



ERCOT FINANCE & AUDIT COMMITTEE MEETING

7620 Metro Center Drive, Austin, Texas

May 4, 2007; 9:00am – 11:00am*

Met Center, Conference Room 209

1.	Call to Order	C. Karnei	9:00am
2.	Executive Session a. Discuss Debt Financing and Liability Management Contract Pricing and Terms	C. Yager	9:05am
	Open Session		
3.	Summarize Executive Session Debt Financing Discussion (vote)	C. Karnei	9:50am
4.	Review Preliminary TRE Budget and Assumptions	L. Grimm	10:00am
5.	Finance and Audit Committee Charter Update – Question and Answer (vote)	All	10:45am
6.	Other		10:55am
7.	Adjourn		11:00am

** All times shown in the Agenda are approximate.
Background material will be distributed prior to meeting.*

Summarize Executive Session Debt Financing Discussion

C. Karnei

<vote>

Review Preliminary TRE Budget and Assumptions

L. Grimm

2008 Budget Development Schedule

Date	Action
Wednesday, Apr. 18	Finance & Audit Committee - Preliminary Budget & Business Plan Discussion
Friday, May 4	Finance & Audit Committee - Special Meeting
Friday, May 11	NERC - First Draft - Preliminary Business Plan and Budget Due (Statutory Functions)
Wednesday, May 16	Finance & Audit Committee/Board - Preliminary Budget Presentation and Final Business Plan Review
Thursday, May 17	Open Meeting - Business Plan and Proposed Budget Presentation
Monday, May 28	Finance & Audit Committee Special Meeting - Budget Review and Recommendation (if necessary)
Friday, Jun. 1	NERC - Final Business Plan and Budget (Draft) due to NERC (Statutory and Non-Statutory Functions)
Thursday, Jun. 19	Board - Final Budget Approval
Thursday, July 12	NERC - Final Board Approved Budget Due

Regional Entity Update – L. Grimm

Statement of Activities 2008 Budget	Total	Statutory Total	Non-Statutory Total
Funding			
ERO Funding	4,558,409	4,558,409	-
Membership Dues	-	-	-
Testing Fees	-	-	-
Services & Software	-	-	-
Workshops	70,000	70,000	-
Interest	-	-	-
System Admin Fee	898,778	-	898,778
Total Funding	5,527,187	4,628,409	898,778
Expenses			
Personnel Expenses			
Salaries	2,249,479	1,687,109	562,370
Payroll Taxes	186,707	140,030	46,677
Benefits	269,937	202,453	67,484
Retirement Costs	263,189	197,392	65,797
Total Personnel Expenses	2,969,312	2,226,984	742,328
Meeting Expenses			
Meetings	73,240	73,240	-
Travel	97,135	93,235	3,900
Conference Calls	1,000	1,000	-
Total Meeting Expenses	171,375	167,475	3,900
Operating Expenses			
Contracts & Consultants	15,000	15,000	-
Office Rent	271,000	203,000	68,000
Office Costs	1,762,500	1,759,950	2,550
Professional Services	338,000	256,000	82,000
Computer Purchase & Maint.	-	-	-
Depreciation	-	-	-
Miscellaneous/ Contingency	-	-	-
Total Operating Expenses	2,386,500	2,233,950	152,550
Total Expenses	5,527,187	4,628,409	898,778

Regional Entity Update – L. Grimm

Statement of Activities 2008 Budget	Statutory Total	Reliability Standards	Compliance & Organization Registration & Certification	Reliability Readiness Audit & Improvement	Reliability Assessment & Performance Analysis	Training & Education	Situational Awareness & Infrastructure Security	General Administrative	Legal & Regulatory	Information Technology	Accounting & Finance
Funding											
ERO Funding	4,558,409	152,668	597,509	53,345	740,377	60,503	42,925	2,376,524	282,164	113,735	138,659
Membership Dues	-	-	-	-	-	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-	-	-	-	-	-
Workshops	70,000	-	-	-	-	70,000	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-
System Admin Fee	-	-	-	-	-	-	-	-	-	-	-
Total Funding	4,628,409	152,668	597,509	53,345	740,377	130,503	42,925	2,376,524	282,164	113,735	138,659
Expenses											
Personnel Expenses											
Salaries	1,687,109	108,604	448,757	32,368	525,274	38,154	32,368	176,207	165,238	85,670	74,469
Payroll Taxes	140,030	9,014	37,247	2,686	43,598	3,167	2,686	14,625	13,715	7,111	6,181
Benefits	202,453	13,032	53,851	3,884	63,033	4,578	3,884	21,145	19,829	10,281	8,936
Retirement Costs	197,392	12,707	52,505	3,787	61,457	4,464	3,787	20,616	19,333	10,023	8,713
Total Personnel Expenses	2,226,984	143,357	592,360	42,725	693,362	50,363	42,725	232,593	218,115	113,085	98,299
Meeting Expenses											
Meetings	73,240	810	810	-	810	70,000	-	-	810	-	-
Travel	93,235	8,500	4,340	10,620	46,205	10,140	200	6,480	2,740	150	3,860
Conference Calls	1,000	-	-	-	-	-	-	1,000	-	-	-
Total Meeting Expenses	167,475	9,310	5,150	10,620	47,015	80,140	200	7,480	3,550	150	3,860
Operating Expenses											
Contracts & Consultants	15,000	-	-	-	-	-	-	15,000	-	-	-
Office Rent	203,000	-	-	-	-	-	-	203,000	-	-	-
Office Costs	1,759,950	-	-	-	-	-	-	1,758,450	500	500	500
Professional Services	256,000	-	-	-	-	-	-	160,000	60,000	-	36,000
Computer Purchase & Maint.	-	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous/ Contingency	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	2,233,950	-	-	-	-	-	-	2,136,450	60,500	500	36,500
Total Expenses	4,628,409	152,668	597,509	53,345	740,377	130,503	42,925	2,376,524	282,164	113,735	138,659

