-	-	-	-	-	-	NA
<i>Employee Expenses</i>	679,914	540,138	429,776	243,166	561,600	131,824	30.7%
<i>Property Taxes</i>	-	-	-	-	-	-	NA
<i>NERC Dues</i>	-	-	-	-	-	-	NA
<i>Other</i>	352,994	167,519	32,791	181,252	120,200	87,409	266.6%
Total - Information Technology	24,173,297	23,580,578	26,608,982	17,651,688	30,026,593	3,417,611	12.8%
						% of Proposed ERCOT O&M Budget	34.9%

Proposed Budget

Organizational Support

	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 YTD Actual (8.31.06)	FY 2007 Requested	2006 Budget vs. 2007 Requested	
						\$ Variance	% Variance
Corporate Administration							
<i>Labor & Benefits</i>	8,472,397	11,753,467	9,113,018	8,429,116	10,527,873	1,414,855	15.5%
<i>Labor for Capital Projects</i>	(506,110)	(555,976)	(567,195)	(242,761)	(757,120)	(189,925)	33.5%
<i>Labor for Nodal</i>	-	-	-	(445,867)	(1,601,910)	(1,601,910)	NA
Subtotal - Labor & Benefits	7,966,287	11,197,492	8,545,823	7,740,489	8,168,843	(376,980)	-4.4%
<i>Material, Supplies, Tools & Equipment</i>	908,961	571,913	665,154	392,028	591,950	(73,204)	-11.0%
<i>Special Reviews</i>	33,571	1,751,528	-	-	-	-	NA
<i>Outside Services</i>	9,583,561	7,089,138	3,982,530	3,457,824	4,387,300	404,770	10.2%
<i>Utilities, Maintenance & Facilities</i>	3,266,915	3,687,768	3,368,000	2,051,464	4,037,775	669,775	19.9%
<i>HW/SW License and Maintenance</i>	1,042	26,683	8,750	6,314	-	(8,750)	-100.0%
<i>Insurance</i>	1,585,329	1,698,946	1,761,763	1,097,547	1,758,229	(3,534)	-0.2%
<i>Employee Expenses</i>	305,955	300,032	224,155	166,891	351,000	126,845	56.6%
<i>Property Taxes</i>	1,198,352	1,016,255	1,043,000	695,333	1,116,000	73,000	7.0%
<i>NERC Dues</i>	-	-	-	-	-	-	NA
<i>Other</i>	1,826,221	1,597,762	404,692	262,967	810,700	406,008	100.3%
Total - Corporate Administration	26,676,194	28,937,517	20,003,867	15,870,857	21,221,797	1,217,930	6.1%
% of Proposed ERCOT O&M Budget					24.7%		

Proposed Budget

Corporate Administration by Function

	Executive Admin	Human Resources	Facilities & Security	Corporate PMO	General Counsel	Finance & Accounting	Internal Audit & Controls	NERC Compliance	Entity Admin	Total
Labor & Benefits	720,269	1,273,067	2,848,056	2,040,033	2,454,923	3,541,133	1,362,648	524,949	(4,237,205)	10,527,873
Labor for Capital Projects	-	(35,490)	(301,665)	(419,965)	-	-	-	-	-	(757,120)
Labor for Nodal	-	(115,700)	(584,402)	(561,925)	(49,098)	(283,972)	(6,813)	-	-	(1,601,910)
Subtotal - Labor & Benefits	720,269	1,121,877	1,961,989	1,058,143	2,405,825	3,257,161	1,355,835	524,949	(4,237,205)	8,168,843
Material, Supplies, Tools & Equipment	700	8,000	544,700	2,700	10,300	16,800	600	8,150	-	591,950
Special Reviews	-	-	-	-	-	-	-	-	-	-
Outside Services	850,000	467,400	954,000	142,900	800,000	461,000	700,000	12,000	-	4,387,300
Utilities, Maintenance & Facilities	500	15,000	3,989,000	-	1,500	1,000	-	30,775	-	4,037,775
HW/SW License and Maintenance	-	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	1,753,229	-	5,000	-	1,758,229
Employee Expenses	8,100	29,700	78,300	45,900	54,000	87,510	29,700	17,790	-	351,000
Property Taxes	-	-	-	-	-	1,116,000	-	-	-	1,116,000
NERC Dues	-	-	-	-	-	-	-	-	-	-
Other	8,500	685,000	10,500	3,500	56,500	40,000	4,000	2,700	-	810,700
Total	1,588,069	2,326,977	7,538,489	1,253,143	3,328,125	6,732,700	2,090,135	601,364	(4,237,205)	21,221,797
							(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

