



ERCOT
Finance & Audit Committee Meeting
7620 Metro Center Drive, Room 168, Austin, Texas
November 14 , 2006; 7:30 a.m. - 10:00 a.m.**

Agenda Item #	Description/Purpose/Action Required	Presenter	Time
	Call to Order	C Karnei	7:30 a.m.
1.	Adjourn to Executive Session		7:30 a.m.
	• Approval of 2007 Internal Audit Plan	B Wullenjohn	7:30 a.m.
	• Update on 2006 Internal Audit Goals	B Wullenjohn	7:40 a.m.
	• Significant Audit Findings	B Wullenjohn	7:45 a.m.
	• EthicsPoint Update	C Vance	7:50 a.m.
	• Contracts (Vote on Recommendation in General Session)	C Yager	7:55 a.m.
	Break		8:05 a.m.
	Reconvene to General Session		8:10 a.m.
2.	Approval of Minutes* (10/17/06) (VOTE)	C Karnei	8:10 a.m.
3.	2007 Strategic Financial Plan and Budget (VOTE on Recommendation)	S. Byone	8:15 a.m.
4.	Third Party Audits		8:30 a.m.
	• D&T Agreed Upon Procedures Review – Brief	K Schwerdtfeger	8:30 a.m.
	• 2006 SAS 70	S Barry	8:40 a.m.
	• 2006 Financial Audit Planning	S Barry	8:50 a.m.
5.	FAS 71 – Regulatory Accounting	M Petterson	9:00 a.m.
6.	Annual Standard & Charter Reviews		9:10 a.m.
	• Status of CWG Charter Update	C Yager	
	• Review and approve Financial and Investment Standards (Vote on Recommendation)	C Yager	
7.	Interest Rate Risk Management\Derivatives	C Yager	9:25 a.m.
8.	Outage Scheduler Project Cancellation Q&A	K Saathoff	9:30 a.m.
9.	Committee Briefs		9:40 a.m.
	• ERM		
	• PMO		
	• Credit		
	• ICMP		
10.	Future Agenda Items	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 December 12, at ERCOT, 7620 Metro Center Drive, Austin, Texas.*

<Please see Board template included in the BOD package for Board agenda item 7(b) Market Participants as Financial Institutions>

Draft MINUTES OF THE ERCOT FINANCE & AUDIT COMMITTEE MEETING

Austin Met Center

7:45 A.M.

October 17, 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 **October 17, 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:

Anderson, Troy	ERCOT
Barry, Sean (via phone)	PriceWaterhouseCoopers (PwC)
Berry, Ron	ERCOT
Brenton, Jim	ERCOT
Byone, Steve	ERCOT (CFO)
Campbell, Cassandra	ERCOT
Day, Betty	ERCOT
Doolin, Estrellita	ERCOT
Dreyfus, Mark	Austin Energy
Hancock, Misti	ERCOT
Hudson, Paul	PUCT
Jones, Sam	ERCOT (CEO)
Meek, Don	ERCOT
Pettersen, Mike	ERCOT
Ruebsahm, Jamille	Deloitte & Touche (D&T)
Troxtehl, David	ERCOT
Vance, Cathy	ERCOT
Vincent, Susan	ERCOT
Wullenjohn, William	ERCOT
Yager, Cheryl	ERCOT

Executive Session

At 7:46 AM, the Committee meeting was adjourned and the Committee went into Executive Session until approximately 8:40 AM. The Committee returned to Open Session at 8:45 AM.

Approval of Previous Minutes

Robert Manning moved to approve the minutes for the previous meetings held on September 19, 2006 and October 5, 2006; Miguel Espinosa seconded the motion. The motion passed unanimously.

2007 Operating Budget

Michael Petterson confirmed for the Committee the rigorous process of review of the proposed 2007 Operating Budget process to date, including review by and input from the public, market participants, PUCT staff, the Committee, and the ERCOT Board of Directors. Mr. Petterson overviewed the 2007 Budget objectives and assumptions and reviewed the proposed budget, including certain previously scrutinized expense items, outside services increase due to Nodal backfill by consultants, a comparison of the proposed budget to the 2004 to 2006 budgets, and a proposed 5-year forecast, all of which were set to be presented to the full Board. After discussions by the Committee members, Clifton Karnei confirmed that the Committee had reviewed the 2007 budget, generally concurred with management's recommendations and intended to make a recommendation regarding approval to the full Board during its November meeting. However, Mr. Byone and Mr. Karnei stated that they first wanted to discuss increasing the 2006 capital budget.

2006 Capital Budget Increase

Steve Byone explained that subsequent to an ERCOT staff review of the applications and systems that needed upgrade or other modification for the Texas Nodal Market Implementation Program, there was an outstanding question as to the inclusion of certain items in the Nodal budget. The items in question are critical path for Nodal and have been included in the Nodal program estimates although they were previously planned to be addressed (in later years) within the zonal capital program. Mr. Byone informed the Committee that management believes the interim surcharge Order contemplates separate accounting of specific Nodal costs versus costs that would be incurred under zonal. Mr. Byone stated that, based upon the analysis, ERCOT management suggested that \$37 million of the proposed Nodal budget be reclassified to be a part of the traditional zonal capital projects budget ("Zonal").

Mr. Byone presented a proposal for implementing management's suggestion to reclassify the \$37 million by: 1) Re-prioritizing Zonal project plans where possible, 2) Using anticipated 2006 "excess revenue" to fund project additions, 3) Temporarily decreasing 2007 equity contribution from 40% to 27%, and 4) Reducing 2008 Zonal project spending so that the overall (2006-2008) equity contribution target of 40% would be restored.

Mr. Byone explained that the proposed action would accommodate Nodal critical path items, maintain ERCOT's overall credit quality, and maintain a stable System Administration Fee in 2007 and 2008. He told the Committee that expected completion of items totaling \$9.3 million in 2006 would require a 2006 spending increase, and that management would be seeking approval of this 2006 capital budget increase at the October Board meeting. Mr. Byone also stated that he would seek to have the Committee indicate approval of the 2007 Budget at the meeting but that no formal vote would be taken on the 2007 Budget until November.

Scott Gahn indicated support to reducing the equity percentage, temporarily, and asked Mr. Byone to confirm that non-Nodal staff members were involved in the reprioritization. Mr. Karnei asked if the Committee wanted to recommend the 2007 Budget at the upcoming meeting. William Taylor and Mr. Gahn questioned whether the Committee should wait until the November meeting to make a recommendation to determine if there was any change to the proposed \$37 million reclassification. The Committee members indicated that they desired to retain a flat system administration fee. Robert Manning indicated that he would like to approve the 2007 Budget, and

Tom Standish stated that, although he didn't necessarily agree with the plan, he would agree to staff's financing proposal.

After extensive discussion, **William Taylor moved to recommend approval of the 2006 Capital Budget Increase of \$9.3 million; Robert Manning seconded the motion. The motion passed unanimously.**

Treasury and Credit Update

Cheryl Yager presented to the Committee a Summary of Investment Results for the third quarter of 2006. She also informed the Committee that Moody's had reviewed its rating of ERCOT and had confirmed the current rating.

Ms. Yager updated the Committee on efforts to provide credit insurance coverage for the ERCOT market. Staff sought bids from five companies and continues discussion with two entities, one of which is fairly active at this time. She highlighted the parameters requested and the general pricing discussed with the vendor. She noted that all vendors had indicated that not all QSEs would be covered and that all vendors had cancellation clauses that would allow them to discontinue coverage on individual QSEs within certain notice timeframes. After some discussion, the Committee requested staff to provide more information so it could continue the discussions regarding the number of entities that the insurance would currently exclude, the notice required for and timing of future cancellations, how to fund the premium, and other related issues.

Ms. Yager noted that PRR 683, which was proposed by the Credit Work Group at the Committee's request, had been rejected by PRS. PRR 683 sought to reduce the timeline for notice and cure and create a working credit limit. TAC took no follow-up action. Staff interpreted the vote as acceptance by market participants of the residual credit exposure in the market. Mr. Karnei asked whether the Committee wanted to take action to reduce the credit risk. Mr. Taylor and Mr. Gahn noted that the market had clearly agreed to the current credit risk. After extensive discussion, the Committee asked staff to engage a credit professional to assess whether the credit exposure policies for ERCOT were reasonable.

Ms. Yager updated the Committee on other Credit Work Group and credit staff projects including the following:

1. Reviewing business requirements for credit monitoring system for Nodal
2. Reviewing credit standards
3. Reviewing Credit Work Group charter
4. On-going review of PRRs
5. Automation of credit calculations

Discussion on Materiality Levels

Michael Petterson reviewed the benefits of establishing materiality levels and sought concurrence from the Committee regarding concepts of materiality that would promote more efficient design of a risk-based internal control program. Sean Barry of PwC agreed that this effort was a good idea and that it was best practice for the Committee and the Finance staff to agree on this topic. Mr. Barry also cautioned the Committee to avoid "pinning" itself down since materiality analyses are fact and circumstance driven. Mr. Barry and Bill Wullenjohn noted that internal audit and external auditors would have different thresholds for materiality, with internal audit using a lower threshold and external auditors using a higher threshold before disclosure. The Committee suggested staff prepare a document describing the materiality approach including relevant caveats.

Committee Briefs

Project Cancellation and Write-Off

Michael Petterson explained that the Outage Scheduler Enhancements Phase 2 Project had been cancelled and that 2006 operating expenses would be increased by \$705,000. Committee members requested that the business owner (S. Myers) and/ or sponsor (K. Saathoff) be invited to a future meeting to explain the rationale for the cancellation.

Potential Conflicts – Market Participant Banks

Cheryl Yager requested the Committee to consider discussing during a future meeting the potential conflict or market participants that provide banking services to ERCOT.

Adjournment

At approximately 9:59 A.M., the meeting was adjourned. The next Committee meeting will be held on the morning of November 14, 2006.

Susan Vincent, Secretary

ERCOT

2007 Strategic Financial Plan & Budget

Finance & Audit Committee

November 14, 2006

AGENDA

- Budget Preparation
- Policy Considerations
- Key Assumptions
- Proposed Budget
- Sensitivity
- Finance and Audit Committee Proposal

2007 Budget Preparation and Review

- **Process started April 17, 2006**
- **Rigorous review process**
 - Internal
 - Line managers
 - ERCOT officers
 - Budget group comparisons
 - External
 - Public review and feedback (September 26, 2006)
 - Six Finance and Audit Committee Updates/Reviews
 - Preview with Board of Directors during October Meeting
 - Feedback incorporated into proposed budget

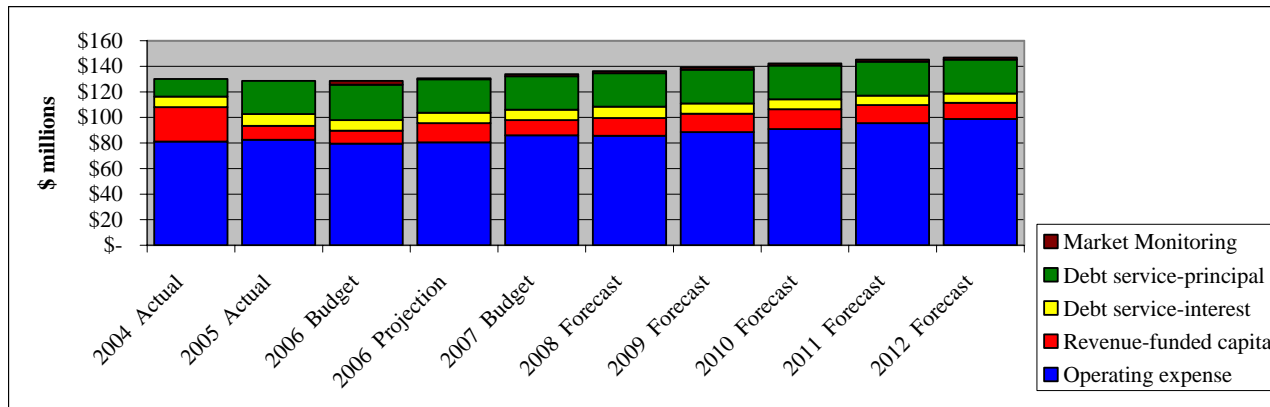
Policy Considerations

POLICY AREA	MANIFESTATION	RATIONALE	IMPACT
Zonal / Nodal project cost allocation	Accumulate and account for incurred projects costs separately	Fund incurred project costs from the appropriate fee/surcharge	Designation of project costs based on market requirements and support.
Use of leverage	Debt funding for portion of capital expenditures	Addition of interest cost is warranted due to benefit derived from holding fee steady over time and matching of cost with benefit.	Based on a 3 year average from 2004 – 2006 projected, approximately \$0.0283 in on-going fee is utilized to pay interest. If repayment of principal is deferred, unrestricted net assets will fall.
Balance sheet – unrestricted net assets	Timing differences resulting from asset lives and associated depreciation compared to debt maturity profile	Small negative balances are acceptable given that they do not grossly impede the company's ability to obtain debt financing and thus maintain financial flexibility	Current projected negative unrestricted net asset balance peaks at \$(26.1) million at year-end 2006 then trends positive post 2007. Note, includes impact of \$263M wholesale market redesign program funded via a surcharge through 2012.
Over funding of revenue requirements	Collections via the ERCOT System Administration Fee are greater than revenue requirements	Given policy issues regarding leverage and net unrestricted assets, using favorable variances to reduce outstanding debt is prudent.	Incrementally lower outstanding debt and higher net unrestricted net assets provides greater ability to fund unbudgeted, priority initiatives.
Under funding of revenue requirements	Collections via the ERCOT System Administration Fee are insufficient to cover revenue requirements	In recognition of the complexity and cost of changing ERCOT fees, it is efficient to manage reasonable unfavorable budget variances through cost control and short-term borrowing.	Heightened pressure to identify cost efficiencies or incrementally higher outstanding debt and lower net unrestricted net assets.
Reliability Organization	New operating costs are incurred	Designation of incurred expenses as statutory and/or non-statutory based on the Federal Power Act	Statutory functions funded via newly created Regional Entity surcharge and non-statutory functions funded via System Administration fee.
High level of system changes and project activity	More projects requested than are undertaken, capital rationing, and project prioritization	Reflects ERCOT's participatory governance model and heightens commitment and creativity to improve the market. Cognizant of limits on ERCOT's ability to successfully implement system projects.	Increase ERCOT asset values, and depending on how projects are funded, have incremental impact on outstanding debt and unrestricted net assets.

2007 Key Budget Assumptions

- Operating expenses
 - Consistent with historical spending
 - Continued emphasis on monitoring and controlling operating costs
- Debt service
 - Existing debt amortized per agreement
 - New debt amortized consistent with expected average asset lives
 - Interest rates consistent with debt agreements or based on long-term average LIBOR
- \$44 million in project expenditures
 - \$12 million revenue-funded
 - \$32 million debt financed
 - Temporarily modify 2007 and 2008 debt funding ratio
- Energy consumption growth at 3.2 percent over projected 2006 level
- Project spending reduced by \$14 million if TNMIP Zonal/Nodal dependencies remain with the TNMIP program

Proposed Budget and Fee

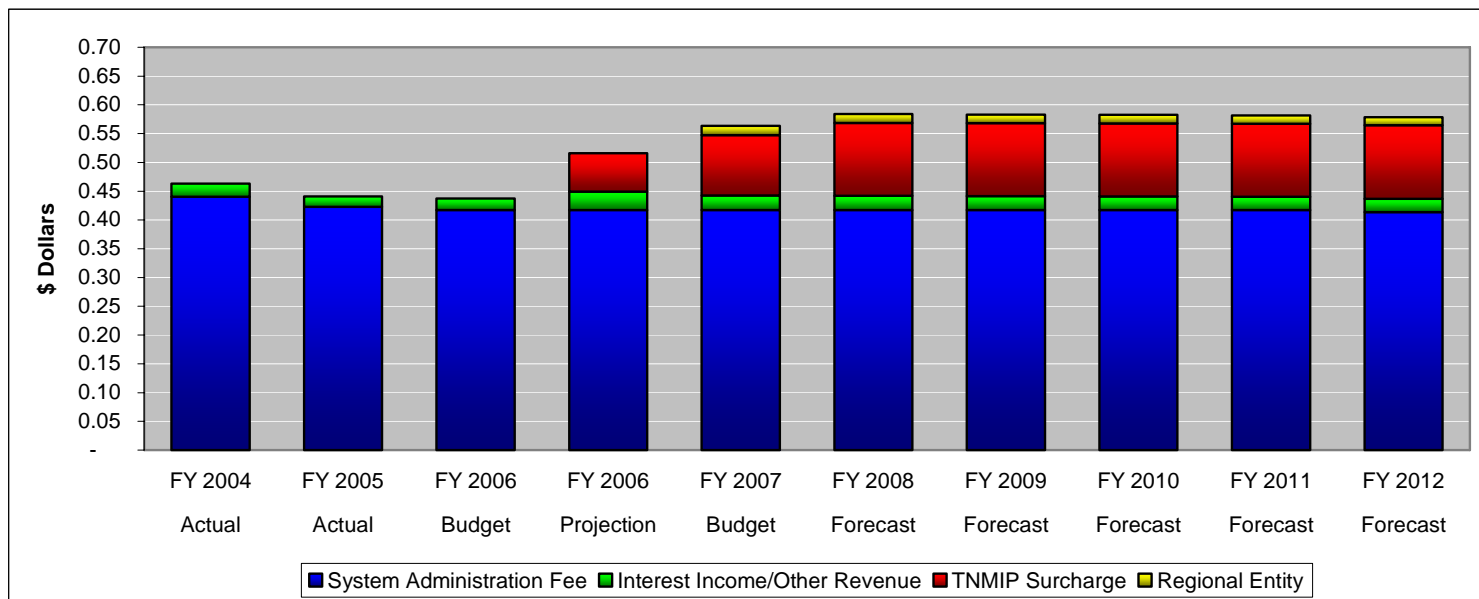


	2004 Actual	2005 Actual	2006 Budget	2006 Projection	2007 Budget	2008 Forecast	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast
(\$Millions)										
Operating expense	81.0	82.5	79.5	80.6	86.0	85.6	88.6	90.8	95.5	98.7
Revenue-funded capital	26.9	10.9	10.0	15.0	12.0	14.0	14.4	15.6	14.2	12.8
Debt service-interest	8.4	9.2	8.4	8.2	8.0	8.8	7.9	7.7	7.4	7.2
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	130.6	133.8	136.2	139.0	142.2	145.2	146.8
GWh	288.3	298.8	301.9	303.1	312.7	318.6	325.2	332.9	340.1	346.7
System Administration Fee	\$0.44	\$0.42	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4171	\$0.4138
Debt Outstanding	178.4	160.6	149.0	149.5	154.1	134.9	130.2	127.2	122.1	114.9
Total Capital Spending	46.8	16.4	25.0	34.3	44.0	21.0	36.0	39.0	35.5	32.0
(\$ / MWh)										
Operating expense	0.27	0.27	0.2582	0.2573	0.2680	0.2619	0.2658	0.2664	0.2743	0.2782
Revenue-funded capital	0.09	0.04	0.0325	0.0477	0.0374	0.0429	0.0432	0.0458	0.0408	0.0361
Debt service-interest	0.03	0.03	0.0272	0.0262	0.0250	0.0269	0.0238	0.0226	0.0213	0.0204
Debt service-principal	0.05	0.09	0.0896	0.0835	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	\$0.4138

Note:

- (1) Other revenue will supplement System Administration Fee to meet total funding requirement.
- (2) Revenues collected in excess of funding requirement are utilized to reduce debt funding.