Regional Entity Update – L. Grimm

Statement of Activities 2008 Budget	Non-Statutory Total	Protocol & Operating Compliance	General Administrative	Legal & Regulatory	Information Technology	Accounting & Finance
Funding						
ERO Funding	-	-	-	-	-	-
Membership Dues	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-
Workshops	-	-	-	-	-	-
Interest	-	-	-	-	-	-
System Admin Fee	898,778	525,131	201,081	90,905	37,845	43,816
Total Funding	898,778	525,131	201,081	90,905	37,845	43,816
Expenses						
Personnel Expenses						
Salaries	562,370	395,175	58,736	55,079	28,557	24,823
Payroll Taxes	46,677	32,800	4,875	4,572	2,370	2,060
Benefits	67,484	47,421	7,048	6,610	3,427	2,979
Retirement Costs	65,797	46,235	6,872	6,444	3,341	2,904
Total Personnel Expenses	742,328	521,631	77,531	72,705	37,695	32,766
Meeting Expenses						
Meetings	-	-	-	-	-	-
Travel	3,900	3,500	-	200	150	50
Conference Calls	-	-	-	-	-	-
Total Meeting Expenses	3,900	3,500	-	200	150	50
Operating Expenses						
Contracts & Consultants	-	-	-	-	-	-
Office Rent	68,000	-	68,000	-	-	-
Office Costs	2,550	-	2,550	-	-	-
Professional Services	82,000	-	53,000	18,000	-	11,000
Computer Purchase & Maint.	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Miscellaneous/ Contingency	-	-	-	-	-	-
Total Operating Expenses	152,550	-	123,550	18,000	-	11,000
Total Expenses	898,778	525,131	201,081	90,905	37,845	43,816

Texas Regional Entity Staffing Overview

Summary

1. Each Regional Entity shall comply with the NERC Rules of Procedure as applicable to functions delegated to the Regional Entity by NERC, including NERC Compliance Monitoring and Enforcement Program (CMEP) and the Texas RE Reliability Standards Development Process.
2. The Texas RE is essentially a “start-up” organization as it relates to those delegated functions.
3. Includes compliance monitoring and enforcement of ERCOT Protocols and Operating Guides as a parallel process to the NERC Program. The Texas RE must follow currently PUCT-approved ERCOT Compliance Process.
4. Texas RE does not utilize contractors or industry volunteers/experts to assist with Compliance and Readiness Audits.
5. Regional compliance monitoring and enforcement program methods, including determination of violations and penalty assessment shall be uniform – differences must be justified and fully documented.
6. Program requires significant issue tracking and reporting, complying with rigid timelines and meeting deadlines, extensive communication and interaction with NERC and Registered Entities, up-to-date and accurate web site postings, and complete and detailed documentation.
7. Registered Entities (from current list – under development) in the ERCOT Region:
 - 107 Generator Owners
 - 30 Generator Operators
 - 29 Transmission Planners
 - 31 Transmission Owners
 - 2 Distribution Providers with responsibility for complying with the requirements of the under-frequency load shedding program
 - ERCOT ISO (Reliability Coordinator, Transmission Operator, Balancing Authority, Planning Authority, Resource Planner, Transmission Service Provider, and Purchasing Selling Entity)
8. Currently 83 FERC-approved NERC Reliability Standards: ~344 requirements & ~393 sub-requirements [excludes Critical Infrastructure (CIP) Standards].
9. Many Reliability Standards apply to multiple Registered Entities.
10. The Texas RE is expected to provide resources to actively participate on the following standing NERC groups:
 - Regional Entity Management Group
 - Regional Entity Compliance Managers
 - Regional Reliability Standards Working Group
 - Budget Working Group
 - Due Process/Hearings Working Group
 - Staffing/Training Working Group
 - Disturbance Analysis Working Group

Compliance Review & Verification

2007 – 7 FTEs (Technical Writer position vacant) → 2008 – 8 FTEs (adds Records/Document Coordinator)

- Selectively monitor system operations and extract data at various intervals to meet reporting requirements and assess performance and compliance with NERC and ERCOT-Specific Standards. Monthly and quarterly assessments include ancillary services and SCPS performance. Annual assessments include review of annual winter, summer, and long-term assessments.
- Periodic data submittal review and analysis – NERC mis-operation data, generating unit tests, outages related to vegetation management, etc.
- Data and document management.
- Compliance issue management and tracking.
- Compliance procedure development and management.
- Impact assessment of new/revised NERC Standards on ERCOT Protocol and Operating Guides requirements.
- Maintain entity/organization registration and contact information (see below for additional detail) and provide updates to NERC as changes occur.
- Address issues as a result of self-reporting, exception reporting, and complaints (incident reports). Estimate 1 Incident Report per month.
- Compliance reporting to the PUCT, NERC, FERC, and stakeholders.
- Write & edit:
 - Reports (Audit, Investigation, etc.) – 50 to 60 per year
 - Regional Standards
 - Compliance-related procedures & guides
- Training – Audit, Annual Operations Training Seminar, others....
- Capital project development, tracking, and oversight of projects in support of the Texas RE to fulfill its delegated functions.