Committee Brief – Treasury and Credit Update

Cheryl Yager

A Kempy Yagan
Steve Byrne

Update on Obtaining Additional Financing

<Discussion>

Credit Insurance update

- **Credit WG provided parameters for bidding credit insurance**
- **Assumptions underlying parameters**
 - Insure only QSEs (not LSEs)
 - Insure only QSEs that primarily represent load (test = total load divided by sum of total load plus total generation is greater than 70%)
 - Entities representing primarily generation (as determined above) will not be covered
 - Include all categories of QSEs that represent load
 - Municipals are included
 - Include only QSEs representing more than 500 MWh/day of load
 - Market will absorb losses related to QSEs that represent less than 500 MWh/day

Credit Insurance update (cont.)

- **Assumptions** (continued)
 - Coverage per entity = 8 days at 100% of load at \$100/MWh
 - Maximum coverage per entity = no more than \$50,000,000
 - Establish coverage under 2 pools (one of smaller entities, one for larger)
 - No overlap between designated pools of coverage, entities are in one or the other pool but not both
 - Allow cancelability of coverage for covered entities – preferred notice period - 60 days

Credit Insurance update (cont.)

- **Pool 1 (smaller entities)**

- Entity size included in this pool 500 to 10,000 MWh/day
- Aggregate coverage (co-pays may apply) Up to \$15,000,000
- Deductible / first loss (mkt takes the first X dollars of loss) \$2,000,000
- Co-pay (% MPs will pay in addition to deductible) 10%

Credit Insurance update (cont.)

- **Pool 2 (larger entities)**

- | | |
|---|-----------------------------|
| – Entity size included in this pool | Greater than 10,000 MWh/day |
| – Aggregate coverage (co-pays may apply) | Up to \$100,000,000 |
| – Deductible / first loss (mkt takes the first X dollars of loss) | \$20,000,000 |
| – Co-pay (% MPs will pay in addition to deductible) | 10% |

Rating

Accounts Receivable Insurance Specialists

- Atradius

A

Primary Parents – Deutsch Bank, Swiss Re

- Coface North America (CNA)

AA-

- Euler Hermes

AA-

Primary Parent – Allianz

Multi-Line Companies

- AIG

AA+

- Zurich

A+

Update on Current Status of Bidding

<Discussion>

PRRs with credit implications

- **PRR 683 - Reduce Timeline for Notice and Cure and Create a Working Credit Limit**
(proposed by Credit WG)

PRS voted to reject this PRR with the following votes:

15 – reject

4 - abstentions

2 – not reject

Further detail of vote available, if desired.

TAC took no action when notified of vote.

Based on the outcome of this vote, ERCOT staff understands that at this time market participants are prepared to accept the residual credit exposure in the market.

