



Date: April 10, 2007
To: Board of Directors
From: Steve Byone, Vice President & Chief Financial Officer
Subject: 2006 Audited Financial Statements

Issue for the ERCOT Board of Directors

ERCOT Board of Director Meeting Date: April 18, 2007

Agenda Item No.: 10b

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.

Background/History:

PricewaterhouseCoopers LLP (PwC) was engaged by ERCOT, subsequent to Board approval, to perform the annual audit of ERCOT's financial books and records.

On April 18, 2007, it is expected, PwC will meet with the Finance & Audit Committee (F&A Committee) of the Board to discuss the proposed audit report for year 2006 and PwC's assessment of the internal controls, recommendations, and other business items raised by the F&A Committee.

The audit opinion is expected to be unqualified or "clean", and the F&A Committee is expected to accept the audited financial statements as presented by PwC during their meeting on April 18, 2007.

Key Factors Influencing Issue:

The key factors influencing the decision are ERCOT's bylaw requirement, a debt covenant requirement that audited financial statements be provided to the lenders by April 30, 2007, and the expectation that PwC will issue an unqualified audit opinion in connection with their audit of ERCOT's 2006 financial statements.

Alternatives:

The Board has two alternatives:

1. Accept the audited financial statements as presented by PwC or
2. Postpone the acceptance of the audited financial statements until a future date following additional investigation or discussion with PwC or management regarding the financial statements. If this alternative is chosen, ERCOT staff will work with the appropriate lenders to seek a waiver to debt covenants relating to the timing of the availability of audited financial statements.



Conclusion/Recommendation:

The F&A Committee of the Board of Directors is expected to recommend Board acceptance of the audited financials and Report on Audit of Financial Statements for the Years Ended December 31, 2006 and 2005 as presented by PwC.



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

WHEREAS, the board of directors (the Board) of Electric Reliability Council of Texas, Inc. (ERCOT) deems it desirable to accept the ERCOT audited financial statements and Report on Audit of Financial Statements for the Years Ended December 31, 2006 and 2005 as presented by PricewaterhouseCoopers, LLP;

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby accepts the ERCOT audited financial statements and Report on Audit of Financial Statements for the Years Ended December 31, 2006 and 2005 as presented by PricewaterhouseCoopers, LLP.