Reliability Assessment and Performance Analysis

2007 – 7 FTEs (CIP Reliability Engineer/Analyst and Reliability Engineer positions vacant) → 2008 – 8 FTEs (adds Sr. Compliance Engineer)

- Compliance Audits ~ 39/year
- Reliability Readiness Audits participation – 6 NERC, ERCOT Local Control Centers (LCC) – ? (conducted 2 in 2006)
- Organization Certification Audits – Possibly use Reliability Readiness Audits in lieu of Organization Certification Audits
- Self-Certifications ~ 130/year
- Spot Checks ~ 10 – 15/year
- Investigations ~ 8 – 10/year (52 events reported in 2006; of those 10 investigated, 3 received detailed investigation)

- Critical Infrastructure Compliance – will consist primarily of self-certifications in 2008 but status will be reviewed during Compliance Audits
 - NERC CIP 002-009 Standards
 - Communicate CIP Standards Requirements
 - Implementation Schedule
 - ERCOT ISO
 - Compliant 2Q08
 - Auditably compliant 2Q09
 - Other Registered Entities
 - Begin work 2Q07
 - Substantially compliant 2Q08

Reliability Standards

2007 – 2 FTEs (Standards Development Coordinator position vacant) → 2008 – 2 FTEs

- Manage the Regional Standards Development Process and coordinate and facilitate all actions contained in all steps in the process.
- Ensure that the development, revision or deletion of Standards is in accordance with the approved Texas RE Reliability Standards Development Process.
- Ensure the integrity of the process and consistency of quality and completeness of the Standards.
- Maintain on the Texas RE Web Site a current listing of Reliability Standards that are applicable to all Registered Entities.
- Develop and maintain applicable forms as needed to support the information requirements of the TRE Standards Development Process.
- Within the Texas RE, coordinate the review of ERCOT Protocols and Operating Guides and all proposed revisions, for conflicts with NERC Reliability Standards.
- Coordinate the review of postings of NERC Standards and related material for impact on the compliance program and ensure those postings are communicated to ERCOT Market Participants.
- Participate in compliance assessments (audits, investigations, periodic reviews) when requested.
- Participate in the NERC Standards Development Process.
- With ERCOT staff and stakeholder groups, prepare Regional responses to NERC inquiries.

Requirements from the NERC Compliance Monitoring and Enforcement Program approved by the FERC:

Overview

- The Texas RE.....
 - shall register the organizations responsible for complying with Reliability Standards and identify the owners, operators, and users of the bulk power system.
 - will monitor, assess, and enforce compliance with Reliability Standards using eight (8) monitoring processes to collect information in order to make assessments of compliance: (1) Compliance Audits, (2) Self-Certifications, (3) Spot Checking, (4) Compliance Violation Investigations, (5) Self-Reporting, (6) Periodic Data Submittals, (7) Exception Reporting, and (8) Complaints.
 - will impose remedial actions, sanctions, and penalties.
 - will review and implement the annual NERC Implementation Plan (provided by October 1st) that specifies the Reliability Standards requiring reporting by Registered Entities to the Texas RE to provide verification of compliance through one of the monitoring methods described in the Compliance Plan document.
 - will submit a Regional Implementation Plan for the following calendar year to NERC for approval by November 1 of each year
 - shall post on the Texas RE Web Site, the Regional Implementation Plan and the Texas RE's other relevant Compliance Program documents.
 - will participate on NERC Reliability Standards Drafting Teams.
 - shall represent the Texas RE on NERC Compliance-related groups.

Audits

- The Texas RE.....
 - will develop and distribute the Annual Audit Plan.
 - will perform comprehensive Compliance Audits as required by the NERC Rules of Procedure.
 - will determine Reliability Standards to be evaluated
 - will provide information to the Compliance Audit Participants, including audit materials, coordinating agendas and changes to the audit schedule as required.
 - request data, including a completed NERC pre-audit questionnaire
 - review the submitted information for conformance with the requirements of the Reliability Standards and Protocols/Operating Guides prior to performing the audit
 - develop a draft audit report – including an assessment of compliance
 - issue a final audit report to the Registered Entity and to NERC
 - will send the Registered Entity a notice of alleged violation if a violation has occurred.
 - will notify NERC of any alleged violations.

- shall maintain work papers and other documentation associated with the audit in accordance with NERC requirements.

Self-Certifications

- The Texas RE.....
 - will request registered entities that are not audited to self-certify compliance with Reliability Standards
 - will post and update the reporting schedule (for self-certifications) and informs Registered Entities.
 - shall ensure that the appropriate Reliability Standards, compliance procedures, and required submittal forms for the Reliability Standards being evaluated are maintained and available electronically.
 - will review information to determine compliance with the Reliability Standards and may request additional data and/or information if necessary.
 - will complete the assessment of the Registered Entity for compliance with the Reliability Standard (and with the Registered Entity's Mitigation Plan, if applicable).
 - shall send the Registered Entity a notice of alleged violation if a reasonable basis exists for believing a violation has occurred.

Spot-Checking

- The Texas RE.....
 - will perform spot checks at any time to verify or confirm Self-Certifications, Self Reporting, and Periodic Data Submittals.
 - may initiate a spot check randomly or may be initiated in response to events.
 - will review the information submitted to verify the Registered Entity's compliance with the Reliability Standard.
 - will notify the Registered Entity that Spot Checking will be performed and the reason for the spot check.
 - may require submission of data, documentation, or possibly an on-site review.
 - will review information to determine compliance with the Reliability Standards and may request the additional data and/or information if necessary for a complete assessment of compliance.
 - will complete and document the assessment of the Registered Entity for compliance with the Reliability Standard and provide a report to the Registered Entity indicating the results of the spot check.
 - shall send the Registered Entity a notice of alleged violation if a reasonable basis exists for believing a violation has occurred.