- **Other Credit WG projects**
 - Review business requirements for Credit Monitoring system for Nodal
 - Met with TPTF October 11th to review
 - Must be approved (along with all other Nodal business requirements by Oct 31st)
 - Reviewing credit standards
 - Anticipate revisions in early 2007
 - Reviewing Credit WG charter
 - Anticipate revisions later in 2006
 - Ongoing review of PRRs
- **ERCOT credit staff projects**
 - Automation of credit calculations – go live

- **Materiality defined**
 - A transaction or series of transactions that if inaccurately recorded may create substantial likelihood that the judgment of a reasonable person relying on ERCOT's financial reports would have been changed or influenced by the different accounting of the transactions
- **Users of ERCOT financial statements**
 - Lenders
 - Rating agencies
 - PUCT
 - Market participants
 - Insurance providers
 - Vendors
 - ERCOT staff and Board members

- **Beneficial business purposes for making a statement regarding materiality**
 - Guide and demonstrate prudent fiscal management
 - Establish the “tone at the top” regarding internal control objectives – an important control in its own right
 - Communicate importance of protecting the organization’s reputation from the risks posed by erroneous financial accounting and financial statements
 - Ensure the establishment of more cost beneficial internal control objectives by focusing resources on areas of higher risk
 - Help staff to evaluate and respond to key control exceptions
 - Misstatement or error
 - Internal control deficiency
 - Accounting estimates
 - Fraud

- **ERCOT's intent for all accounting transactions is to fairly present the company's financial position**
- **This statement regarding materiality is not:**
 - an excuse for sloppy accounting or poor control below established thresholds
 - Management is expected to account for all transactions accurately, consistently, completely, and timely
 - A substitute for prudent, attentive management
 - Assessment of materiality should generally be completed on a case-by-case basis
- **Materiality should generally be assessed on two sets of factors**
 - Qualitative considerations
 - Certain activity must be considered material regardless of the quantitative impact
 - Quantitative measures
 - Established dollar thresholds are just one factor of many to be considered
- **ERCOT's important public service responsibilities affect materiality**
 - Relatively higher standards of performance
 - Relatively lower quantitative thresholds

Examples of Qualitative Considerations and Generalized Conclusions

Example

- **Concealment of unlawful transactions**
- **Intentional misstatement of financial statements**
- **Significant impact on debt covenant compliance**
- **Significant impact on regulatory compliance**
- **Erroneous transactions leading to higher management compensation**
- **Erroneous transactions changing a net income to a net loss or vice versa**

Conclusion

- **Material**
- **Material**
- **Material**
- **Material**
- **Material**
- **Material**

- **Proposed Quantitative Measures**
 - Focus on measures of revenue and expense
 - As a cost pass-through, not-for-profit organization subject to regulatory oversight, profitability measures and thresholds based on balance sheet line items are considered of limited usefulness
 - Rule of thumb quantitative threshold
 - 1 percent of revenue or operating expenses
 - \$1.3 million for ERCOT
 - Deemed too high given nature of ERCOT's responsibilities and history
 - 5 percent of income statement line items
 - \$350,000 minimum based on 2005 operating expenses
 - Proposal for quantitative threshold of materiality for ERCOT
 - One-quarter of one percent of total revenue or approximately 5 percent of minimum operating expense line items on the statement of activities
 - \$350,000 for a single transactions or combination of transactions
 - Approximately \$0.0011 per MWh

- **Proposed Quantitative Measures**
 - Use in performing financial statement risk assessment and designing internal control routines
 - Controls must enable management to detect internal control deficiencies, errors, omissions, and exceptions
 - Severity of deficiency depends on whether or not management detects the deficiency, error, omission or exception before an auditor or financial statement user does
 - After being detected, internal control deficiencies, errors, omissions, and exceptions must be evaluated for materiality and impact on fair presentation of financial statements
 - Report significant internal control deficiencies, material weaknesses, errors, omissions, and exceptions to the F&A Committee
 - Errors, omissions, or exceptions considered material require financial statement adjustment

- **FAS 71 Accounting for Certain Types of Regulation**
 - If regulation provides assurance that incurred costs will be recovered in the future, companies are required to capitalize the costs
 - If current recovery is provided for costs that are expected to be incurred in the future, companies are required to recognize the receipts as liabilities
 - Costs may be required to be accounted for in a different manner from that required from another authoritative pronouncement
- **Applicability of FAS 71 was considered by ERCOT management and the F&A Committee in 2001, 2002, and 2003 and it was concluded that regulatory accounting was not necessary or appropriate**