Estimate of Total Fees

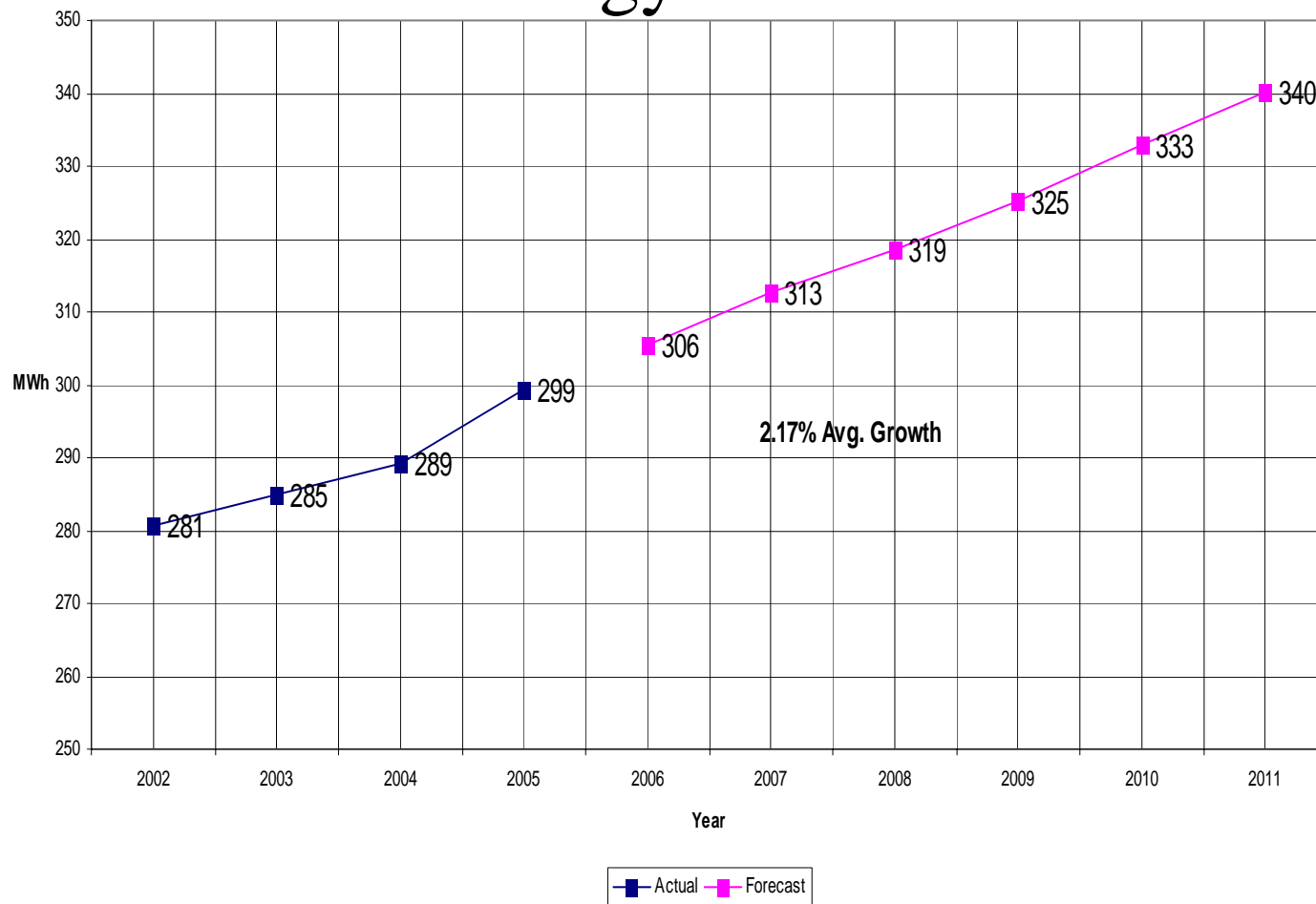


	Actual FY 2004	Actual FY 2005	Budget FY 2006	Projection FY 2006	Budget FY 2007	Forecast FY 2008	Forecast FY 2009	Forecast FY 2010	Forecast FY 2011	Forecast FY 2012
System Administration Fee	0.44	0.42	0.4171	0.4171	0.4171	0.4171	0.4171	0.4171	0.4171	0.4138
Interest Income/Other Revenue	0.02	0.02	0.0204	0.0323	0.0254	0.0250	0.0244	0.0239	0.0234	0.0231
TNMIP Surcharge	-	-	-	0.0663	0.1052	0.1265	0.1266	0.1266	0.1267	0.1274
Regional Entity	-	-	-	-	0.0156	0.0156	0.0152	0.0149	0.0146	0.0143
Total	0.46	0.44	0.4375	0.5157	0.5633	0.5842	0.5834	0.5825	0.5818	0.5787

Notes:

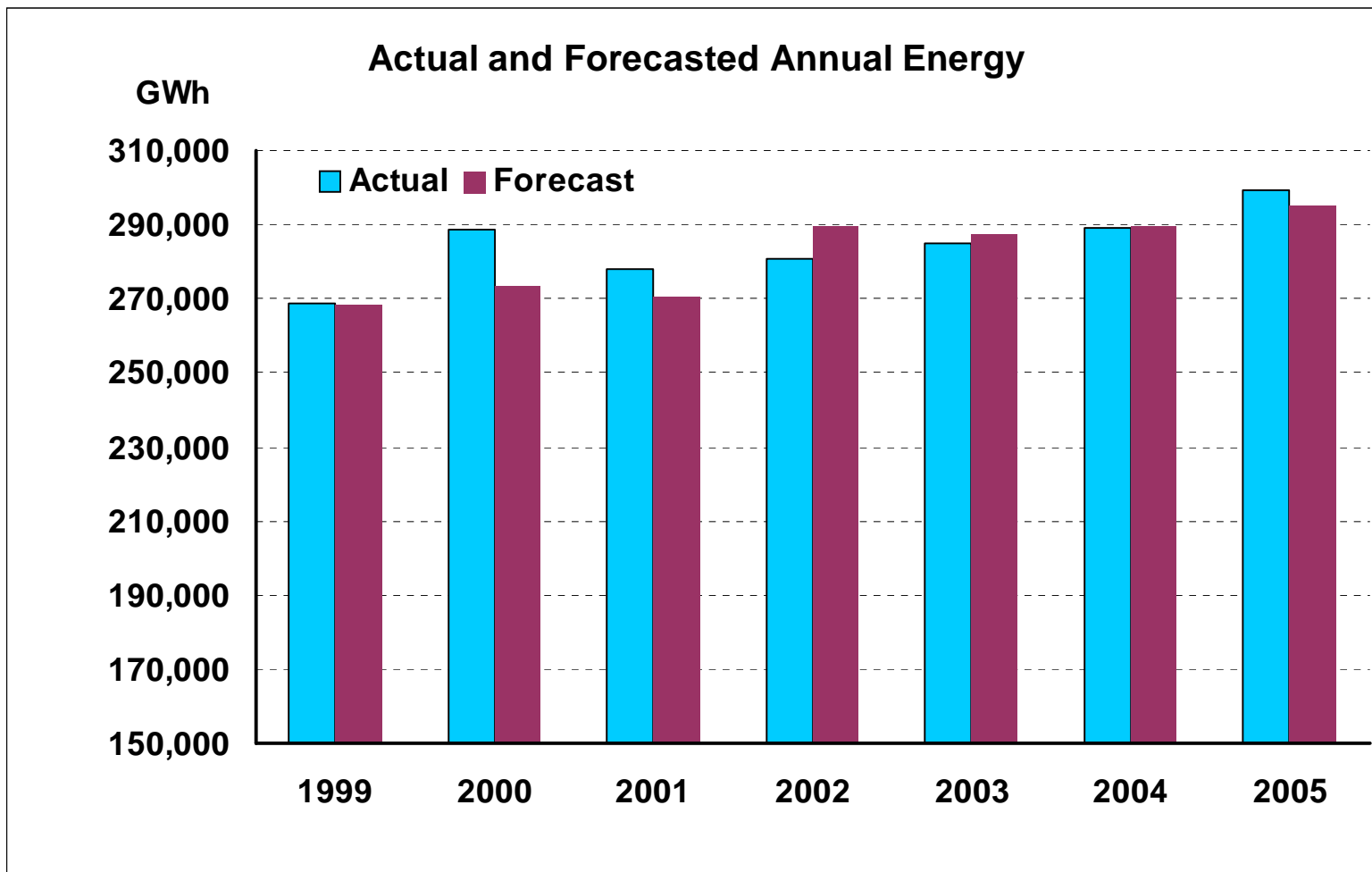
- (1) TNMIP cost is expected to be fully recovered by 2012 and the surcharge eliminated in 2013.
- (2) TNMIP surcharge is approximation that will be adjusted consistent with the final outcome of the TNMIP Fee Filing.

Energy Forecast



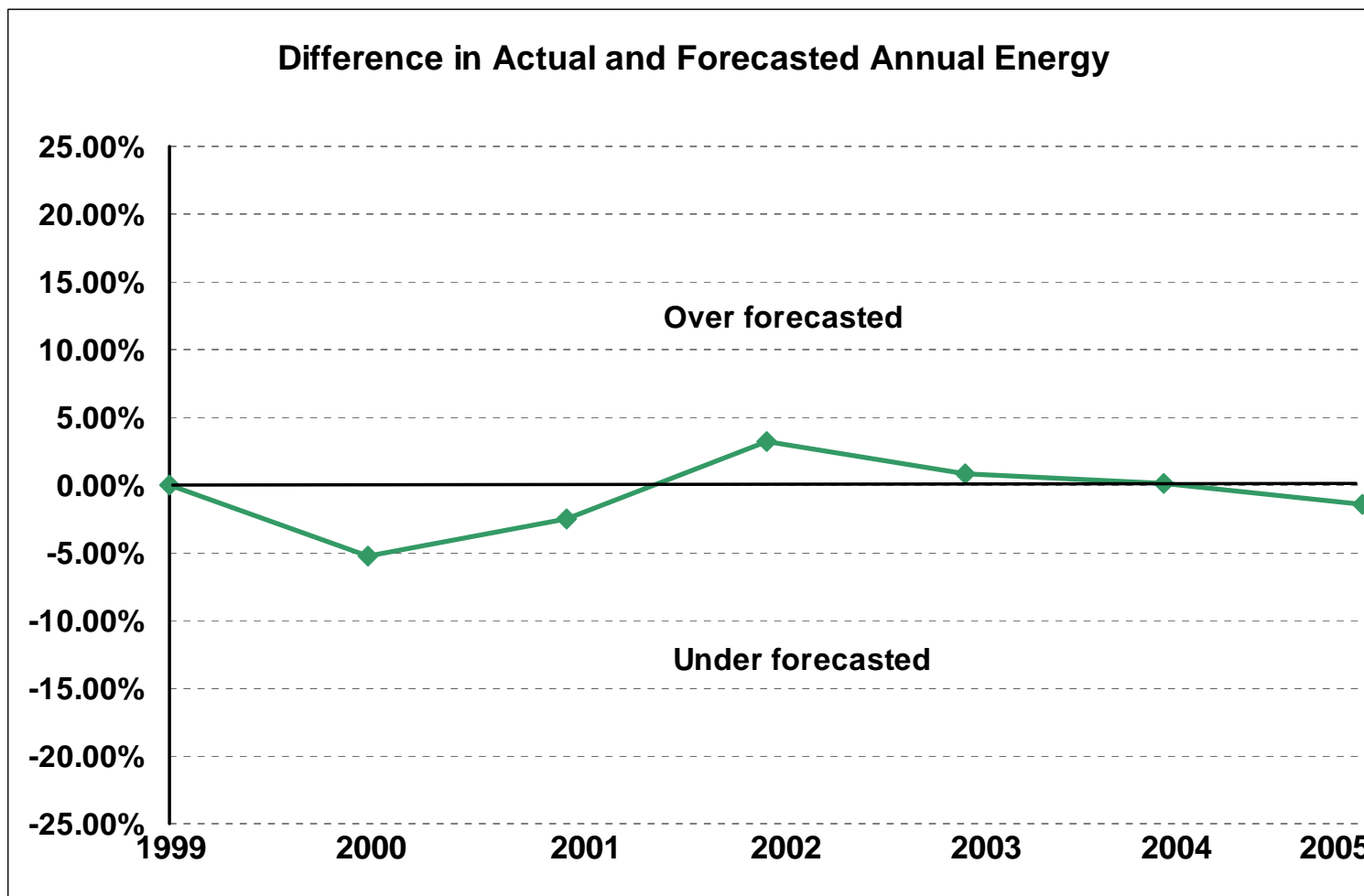
*Source: 2006 Report on the Capacity, Demand, & Resources for the ERCOT Region
Board of Directors, June, 2006 (See Appendix)*

Forecast Performance



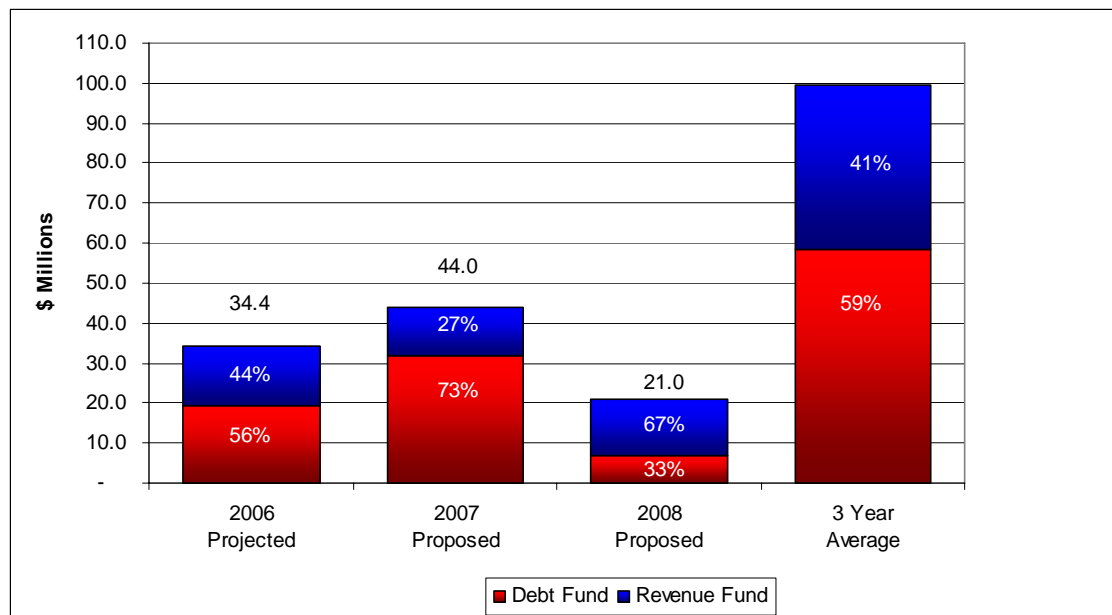
Source: 2006 Report on the Capacity, Demand, & Resources for the ERCOT Region Board of Directors, June, 2006 (See Appendix)

Forecast Performance



Source: 2006 Report on the Capacity, Demand, & Resources for the ERCOT Region Board of Directors, June, 2006 (See Appendix)

Debt Funding



- To accommodate Zonal/Nodal dependent projects, the 2007 proposed capital budget includes additional spending of \$14 million.
- ERCOT's Targeted Debt Funding Ratio is 60% Debt and 40% Revenue.
- A temporary annual modification in 2007 and 2008 with the 3 year average remaining consistent with the Financial Standard is proposed.
- Requirement to restore the targeted equity funding ratio by 2009