Compliance Violation Investigations

- The Texas RE.....
 - may initiate a Compliance Violation Investigation at any time in response to a system disturbance, Complaint, or possible violation of a Reliability Standard identified by any other means.

- will request data or documentation from registered entity.
- will review information to determine compliance with the Reliability Standards.
- may request additional data and/or information if necessary for a complete assessment or to demonstrate compliance.
- will complete the assessment of compliance with the Reliability Standard and/or approval of the applicable Mitigation Plan, write and distribute the report, and notify the Registered Entity.
- shall send the Registered Entity a notice of alleged violation if a reasonable basis exists for believing a violation has occurred.
- will notify NERC of any Alleged Violations.
- shall send the Registered Entity and NERC a notice that the investigation has been completed if determined that no violation occurred.

Self-Reporting

- The Texas RE.....
 - will post the Self-Reporting submittal forms and ensure they are maintained and available on its Web Site.
 - will review the self-report information to determine compliance with the Reliability Standards and may request the Registered Entity to provide clarification or additional data and/or information.
 - will complete the assessment of the Registered Entity for compliance with the Reliability Standards and any Mitigation Plan, if applicable, and notify the Registered Entity.
 - shall send a notice of Alleged Violation if a reasonable basis exists for believing a violation has occurred.
 - will notify NERC of any Alleged Violations.

Periodic Data Submittals

- The Texas RE.....
 - will post the current data reporting schedule on its Web Site and keep Registered Entities informed of changes and/or updates.
 - will make a request for a Periodic Data Submittal.
 - will review the data submittal to determine compliance with the Reliability Standards and may request additional data and/or information for a complete assessment or to demonstrate compliance.
 - will complete the assessment of the Registered Entity for compliance with the Reliability Standard and notify the Registered Entity.
 - shall send the Registered Entity a notice of alleged violation if it is concluded that a reasonable basis exists for believing a violation has occurred.

Exception Reporting

- The Texas RE.....
 - shall require Registered Entities to provide reports identifying any exceptions to the extent required by any Reliability Standard.

- shall also require Registered Entities to confirm the number of exceptions that have occurred in a given time period identified by NERC, even if the number of exceptions is zero.

Complaints

- The Texas RE.....
 - will conduct a review to determine if the Complaint may be closed as a result of the initial review and assessment of the Complaint or determine if it provides sufficient basis for a Compliance Violation Investigation.
 - will report the results of its review of the Complaint to NERC.
 - will conduct a Compliance Violation Investigation if, as a result of the initial review of the Complaint, it is determined that a Compliance Violation Investigation is warranted.
 - will post a link to the complaint reporting form on the Texas RE Web Site.
 - will notify the complainant, the Registered Entity, and NERC of the Compliance Violation Investigation.
 - will notify the complainant, NERC, and the Registered Entity that no further action will be taken if a Compliance Violation Investigation is not warranted.
 - will fully document the Complaint and the Complaint review, whether a Compliance Violation Investigation is initiated or not.

Enforcement Actions

- The Texas RE.....
 - shall determine (i) whether there have been violations of Reliability Standards by Registered Entities within the Texas RE's area of responsibility, and (ii) if so, the appropriate remedial actions, and penalties and sanctions.
 - shall provide written notice of Alleged Violation and sanction to the Registered Entity and NERC if it is determined to be an alleged violation of a Reliability Standard.
 - may also issue an initial notice of Alleged Violation, without specifying the proposed penalty or sanction, to the Registered Entity.
 - will issue to the Registered Entity and NERC a final report of Confirmed Violation if a violation is confirmed. A Registered Entity may provide a written explanatory statement to accompany the final report.
 - shall schedule a conference call with the Registered Entity if the Registered Entity contests the violation.
 - shall initiate the hearing process by convening the hearing body and issuing a written notice of hearing to the Registered Entity and the hearing body, if a hearing is requested by the Registered Entity.
 - will participate in Settlement negotiations from the issuance of a notice of Alleged Violation and sanction until a Notice of Penalty is filed with FERC.

- will issue a letter setting forth the final settlement terms including all penalties, sanctions, and mitigation requirements provided for in the final settlement.
- will report the terms of all settlements of compliance matters to NERC.
- will participate in the NERC Appeals Process if the Registered Entity appeals the Texas RE CCO's decision to NERC.
- may accept a request for an extension or modification of a Mitigation Plan if the Texas RE determines the request is justified.
- will notify NERC of the extension or modification.
- will complete a review of the Mitigation Plan and issue a written statement accepting or rejecting the Mitigation Plan.
- will notify the Registered Entity if it accepts or rejects the revised Mitigation Plan and provide a written statement describing the reasons for rejection and the Required Date for the second revised Mitigation Plan.
- will issue a written statement accepting a Mitigation Plan it deems as appropriate after any requested hearing is completed.
- will notify NERC of the acceptance of a Mitigation Plan.
- will review quarterly updates from the Registered Entity to the Texas RE on the progress of the Mitigation Plan.
- will track the Mitigation Plan to completion and may conduct on-site visits and review status during audits to monitor Mitigation Plan implementation.
- will request data or information that is sufficient for the Texas RE to verify completion and conduct follow-up assessments, on-site or other Spot Checking, or Compliance Audits as it deems necessary to verify that all required actions in the Mitigation Plan have been completed and the Registered Entity is in compliance with the subject Reliability Standard.
- may conduct a compliance audit of, or issue a Remedial Action Directive to, the Registered Entity in the event all required actions in the Mitigation Plan are not completed within the applicable deadline including any extensions of the original deadline granted. Any violation(s) of a Reliability Standard subject to the Mitigation Plan that occurred during the originally scheduled time period for completion will be enforced immediately and a new Mitigation Plan must be submitted for acceptance by the Texas RE.
- will provide to NERC quarterly status reports and such other information as NERC requests, and notify NERC when each Mitigation Plan is verified to have been completed.
- will maintain a record containing the following information for each Mitigation Plan:
 - name of Registered Entity
 - date of the violation
 - monitoring method by which the violation was detected, i.e., Self-Certification, self-reported, audit, investigation, Complaint, etc.
 - date of notification of violation and sanction

