



**Date:** April 10, 2007  
**To:** Board of Directors  
**From:** Sam Jones, President and Chief Executive Officer  
**Subject:** Board Approval of Purchases and Contracts

**Issue for the ERCOT Board of Directors**

**ERCOT Board of Director Meeting Date:** April 18, 2007

**Agenda Item No.:** 11a

**Issue:**

Review of Board authorization level for purchases and contracts. Because no review of the current Board authorization procedures has occurred since 2004, at the January Board meeting, the Board requested that ERCOT staff review current purchase approval levels and make a recommendation, if appropriate, regarding the parameters for Board approval of specific purchases and contracts.

**Background/History:**

Section 2.4 of the Board Policies and Procedures (last amended June 17, 2003) currently provides that matters for which the Board expressly reserves for Board approval include:

- “2.4.8 Approval of the purchase of goods or services for ERCOT’s use, or of a contract for such purchase, with a value of over one million dollars (\$1,000,000.00) where such purchase or contract is not identified as a line item in the Budget and has not been subject to a competitive bidding process.
- 2.4.9 Approval of the sale or pledge of any ERCOT assets valued in excess of one million dollars (\$1,000,000.00).
- 2.4.10 Establishment of any line of credit, loans, or other forms of indebtedness in the name of ERCOT exceeding one million dollars (\$1,000,000.00).”

However, on August 17, 2004 the Board determined that it would amend these procedures, to require Board approval if a contract over \$1 million was either not competitively bid **or** was not a line item in the budget. The board further requested that all contracts over \$1 million be submitted to the Board for approval in the short term. The Board has not taken further action on these procedures.

In addition to these requirements regarding Board approval, ERCOT’s Delegation of Authority Corporate Standard provides that ERCOT staff can approve purchases or contracts that are under the following dollar amounts: managers – \$50,000; directors – \$100,000; executive director – \$250,000; officers – \$350,000; CEO – \$500,000; CEO and Vice President – \$1 million.

Staff surveyed other ISOs and LCRA regarding their requirements for Board approval of purchases and contracts. A summary of the survey results is contained in the Executive Session



materials.

After reviewing existing ERCOT internal controls, together with the survey results, ERCOT staff recommends that the Board consider modifying the threshold for Board approval of specific purchases and contracts.

**Key Factors Influencing Issue:**

The Board requested information about the practices of other similar companies and a recommendation regarding options for Board approval thresholds for purchases and contracts. The alternatives balance risks with improved efficiencies.

**Alternatives:**

Regarding the approval of purchases and contracts of over \$1 million:

- Retain the current purchase and contract approval requirement (require board approval of all purchases or contracts of \$1 million or more).
- Eliminate the 2004 short-term requirement of Board authorization of all contracts and purchases over \$1 million and revert to the 2003 purchase and contract approval requirement, with the “or” language modification (require Board approval of all purchases or contracts of over \$1 million if the purchase or contract is not identified as a specific line item in the Budget **or** is not subject to competitive bidding).
- Allow the CEO and a Vice President to approve purchases and contracts of up to \$3 million (and allow each officer to approve purchases and contracts of up to \$1 million), so long as: (1) the expenditure is clearly associated with a specific line item in the current approved budget; (2) the expenditure will not cause the budget category or overall budget to be overrun; (3) the associated goods or services are obtained in accordance with the Company’s Procurement Standard and Operating Procedures; and (4) the Board or Finance & Audit Committee (“F&A”) is notified in writing, no less than quarterly, of the status of all contracts so approved and of all vendors with whom ERCOT has spent \$1 million or more in the previous 12 month period.
- Allow the CEO and officers to approve all purchases and contracts without prior Board approval, so long as: (1) the expenditure is clearly associated with a specific line item in the current approved budget; (2) the expenditure will not cause the overall budget to be overrun; (3) the associated goods or services are obtained in accordance with the Company’s Procurement Standard and Operating Procedures; and (4) the Board or F&A is notified in writing, no less than quarterly, of the status of all contracts so approved and of all vendors with whom ERCOT has spent \$1 million or more in the previous 12 month period.

**Conclusion/Recommendation:**

ERCOT staff recommends that the Board consider modifying the threshold for Board approval,



to allow the CEO and an officer to have additional authority to approve specific purchases and contracts between \$1 million and \$3 million, so long as: (1) the expenditure is clearly associated with a specific line item in the current approved budget; (2) the expenditure will not cause the budget category or overall budget to be overrun; (3) the associated goods or services are obtained in accordance with ERCOT's Procurement Standard and operating procedures; and (4) the Board or F&A is notified in writing, no less than quarterly, of the status of all contracts so approved and of all vendors with whom ERCOT has spent \$1 million or more in the previous 12 month period.



**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 permit ERCOT staff to approve purchases and contracts of up to \$1 million and, on conditions set forth below, for the Chief Executive Officer and President (CEO) and a Vice President (VP) to approve purchases and contracts between the amount of \$1 million and \$3 million, in order to improve efficiencies without unnecessary risks;

NOW, THEREFORE, BE IT RESOLVED, that ERCOT staff is still authorized to approve purchases and contracts of up to \$1 million, in accordance with the ERCOT Delegation of Authority Corporate Standard; and

BE IT RESOLVED, that the ERCOT CEO, with one VP, is hereby additionally authorized to approve purchases and contracts of between \$1 million and \$3 million, so long as: (1) the expenditure is clearly associated with a specific line item in the current approved budget; (2) the expenditure will not cause the budget category or overall budget to be overrun; (3) the associated goods or services are obtained in accordance with ERCOT's Procurement Standard and operating procedures; and (4) the Board or Finance & Audit Committee is notified in writing, no less than quarterly, of the status of all contracts so approved and of all vendors with whom ERCOT has spent \$1 million or more in the previous 12 month period.