



Compliance, Risk and Audit Update

Steve Byone
Chief Financial Officer

Board of Directors Meeting
January 16th, 2007

- **Board expressed interest in staying abreast of management actions regarding Compliance and Audits**
- **Standing request to receive semi-annual updates**
- **Last update conducted in Fall 2006**
- **No specific Board action is required today**
- **Suggestions welcome**

Audit Update

- **ERCOT has been subject to numerous External and Internal Audits and Formal Reviews**
- **In the last 24 months (beginning January 2005), ERCOT has been subject to 20 External Audits/Reviews and 34 Internal Audits**
- **Additionally, Management conducts a “self assessment” of ongoing compliance with all applicable laws, regulations, protocols, contractual obligations, disclosure mandates, and other requirements**

External

Sales Tax Audit
 State Comptroller Audit
 Internal Controls Workshop
 Dept. of Labor (Retirement Plan)
 2005 SAS70
 NERC Readiness
 2005 401K & MPP
 NERC Compliance Enforcement
 2005 Financials
 2006 SAS70
 Internal Control Review
 2006 401K & MPP
 Texas Nodal Program Review
 Security Assessments (5)
 2006 Financials
 Texas Nodal Program Controls
 Progress Reporting Review

2005

Fraud Prevention Testing

2006

Taylor Expansion
 Travel & Entertainment
 Contractor & Consultants
 Ethics Compliance
 Investments
 Lodestar System
 Seibel System
 Cash System
 Cyber Receipts & Disbursements
 Energy Security
 Operations & Market Management
 General Ledger (Control Room)
 Settlement Ledger Adjusting Journal Entries
 Congestion Disputes & ADR
 MV90 System
 Lawson HR System
 Outage HR System
 Payroll & Leave Benefits
 Onboard/Exit of Employees & Contractors
 QSE Credit
 Inventory & Fixed Assets
 Software License Mgmt.
 Cash & Investments
 Selected Nodal Employee & Contractor Expenses
 Fraud Prevention Program (Q1-Q2 Results)
 System Operations
 Fixed Assets
 Cyber Security
 Ethics Security Follow-up
 Business Compliance
 Corporate Continuity Plan
 Procurement & Contract Administration
 Budget Process
 SCADA

Internal

Audits Completed (last 3 months)

Internal Audits

- Cash & Investments
- Software License Mgmt
- Selected Nodal Employee & Contractor Expenses
- Fraud Prevention Program (Q1-Q2 Results)
- Fixed Assets
- Cyber Security (follow-up)
- System Operations (Compliance w/assistance from Internal Audit)
- Ethics Compliance

External Audits

- Texas Nodal Program Review (IBM-managed by IAD)
- 2006 SAS70 (PwC)
- Internal Controls (D&T)

Open Audits

Internal Audits

- Corporate Communications
- Procurement & Contract Administration
- Business Continuity Plan
- Budget Process
- SCADA Applications
- Fraud Prevention (ongoing)
- MAPS Follow-up (ongoing)

External Audits

- 2006 Financial Audit (PwC)
- Texas Nodal Program Controls Progress Reporting Review (IBM – Managed by IAD)

Planned Audits (next 3 months)