ERCOT

FAS 71 Accounting for Certain Types of Regulation

Pros	Cons
Better financial statement "optics" sooner than otherwise achieved	Prior management conclusions regarding applicability of FAS 71
Improved information regarding financial impact of timing differences between principal payments and depreciation expense	Need for PUCT orders to address contention that approved fees do not allow for recovery of ERCOT costs of service
	Justification for a change in significant accounting policies
	Decision cannot be easily undone and carries long-term consequences
	Additional financial statement disclosures
	Additional work for ERCOT staff
	Potential to undermine commitment to maintain balance between asset and associated liability lives
	Additional testing by external auditor
	Higher external audit fees

Regulatory Accounting Discussion

M. Petterson

ERCOT

FAS 71 Accounting for Certain Types of Regulation

ISO	FAS 71 Application
California ISO	No application of FAS 71 Auditor is PricewaterhouseCoopers
Midwest ISO	Application of FAS 71 \$166 million of deferred regulatory assets at 12/31/2005 \$13 million of deferred regulatory liabilities at 12/31/2005 Deferral based on FERC orders and settlement agreements regarding market start-up costs, rate caps, FERC assessment fees, and exit fee reimbursements paid to member organizations Auditor is PricewaterhouseCoopers
New York ISO	Application of FAS 71 \$12 million of deferred regulatory assets at 12/31/2005 \$18 million of deferred regulatory liabilities at 12/31/2005 Deferral based on FERC orders and settlement agreements regarding working capital replenishment surcharges as well as management conclusions regarding over collection of fees under approved tariffs and treatment of timing differences between principal payments on debt incurred to acquire assets and depreciation expense relating to those same assets Auditor is Deloitte & Touche
New England ISO	Application of FAS 71 \$2 million of deferred regulatory assets at 12/31/2005 \$53,000 of deferred regulatory liabilities at 12/31/2005 Deferral based primarily on funding of pension liabilities to be collected in future fees Auditor is PricewaterhouseCoopers

ERCOT Market Credit Status

	as of 08/31/2006				as of 09/30/2006					
	# 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	
Exposure in the ERCOT Market (owed to ERCOT)										
<u>QSEs that meet ERCOT Creditworthiness Standards</u>										
Ratings over BBB-	4	12,778,859	4%	63,000,000	U	6	32,670,985	11%	74,000,000	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	45	143,301,254	46%	313,883,117	S	51	142,088,343	46%	314,316,080	S
Guarantee Agreements	12	154,536,635	50%	319,361,000	S	14	135,709,799	44%	400,217,000	S
Total Exposure	61	310,616,748	100%			71	310,469,127	100%		
Other QSEs in the ERCOT Market (ERCOT owes)										
<u>QSEs that meet ERCOT Creditworthiness Standards</u>										
Ratings over BBB-	13	(16,576,934)	-23%	116,473,505	U	11	(9,548,969)	-21%	70,026,345	U
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>										
Ratings below BBB- or not rated										
Cash & Letters of Credit	40	(38,493,506)	-54%	64,424,206	S	33	(19,525,502)	-44%	18,603,799	S
Guarantee Agreements	11	(16,202,473)	-23%	109,400,000	S	10	(15,368,463)	-35%	104,400,000	S
Total	64	(71,272,913)	-100%			54	(44,442,934)	-100%		
Total	125					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

- **Outage Scheduler Enhancements Phase 2 project cancelled by business owner (S. Myers) and sponsor (K. Saathoff) on September 22, 2006**
 - Rationale for cancellation
 - Quality expectations in functionality cannot be fulfilled within a reasonable time or cost
 - Expected delivery of new Outage Scheduler functionality from the Texas Nodal Market Implementation Program
 - Current application operating within Coldfusion is stable and meets business requirements with some inefficiencies
 - Financial impact
 - \$705,000 increase in operating expenses in 2006
 - Project Objective and Scope
 - Comply with PRR 425
 - Address functionality not delivered as part of Phase 1
 - Replace Coldfusion-based web application with more efficient tool