Sensitivity and Risks

Category	\$.01/MWh Equivalent
Operating cost	+ - \$3 million
Electricity consumption	+ - 7 GWh (2.2% variance)
Revenue funded capital (assumed at 40%)	+ - \$7.5 million

- All contingencies eliminated
- Bank facilities and working capital used to manage unanticipated variances

2007 Strategic Financial Plan and Budget Alternatives

	Alternative 1 (\$14M TNMIP Zonal/Nodal project dependencies included)	Alternative 2 (\$14M TNMIP Zonal/Nodal project dependencies excluded)
System Administration Fee	0.4171	0.4171
Revenue Requirement	133.8	133.8
Total Spending Authorization	165.74	151.78
Debt Funding Ratio (Debt % : Revenue %)	73% : 27%	60% : 40%

Note:

Please refer to Board Agenda Item 7A for the Decision Template

APPENDIX

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	\$ 63,034	\$ 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)	(5,371)	(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	51,209	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	80,587	85,958	85,901	93,173	95,210	97,040	98,699
Less: Fee Reduction/Cost Reduction TBD			(858)			(350)	(4,600)	(4,380)	(1,560)	-
<i>Subtotal - O&M Expenses</i>	81,020	82,451	79,533	80,587	85,958	85,551	88,573	90,830	95,480	98,699
Debt service - interest expense	8,426	9,189	8,375	8,201	8,031	8,793	7,946	7,690	7,425	7,233
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	129,875	132,126	134,481	137,306	140,507	143,492	145,119
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	\$ 127,046	\$ 126,357	\$ 125,933	\$ 126,425	\$ 130,420	\$ 132,875	\$ 135,650	\$ 138,851	\$ 141,836	\$ 143,463
GWh	288,291	298,782	301,917	303,105	312,680	318,554	325,212	332,867	340,076	346,698
% GWh Growth	1.1%	3.6%	1.0%	1.4%	3.2%	1.9%	2.1%	2.4%	2.2%	1.9%
ERCOT System Administration Fee	0.44	\$ 0.42	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4171	\$ 0.4138
Capital Spending - Revenue Funded	26,925	10,880	10,000	14,950	12,000	14,000	14,400	15,600	14,200	12,800
Capital Spending - % Revenue Funded	58%	66%	40%	44%	27%	67%	40%	40%	40%	40%
Capital Spending - Debt Funded	19,839	5,485	15,000	19,330	31,960	7,040	21,600	23,400	21,300	19,200
Capital Spending - % Debt Funded	42%	34%	60%	56%	73%	33%	60%	60%	60%	60%
Total Capital Spending	46,764	16,365	25,000	34,280	43,960	21,040	36,000	39,000	35,500	32,000
Total ERCOT Spending Authorization	149,847	134,142	143,495	149,955	165,736	143,271	160,606	165,607	166,492	166,019
Debt Outstanding at Year-end	\$ 178,363	\$ 160,634	\$ 149,039	\$ 149,497	\$ 154,132	\$ 134,938	\$ 130,151	\$ 127,164	\$ 122,077	\$ 114,890

Committee Briefs: PMO: 2007 Capital Budget Adjustment Impact

David Troxtell

<u>CART</u>	<u>Original</u>	<u>Revised</u>	<u>----- Reasons -----</u>
CO	\$ 5.75M	\$ 4.25M	Acceleration of \$0.25M from 2007, 2 deferrals to 2008, 1 merge with IO
IO	\$16.00M	\$12.75M	Acceleration of \$2.50M from 2007, reduction in estimate for Info Lifecycle
MO	\$ 2.06M	\$ 1.50M	TML Phase 3 reduction
RO	\$ 7.66M	\$ 7.00M	Deferral of portions of low ranked ERCOT projects to 2008
<u>SO</u>	<u>\$ 4.91M</u>	<u>\$ 4.50M</u>	Acceleration of \$0.25M from 2007, reduction in Operations Support Study est.
	<u>\$36.38M</u>	<u>\$30.00M</u>	Subtotal (initial Zonal budget reduction)
<u>Nodal</u>	<u>\$ 0.00M</u>	<u>\$14.00M</u>	Zonal/Nodal Dependencies
Total	<u>\$36.38M</u>	<u>\$44.00M</u>	



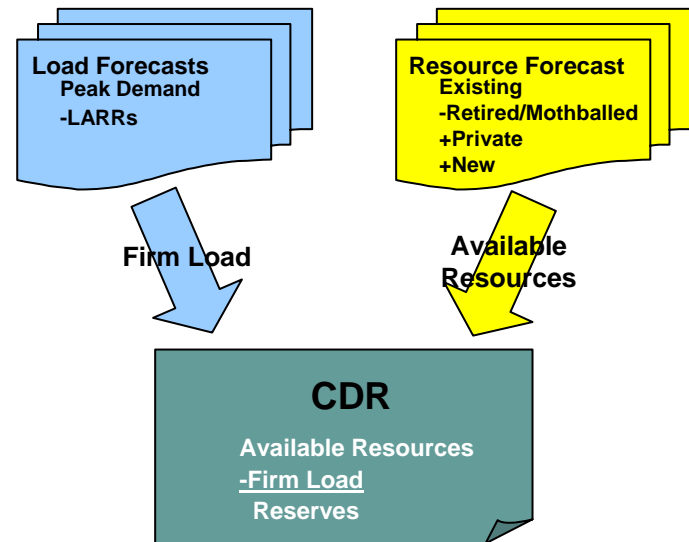
2006 Report on the Capacity, Demand, & Resources for the ERCOT Region

Board of Directors
June 1, 2006

Bill Bojorquez
System Planning

In order to adequately prepare the CDR, ERCOT planners have compiled the best information available with regards to forecasted load demands and available resources.

- Load Forecasts
- LAARs
- Existing Resources
- Wind Generation
- Mothballed Units
- RMR Units
- Private Networks
- New Resources



The CDR is based on a single “snapshot” in time. Changes will, and do, occur on a continuous basis and may not be reflected in the current CDR.

GENERATION INTERCONNECTION ACTIVITY

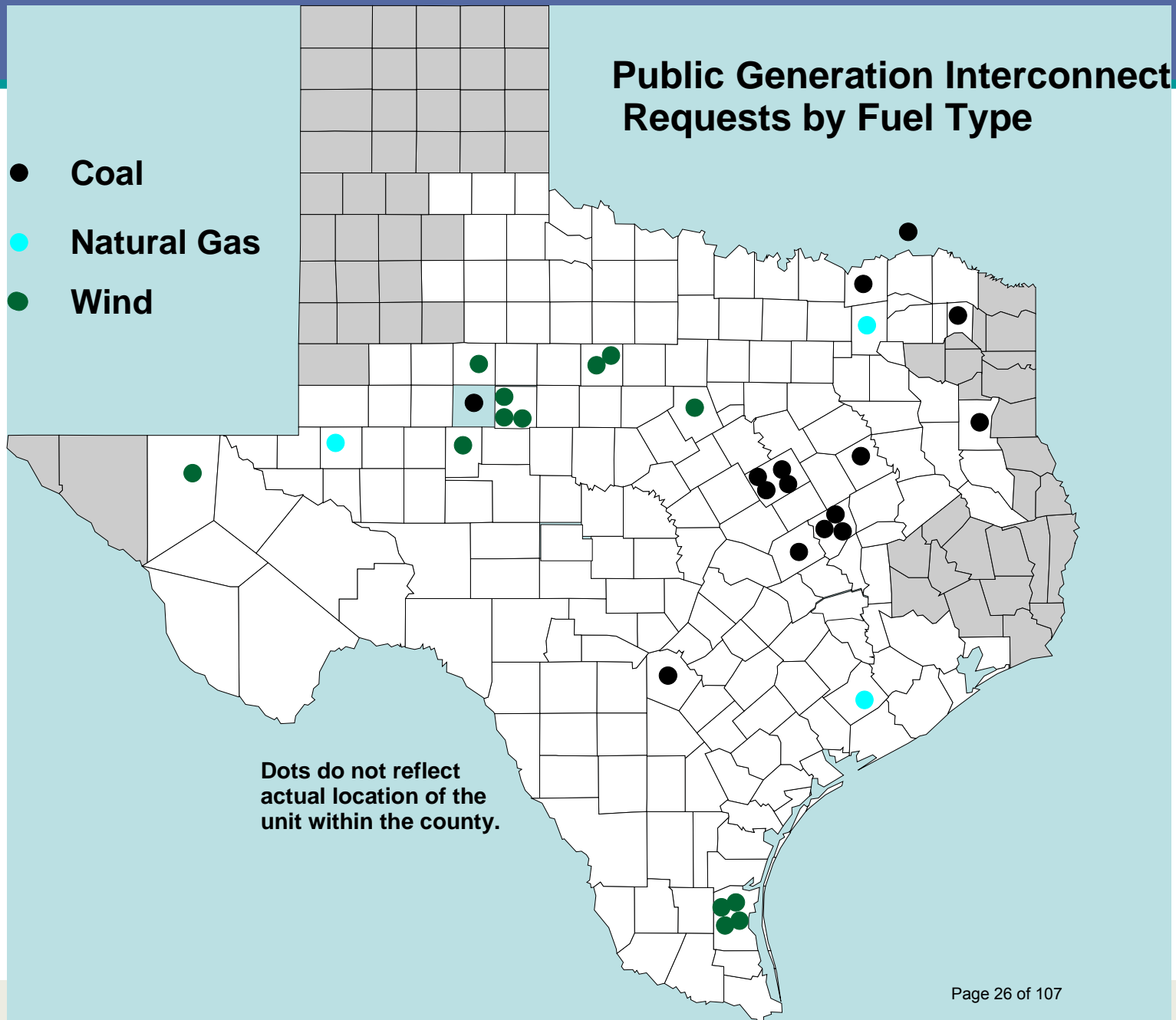
Currently tracking 99 active generation interconnection or change requests

	North	South	West	Total
Capacity for Grid, MW	14,550	9,730	10,779	35,059
Includes Wind, MW	480	2,930	9,237	12,647

Fuel Type	Not Public	Public	Total
Coal	3,992	11,245	15,237
Gas	3,900	2,300	6,200
Other	975	0	975
Wind	10,002	2,645	12,647
Grand Total	18,869	16,590	35,059

Public Generation Interconnect Requests by Fuel Type

- Coal
- Natural Gas
- Wind



Dots do not reflect
actual location of the
unit within the county.

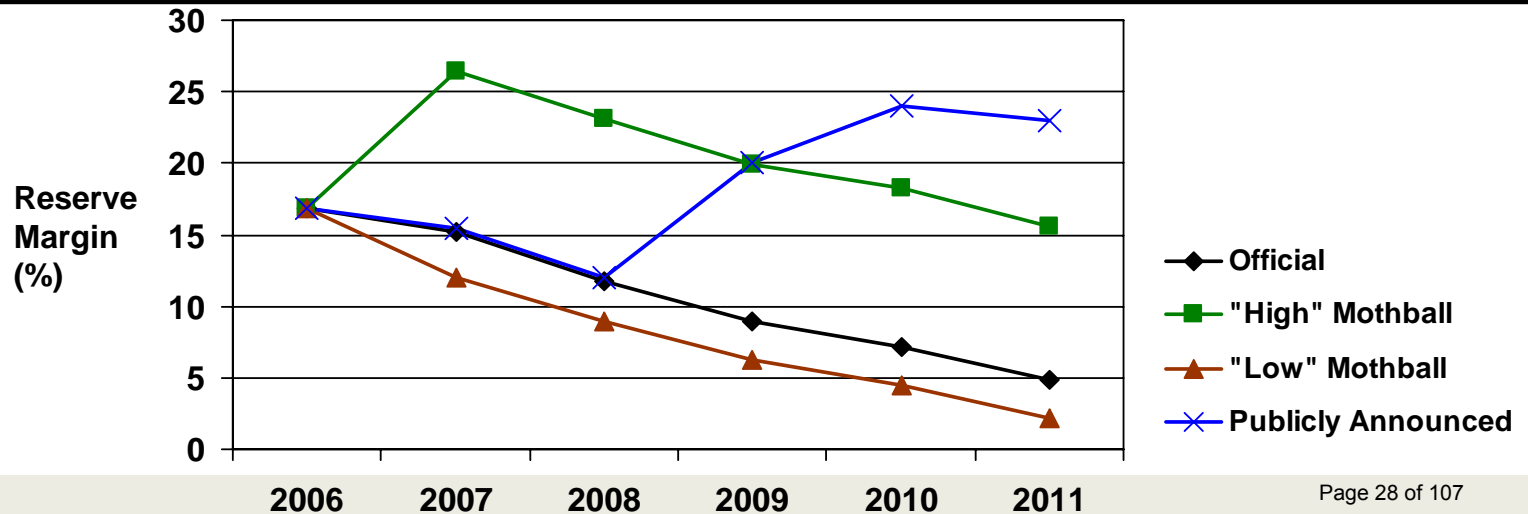
Capacity, Demand, & Reserves in the ERCOT Region for 2006-2011

	2006	2007	2008	2009	2010	2011
<i>Load Forecast (MW):</i>						
Total Summer Peak Demand	61,656	63,222	64,318	65,950	67,548	69,034
Less LAARs Serving as Responsive	(1,112)	(1,112)	(1,112)	(1,112)	(1,112)	(1,112)
Firm Load Forecast (MW):	60,544	62,110	63,206	64,838	66,436	67,922
<i>Resources (MW):</i>						
Installed Capacity	58,831	58,831	58,831	58,831	58,831	58,831
Less Retiring Units	0	0	(393)	(451)	(451)	(451)
Capacity from Private Networks	6,419	6,575	6,279	6,279	6,279	6,279
2.6% of Wind Generation	62	62	62	62	62	62
RMR Under Contract	267	170	170	170	0	0
50% of Asynchronous Ties	428	553	553	553	553	553
Switchable Units	2,645	2,810	2,810	2,810	2,810	2,810
Mothballed Units Available	2,104	1,997	1,790	1,787	1,783	1,820
Planned Units (Wind w/ IA -- 2.6%)	0	25	38	38	38	38
Planned Units (Fossil w/ IA)	0	550	550	550	1,300	1,300
Total Resources (MW):	70,756	71,573	70,690	70,628	71,205	71,242
OFFICIAL RESERVE MARGIN:	16.9%	15.2%	11.8%	8.9%	7.2%	4.9%

Alternate Scenarios for 2006 CDR

(Summer)

	2006	2007	2008	2009	2010	2011
Firm Load Forecast (MW):	60,544	62,110	63,206	64,838	66,436	67,922
Total Resources (MW):	70,756	71,573	70,690	70,628	71,205	71,242
RESERVE MARGIN:	16.9%	15.2%	11.8%	8.9%	7.2%	4.9%
"High" Reserve Margin <i>(all Mothballed Units Return)</i>	16.9%	26.4%	23.1%	19.9%	18.2%	15.6%
"Low" Reserve Margin <i>(no Mothballed Units Return)</i>	16.9%	12.0%	9.0%	6.2%	4.5%	2.2%
Reserve Margin w/ Publicly Announced Thermal Units	16.9%	15.4%	12.0%	20.0%	24.0%	23.0%



In examining the 2006 CDR, ERCOT staff has identified several key issues for to aid in understanding this report.

- **Projected annual demand growth has been increased from 1.8% to 2.3% based on updated social-economic data for Texas.**
- **ERCOT staff was unable to reconcile load demands which may be demand or price responsive, other than LAARs.**
- **Private Use Networks data was implemented for the first time.**
- **The TAC has charged the Generation Adequacy Task Force with reviewing all of the assumptions in the CDR calculation.**

ERCOT Demand and Energy “Long-Term” Forecasting

- **1999 to 2004:** Simple trend from historical peak and energy data applying engineering judgment.
- **2005 to current:** Econometric techniques that consider long-term economic growth trends, weather profiles, and calendar variables that capture the hourly, weekly, monthly and yearly load patterns.