- expected and actual completion date of the Mitigation Plan and major milestones
- expected and actual completion date for each required action
- accepted changes to milestones, completion dates, or scope of Mitigation Plan
- Registered Entity's completion notice and data submitted as evidence of completion
- will issue a Remedial Action Directive when such action is immediately necessary to protect the reliability of the bulk power system from an imminent threat.
- will monitor implementation of Remedial Action Directives as necessary to verify compliance.
- will participate in the Hearing Process if the Registered Entity contests the Remedial Action Directive and requests an expedited hearing.

Reporting and disclosure

- The Texas RE.....
 - will prepare and submit to NERC all required reports containing current information concerning (1) Registered Entity compliance with Reliability Standards, (2) all Alleged and Confirmed Violations of Reliability Standards by Registered Entities, (3) the status of Alleged Violations, (4) sanctions and penalties, (5) remedial actions imposed, and (6) Mitigation Plan(s) accepted including dates for all required actions and for completion.
 - will report to NERC, on a confidential basis, any Alleged Violations of Reliability Standards regardless of significance, whether verified or still under investigation within 5 business days.
 - shall notify NERC within forty-eight (48) hours if a violation could result in or has the potential to result in, a reduced level of reliability to the bulk power system. Such reports shall include information regarding the nature of the Alleged Violation and its potential impact on the reliability of the bulk power system, the name of the Registered Entity involved, and the status and timetable of any compliance violation assessment.
 - shall report to NERC at least quarterly the status of violations of Reliability Standards, regardless of significance, that have not yet resulted in a final determination of violation or have not completed the Hearing Process, or for which mitigation activities have not been completed.
 - will ensure that all information is current when these reports are provided.
 - shall report to NERC all Confirmed Violations of Reliability Standards by Registered Entities including all penalties, sanctions, Mitigation Plans and schedules, and settlements
 - will also provide, at the same time, the report to the affected Registered Entity, accompanied by a notice that the Registered Entity may provide a statement to NERC to accompany the report when posted by NERC.

Data Retention and Confidentiality

- The Texas RE.....
 - records management policy shall provide for a routine and orderly process for the retention and disposal of electronic and paper records related to the Compliance Program, ensure verification of compliance with appropriate business, regulatory, and legal requirements and at a minimum conform to the Reliability Standards data retention requirements of the Reliability Standards. The policy shall allow for the maintenance of records as required to implement the Compliance Program
 - records management policy will require that information and data generated or received pursuant to Compliance Program activities, including a Hearing Process, will be retained for a minimum of five (5) years unless a different retention period is specified in a Reliability Standard.
 - will provide to NERC copies of such information and data upon request from NERC.

Hearings

- The Texas RE.....
 - shall initiate the Hearing Process by issuing a written notice to the Registered Entity and the members of the hearing body convening the hearing body for a formal compliance hearing on the matter in dispute.
 - shall, after the date the hearing body is convened, file with the hearing body (with copies to the Registered Entity) a copy of the written notice of the Alleged Violation and sanction that was originally provided to the Registered Entity, along with copies of any documents gathered and reviewed by the Texas RE in the course of determining an Alleged Violation has occurred and in determining the proposed sanction or penalty.
 - shall file a report stating why the Registered Entity's proposed Mitigation Plan was not accepted if the hearing involves a Mitigation Plan.

From the Texas RE Reliability Standards Development Process approved by the FERC:

Overview

- The Texas RE.....
 - may develop, through their own processes, separate Standards that go beyond, add detail to, or implement NERC Reliability Standards; obtain a Regional Variance; or otherwise address issues that are not addressed in NERC Reliability Standards.
 - shall maintain on its web site a current listing of Reliability Standards that are applicable to all Registered Entities.
 - will ensure that the development, revision or deletion of Standards is in accordance with the approved Texas RE Reliability Standards Development Process.

- will ensure the integrity of the process and consistency of quality and completeness of the Standards.
- will manage the Standards Development Process, and coordinate and facilitate all actions contained in all steps in the process.
- shall be responsible for implementing and maintaining the applicable forms as needed to support the information requirements of the Texas RE Standards Development Process.

Standards Development Process

- The Texas RE.....
 - will post all proposed Standard Authorization Requests (SAR) and Standards for comment on the Texas RE Web Site.
 - will coordinate with NERC such that the acknowledgement of receipt of a standard request, notice of comment posting period, and notice for vote are concurrently posted on both the Texas RE and NERC Web Sites.
 - will receive all SARs submitted by an entity which is directly or materially impacted by the operation of the bulk power system within the geographical footprint of the Texas RE.
 - will verify that the submitted SAR form has been adequately completed.
 - may offer the Originator suggestions regarding changes and/or improvements to enhance clarity and assist the ERCOT community to understand the Originator's intent and objectives.
 - will electronically acknowledge receipt of the SAR.
 - will forward all adequately completed SARs to the RSC.
 - will make reasonable efforts to assist the Originator in addressing the deficiencies identified by the RSC.
 - will track status of all SARs.
 - shall submit a written report to the ERCOT BOD on a periodic basis (at least quarterly at regularly scheduled ERCOT BOD Meetings) showing the status of all SARs that have been brought to the Reliability Standards Committee (RSC) for consideration.
 - will solicit Standard Drafting Team (SDT) nominees.
 - will recommend a slate of ad-hoc individuals or a pre-existing task force, work group, or similar for the SDT to the ROS.
 - will modify the SDT slate if directed by the ROS.
 - will participate on the SDT.
 - will then develop a work plan for completing the Standard development work, including the establishment of milestones for completing critical elements of the work in sufficient detail to ensure that the SDT will meet the date objective established by the RSC.
 - will deliver the work plan to the RSC for its concurrence.
 - will insure that SDT membership receives all necessary administrative support.
 - will ensure that competing versions of a draft Standard are posted on the Texas RE Web Site, if directed by the RSC.