2006 Year to Date Project Activity by Division (January to September)

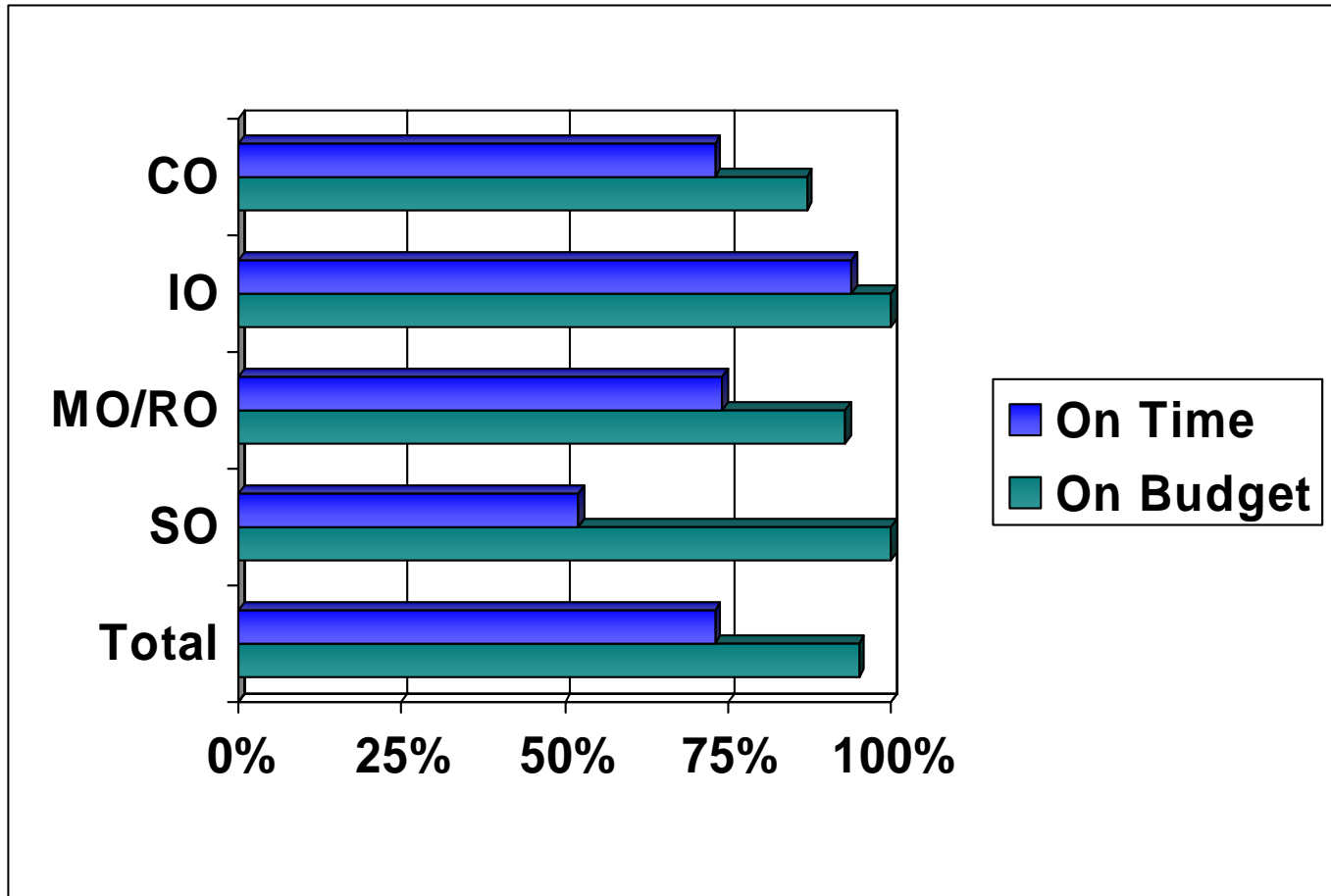
	Phase	Not Started	Initiation	Planning	Execution	Closing *	Completed *	Cancelled**	On Hold	Totals by CART
CART	Corporate Operations	0	0	4	7	1	3	0	0	15
	IT Operations	0	0	3	4	2	8	0	1	18
	Market Operations	0	1	6	14	0	6	2	3	32
	System Operations	2	2	1	11	1	10	2	4	33
	Totals by Phase	2	3	14	36	4	27	4	8	98