1. Develop equations describing:

- Monthly Energy
 - Different equation for each season
- Hourly Load Shape
 - Different equation for each season

2. Insert forecasted values for variables into equations

- Except no economic growth for Load Shape equations

3. Produce hourly energy forecast by putting forecasted monthly energy under projected hourly load shape

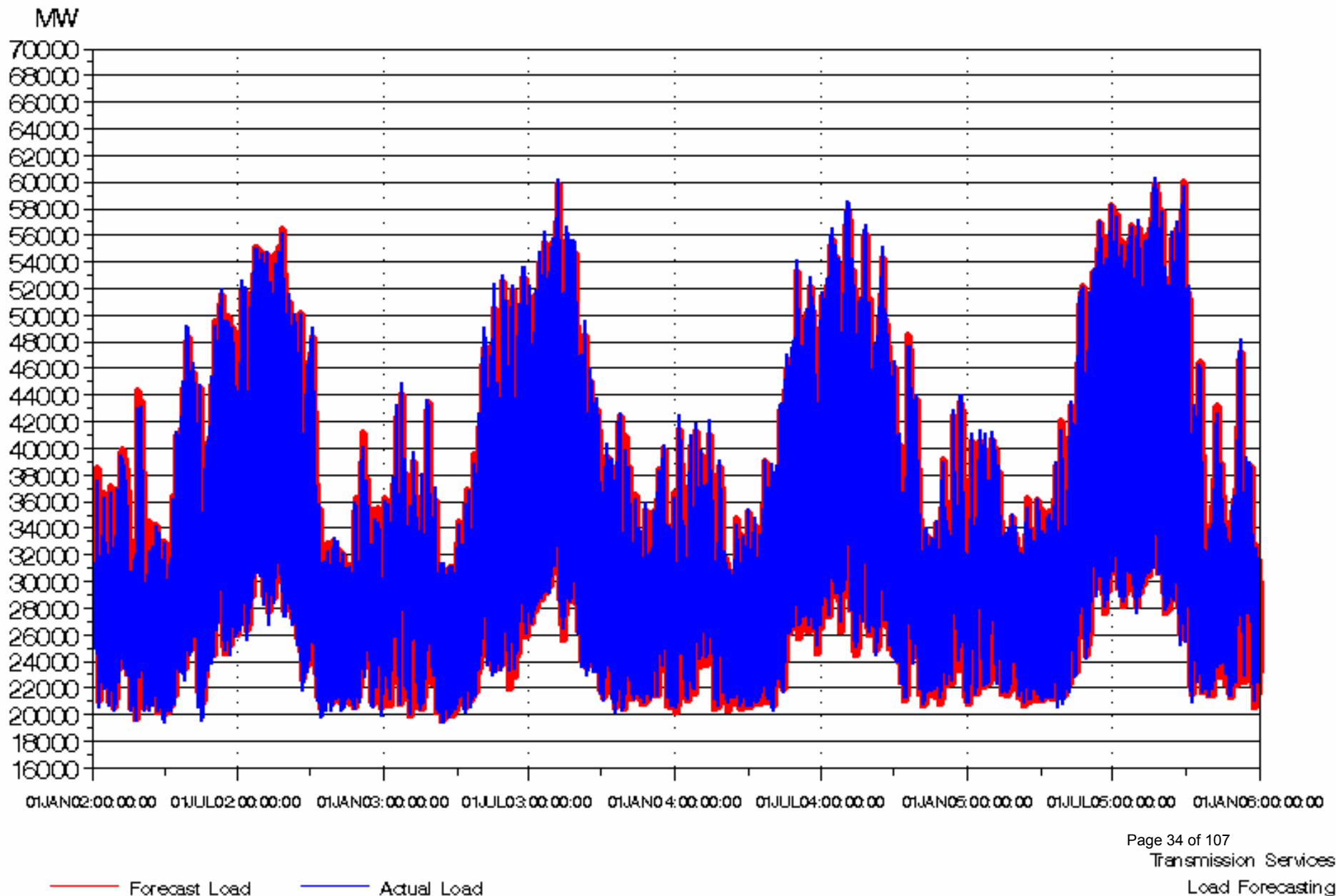
Load_{hour i} = f {Population, Income, Hour of Day Indicators, Weekday/Weekend, Max Temps, Lagged Temps, Heat Index, Non-Linear Temp Components (square and cube), Temp Gains (diff between daily High and Low temps), Temp Build-up, Dew Point, Dark Fractions, Month*Temp Interactions}

Energy_{Month i} = f {CDD, HDD, Income, Population, Monthly Indicators}

ERCOT Hourly Load Shape

Historical Fit (2002 – 2005)

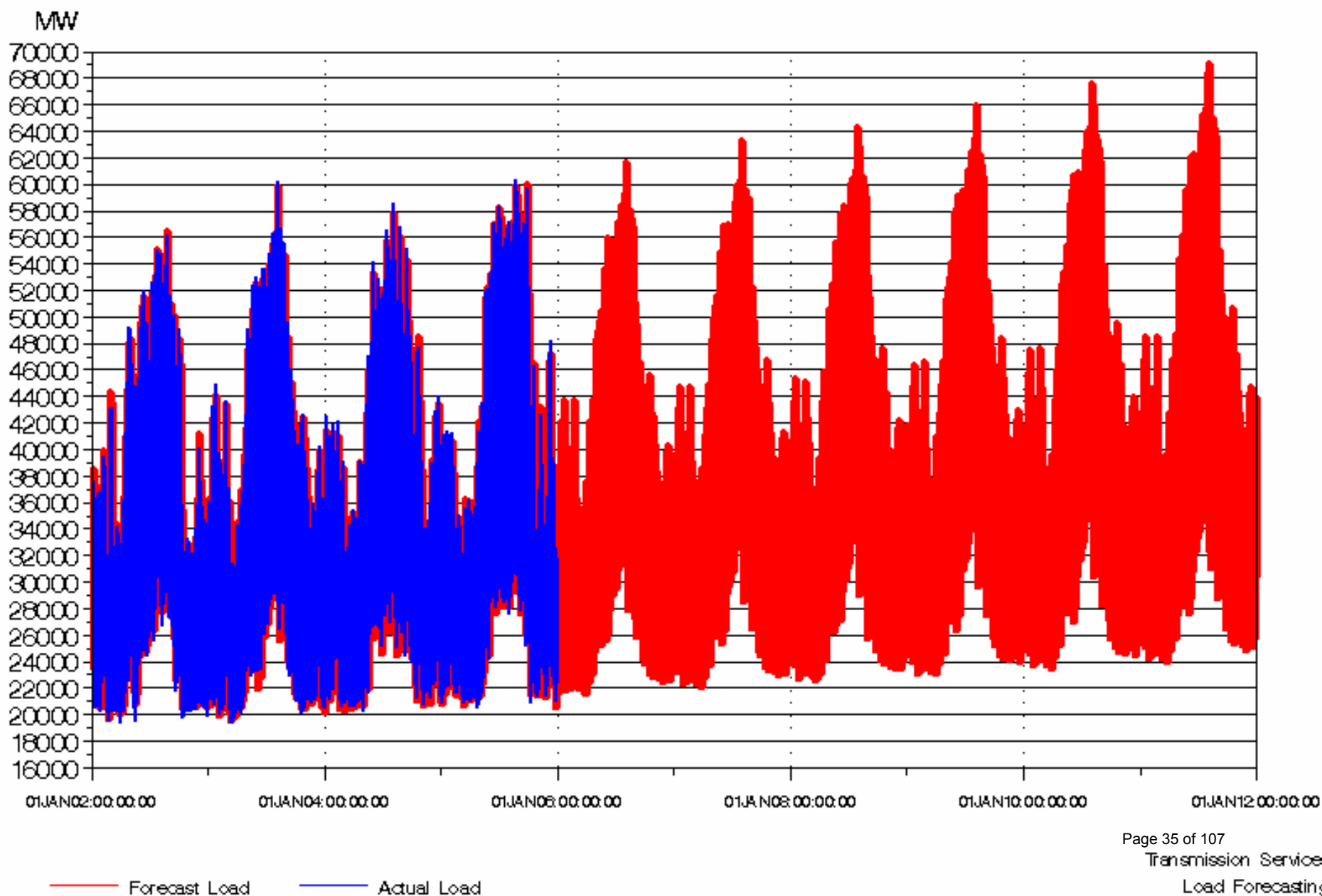
February 23, 2006

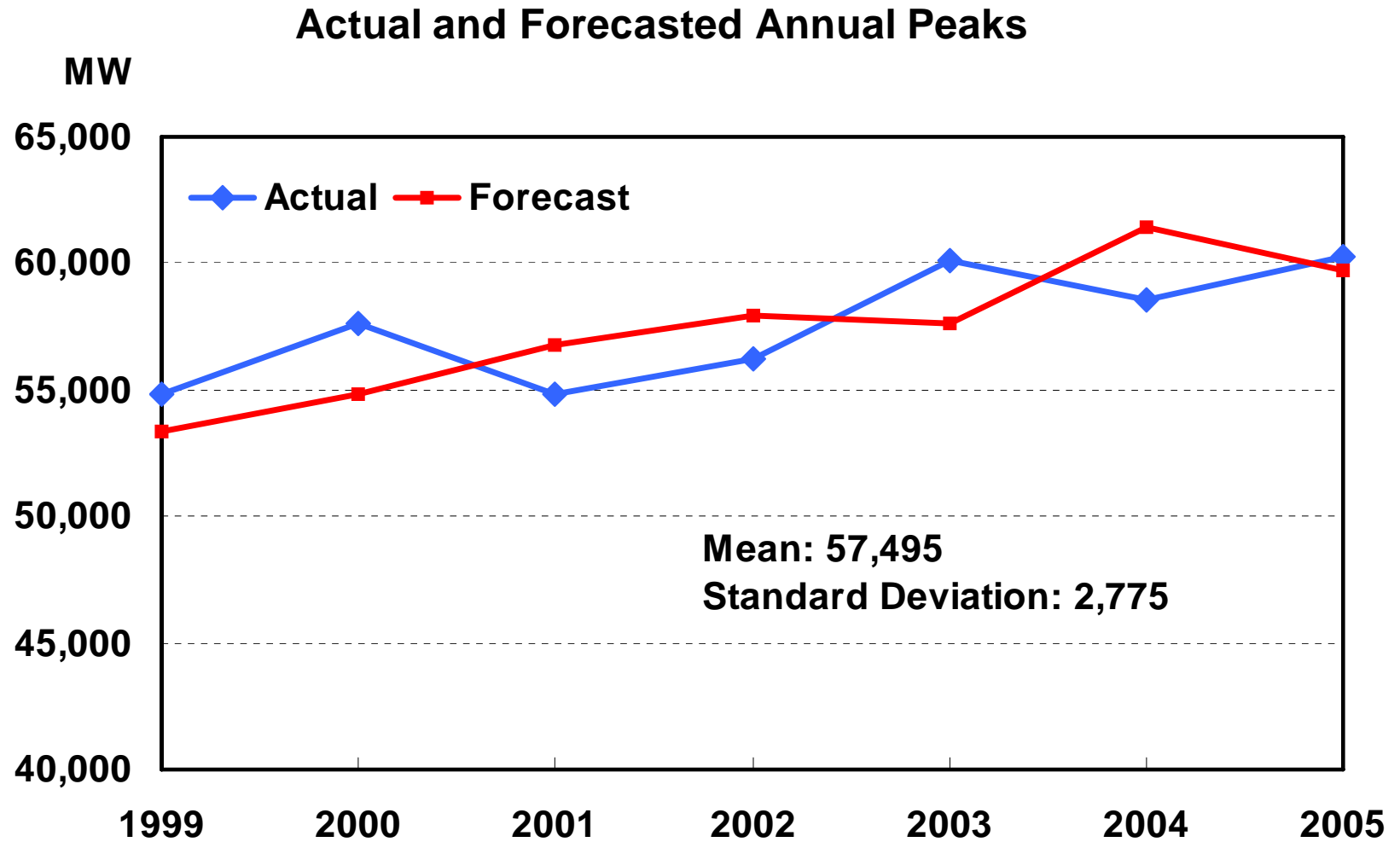


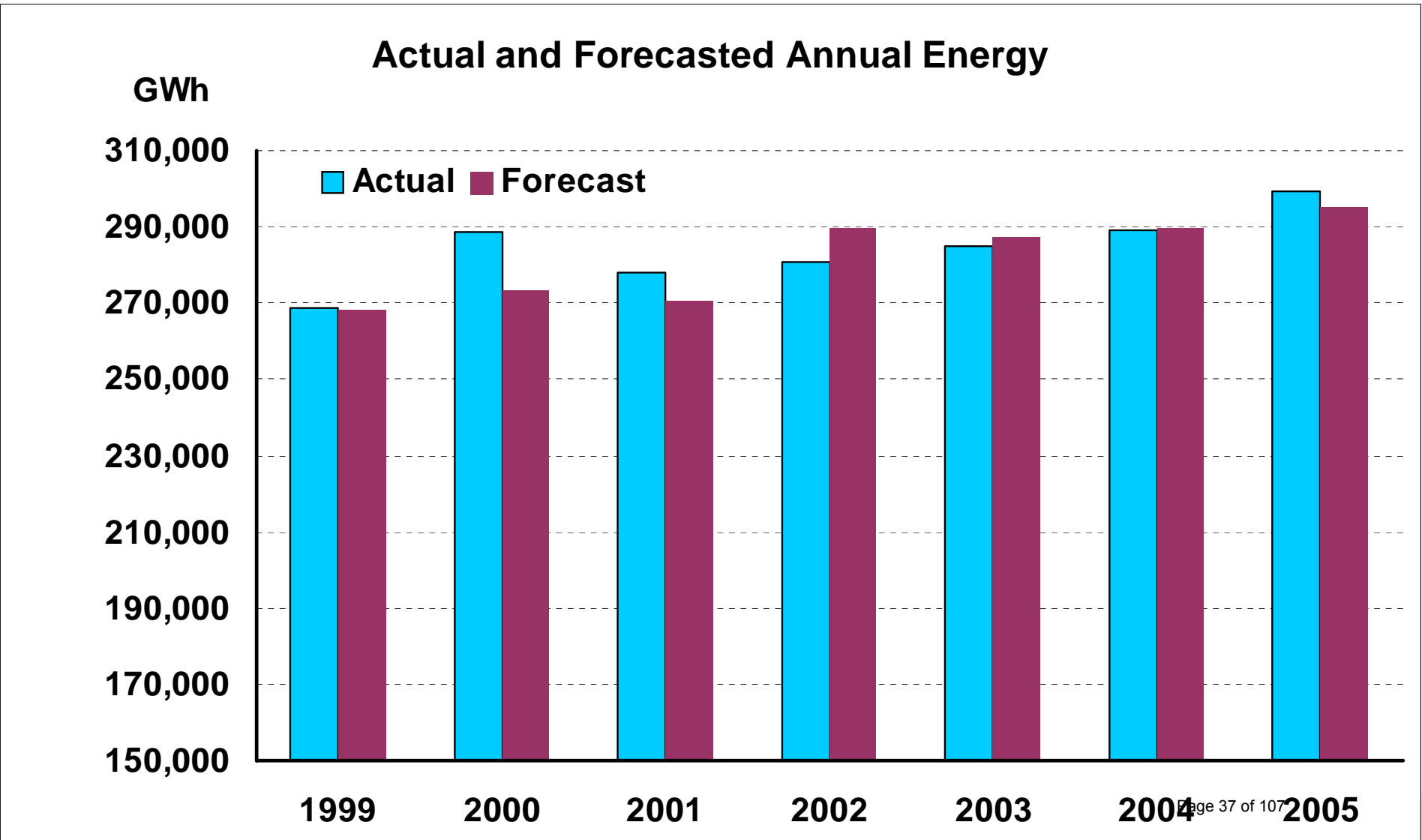
ERCOT Hourly Load Shape

Historical Fit/Forecast (2002 - 2012)