- will facilitate the posting of the draft Standard on the Texas RE Web Site, along with a draft implementation plan and supporting documents, for a 30-day comment period.
- shall also inform ERCOT Members and other potentially interested entities inside or outside of ERCOT of the posting using typical membership communication procedures then currently in effect or by other means as deemed appropriate.
- will post all comments on the draft Standard on the Texas RE Web Site.
- shall post the proposed standard and implementation plan for ballot on the Texas RE Web Site.
- shall announce the vote to approve the standard, including when the vote will be conducted and the method for voting.
- will schedule a vote by the ERCOT Membership.
- will collect the votes and all comments.
- shall post all comments and responses to comments to the Texas RE Web Site prior to going to the RSC or ERCOT BOD.
- shall submit proposed Standard to the ERCOT BOD.
- will submit Standard to NERC for approval and filing with FERC once a proposed Standard is approved by the ERCOT BOD.
- will notify the membership of ERCOT BOD approval through the normal and customary membership communication procedures and processes then in effect.
- will take whatever steps are necessary to have a Standard reviewed and/or approved by NERC or any successor organization.
- shall notify the stakeholders of the effective date once the Standard is approved by FERC.
- will also notify the Texas RE Compliance Staff for integration into the Texas RE Compliance Program.

Additional Tasks

- The Texas RE.....
 - shall promptly notify the ERCOT BOD, on behalf of the RSC, of 'minor' changes to the Texas RE Reliability Standards Development Process for their review and concurrence at the next ERCOT BOD Meeting.
 - shall ensure that each Standard is reviewed at least once every five years from the effective date of the Standard or the latest revision to the Standard, whichever is the later.
 - shall solicit comments from the stakeholders.
 - shall recommend to the ERCOT BOD that the Standard be reaffirmed if no changes are warranted.
 - shall prepare and submit a SAR in accordance with the Standards Development Process if the review indicates a need to revise or delete a Standard.
 - shall receive requests from any person requesting an interpretation of a Standard.

- will assemble a team with the relevant expertise to address the clarification.
- will submit the proposed list of names of the Interpretation Drafting Team (IDT) to the ROS.
- will forward the draft interpretation to the Texas RE Director of Compliance and the ROS.
- will forward the interpretation, on behalf of the RSC, to the ERCOT BOD for informational purposes as being appended to the approved Standard.
- will receive written complaints from entities that describe the substantive or procedural action or inaction associated with a Standard or the Standards Development Process.
- shall prepare a written response.
- will receive written appeals if the appellant remains unsatisfied with the resolution.
- shall convene a Level 2 Appeals Panel. This panel shall consist of five members total appointed by ERCOT's BOD.
- shall post the complaint and other relevant materials and provide at least 30-days notice of the meeting of the Level 2 Appeals Panel.
- shall be publicly post the actions of the Level 2 Appeals Panel.

Miscellaneous

- Coordinate the review, within the Texas RE, of ERCOT Protocols and Operating Guides, and all proposed revisions, for conflicts with NERC Reliability Standards.
- Coordinate the review of postings of NERC Standards and related material for impact on the compliance program.
- Participate in compliance assessments (audits, investigations, periodic reviews) when requested.
- Participate in the NERC Standards Development Process.
- With ERCOT staff and stakeholder groups, prepare Regional responses to NERC inquiries, i.e. determine need for field test of various draft NERC Reliability Standards.

<vote>



**THE ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
FINANCE & AUDIT COMMITTEE CHARTER**

Purpose

The Finance and Audit committee of the Board of Directors of ERCOT shall:

1. Oversee the Company's budget process and adherence to budget.
2. Provide recommendations to the Board of Directors for establishing levels of financing and in setting the Company's fees, including its administrative fee;
3. Review and make recommendations to the Board of Directors regarding investment and financial standards for the Company;
4. Review and make recommendations to the Board of Directors regarding credit standards, procedures, governance, ERCOT Protocols and other market rules which impact credit risk, with the goal of maintaining the financial stability of the ERCOT market and minimizing credit losses, consistent with prudent credit practices;
5. Ensure that the Company's financial statements are timely audited by qualified accountants who are independent;
6. Assist the Board of Directors in fulfilling its oversight responsibility with respect to the Company's maintenance of an effective internal audit function;
7. Establish and maintain procedures for the receipt (including anonymous submission), retention and treatment of complaints regarding accounting, internal controls, and auditing;
8. Perform such other duties and responsibilities enumerated in and consistent with this Charter.

The Committee's function is one of oversight, recognizing that the Company's management is responsible for preparing the Company's financial statements, and the independent auditor is responsible for auditing those statements. In adopting this Charter, the Board of Directors acknowledges that the Committee members are not employees of the Company and are not providing any expert or special assurance as to the Company's financial statements or any professional certification as to the external auditor's work or auditing standards. Each member of the Committee shall be entitled to rely on the integrity of staff and external auditors to provide accurate, complete financial and other information to the Committee, absent actual knowledge to the contrary.