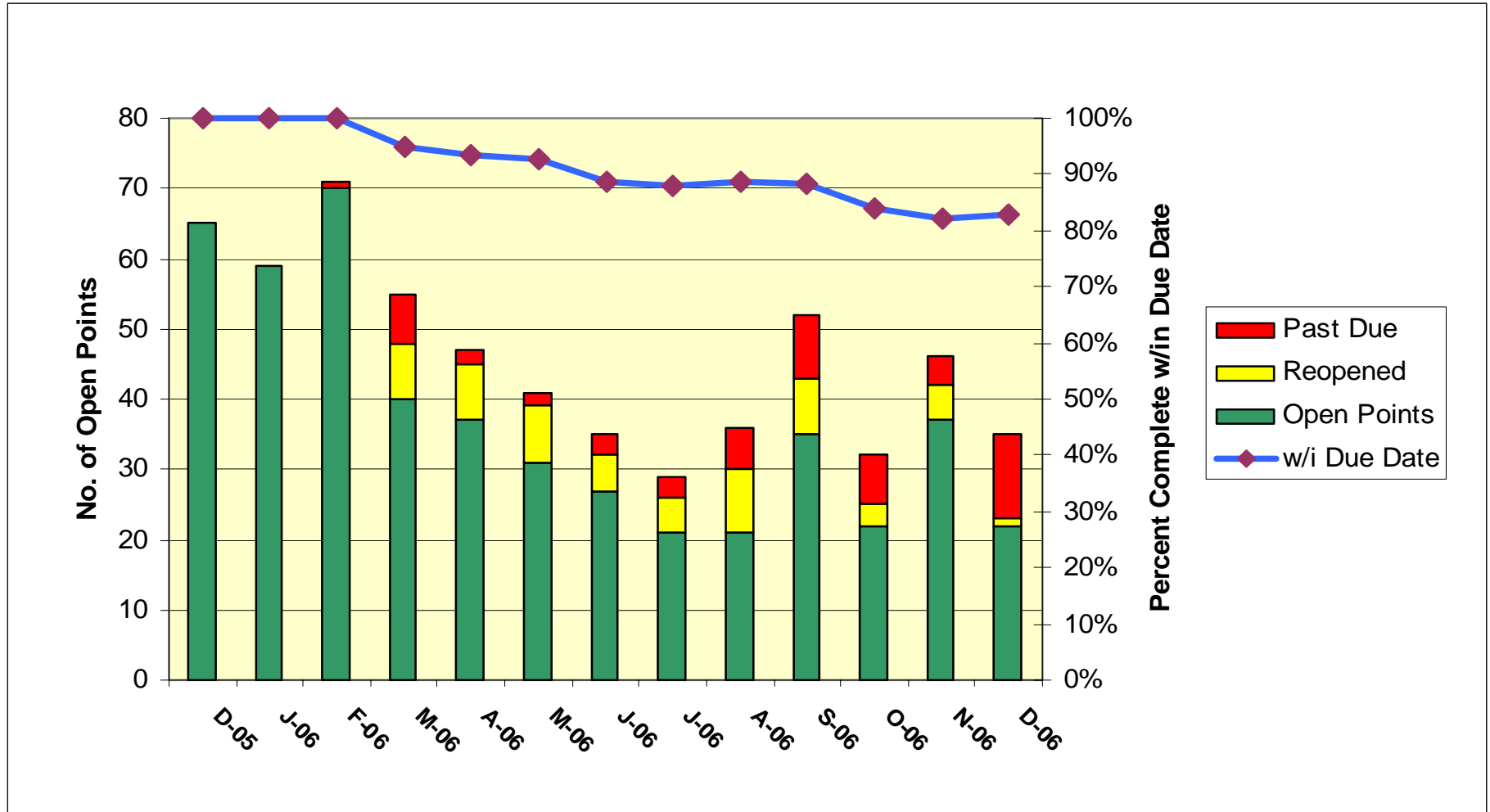
Internal Audits

- PMO
- Nodal PMO
- Nodal Time-tracking
- Nodal Ethics Compliance
- Registration/Qualification of Market Participants
- Nodal Recruiting
- Accounts Payable
- Nodal Signing Authority/Delegation of Authority
- MAPS Follow-up (ongoing)

External Audits

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

Status of Open Audit Points - 2006



Compliance Update

- **Each ERCOT Officer has completed a signed attestation as to the status of Compliance Requirements within their respective organizations**
- **Compliance Assessment has been reviewed by outside counsel to confirm completeness and appropriateness**
- **For each requirement, an assessment is made of whether the area is in compliance, ‘substantially compliant’*, or not in compliance with any ‘non-yes’ answer requiring further explanation.**
- **Out of 92 areas identified, 1 was deemed out of compliance and 7 were deemed to be ‘substantially in compliance’:**
 - Details regarding the areas deemed not in compliance or ‘substantially in compliance’ are included in your Executive Session materials

* **Substantially Compliant**” means compliance with essential requirements of a statutory provision, standard, policy or procedure as may be sufficient for the accomplishment of the purpose thereof. As such, there may be an accidental mistake or a good business reason for a minor modification or deviation from the statutory provision, standard, policy or procedure, but that does not affect that substantial compliance has been met of the statutory provision, standard, policy or procedure.

- **Work closely with external auditors and involved third-parties to address the one area deemed out of compliance by the end of February 2007**
- **Continue to address 7 ‘Substantially Compliant’ items by Q1 2007 so that ERCOT is in ‘full compliance’ in all areas**
- **Require quarterly signed Management Attestation as to the accuracy of the Compliance Certification Report**
- **Continue semi-annual review of compliance results with the Board of Directors**



Questions