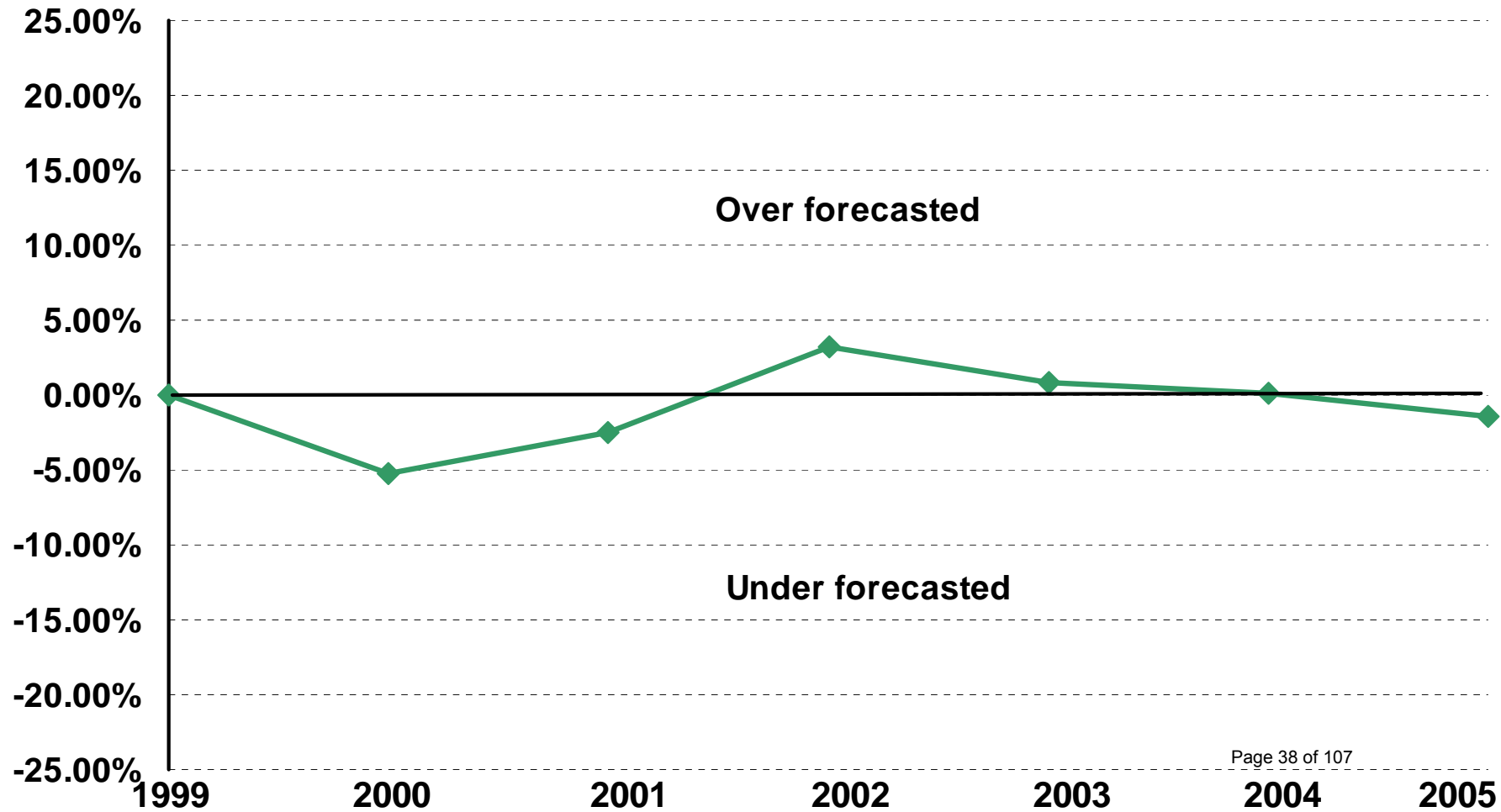
February 23, 2006



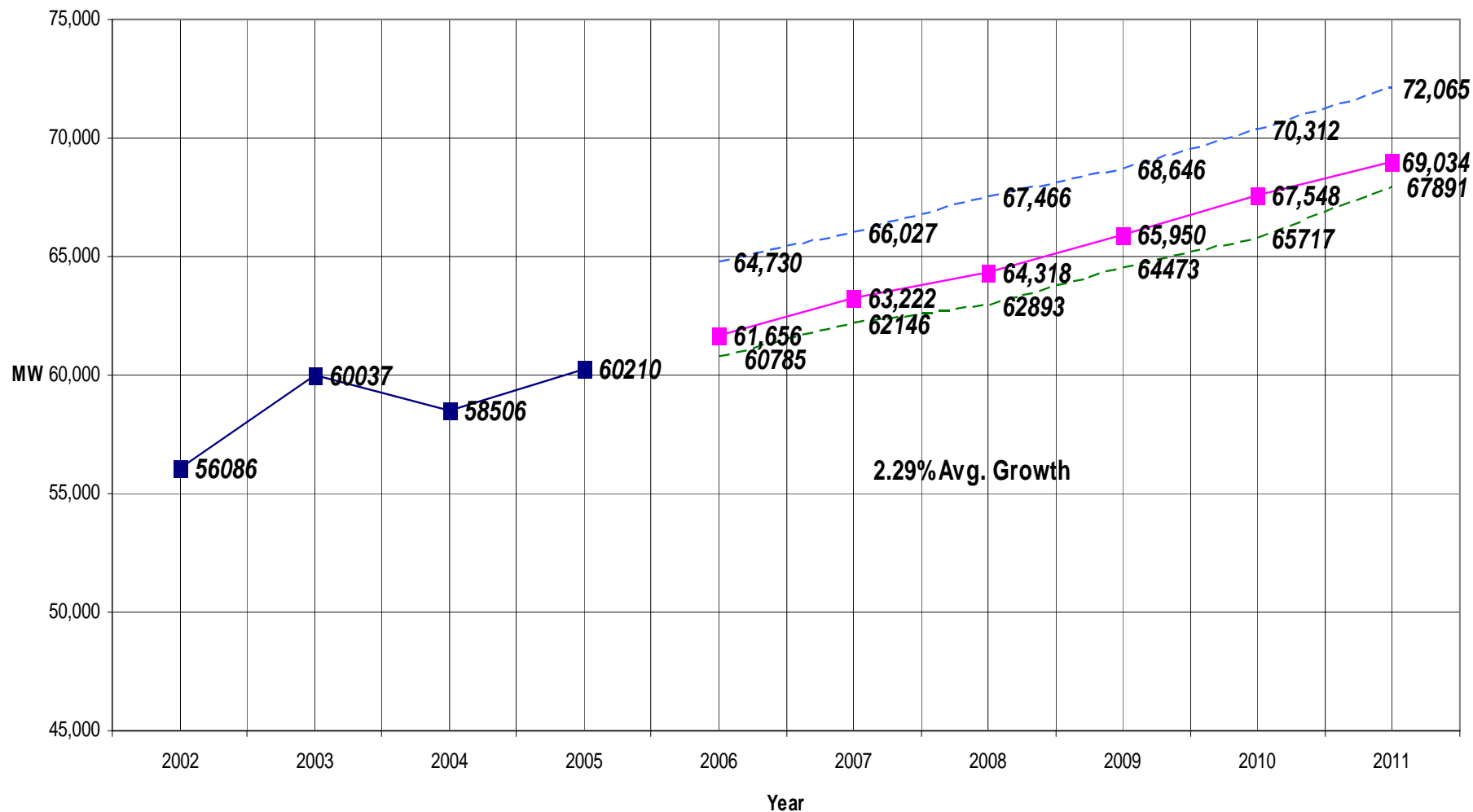


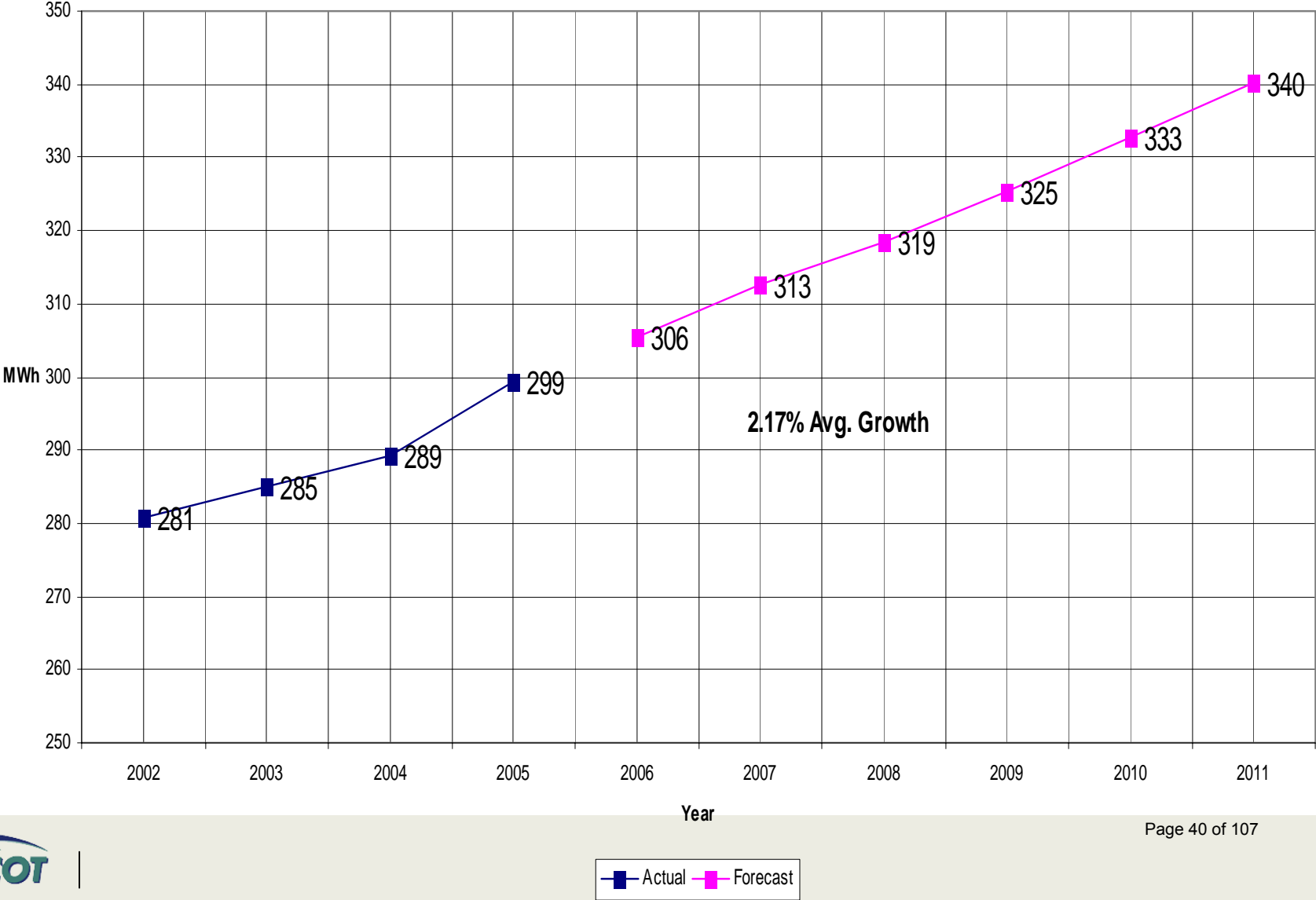


Difference in Actual and Forecasted Annual Energy



Peak Demand and Approx. 90% Confidence Limits





Questions?



ERCOT Finance and Audit Committee Update

Internal Controls Assessment

Deloitte & Touche, LLP
November 14, 2006



A Brief Overview of Deloitte's History with ERCOT's Internal Controls

Deloitte has worked with ERCOT management on internal control related issues since the later part of 2004.

Specifically, we've performed:

- Agreed Upon Procedures Review of Internal Controls
August 2004 to March 2005
 - Performed benchmarking and testing of controls in key business processes across the organization. Identified significant opportunities to improve the overall control environment and key business processes.
- Assisted with the development of the Internal Control Management Program
February to August 2005
 - Assisted management in the establishment of the ERCOT Internal Control Program. We assisted with the development of the ICMP framework, documentation of all key business processes, and identification of further opportunities to tighten controls.
- Internal Controls Assessment
April 2006-December 2006
 - Currently assessing management's progress in sustaining the ICMP through evaluation of the ICMP program and testing controls across the business processes for operating effectiveness.



Status of the Internal Control Assessment

We have concluded fieldwork on the evaluation of the ICMP program and the design and operating effectiveness of controls.

We are pleased to report the following results of our review:

- The ICMP program is working as designed by management.
- Internal controls were found to be adequately designed and documented.
- Key internal controls were generally found to be operating effectively.

Status of the Internal Control Assessment

We noted the following in our testing:

Process	Design Status	Effectiveness Status
Fixed Assets	100% Appropriate	7 of 8 controls tested deemed effective
Treasury	100% Appropriate	7 of 7 controls tested deemed effective
Revenue	100% Appropriate	4 of 4 controls tested deemed effective
Payroll	100% Appropriate	18 of 18 controls tested deemed effective
Human Resource	100% Appropriate	19 of 19 controls tested deemed effective
Financial Close and Reporting	100% Appropriate	16 of 16 controls tested deemed effective
Corporate Governance	100% Appropriate	19 of 20 controls tested deemed effective
Manage Programs	100% Appropriate	8 of 10 controls tested deemed effective
IT	100% Appropriate	17 of 17 controls tested deemed effective
Expenditures-Procurement	100% Appropriate	17 of 20 controls tested deemed effective
Expenditures-Receiving	100% Appropriate	2 of 2 controls tested deemed effective
Expenditures-AP	100% Appropriate	11 of 11 controls tested deemed effective



Status of the Internal Control Assessment

We commend management for significant progress made on improving internal controls.

We encourage a continued focus and support of the ICMP to ensure the sustainability and operating effectiveness of the newly designed control environment.

We are in the process of drafting our report and will present it to management for review and comment within the next few weeks. The final report will be issued in late November 2006.



About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, its member firms, and their respective subsidiaries and affiliates. Deloitte Touche Tohmatsu is an organization of member firms around the world devoted to excellence in providing professional services and advice, focused on client service through a global strategy executed locally in nearly 150 countries. With access to the deep intellectual capital of 120,000 people worldwide, Deloitte delivers services in four professional areas — audit, tax, consulting, and financial advisory services — and serves more than one-half of the world's largest companies, as well as large national enterprises, public institutions, locally important clients, and successful, fast-growing global growth companies. Services are not provided by the Deloitte Touche Tohmatsu Verein, and, for regulatory and other reasons, certain member firms do not provide services in all four professional areas.

As a Swiss Verein (association), neither Deloitte Touche Tohmatsu nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," or other related names.

In the U.S., Deloitte & Touche USA LLP is the member firm of Deloitte Touche Tohmatsu, and services are provided by the subsidiaries of Deloitte & Touche USA LLP (Deloitte & Touche LLP, Deloitte Consulting LLP, Deloitte Tax LLP, and their subsidiaries) and not by Deloitte & Touche USA LLP. The subsidiaries of the U.S. member firm are among the nation's leading professional services firms, providing audit, tax, consulting, and financial advisory services through nearly 30,000 people in more than 80 cities. Known as employers of choice for innovative human resources programs, they are dedicated to helping their clients and their people excel. For more information, please visit the U.S. member firm's website at www.deloitte.com/us.

< Open Discussion >

Electric Reliability Council of Texas, Inc. 2006 Financial Statement Audit Plan

**F&A Committee meeting
November 14, 2006**

November 14, 2006

To the Members of the Audit Committee
of the Board of Electric Reliability Council of Texas, Inc.
7620 Metro Center Drive
Austin, TX 78744

Dear Audit Committee Members,

We appreciate the opportunity to discuss Electric Reliability Council of Texas, Inc.'s ("ERCOT") relevant business issues and your expectations of PricewaterhouseCoopers as your independent auditors.

We are pleased to present you our audit plan, which includes a summary of our mutual understanding and expectations between you and others within your organization and PricewaterhouseCoopers, an analysis of key risks, our audit approach, reporting and audit timetable and other matters. Discussion of our plan with you ensures our PricewaterhouseCoopers engagement team members understand your concerns and that we agree on mutual needs and expectations to provide the highest level of service quality. Our approach is responsive to the many changes affecting Electric Reliability Council of Texas, Inc..

If you have any questions regarding this plan please contact Sean Barry at (916) 390-0058.

Yours truly,

PricewaterhouseCoopers, LLP

Table of Contents



	<u>Page</u>
Your Needs and Expectations	3
Considerations	4
Our Objectives	5
Communications Plan	6
Audit Approach and risk analysis	7 – 14
Timetable of Services	15
PwC Service Team	16
Summary – Key Audit and Accounting Areas	17

Needs and Expectations

- Formal letter of arrangement outlining audit services, deliverables and professional fees for the year end audit of financial statements
- Development and implementation of plan for completion of engagement deliverables (completion/issuance of opinion in April 2007)
- Provide local management with updates related to the status of the engagement as fieldwork progresses.
- Early identification and resolutions of key audit, accounting and/or financial statements issues. Communication of internal control deficiencies noted during performance of substantive auditing procedures.
- Provide local management with access to tax professionals and assist in dealing with corporate tax issues
- Provide local management with audit report for ERCOT

Fraud Considerations

PERSPECTIVES ON FRAUD



AUDIT PLAN

Discussions with senior management, and financial management regarding the risk of fraud.

PwC engagement team will inquire about reported or suspected fraud.

Complete specific fraud procedures:

- Review non-standard journal entries
- Perform analytical procedures, specifically on revenue and accruals
- PwC enhanced audit program will include sections addressing reported or suspected fraud and anti-fraud programs.

Our Objectives



Our team is directed towards delivering our services at three levels:



**For shareholders and
Other stakeholders**

- independent opinions and reports that add credibility to financial information released by the Company
-



For audit committee

- assistance to the audit committee in discharging their corporate governance and compliance responsibilities
-



For management

- observations and advice on financial reporting, tax and business issues from senior professionals who have an in-depth understanding of your business and industry, including sharing experience on industry best practice issues

Communications Plan

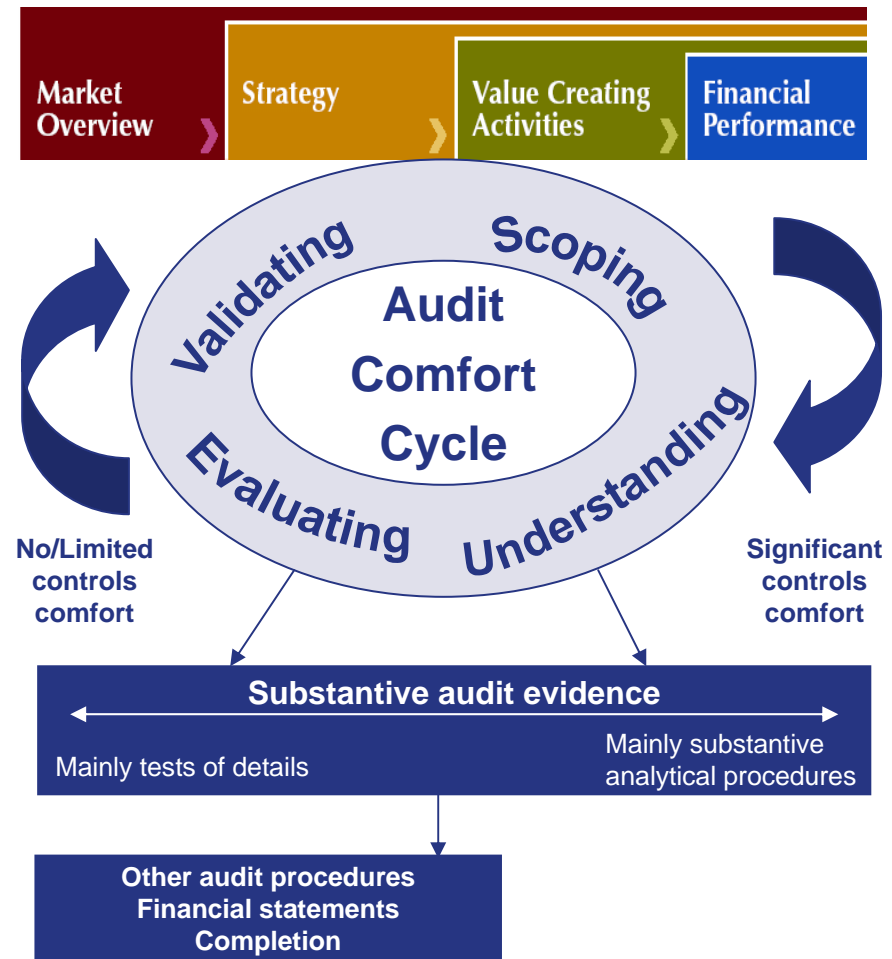


	Getting started	Understanding the audit	Staying informed	Resolution and completion
	November 2006	November - December 2006	Ongoing	March-April 2007
Service approach	<ul style="list-style-type: none"> Communications plan PwC principles and practices Engagement letter and independence confirmation 	<ul style="list-style-type: none"> Our audit plan <ul style="list-style-type: none"> Reporting timetable Overall scope Engagement team Other deliverables 		
Risk and control		<ul style="list-style-type: none"> Our audit plan Risk analysis Perspectives on fraud risk 	<ul style="list-style-type: none"> Update on accounting/audit issues and risk analysis Internal control and business issues report 	
Financial reporting	<ul style="list-style-type: none"> Transparency of corporate reporting 		<ul style="list-style-type: none"> Update on accounting/audit issues and risk analysis Best practices in corporate reporting 	<ul style="list-style-type: none"> Audit opinion Reporting requirements <ul style="list-style-type: none"> Internal control recommendations Accounting policies Management judgments Independence Transparency
Governance			<ul style="list-style-type: none"> Corporate governance: roles and practices 	<ul style="list-style-type: none"> Assessing our performance and yours

Audit Approach

Our audit strategy starts at the same point as your business – with your strategies and business objectives. Through discussions with senior and operational management, we understand your business objectives and risks. We then focus our approach on those risks that may materially impact financial statements.