While the Committee has the responsibilities, duties and powers set forth in this Charter, it shall be the responsibility and duty of the Company's management and independent auditor, and not the responsibility or duty of the Committee, to plan or conduct audits to make any determination that the Company's financial statements are complete, accurate and in accordance with generally accepted accounting principles, and to assure compliance with laws, regulations and the Company's ethics policies. It is the responsibility of the Committee to conduct investigations and resolve disagreements regarding financial reporting, if any, between management and the independent auditor.

The Committee shall provide assistance to the Board in fulfilling its oversight responsibility relating to the Company's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the annual independent audit of the Company's financial statements and the legal compliance and ethics programs as established by management and the Board. In so doing, it is the responsibility of the Committee to maintain

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free and open communication between the Committee and the Company's independent auditors, internal accounting personnel and management.

Membership

The Finance and Audit Committee of the Board of Directors of ERCOT (the "Committee") shall be comprised of at least five Board members, at least three of which are from market Segments and two or more of which must be Independent Board members of ERCOT (the "Company"). Each Member must be able to read and understand fundamental financial statements, including the balance sheet, income statement and cash flow statement. At least one Member must have past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background which ensures the individual's financial sophistication, including a past or current position as a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

The board members shall decide from among themselves who shall participate in the Committee. The term shall be for one year.

The Chair of the Committee shall be selected through a majority vote of the Committee members. The Committee Chair shall not be the Chief Executive Officer of the Company and shall have accounting or related financial management expertise.

The Committee may request that any officers or employees of ERCOT, or any other person, whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests.

Board members (other than Committee members) including Board member alternates may attend and participate in all Committee meetings but may not participate in Committee voting.

Non-Committee members may attend Committee meetings at the discretion of the Committee. The Committee may exclude any persons who are not Directors, the Segment Alternate or the Director's Designated Representative from any meeting or portion of any Committee meeting that the Committee determines, in its discretion, needs to be held in closed session to discuss personnel issues, confidential legal matters, negotiations or other business of the Committee involving confidential information.

Qualifications

Each member of the Committee shall also meet any experience requirements as may be established from time to time by the Board of Directors. The Board of Directors shall endeavor to appoint at least one member to the committee who is a financial expert as such term may be defined from time to time by the Board of Directors, the accounting industry or other regulatory authorities.

Authority

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the power to retain outside counsel or other experts for this purpose. All employees are directed to cooperate as requested by the Committee or any of its Members for Committee purposes.

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The Committee may request any officer or employee of the Company, the Company's outside counsel or the Company's independent auditor to attend a meeting of the Committee or to meet with any Member or any consultants to the Committee.

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The Director of Internal Audit is the Chief Audit Executive at ERCOT. The Company's Chief Audit Executive shall report directly to the Committee. For administrative purposes, the Chief Audit Executive shall report to the Chief Executive Officer. The Committee shall approve an Annual Internal Audit Plan prepared by the Chief Audit Executive. The Chief Audit Executive shall (1) manage the execution of the Annual Internal Audit Plan, (2) conduct investigations at the direction of the Chair and the Committee, and (3) make periodic reports to the Committee at regularly scheduled Committee meetings and as otherwise directed by the Chair and the Committee.

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The Committee may appoint workgroups or task forces to investigate issues defined by the Committee. Members of such workgroups or task forces need not be Directors. Such workgroups or task forces shall have no authority to bind the Committee or the Company.

Structure

The presence of at least half of the members of the Committee shall constitute a quorum. At any meeting at which a quorum exists, the act of a majority of the members present at a meeting shall be the act of the Committee. For the purposes of voting, members who recuse themselves from voting on an issue shall not be counted as present for that vote.

The Chair, in consultation with the Chief Financial Officer, shall develop the agenda, the frequency, and length of meetings and shall have unlimited access to management and information for purposes of carrying out functions of the Committee. The Chair shall establish such other rules, as may from time to time be necessary and proper for the conduct of the Committee.

Duties and Responsibilities

The following shall be the prominent recurring duties and responsibilities of the Committee in carrying out its oversight functions. The duties and responsibilities are set forth below as a guide to the Committee with the understanding that the Committee may alter or supplement them as appropriate under the circumstances to the extent permitted by applicable law, and by the Company's Articles of Incorporation and Bylaws:

With respect to budget oversight and financing:

1. Annually, on a schedule to be established by the Board of Directors, the Committee shall review staff's proposed budget for the following year, including proposed staffing levels, proposed capital expenditures, and other proposed expenditures.
2. The Committee shall review the staff's estimate of revenues to support all proposed expenditures, including staff's recommendations for fee levels for the following year.
3. The Committee shall review the staff's recommendation of the amount and type of financing that may be needed to support the proposed budget, including the staff's proposed financial performance measures (e.g. ratios).
4. Following the Committee's review of the above items, the Committee shall recommend to the Board of Directors a staffing level, a proposed budget, proposed fees, and proposed financial performance measures for the following year.

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With respect to maintaining investment and financial guidelines for the Company, the Committee shall:

1. Establish standards by which the Company will investment funds and maintain its financial health/strength and review these standards at least annually, recommending updates to the Board of Directors as needed.

With respect to maintaining the financial stability of the ERCOT market and minimizing credit losses, consistent with prudent credit practices, the Committee shall make recommendations to the Board of Directors regarding:

1. The adoption and maintenance of a credit standard that defines the goals for the market with respect to financial stability;
2. The adoption and maintenance of credit procedures that provide an appropriate system of checks and balances to help ensure compliance with ERCOT's credit standard, credit procedures, and credit-related Protocols and market rules;
3. The establishment of creditworthiness requirements, methods of evaluating credit exposure and credit risk mitigation strategies which adequately address financial stability goals;
4. Credit implications of all proposed changes to market rules;
5. Other recommended steps for maintaining financial stability of the ERCOT market.