*NOTE: 2 projects went live in the month of September

**NOTE: 3 projects were cancelled before starting and one project cancelled in Execution.

















2006 Year to Date Completed and Active Projects Performance

(January to September)



Committee Brief - PMO

David Troxtell

Projects Over \$1M	Total Budget	Actual 09/30/06	Metrics	
Duration/Information (Sponsor)	Phase/Scheduled Completion		Schedule	Budget
Service Oriented Architecture (2004-2006)	\$8.3M	\$6.96M		
<i>3 separate projects over 12 mos. (R. Giuliani)</i>	<i>Execution Phase/4th Qtr 2006</i>			
Enterprise Data Warehouse (2003-2006)	\$3.5M	\$2.82M		
<i>9 separate projects over 36+ mos. (R. Giuliani)</i>	<i>Execution Phase/3rd Qtr 2006</i>			
Operator Training Simulator (2005-2006)	\$3.8M	\$1.91M		
<i>Training Simulator System for Operators (S. Jones)</i>	<i>Execution Phase/2nd Qtr 2007</i>			
Enhancements to FasTrak Tools (2005-2006)	\$2.5M	\$2.45M*		
<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	\$851K		
<i>Entered into Execution (R. Giuliani)</i>	<i>Execution Phase/3rd Qtr 2006</i>			
Austin QA Build out (2005-2006)	\$1.162M	\$1.06M*		
<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	\$458K		
<i>Entered Execution (S. Jones)</i>	<i>Execution Phase/1st Qtr 2007</i>			
SBC Network Replacement (2005-2006)	\$1.4M	\$1.34M		
<i>Fiber Build Out from Taylor to Austin (R. Hinsley)</i>	<i>Execution Phase/3rd Qtr 2006</i>			

Go Live Projects for September

- **PR-30105 Congestion Management Reports**

- **Scope:** Provide data mining and ad-hoc reporting capability against Real Time Contingency Analysis (RTCA) data stored in the Operational Data Store (ODS)
- **Deliverables:** Provided Cognos ReportNet functionality. Automated the reporting of the Informational Reporting Indicator for IROL/SOL to NERC (ER-50044). Delivered Commercial Over Limit Reports (ER-30029) and System Operating Overload Reports (ER-30028)
- **Timeline:** February 2005 – September 2006