Our “top-down” management discussions not only identify the business objectives and risks, but also key controls in place to manage those risks. We test those management controls. We then determine how we will substantively test significant account balances and classes of transactions.



Audit Approach cont.

- Risk-based approach considering the following in determining the nature and extent of testing to be performed:
 - Control environment and monitoring controls
 - Materiality in relation to financial statements taken as a whole
 - Cumulative audit knowledge and experience
- Substantive audit at Electric Reliability Council of Texas, Inc. centered on significant system derived accounts related to revenue and receivables, purchasing and payables, fixed asset management, payroll and contract administration and the analysis of non-system derived accounts as needed, relative to financial statement materiality and the information used in the consolidated financial statements of the Company. Highlights of certain accounts and areas of focus are as follows:
- Management to prepare financial statements for current year audit.

Risk Analysis



Key financial risks: Based on our understanding of the business and discussions with various company personnel, we understand the key financial risks for the current year to be:

Risks that may result in material misstatement	Management's response / controls	Audit approach
<p>Accruals/Provisions - Estimates/Reserves</p> <p>ERCOT establishes reserves and accruals for sales and use tax liabilities. During the prior year audit, management had issues ensuring proper accrued liability cut-off.</p>	<p>Management has established enhanced processes to collect information and record sales and use tax accruals for all relevant types of activity. Management is implementing a more robust professional services accrual process.</p>	<p>Assess the accruals recorded by ERCOT and determine that all appropriate activities conducted by ERCOT which are subject to Texas sales and use tax have been considered in establishing its accruals. Perform testing of the accruals recorded by ERCOT at December 31, 2006. Determine that proper cut-off is achieved through performing detailed search for unrecorded liabilities, with particular emphasis on professional service costs.</p>
<p>Contingencies/Commitments - Significant Contracts/Agreements</p> <p>ERCOT enters into contracts with various third-party vendors to provide services and software development activities. ERCOT had inappropriately capitalized costs associated with certain software development contracts prior to its restatement of 2003 results during mid-2005.</p>	<p>ERCOT has established procedures and controls around its software capitalization process to determine that all costs capitalized have met relevant GAAP tests and have been appropriately approved by management.</p>	<p>Review selection of software projects and determine that projects have been appropriately capitalized or expensed given requirements of current GAAP. Perform tests of costs accumulated for capitalized software projects and determine that costs capitalized are appropriate.</p>

Risk Analysis

Risks that may result in material misstatement	Management's response / controls	Audit approach
<p>Fixed Assets - Estimates/Impairments</p> <p>Management and outside auditors have identified weaknesses in ERCOT's management and accounting for its fixed assets, including physical identification and costs capitalized as fixed assets. Management to assess impact of Nodal project costs and FAS 71 ramifications on treatment of Nodal costs.</p>	<p>Management has established procedures to physically identify its fixed assets and determine appropriate valuation of all fixed assets. Management is in the process of evaluating impact of FAS 71 on Nodal project.</p>	<p>Assess the results of management's physical inventory of fixed assets. Perform testing of a selection of fixed assets to determine existence and appropriate valuation. Engagement team will review management's FAS 71 nodal assessment and vouch additions to fixed assets accordingly.</p>
<p>Fraud Risk</p> <p>Certain former members of senior management and management were in early 2005 indicted and prosecuted for involvement in fraudulent activity affecting ERCOT.</p>	<p>ERCOT's board of directors and management have established enhanced procedures and controls to prevent and detect management fraud.</p>	<p>Document critical matters concerning PwC's consideration of fraud at ERCOT. Complete fraud risk assessment and perform testing of key risks identified in assessment.</p>

Risk Analysis

Risks that may result in material misstatement	Management's response / controls	Audit approach
<p>Intangibles - Estimates/Impairments</p> <p>ERCOT has significant amounts of capitalized software costs recorded on its balance sheet. Software is subject impairment or changes in its economic useful lives.</p>	<p>Management has established procedures and controls to evaluate and assess the reasonableness of its software amortization lives and assess the continued usefulness of capitalized software costs.</p>	<p>Review management's procedures for assessing the continued capitalization and amortization periods assigned to capitalized software costs. Perform testing of assigned amortization lives for a selection of software projects.</p>

Audit Approach cont.



Audit Area	
Planning phase	<ul style="list-style-type: none"> • Business based interviews with executive management • Careful review of internal and external reports on internal controls including consulting reports issued by Deloitte and Touche LLP in 2004 - 2006; internal audit reports; and internal reports summarizing ERCOT's response to identified control weaknesses. • Interviews with key staff to understand the nature of changes in internal controls that have occurred since our 2005 audit – specifically, we will meet with Cheryl Moseley, responsible for ERCOT's Internal Control Management Program, Mike Petterson, controller responsible for much of the internal controls supporting financial reporting and Steve Byone, CFO. • Developments of overall risk assessment and audit strategy for significant areas • Obtain and update key documentation of systems, processes and key monitoring of controls • Perform an analysis of new significant contracts and changes in existing contracts • Communication of audit plan with management • Communication of the audit plan to the Finance & Audit Committee (F&A Committee); consistent with past practice some of the content of our communication of the Audit approach will include: <ul style="list-style-type: none"> –Audit overview – timing, approach, etc. –Key risks area –Agreed-upon needs and expectations –Direct feedback/concerns from F&A Committee –Private communications with the F&A Committee Chairman

Audit Approach cont.



Audit Area	
Execution phase	<ul style="list-style-type: none"> • Tests of significant transactions, including but not limited to, each of your primary processing systems <ul style="list-style-type: none"> –Administrative fees and other revenues –Payroll and employee benefits –Major contract expenditures –Major contractor expenditures –Other disbursements including software/system development –Capital assets (including capitalization of indirect costs, internal costs, etc.) –Nodal costs and related recovery revenues, including proper application of FAS 71. • Various audit tests of accounting records including monthly and year-end cutoff and reporting entries • Analytical review of operation results • Evaluation of significant accounting and reporting matters, including: <ul style="list-style-type: none"> –Recording of losses relating to known irregularities –Recording probably recoveries from insurance or other sources for claims associated with known irregularities –Fixed asset inventory/reconciliation –Cutoff issues relating to system development –FAS 95 cash flow settlement process –Sales tax liability assessment • Communication of audit results to management on periodic basis throughout the audit • Communication of significant aberrant audit results (if any) to the Finance & Audit Committee extemporaneously

Audit Approach cont.



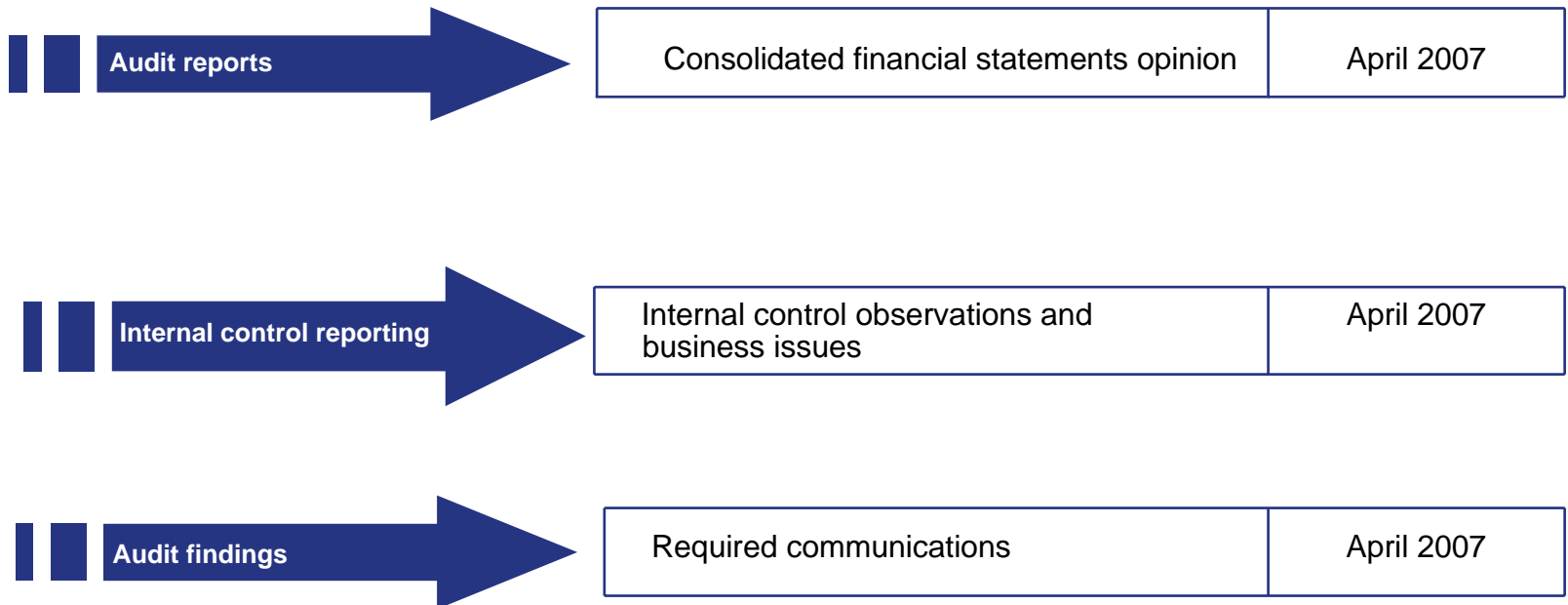
Audit Area	
Reporting phase	<p>Review of the financial statements prepared by management</p> <ul style="list-style-type: none">• Suggest modifications to the financial statements to Mike Petterson• Meet with finance management – primarily Steve Byone and Mike Petterson - to address and resolve any accounting, reporting or audit issues• Development and delivery of process improvement recommendations• Reporting to the F & A Committee – During April 2007 Meeting<ul style="list-style-type: none">–Results of audit–Financial statement highlights–Material weaknesses, reportable conditions, scope limitations, other challenges–Internal Control recommendations

Reporting timetable



Reporting/deliverables:

Your PricewaterhouseCoopers team works on the engagement throughout the year to provide Electric Reliability Council of Texas, Inc. with timely, responsive service. Below are the dates you can expect our reports.



PwC Service Team



Role	Name	Office Phone	Office Fax	Email
Quality Review Partner	Mark Niehaus	(267) 330-2100	(813) 329-3127	mark.niehaus@us.pwc.com
Engagement Leader	Sean Barry	(916) 390-0058	(813) 375-5447	sean.d.barry@us.pwc.com
Engagement Manager	James West	(512) 708-5638	(813) 375-5501	james.k.west.jr@us.pwc.com
SPA Engagement Senior Manager	Lon Heuer	(512) 708-5500	(813) 375-5554	lon.s.heuer@us.pwc.com
Tax Engagement Partner	Mike Lane	(512) 708-5634	(813) 637-4754	mike.lane@us.pwc.com
Tax Engagement Senior Manager	Pat Dunnahoo	(512) 708-5613	(813) 741-4438	patrick.a.dunnahoo@us.pwc.com

Summary – Key Audit and Accounting Areas

- Capitalized hardware and software costs
- Settlement / final resolution of prior year issues
 - Recoveries – insurance/ restitution
 - Tax assessments
 - Other matters
- Regulatory deferrals – nodal costs
- Internal Controls – process improvements
- Accrual cutoff

- **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
- **FAS 71 is a fact-based accounting standard rather than a managerial choice**

- **Applicability of FAS 71 was considered by ERCOT management and the F&A Committee and in 2001, 2002, and 2003 and it was concluded regulatory accounting was not necessary or appropriate**
- **Texas Nodal Market Implementation Program (TNMIP) introduces new facts that requires reevaluation of FAS 71 and its applicability to ERCOT**
 - Prescriptive regulatory order
 - Explicit balancing of expenditures and cost recovery mechanism
 - Creation of a discrete surcharge
- **Management concludes FAS 71 accounting must be employed by ERCOT commencing in 2006 for transactions relating to TNMIP**

Regulatory Accounting Discussion – M. Petterson

	Year							Total
	2006	2007	2008	2009	2010	2011	2012	
	(\$ millions)							
TNMIP expenditures - capitalized	26.0	139.0	43.0	-	-	-	-	208.0
TNMIP expenditures - expensed	11.0	15.0	29.0	-	-	-	-	55.0
Total TNMIP expenditures	37.0	154.0	72.0	-	-	-	-	263.0
Depreciation of TNMIP expenditures - capitalized	-	-	11.7	49.1	49.1	49.1	49.1	208.0
Interest expense on TNMIP expenditures	-	-	-	8.0	5.9	3.7	1.3	18.9
Nodal surcharge revenue	5.5	37.2	45.7	46.8	47.7	48.8	50.1	281.9
Change in FAS 71 regulatory asset / <liability>	5.5	(22.2)	(5.0)	10.3	7.3	3.9	0.3	0.0
Cumulative FAS 71 regulatory asset / <liability>	5.5	(16.8)	(21.8)	(11.5)	(4.2)	(0.3)	0.0	

Note: Sample data in a simplified example for discussion purposes only at the November 14, 2006 meeting of ERCOT's Finance and Audit Committee.

Credit Working Group (CWG) Charter Update

- **CWG is in the process of updating its charter**
- **PRS and COPS voting structure was used as a guide when applicable**
- **Substantial consensus exists around**
 - Establishing a Vice Chair in addition to the Chair
 - Quorum requirements
 - Requirements for meeting notices / postings
 - Guidance by Roberts Rules of Order
 - Taking minutes of meetings
 - Voting rules and tabulation
 - Ability of members to delegate to Alternates or proxies

Credit Working Group (CWG) Charter Update (cont.)

Ongoing discussion around

- **Should alternates (or proxies) be required to meet qualification guidelines for CWG members**
 - If alternates aren't required to meet experience and skill requirements as outlined in the Qualification guidelines
 - How frequently would alternates be used
 - Include restrictions?
 - Are they counted toward a quorum?
 - If there are no restrictions and a number of CWG members designate alternates that do not meet qualification guidelines, will F&A receive a robust, experienced-based independent evaluation of credit matters?

- **Credit Working Group ultimately reports to F&A and provides advice and counsel to F&A**
 - Guidance from F&A is sought as to what expertise they desire from the CWG

<Please see Board template included in the BOD package for Board agenda item 7(d) Financial & Investment Standard Updates>

Energy Regulatory Commission (FERC) and which is used exclusively for the TRE's proposing and enforcing Reliability Standards (Federal Statutory duties) and for ERCOT Protocol compliance and enforcement activities.

project project

project

The Budget will be substantially consistent with with sufficient time for the review and approval of Board prior to beginning of the Fiscal Year. The TRE Budget component of the Budget may be approved in advance of the full Budget if required to meet deadlines set by regulators.

of ERCOT Limited

PUCT rulings and will collect fees on behalf of Electric Reliability Organization as approved by FERC. If approved as the regional entity, the TRE will also receive funding for its Federal Statutory duties from NERC, pursuant to a Delegation Agreement. Fees, funding, and charges will be requested to recover the Board-approved Operating and Maintenance Budget (excluding depreciation and amortization), Scheduled Debt Service (less any principal payments reasonably expected to be refinanced), and the portions of Project Budgets that are to be financed with revenue. Fee adjustments, if necessary, will generally be developed and proposed in connection with ERCOT's annual Budget.

Project Budgets:

projects:

ERCOT Limited

project

1

six

project

Compliance Officer and Chief

standard

of

ERCOT Limited

	Upon Approval

ERCOT's

standard
 Reliability Council of Texas, Inc. Savings is Electric

the ERCOT System Administration Fee, Nodal Surcharge, NERC funding under a Delegation Agreement, and other fees collected from time to time,

Standard

Downloaded from ascelibrary.org by University of California, San Diego on 06/01/15. Copyright ASCE, For All Rights Reserved, No part of this document may be reproduced without written permission from ASCE.

standard

--

Standard

--

Standard

standard

standard

--

--

--

Standard

Standard

Standard

Standard

ERCOT is tasked with periodically evaluating the interest rate environment and considering ways to manage interest rate exposure within that environment.

To that end, ERCOT entered into an interest rate derivative in 2005 to “fix” the floating rate in the Term Loan.