With respect to the independent auditors:

1. Annually, the Committee shall recommend to the Board of Directors the selection and engagement of the Company's independent auditor. The Committee shall fulfill the oversight responsibility of the Board of Directors with respect to the independent auditors' audit of the books and accounts of the Company and for the fiscal year for which it is appointed.
2. The Committee shall approve the provision of all auditing and non-audit services (in excess of \$5,000) by the independent auditor to the Company in advance of the provision of those services and shall also approve the fees for all non-audit services provided by the independent auditor.
3. Provision of non-audit services of less than or equal to \$5,000 by the independent auditor to the Company do not require pre-approval from the Committee, but shall be communicated in writing to the members of the Committee at the first meeting following the engagement for the non-audit services at issue.
4. In connection with the Committee's approval of non-audit services, the Committee shall consider whether the independent auditor's performance of any non-audit services is compatible with the external auditor's independence.
5. At least annually, the Committee shall obtain and review a report by the independent auditor describing:
 - a. the independent auditor's internal quality control procedures;
 - b. all relationships between the independent auditor and the Company, in order to assess the auditor's independence
6. The Committee shall also review any report by the independent auditor describing:
 - a. significant accounting policies and practices used by the Company;
 - b. alternative treatments of financial information as required to be discussed by the independent auditors with the Committee; and
 - c. any other material written communication between the independent auditors firm and the Company's management.
7. Establish the Company's hiring policies for employees who are former employees of the Company's independent auditors

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With respect to the Company's financial statements:

1. The Committee shall discuss the annual audited financial statements with management and the independent auditor, including the Company's disclosures.
2. The Committee shall review disclosures made to the Committee by the Company's CEO and CFO about any significant deficiencies in the design or operation of the internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.
3. In connection with its review of the Company's financial statements, the Committee shall review and discuss with the independent auditor the matters relating to the conduct of the audit as they may be modified or supplemented, including, but not limited to, significant judgments, significant estimates, critical accounting policies, and unadjusted differences.
4. Review major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditor, internal auditors or management.
5. Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies.
6. Review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
7. Review any and all press stories that relate to the Company's accounting and disclosure, require that management or the auditor explain any negative comments and determine whether these comments necessitate a change in the accounting structure of the Company.
8. Based on its review and discussions with management, the Chief Audit Executive and the independent auditor, the Committee shall provide a recommendation to the Board of Directors whether the Company's financial statements should be accepted.

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With respect to periodic reviews and reports:

1. Periodically, the committee shall meet separately with senior management, the Chief Audit Executive and the independent auditors.
2. The Committee shall review with the independent auditor any audit problems or difficulties and management's response to them.
3. The Committee shall review the Company's policies with respect to risk assessment and risk management.
4. The Committee shall review a summary of the Company's dealings with any financial institutions that are also market participants.
5. The Committee shall communicate to the Board of Directors the matters discussed at each meeting of the Committee, including any issues with respect to the quality or integrity of the Company's financial statements, the performance and independence of the Company's independent auditors or the performance of the internal audit function.
6. The Committee shall review and assess the adequacy of this Charter annually and recommend any proposed changes to the Board of Directors.

With respect to Internal Audit:

1. The Committee shall review with management and the Chief Audit Executive the charter, activities, staffing, and organizational structure of the internal audit function.
2. The Committee shall have final authority to review and approve the Annual Internal Audit Plan and all major changes to the Plan.

3. The Committee shall review, considering the recommendations of the independent auditors and the Chief Financial Officer, the scope of the Internal Audit Plan and the plan of work to be done by the Company's Internal Audit Department, and the results of such work.
4. The Committee shall review the significant reports to management prepared by the Internal Audit Department and management's responses.
5. The Committee shall ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Chief Audit Executive.
6. The Committee shall, at least once per year, review the performance of the Chief Audit Executive and concur with the annual compensation and salary adjustment.
7. The Committee shall review the adequacy and effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.
8. The Committee shall, on a regular basis, meet separately with the Chief Audit Executive in executive session to discuss any matters that the committee or Internal Audit believes should be discussed privately.

With respect to the other matters:

1. The Committee shall inquire of management and the independent auditors about significant risks or exposures to the Company and the ERCOT market and assess the steps management has taken to minimize such risks.
2. The Committee shall establish procedures for:
 - a. The receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
 - b. The confidential, anonymous submission by the Company's employees of concerns regarding accounting or auditing matters.
3. The Committee shall establish the Company's hiring policies for employees who are former employees of the Company's independent auditor's.
4. The Committee shall meet at least biannually with the independent auditor and the chief financial officer in separate executive sessions.

Meetings

The Committee shall meet at least once during each fiscal quarter, and as many additional times as the Committee shall deem necessary or appropriate.

Minutes

The Committee shall designate a secretary, who may be a Committee Member or employee of ERCOT, who shall prepare or cause to be prepared the minutes of each meeting and file such minutes with the corporate records of the Company. The secretary shall send, or cause to be sent, copies of such minutes to each of the Members.

Evaluation

The Committee shall undertake an annual evaluation assessing its performance and, in light of this, consider changes in its membership, charter or procedures. The Committee

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shall report to the Board the results of its evaluation, including recommended charter, membership and other changes, if any.

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The Committee shall review, based on the recommendations of the independent auditors and the CFO, the scope and plan of the work to be done by the Company's internal auditor, and the results of such work.	
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Review the appointment and replacement of the senior internal auditing executive, the scope of the internal audit plan and the significant reports to management prepared by the internal auditing department and management's responses	
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and the senior internal auditing executive	
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