MEMO

Date: November 7, 2006
To: ERCOT Board of Directors
From: Steve Byone, Vice President & Chief Financial Officer
Subject: 2005 Financial Statement Audit of the 401(k) Savings Plan and Money Purchase Plan

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: November 14, 2006
Agenda Item No.: 7c

Issue:

ERCOT must obtain an annual audit of its financial records pursuant to the Bylaws.

> **Section 9.6 Audit**. At least annually, an audit of the financial statements of ERCOT shall be performed by the Auditor approved by the Board. The Auditor's opinion and the audited financial statements will be made available to all Members as described in Section 9.5.

While Section 9.6 of the ERCOT Bylaws does not specifically address audits of the financial statements of ERCOT's employee benefit plans, management believes that it is appropriate to seek the same Board acceptance for the benefit plan audits as is received on ERCOT's audited financial statements.

Background/History:

PricewaterhouseCoopers LLP ("PwC") was engaged by ERCOT, subsequent to Board approval, to perform the annual audit of the financial books and records of the 401(k) Savings Plan and Money Purchase Plan ("MPP").

At a special meeting of the Finance & Audit Committee ("F&A Committee") of the Board held on October 5, 2006, the F&A Committee received a report from ERCOT staff relating to the audits of the 401(k) Savings Plan and MPP and accepted the draft audited financial statements as prepared by PwC assuming outstanding issues are minor administrative and grammatical issues.

Conclusion/Recommendation:

F&A Committee of the Board of Directors is expected to recommend acceptance of the Report on Audit of Financial Statements of ERCOT's 401(k) Savings Plan and Money Purchase Pension Plan for the Years ended December 31, 2004 and 2005 as prepared by PwC.

MEMO

ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
BOARD OF DIRECTORS RESOLUTION

WHEREAS, the board of directors (the "Board") of the Electric Reliability Council of Texas ("ERCOT"), Inc., a non-profit corporation (the "Company") deems it desirable and in the best interest of ERCOT to accept the 2004 and 2005 financial statements and audit reports by PricewaterhouseCoopers for the ERCOT 401(k) Savings Plan and Money Purchase Plan.

IT IS HEREBY RESOLVED, that the Board hereby accepts the Financial Statements and Supplemental Schedule with Report of Independent Auditors for the years ending December 31, 2004 and 2005, for the ERCOT 401(k) Savings Plan and Money Purchase Plan.

CORPORATE SECRETARY'S CERTIFICATE

I, James Thorne, General Counsel and Corporate Secretary of ERCOT, do hereby certify that, at the November 14, 2006 ERCOT Board Meeting, the Board of Directors of ERCOT passed a Resolution approving the above resolution.

IN WITNESS WHEREOF, I have hereunto set my hand this ___ day of _____, 2006.

_____
James Thorne
General Counsel and Corporate Secretary