- Forward starting swap beginning Nov 1, 2006 and ending Nov 1, 2008 for \$25,000,000 (with reduced balances as principal is paid)
- The mark to market value at October 30, 2006 is approximately \$175,900 favorable
 - Mark to market is recorded monthly on ERCOT financial
- The first payment of approximately \$50,400 is due to ERCOT on February 1, 2007

ERCOT is also expected to ensure that unhedged, variable rate debt will not be more than 40% of total debt outstanding

- Given current projected spending for the Nodal Project, ERCOT expects to need to address this by mid-2007
- Options include:
 - Issue some level of fixed rate debt in 2007
 - Enter into interest rate swap(s)
 - F&A should review options in early 2007

Cancellation of the Outage Scheduler Enhancements Phase 2 project

- Purpose of the project was to complete the requirements of PRR425, address deficiencies remaining from Phase 1, and completely rewrite the Outage Scheduler software using Java programming instead of Coldfusion.
 - Repair functional issues and deliver functionality were de-scoped from the PR-30075 Phase 1 project.
 - Software application was rewritten using supported programming technology.
- Phase 1 of the project delivered the software product using Coldfusion technology. This technology platform is expected to be retired in the near future and the Phase 1 application was unstable at times while technology support in ERCOT for Coldfusion declined.

Schedule

- **Fall 2004** – Project initiated for planned completion of highest priority requirements.
- **March 7, 2005** - Approved execution budget of \$285,974 to deliver 19 of the 35 requirements by 10/14/05.
- **Fall 2005** - High defect rate of 40-60% during testing. Root cause thought to be inadequate requirements definition. Decision made to re-plan release strategy to rewrite the requirements specifications and incorporate additional 11 requirements.
- **April 3, 2006** - Revised production release date to 8/23/06 and budget to \$819,887 with the additional requirements.
- **August 2006** - High defect rate of 40-50% during testing and estimated at least an additional six months duration to complete testing and defect repair. There was adequate testing and developer resources but a shortage on Outage Coordination SMEs for testing due to work load and employee turnover.

Approved project cancellation on 9/20/06 for the following reasons:

- Quality in functionality could not be met within a reasonable time frame and budget expectation.
- Uneconomical to continue considering expected delivery of new Outage Scheduler by the Nodal program in early 2008.
- Current application operating within Coldfusion has been stabilized and will meet business requirements with “work-arounds”.

Estimated cost through cancellation: \$759,574

Estimated cost avoided by cancellation: \$560,313

Committee Brief - Credit

Cheryl Yager

ERCOT Market Credit Status

as of 09/30/2006						as of 10/31/2006					
	# 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		
Exposure in the ERCOT Market (owed to ERCOT)											
<u>QSEs that meet ERCOT Creditworthiness Standards</u>											
Ratings over BBB-	6	32,670,985	11%	74,000,000	U	6	25,199,490	9%	74,000,000	U	
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>											
Ratings below BBB- or not rated	51	142,088,343	46%	314,316,080	S	42	136,192,553	51%	290,675,293	S	
Cash & Letters of Credit	14	135,709,799	44%	400,217,000	S	12	103,941,521	39%	364,367,000	S	
Guarantee Agreements											
Total Exposure	71	310,469,127	100%			60	265,333,564	100%			
Other QSEs in the ERCOT Market (ERCOT owes)											
<u>QSEs that meet ERCOT Creditworthiness Standards</u>											
Ratings over BBB-	11	(9,548,969)	-21%	70,026,345	U	11	(5,934,476)	-13%	70,026,345	U	
<u>QSEs that do not meet ERCOT Creditworthiness Standards</u>											
Ratings below BBB- or not rated	33	(19,525,502)	-44%	18,603,799	S	41	(14,913,039)	-33%	31,148,605	S	
Cash & Letters of Credit	10	(15,368,463)	-35%	104,400,000	S	13	(24,967,361)	-54%	139,400,000	S	
Guarantee Agreements											
Total	54	(44,442,934)	-100%			65	(45,814,876)	-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

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
RISK MANAGEMENT EVENT PROFILE MATRIX (as of November 3rd, 2006)

Strategic Position	Operational Excellence	Market Facilitation	Grid Reliability	Reporting	Compliance
Strategy Development <i>Objective setting adequately incorporates informed stakeholder input, market realities and management expertise</i>	Performance Monitoring <i>Clearly defined performance metrics linked to mission and goals; actively monitored, status communicated and corrective action taken</i>	Customer Choice <i>Market design promotes efficient choice by customers of energy providers with effective mechanisms to change incumbent market participants as desired.</i>	Grid Operations <i>Information required to operate the grid is efficiently gathered and appropriate tools are prudently configured to efficiently operate the system</i>	Review Practices <i>Prudent measures are taken to insure that company disclosures are properly vetted and not misleading</i>	Legal & Legislative <i>Operations are conducted in compliance with all laws and regulations and current and proposed legislation is understood and communicated</i>
<p>ERCOT is in the process of incorporating Nodal planning into its short and long-range strategic plans. Turnover in mid and 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>Management has rolled out a revision of the Executive Dashboard which will include monitoring of 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>IT components supporting Customer Choice are currently not at the desired levels to meet SLA's. Successful replacement of SeeBeyond Application with TIBCO will have a major impact on Customer Choice operations.</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>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>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>
Mission and Goals <i>Corporate objectives and performance standards are understood and followed</i>	Business Practices <i>Business planning, processes and management standards are effective and efficient</i>	Nodal Implementation <i>Nodal Implementation is progressing in a timely fashion on budget and schedule within a defined scope.</i>	Planning <i>Long-range planning methods enable efficient responses to necessary system changes to maintain reliability standards</i>	Disclosure <i>Reporting and other disclosures to intended parties is timely, accurate and effective</i>	Internal Control Compliance <i>Internal Control Compliance, processes and management standards are effective and efficient</i>
<p>Current management initiatives related to goal setting and the development of Key Performance Indicators (KPI's) have increased awareness of organizational goals and related to high-level corporate objectives and priorities for individual divisions, departments, and employees.</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>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 heightened levels of risk to the organization which have not been fully addressed. Recent management changes are also significant risks.</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 accurately address increased load growth forecasts as well as review adequacy of current spinning reserve requirements.</p>	<p>A Disclosure Committee has been 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>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 early 2006, staffing turn-over has resulted in new individuals filling positions who have not received adequate ICMP training</p>
Reputation <i>Positive perceptions by stakeholders typically lead to less cost and greater flexibility resulting in enhanced enterprise value</i>	Human Resources <i>Organization design, managerial and technical skills, bench strength and reward systems are aligned with corporate goals</i>	Counterparty Credit <i>Bankruptcies and other capital deficiencies increase the cost for market participants and potentially impact Grid reliability through participant failure</i>	Bulk System Resources <i>Market Participants have constructed and made available adequate bulk electric grid resources</i>	Communication <i>Internal and external communications are timely and effective</i>	Industry Standards <i>Business practices provide stakeholders with required assurances of quality</i>
<p>High visibility of initial Nodal implementation impact ERCOT reputation. Continuing, but largely mitigated impacts resulting from past grid management, corporate governance, and IT system-related events also impact ERCOT reputation.</p>	<p>While ERCOT has reduced the number of open positions, a large number of openings continues to be a focus of attention. The current compensation structure is outdated and is in the process of being revised. Additional usage of contractors has lead to concerns over associated costs and effectiveness. Turnover in key areas such as system operations presents additional concern.</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>Uncertainty surrounding generation projects, installed and operational capacity, and the high dependency on natural gas in Texas' generation fleet may impact reliability. The risk exists for a hotter than normal summer or cooler winter to increase load demand to a level that reduces reserve margins below acceptable minimum levels.</p>	<p>Since the grid operation events of the spring, 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 has been completed and ERCOT is in the process of restructuring it's legal and communications departments.</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 and qualifications remain to be addressed with remediation activities underway to address preliminary findings in 1 area of 18 tested.</p>
Fiscal Management <i>ISO design requires competent, prudent and cost effective provision of services</i>	Technology Infrastructure <i>Information systems and data are effectively managed and are reliable</i>	Administration, Settlement & Billing <i>Market rules are fairly applied to all participants and accounting is timely and accurately reflects electricity production and delivery</i>	Operational Responsibility <i>Market participants conduct their operations in a manner which facilitates consistent grid reliability</i>	Adequacy and Integrity <i>Robust processes exist to support management assertions embodied within financial reports</i>	Regulatory Filings <i>Evidence, testimony and other supporting materials are compelling and successful</i>
<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 have not been fully addressed.</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, IT, EMMS) continue to be an issue of ongoing concern.</p>	<p>ERCOT's settlement/dispute processes has a significant number of ADR's related to the RPRS policy debate outstanding, however these are being addressed in a timely fashion. Recent audits have found no significant issues in the Settlement & Billing control areas or administration of existing protocols.</p>	<p>Ineffective ERCOT enforcement ability relating to reliability standards may lead to gradual erosion of reliability. Response of generators to past grid operation events requires greater scrutiny in analyzing market participant operations. Enhanced enforcement of NERC standards will exist through the ERO / RE structure.</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. The Compliance and Disclosure risk subcommittee further supports this area.</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>

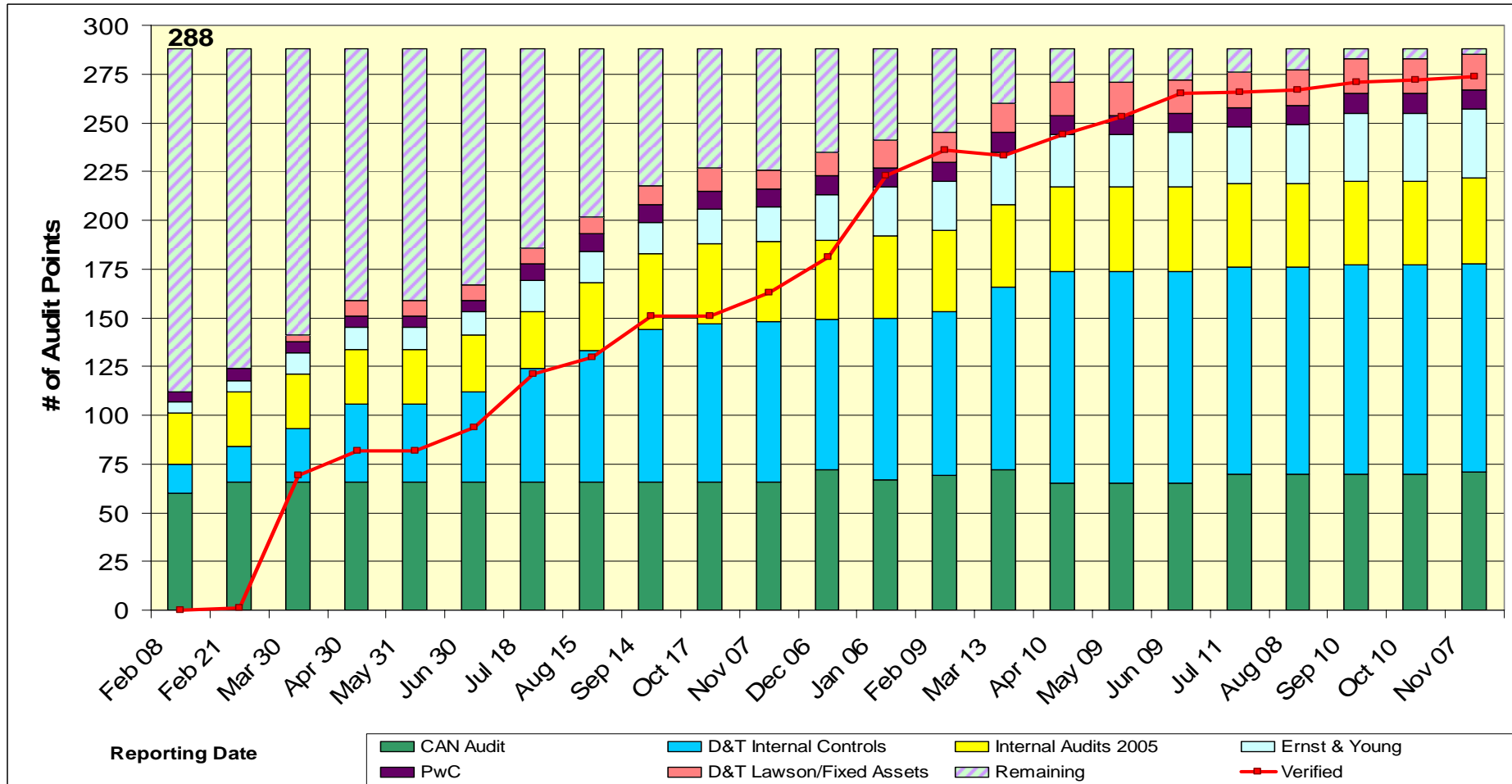
Legend: Elevated Risk Level Reduced Risk Level Special Attention Required (New Risk Categories / Descriptions Indicated in Green)

Rationale for Category Risk Assessment Changes

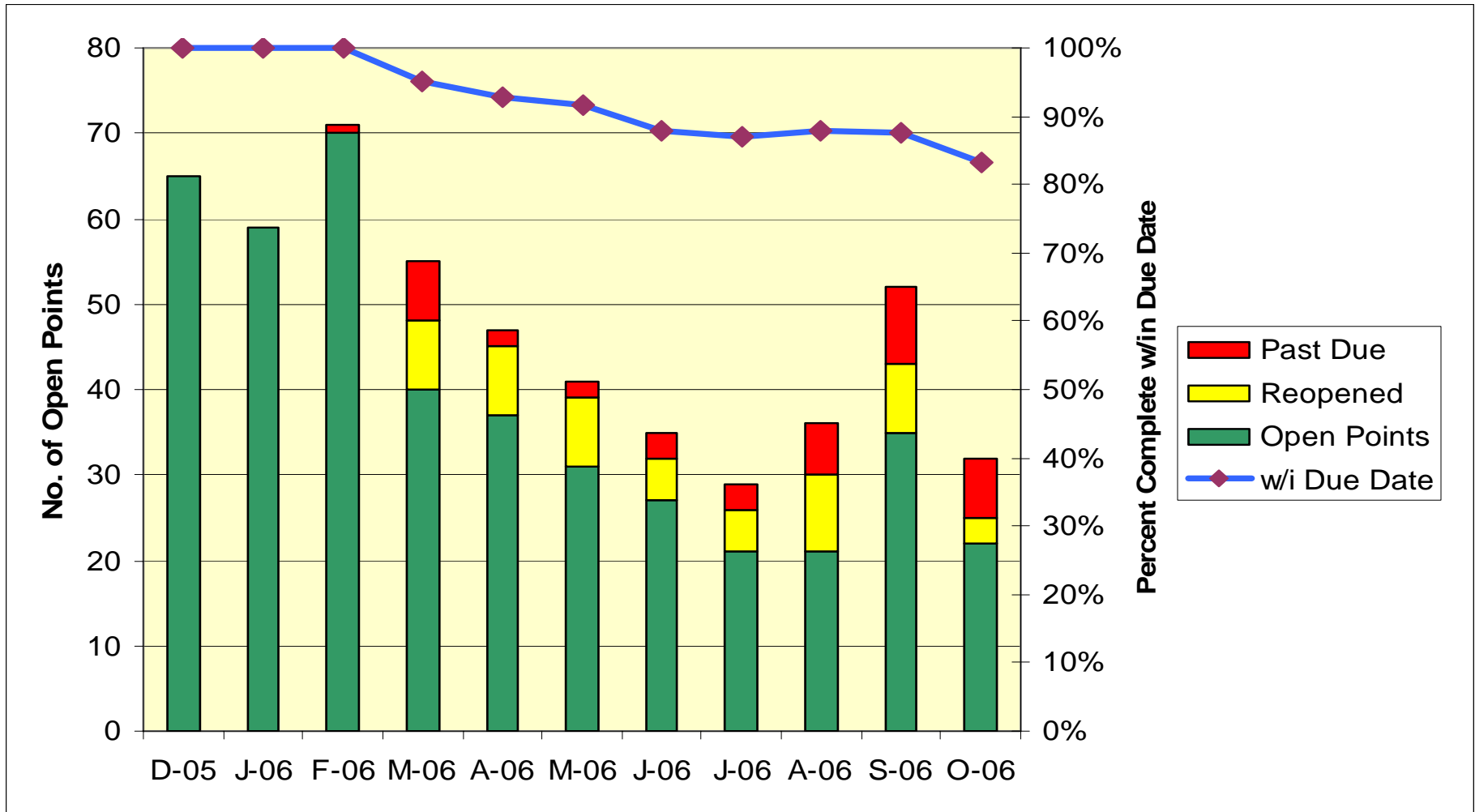
Performance Monitoring	Upgrade - yellow to yellow-green	Implementation of a revised Executive Dashboard and other tools provides enhanced goal and performance monitoring
Bulk System Resources	Downgrade - green to yellow	Concern over the possibility that unexpected weather conditions could increase load beyond minimum reserve requirements
Internal Control Compliance	Upgrade - yellow to yellow-green	Completion of external review has indicated generally well constructed internal controls although additional training required