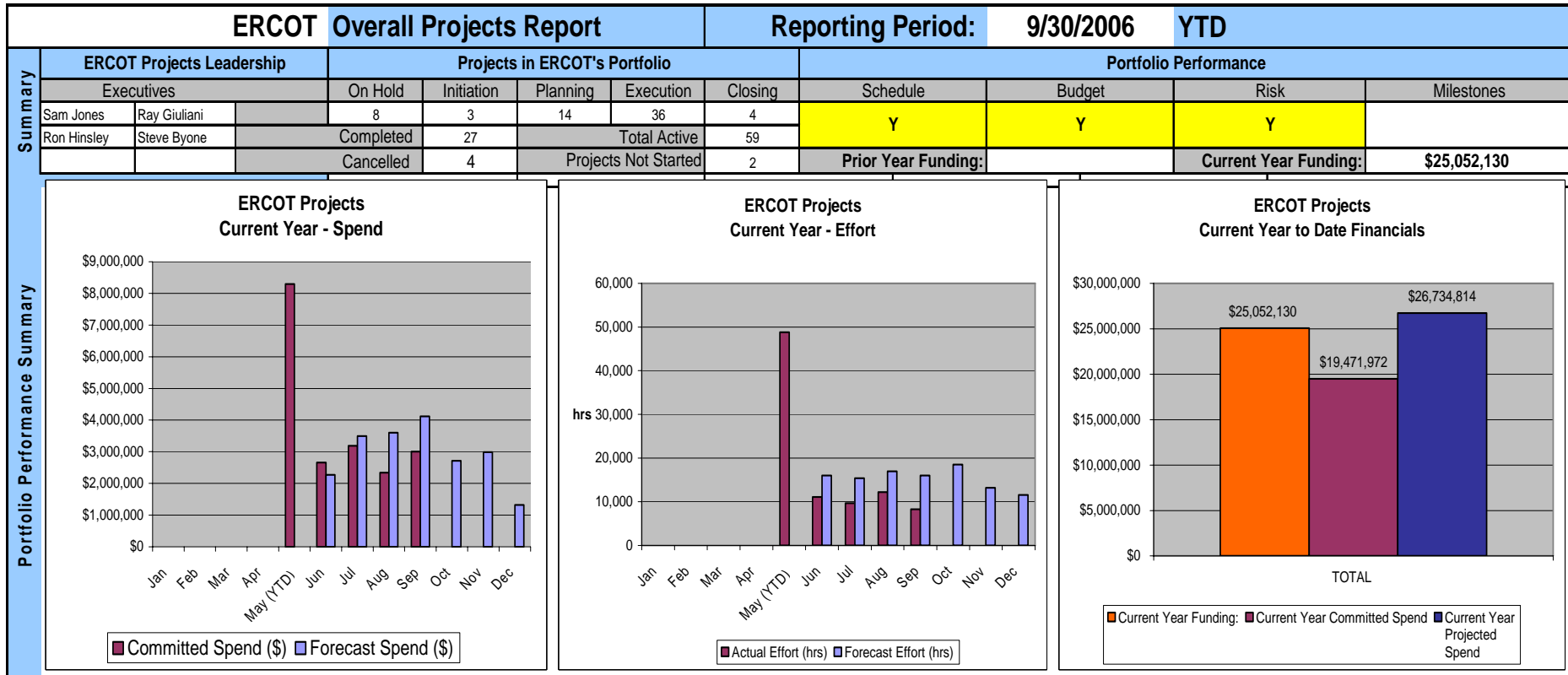
- **PR-50140 Log And Event Management**

- **Scope:** Implement a solution to centrally collect and analyze security data from heterogeneous devices to discover risks, correlate relevant security information, assess vulnerabilities and communicate compliance.
- **Deliverables:** Install a Commercial Logging and Event Management product (hardware and software) integrated with other event collection devices onto the ERCOT network.
- **Timeline:** July 2005 – September 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	12	2	3	7
Planning	3	1	1	1
On Hold / Cancelled	3	1	2	
Moved Below Cut Line	5	2	1	2
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	20		2	18
Planning	11	1	3	7
Initiated	3		1	2
Not Started	4		1	3
Canceled	3			3
On Hold	3	2	1	
New 2006 Projects	55	4	8	43
Current PPL as of October 1, 2006	102	10	21	71

Enterprise Projects Summary Report



Future Agenda Items – November

- **Report on SAS 70 Audit**
- **D&T Agreed Upon Procedures Report**
- **2006 Financial Audit Planning**
- **Review and approval of Financial & Investment policies**
- **Review requirements for membership in CWG**
- **Review and approve CWG charter**
- **Review 2007 Meeting Planner**
- **Assess Adequacy & Effectiveness of Internal Audit Staff**
- **Assessment of Compliance, the Internal Control Environment & Systems of Internal Controls**

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
- Vote on CWG Chair

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 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
- 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