Completion Status by Audit 2004-05 Audit Points

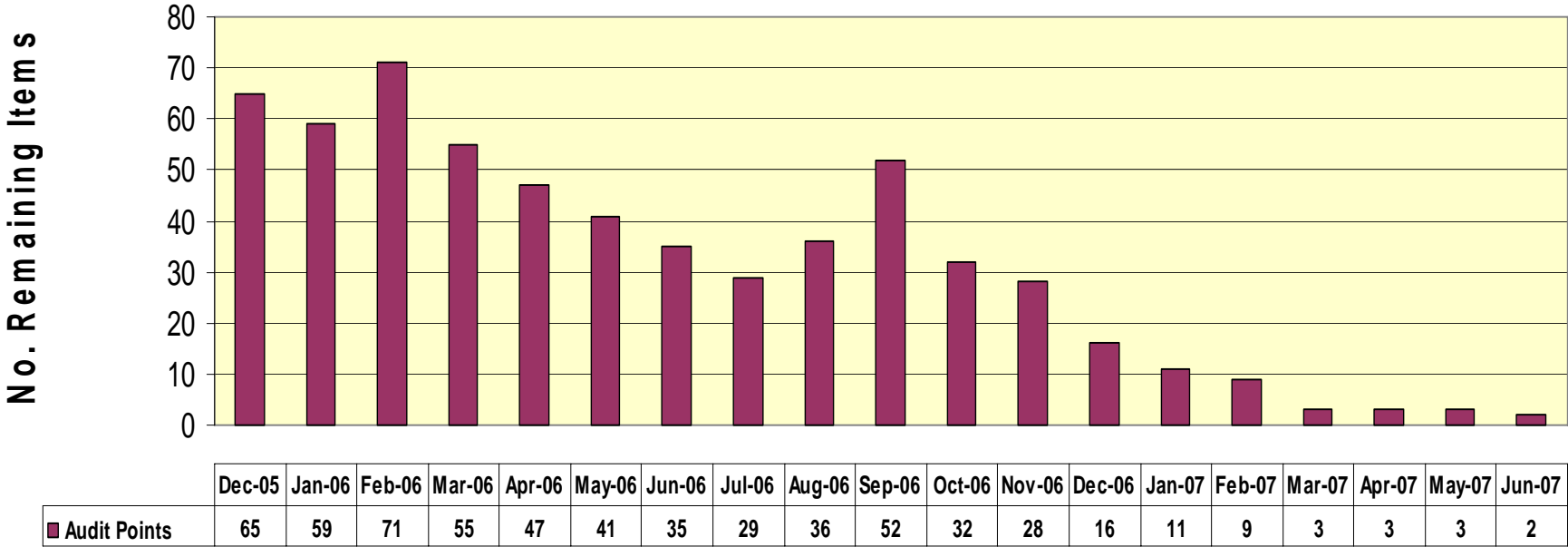
3 to complete



Status of Open Audit Points - 2006



Projected Audit Point Progress



Audits Completed (last 3 months)

Internal Audits

- QSE Credit
- Onboarding & Exiting of Employees & Contractors
- Cash & Investments
- Software License Mgmt
- Selected Nodal Employee & Contractor Expenses

• External Audits

- 401K/MPP (PwC)
- Texas Nodal Program Review (IBM-managed by IAD)

Open Audits

Internal Audits

- Corporate Communications
- Procurement & Contract Administration
- Inventory & Fixed Assets
- Cyber Security (follow-up)
- System Operations (Compliance w/assistance from Internal Audit)
- Ethics Compliance
- Business Continuity Plan
- Budget Process
- Fraud Prevention (ongoing)

External Audits

- 2006 SAS70 (PwC)
- Internal Controls (D&T)
- 2006 Financial Audit (PwC)

Planned Audits (next 3 months)

Internal Audits

- SCADA
- MarkeTrak/Serena Team
- *Initiate 2007 planned audits*

External Audits

- Texas Nodal Program Controls Progress Reporting Review (IBM-managed by IAD)

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

**Consultation/
Analysis Reports
Completed**
(last 3 months)

External Assessments

- 1 security assessment completed in October

**Open Consultation/
Analysis Reviews**

External Assessments

- 1 security assessment currently underway to complete by the end of December

**Planned Consultation/
Analysis Reviews**
(next 3 months)

External Assessments

- 2 reviews planned

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

	Phase	Not Started	Initiation	Planning	Execution	Closing *	Completed *	Cancelled**	On Hold	Totals by CART
CART	Corporate Operations	0	1	4	5	5	3	0	0	18
	IT Operations	0	0	3	5	1	9	0	3	21
	Market Operations	0	0	4	16	0	6	2	3	31
	System Operations	1	4	3	11	0	10	2	4	35
	Totals by Phase	1	5	14	37	6	28	4	10	105

*NOTE: 5 projects went live in the month of October

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

















Year to Date Project Priority List (PPL) Status

PPL Iterations	Origination	Project Phases						Subtotal	Grand Total
		Not Started	Initiation	Planning	Execution	Closing/Completed	On Hold/Cancelled		
Original 2006 PPL									31
	PUCT	2			3	1	2	8	
	Market			1	4	1	1	7	
	ERCOT	2			4	5	2	13	
	System Maintenance	1			1	1		3	
Actually Completed in 2005									(6)
	PUCT							0	
	Market					(1)		(1)	
	ERCOT					(5)		(5)	
	System Maintenance							0	
Unexpected Carry Over From 2005									23
	PUCT						1	1	
	Market				1	5	1	7	
	ERCOT		1	1	1	10		13	
	System Maintenance				1	1		2	
Projects Moved Below Cut Line									(5)
	PUCT	(2)						(2)	
	Market							0	
	ERCOT	(2)						(2)	
	System Maintenance	(1)						(1)	
New Projects Added in 2006									62
	PUCT				1	1	3	5	
	Market		1		5		1	7	
	ERCOT	1	3	9	13	13	2	41	
	System Maintenance			3	3	2	1	9	
2006 PPL totals as of November 1, 2006									105
	PUCT	0	0	0	4	2	6	12	
	Market	0	1	1	10	5	3	20	
	ERCOT	1	4	10	18	23	4	60	
	System Maintenance	0	0	3	5	4	1	13	
Totals by Project Phase		1	5	14	37	34	14	105	

2006 Project Delivery Checkpoint

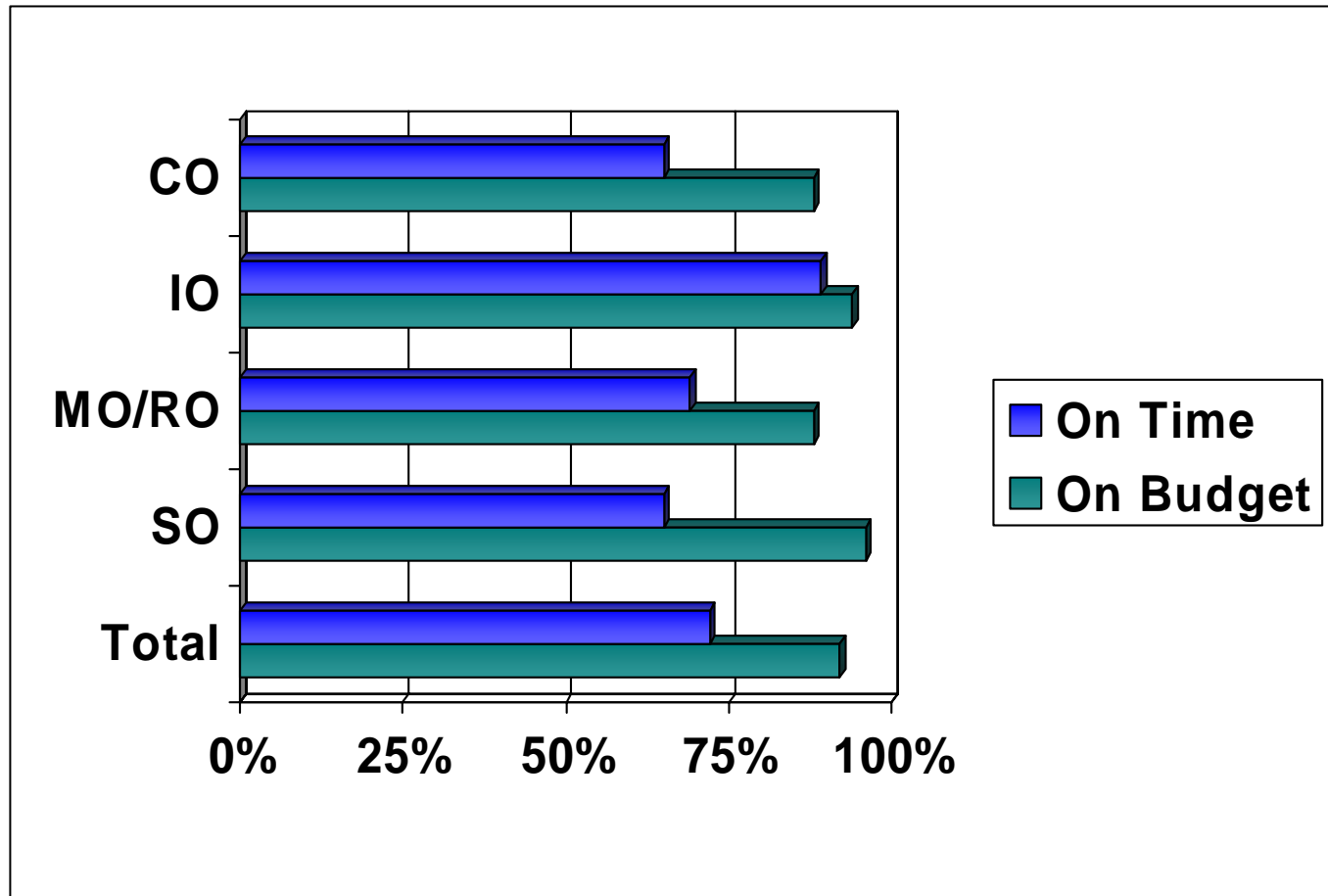
David Troxtell

Committee Brief

Projects Over \$1M	Total Budget	Committed Actuals 10/25/06	Metrics	
Duration/Information (Sponsor)	Phase/Scheduled Completion		Schedule	Budget
Service Oriented Architecture (2004-2006)	\$8.3M	\$7.21M		
9 separate projects over 24 mos. (R. Giuliani)	Execution Phase/4th Qtr 2006			
Enterprise Data Warehouse (2003-2006)	\$3.5M	\$2.83M		
9 separate projects over 36+ mos. (R. Hinsley/R. Giuliani)	Execution Phase/3rd Qtr 2006			
Operator Training Simulator (2005-2006)	\$3.8M	\$1.95M		
Training Simulator System for Operators (S. Jones)	Execution Phase/2nd Qtr 2007			
Enhancements to FasTrak Tools (2005-2006) <small>* New Target implementation date of 4th Qtr 2006. Green metrics reflect re-baselined schedule.</small>	\$2.5M	\$2.45M*		
Tool for Tracking Market Issues (R. Giuliani)	Execution Phase/4 th Qtr 2006			
Enhancements to SCR727 (2005-2006)	\$1.9M	\$945K		
Entered into Execution (R. Giuliani)	Execution Phase/3rd Qtr 2006			
Austin QA Build out (2005-2006) <small>Green Metrics reflect re-baselined schedule</small>	\$1.162M	\$1.06M		
Entered into Testing (R. Hinsley)	Execution Phase/3rd Qtr 2006			
Enhancements to MOMS Study Market Clearing Engines (2006)	\$1.2M	\$830K		
Entered Execution (S. Jones)	Execution Phase/1st Qtr 2007			
SBC Network Replacement (2005-2006)	\$1.47M	\$1.34M		
Fiber Build Out from Taylor to Austin (R. Hinsley)	Execution Phase/4 th Qtr 2006			

2006 Year to Date Completed and Active Projects Performance

(January to October)



Go Live Projects for October

- **PR-40070 Austin Test Environment**

- **Scope:** Build out the current ITEST QA environment to resemble Production, providing for a more robust, production-like testing environment, and reducing impact to Market Operations from outages
- **Deliverables:** Facilitate the move and upgrade of I-Test systems from Taylor to Austin Datacenter including an upgrade to Package 2 & 3 QA Systems plus the installation of Power Path software on ITHPXT08 to allow load balancing similar to Production.
- **Timeline** [Dec 2005 – Oct 2006]: Project resumed effort in Dec 2005 after incurring \$137k of costs and being placed “On Hold” in early 2005. It was re-scoped and delivered to target with completion on 10/18/06.

- **PR50015_02 Lawson Process Flows**

- **Scope:** Implement Lawson Process Flow functionality for Procurement (requisition approval routing) and Finance (journal entry approval).
- **Deliverables:** Process Flow will route requests to application user in-baskets and send emails alerting approvers to pending approvals. End-user reporting enabled to highlight which approver has the next action.
- **Timeline:** April 2006 – October 2006

Go Live Projects for October

- **PR-50017_02 Collateral Calculation**

- **Scope:** To automate the QSE credit exposure monitoring and collateral calculation.
- **Deliverables:** Automation of QSE credit exposure monitoring and collateral, Estimated Aggregate Liability (EAL), Relaxed Balance Schedule (RBS) and Relaxed Resource Schedule (RSS).
- **Timeline:** June 2005 – October 2006

- **PR-50111_01 Vendor & Contract Management**

- **Scope:** Implement a robust, enterprise-supported database to support management of vendors, contractors, and consultants at ERCOT. Replace the existing Access database currently in use.
- **Deliverables:** New system was deployed on an Oracle database in ERCOT's corporate environment. A web-based interface was implemented for ease of use and access control. Requirements were defined by ERCOT's Finance, Legal, Procurement, Security, Contracts, and Facilities groups. Role-based access control was implemented to control access to sensitive information.
- **Timeline:** February 2006 – November 2006

Go Live Projects for October

PR-50123 Document Management

- **Scope:** Implement an enterprise-capable document management solution in the Legal area.
- **Deliverables:** Installed and configured Hummingbird Document Manager. Installed and configured KOFAX scanning stations. Scanned, indexed, and imported existing paper documents.
- **Timeline:** October 2005 – October 2006

Large Project in Planning

Informational Only

Proposed PR-60020 Lawson 9X Upgrade

- Project is exploring outsourcing hosting of the Lawson application with a managed application service provider. Total cost of ownership of this arrangement may exceed \$1M. Project will return to Board for approval in December or January.

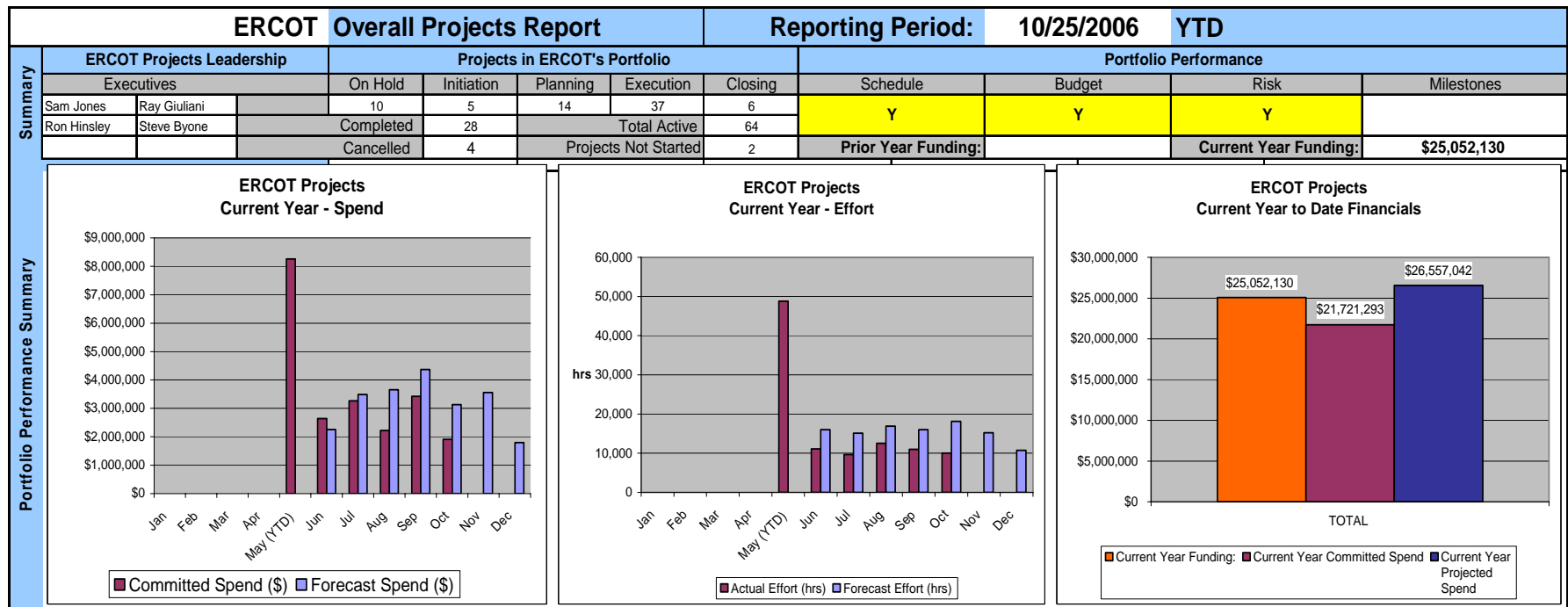
Scope: Upgrade Lawson to the 9X infrastructure and application platforms. Potentially outsource technical operational management of hardware and software to managed application service provider.

Deliverables: Upgraded hardware and software

Timeline:

- Planning: October 2006 – December 2006
- Execution: January 2007 – June 2007

Enterprise Projects Summary Report



Future Agenda Items – December

- Assessment of Compliance
 - Internal Control Environment
 - System of Internal Controls
- Assess Adequacy and Effectiveness of Internal Audit staff
- Review & Approve Credit Work Group Charter
- Perform Finance & Audit Committee Self-Assessment
- Approve Finance & Audit Committee 2007 Meeting Planner
- Review updated year-end forecast

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